

Retail Equity Research
Bharat Forge Ltd
Automobile – Auto Ancillaries

Buy

12M Investment Period Rating as per midcap

CMP Rs.603 TARGET Rs. 723 RETURN 20% ↑
(Closing: 24-02-21)

BSE CODE : 500493 NSE CODE: BHARATFORG
BLOOMBERG CODE: BHFC:IN SENSEX : 50,781

KEY CHANGES:

TARGET ↑

RATING ↔

EARNINGS ↑

Higher revenue visibility for long term.

Bharat Forge Ltd (BFL) is a leading player in the forgings industry. The company is serving several sectors including automobile, power, oil and gas, rail & marine, aerospace & defence, construction, mining, etc.

- Q3FY21 revenue declined by 6%YoY due to tepid market demand from the Oil & Gas sector. However, faster revival in both US & Europe truck market and strong rebound in domestic market offset further decline.
- Margin expanded to pre-covid levels at 16.1% owing to continuous restructuring and cost control measure.
- The Union budget's focus on Infrastructure development along with vehicle scrappage policy bodes well, for both commercial vehicle and industrial sector growth in the medium term.
- Government's initiative to enhance local manufacturing through the announcement of Production linked schemes (PLI) & mission of Atma Nirbharata in defense, has started opening new orders for BFL.
- Amid crisis, the demand visibility looks attractive on a medium basis for BFL, owing to the growth coming from the CV industry and defence sector and thus reiterate our Buy rating.

Recovery in the commercial vehicle sector

Q3FY21 revenue declined by marginally -6%YoY due to tepid market demand from non auto export sector. The sector constitutes 60% and majority is oil and Gas. However faster revival in both US and European truck and strong rebound in the domestic truck market supported further decline. CV export grew by 7% YoY and domestic truck market by 49%YoY. Margin expanded by 440bps at 16.1% owing to continuous restructuring and cost control measure. We expect strong traction in Agriculture, Mining, Construction, defence and Railways. Additionally, with the gradual re-opening of the economy, revival of CV financing and improvement in the supply chain will support growth. There are certain element of exports that are impacted such as Oil & Gas and PV segment due to overall demand cycle. However, domestic passenger car and Industrial segment registered positive growth of 27%YoY and 16%YoY respectively.

Domestic defence procurement to benefit BFL

Recently BFL has bagged Rs178cr order from Defence ministry to manufacture Kalyani M4 vehicles and expected to induct further order going forward. Government's initiative to enhance local manufacturing through the announcement of Production linked schemes (PLI) and mission of Atma Nirbharata are to open up new growth opportunities for BFL. Over the last few years BFL has invested in technology to transform from a component supplier to sub assembly defense system supplier. It has developed new platform such as Artillery guns, air defense systems and armored vehicles. Once the procurement begins on a large scale, the company will be able to supply these products on a Global basis. On the Aerospace the company has already set the target to reach 1000cr by FY2023 from current Rs400cr.

Newer initiatives to support long term growth

Market shift towards light weighting components for Electric vehicles, represents a considerable growth opportunity for BFL in coming years both in terms of top-line and margin. We expect the incremental revenue from new business/products to grow at double digit in the next 2 years. Sustained and meaning macroeconomics revival, pick up in infra projects, and roadmap for scrappage policy are the critical factors for growth in the CV Industry. We expect meaning full recovery in FY22 and factor revenue & PAT growth of 34%.

Valuations

BFL's strategy to shift to new technological products and ramp-up in Aluminium forging in US & India for new product development are on track and will bring value migration per vehicle in the long run. Industrial export outlook looks challenging, but we believe that the company is well placed with new products in the domestic sector. We believe the demand visibility looks attractive and expect margin expansion owing to the growth coming from the defence sector and sustained recovery in the auto space. We value BFL on premium at 16x EV/ EBITDA on FY23E and reiterate our buy rating at CMP

Company Data			
Market Cap (cr)	Rs.28,168		
Enterprise Value (cr)	Rs.30,449		
Outstanding Shares (cr)	46.6		
Free Float	54.2%		
Dividend Yield	0.7%		
52 week high	Rs.677		
52 week low	Rs.208		
6m average volume (cr)	0.3		
Beta	1.3		
Face value	2		
Shareholding (%)	Q1FY21	Q2FY21	Q3FY21
Promoters	45.8	45.8	45.8
FII's	22.1	21.9	23.5
MFs/Insti	15.2	11.5	12.3
Public	17.0	20.8	18.5
Total	100.0	100.0	100.0

Price Performance	3 month	6 Month	1 Year
Absolute Return	17.9%	20.5%	30.1%
Absolute Sensex	13.0%	26.7%	24.1%
Relative Return	4.9%	-6.2%	6.0%

