SMIFS STEWART & MACKERTICH
LEGACY | TRUST | GROWTH

BHARAT FORGE LTD

INITIATING COVERAGE REPORT

21 FEB 2018

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Contents

Bharat Forge Limited

Sector : Capital Goods

CMP (INR) (As on 20 Feb, 2018)	739.00
Target (INR)	859.00
Upside(%)	16.23
Recommendation	Buy

BSE Code	500493
NSE Code	BHARATFORG
Reuters Ticker	BFRG.NS
Bloomberg Ticker	BHFC.IN

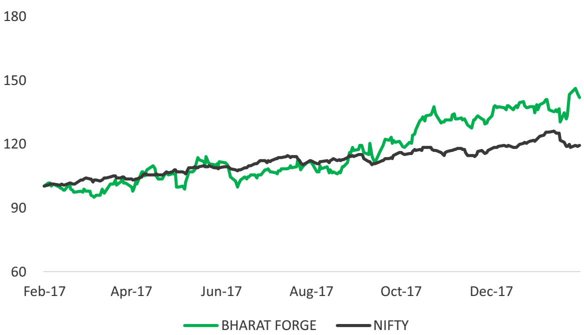
Stock Scan

Market cap (INR Cr.)	34407.84
Outstanding Shares (Cr.)	46.56
Face Value (INR)	2.00
Dividend Yield(%)	1.01
P/E (x)	48.84
Industry P/E (x)	49.25
Debt/Equity	0.55
Beta vs. Sensex	1.57
52 Week High/ Low (INR)	785 / 497.50
Avg. Daily Volume (NSE)/1yr.	911,208

Shareholding Pattern (%)

	Dec-17	Sep-17	Jun-17
Promoters	45.75	45.75	45.75
Institutions	34.16	33.19	35.46
Non-institutions	20.09	21.06	18.79

Stock Vs Nifty (Relative returns)



Source: NSE

Company Overview

We initiate coverage on Bharat Forge Limited (BFL) with **BUY** rating. Bright growth prospects in US Class 8 Trucks, global economic growth, greenfield expansion and getting future Electronic Vehicle (EV) ready are the major growth drivers for the company. On the back of higher exports, we expect margins to expand further leading to increase in profitability. Looking ahead there is still room for further surge and hence could be a good buying opportunity.

Investment Rationale

Setting up new Greenfield Project: BFL has acquired 100 acers land in Andhra Pradesh to set up state of the art large mega site called Centre for Light Weight Technology (LWT). In phase-I they are going to invest around 200 crores. Currently, the project is on track and expected to commence commercial production by March FY19. To cater strong demands and immense opportunities this site is going to develop components, subsystems of aluminum, magnesium and future carbon fiber which are expected to be light weighted and which finds application especially in BS VI norms and upcoming arena of EV's. Besides these, this plant is going to develop products for various sectors like automobiles, industrial, marines, aerospace etc. Also, the company is spending around INR300 crores spread over FY18 and FY19 for debottlenecking and maintenance which is going to improve existing capacity utilization by 10-12%.

Positive Outlook for M&HCV : Domestic commercial vehicle (CV) sales seem to be back on track since July 2017, driven by pent-up demand post GST. The industry volumes prior to July had remained tepid during Q1FY18 due to pre-buying in Q4FY17 and fleet operators deferring new vehicle purchases in view of incoming GST regulation from July 2017.

(Rationale Contd...)

Valuation: Considering the positive opportunities for the company coupled with greenfield expansion and US truck sales picking up, we expect the EPS of the company to grow at a CAGR of more than 30% for the next 2 years and accordingly we assign a PE multiple of 24.5 to FY20E EPS, to arrive at a price target of INR859.

Financial Performance at a glance (Consolidated)

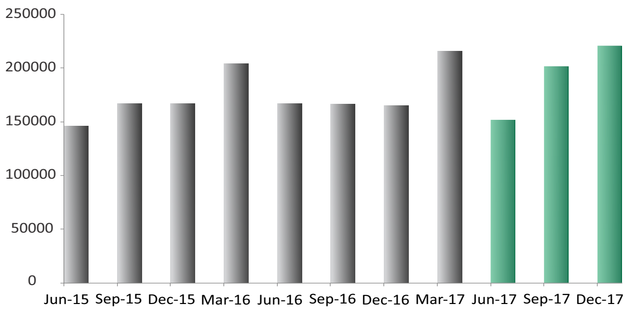
Particluars (INR Cr.)	FY16A	FY17A	FY18E	FY19E	FY20E
Net Sales	6,809.1	6,396.1	7,640.6	9,016.0	10,683.9
Growth	-10.7%	-6.1%	19.5%	18.0%	18.5%
EBITDA	1,408.1	1,251.0	1,717.2	2,211.9	2,740.8
EBITDA Margin	20.7%	19.6%	22.5%	24.5%	25.7%
Net Profit	675.4	710.7	932.2	1,225.7	1,632.3
Net Profit Margin	9.9%	11.1%	12.2%	13.6%	15.3%
EPS*	14.51	15.26	20.02	26.33	35.06
BVPS*	73.31	88.41	102.31	120.60	144.99
P/E (x)*	50.9	48.4	36.9	28.1	21.1
P/BV (x)*	10.1	8.4	7.2	6.1	5.1
EV/EBITDA (x)*	26.4	29.7	21.6	16.8	13.5
ROE	19.9%	17.1%	19.4%	21.7%	24.1%
ROCE	12.6%	11.0%	14.8%	18.6%	21.7%

** figures adjusted with Bonus*

Source: Company Data, Ace Equity, SMIFS Research

...Rationale Continued

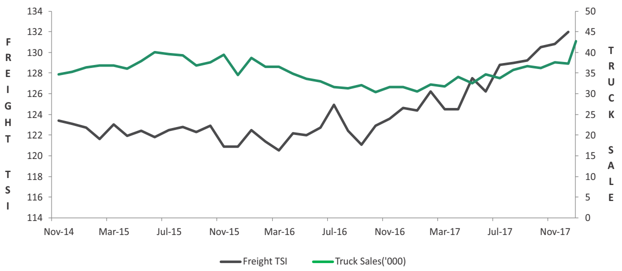
Domestic Commercial Vehicle Sales Growth picking up in the last three quarters



Source: SIAM

As per the Industry, Domestic M&HCV segment is expected to register an increasing growth of 15-18 % over next one and half years on the back of government's focus on infrastructure & logistics coupled with stricter implementation of overloading ban, implementing BS VI norms by skipping BS V and pick-up in the overall economy.

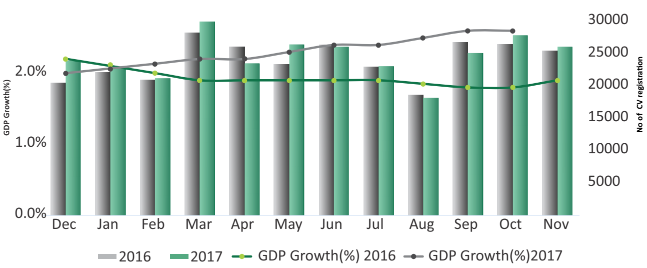
USA Freight & Class 8 Truck Sales



Source: Bureau of Economic Analysis

Global Outlook for M&HCV: There is a significant pickup in Class 8 trucks demand compared to last year's on the back of stronger freight growth in the US. Around 12-15 % of total revenue comes from US Class 8 trucks. The management believes that the outlook of US market is very positive this year