*over or under performance to benchmark index



Consolidated (cr)	FY21E	FY22E	FY23E
Sales	6,041	8,063	9,969
Growth (%)	-25.0	33.5	23.6
EBITDA	761	1,492	2,123
EBITDA Margin(%)	12.6	18.5	21.3
PAT Adj.	127	699	1,188
Growth (%)	-70.3	449.9	69.9
Adj. EPS	2.7	15.0	25.5
Growth (%)	-70.3	449.9	69.9
P/E	220.8	40.1	23.6
P/B	6.2	6.0	5.3
EV/EBITDA	41.0	20.5	13.8
ROE (%)	2.6	15.3	24.0
D/E	0.7	0.5	0.3

Saji John
Research Analyst

Quarterly Financials (Consolidated)

Profit & Loss

Rs cr)	Q3FY21	Q3FY20	YoY Growth %	Q2FY21	QoQ Growth %
Sales	1723	1831	-5.9	1376	25.2
EBITDA	284	222	27.7	166	70.7
EBITDA margins	16.5	12.1	440bps	12.1	440bps
Depreciation	161	130	23.5	152	5.8
EBIT	123	92	33.5	14	-
Interest	33.6	43.1	-22.0	14.4	133.2
Other Income	38	37	2.2	33	13.5
Exceptional Items	-299	-276	0	-6	0
PBT	-172	49	-452.0	0	-
Tax	34	9	-	29	-
Share of profit from Associate	-4	-9	0	0	-
Minority Interest	0	0	0	0	0
Reported PAT	-210	40	-620.4	-1	-
Adjustments	299	276	0	6	0
Adj PAT	89	68	30.8	5	-
No. of Shares	46.6	46.6	-	46.6	-
EPS (Rs)	1.9	1.5	30.8	0.1	-

Change in Estimates

Year / Rs cr	Old estimates		New estimates		Change %	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Revenue	7,299	9,228	8,063	9,969	10.5	8.0
EBITDA	1,299	1,799	1,492	2,123	14.8	18.0
Margins (%)	17.8	19.5	18.5	21.3	70bps	180bps
Adj. PAT	545	872	699	1,188	28.3	36.2
EPS	11.7	18.7	15.0	25.5	28.4	36.4

Consolidated Financials

PROFIT & LOSS

Y.E March (Rs Cr)	FY19A	FY20A	FY21E	FY22E	FY23E
Sales	10146	8056	6041	8063	9969
% change	21.4	-20.6	-25.0	33.5	23.6
EBITDA	2056	1115	761	1492	2123
% change	19.3	-45.8	-31.7	96.0	42.3
Depreciation	521	548	620	601	620
EBIT	1535	567	141	891	1504
Interest	127	171	107	111	89
Other Income	203	188	157	185	219
PBT	1610	505	-114	965	1634
% change	34.6	-68.7	-122.6	-	69.4
Tax	566	112	59	261	441
Tax Rate (%)	35.2	22.3	-52.2	27.0	27.0
Reported PAT	1033	349	-178	699	1188
Adj.	0	-79	-305	0	0
Adj. PAT	1033	428	127	699	1188
% change	21.6	-58.5	-70.3	449.9	69.9
No. of shares (cr)	46.6	46.6	46.6	46.6	46.6
Adj EPS (Rs)	22.2	9.2	2.7	15.0	25.5
% change	21.6	-58.5	-70.3	449.9	69.9
DPS (Rs)	5.3	12.2	12.2	12.2	12.2

CASH FLOW

Y.E March (Rs Cr)	FY19A	FY20A	FY21E	FY22E	FY23E
Net inc. + Depn.	2131	1052	506	1566	2254
Non-cash adj.	-448	-97	39	-169	-385
Changes in W.C	-1061	1070	553	-555	-120
C.F. Operation	623	2026	1098	842	1749
Capital exp.	-1133	-1101	-147	-235	-330
Change in inv.	-521	-449	56	730	495
Other invest.CF	0	0	0	0	0
C.F - Investment	-1166	-1239	-184	430	195
Issue of equity	-	-	-	-	-
Issue/repay debt	1062	106	-400	-600	-1200
Dividends paid	-245	-566	-566	-566	-566
Other finance.CF	-127	-171	-107	-111	-89
C.F - Finance	690	-632	-1073	-1277	-1855
Chg. in cash	146	155	-159	-5	89
Closing cash	349	504	345	341	430

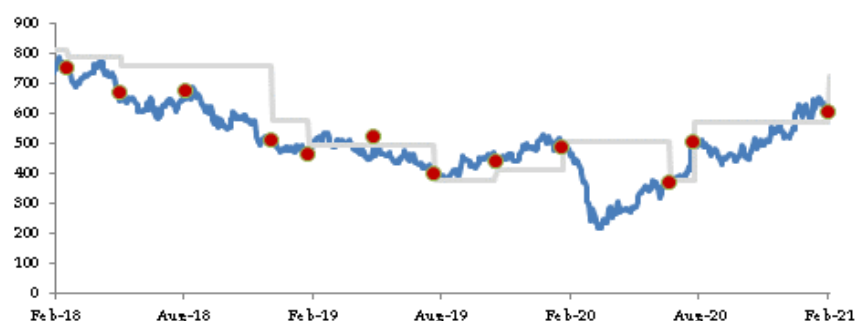
BALANCE SHEET

Y.E March (Rs Cr)	FY19A	FY20A	FY21E	FY22E	FY23E
Cash	349	504	345	341	430
Accounts Receivable	2148	1494	1125	1502	1775
Inventories	1845	1735	1083	1414	1638
Other Cur. Assets	658	575	430	574	601
Investments	2186	2166	2064	1533	997
Gross Fixed Assets	8451	9244	9544	9844	10144
Net Fixed Assets	3561	3806	3486	3185	2865
CWIP	831	1143	1050	984	1014
Intangible Assets	63	60	0	0	0
Def. Tax (Net)	-206	-51	-42	-23	10
Other Assets	0	0	0	0	0
Total Assets	11435	11432	9542	9510	9330
Current Liabilities	620	1000	636	831	994
Provisions	207	271	141	188	232
Debt Funds	3773	3878	3478	2878	1678
Other Liabilities	0	0	0	0	0
Equity Capital	93	93	93	93	93
Reserves & Surplus	5376	5159	4415	4548	5170
Shareholder's Fund	5469	5252	4508	4641	5263
Total Liabilities	11435	11432	9542	9510	9330
BVPS	116	112	97	100	113

RATIOS

Y.E March	FY19A	FY20A	FY21E	FY22E	FY23E
Profitab & Return					
EBITDA margin (%)	20.3	13.8	12.6	18.5	21.3
EBIT margin (%)	15.1	7.0	2.3	11.0	15.1
Net profit mgn.(%)	10.2	5.3	2.1	8.7	11.9
ROE (%)	20.3	8.0	2.6	15.3	24.0
ROCE (%)	12.7	5.7	3.3	10.1	17.4
W.C & Liquidity					
Receivables (days)	73.9	82.5	79.1	59.5	60.0
Inventory (days)	57.6	81.1	85.1	56.5	55.9
Payables (days)	48.4	54.3	54.7	39.6	39.1
Current ratio (x)	6.8	3.8	4.4	4.3	4.1
Quick ratio (x)	4.0	2.0	2.3	2.2	2.2
Turnover & Leverage					
Gross asset T.O (x)	1.2	0.9	0.6	0.8	1.0
Total asset T.O (x)	1.0	0.7	0.6	0.8	1.1
Int. covge. ratio (x)	12.1	3.3	1.3	8.0	16.9
Adj. debt/equity (x)	0.5	0.7	0.7	0.5	0.3
Valuation					
EV/Sales (x)	3.1	3.9	5.2	3.8	2.9
EV/EBITDA (x)	15.3	28.2	41.0	20.5	13.8
P/E (x)	27.2	65.6	220.8	40.1	23.6
P/BV (x)	5.1	5.3	6.2	6.0	5.3

Recommendation summary (Last 3 Years)



Source: Bloomberg, Geojit Research.

Dates	Rating	Target
13 th March 18	Hold	789
29 th May 18	Buy	753
31 st August 18	Buy	751
28 th December 18	Buy	579
18 th February 19	Hold	494
24 th May 19	Buy	518
19 th August 19	Reduce	376
12 th November 19	Reduce	414
17 th February 20	Hold	507
14 th July 20	Hold	375
19 th August 20	Hold	535
17 th November 20	Buy	570
25 th February 21	Buy	723

Investment Criteria

Ratings	Large caps	Midcaps	Small caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10% - 15%	Upside is between 10% - 20%
Hold	Upside is between 0% - 10%	Upside is between 0% - 10%	Upside is between 0% - 10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated	-	-	-

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note.

Accumulate: Partial buying or to accumulate as CMP dips in the future.

Hold: Hold the stock with the expected target mentioned in the note.

Reduce: Reduce your exposure to the stock due to limited upside.

Sell: Exit from the stock.

Not rated : The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

The recommendations are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating. For reasons of valuations/return/lack of clarity/event we may revisit rating at appropriate time. Please note that the stock always carries the risk of being upgraded to BUY or downgraded to a HOLD, REDUCE or SELL.

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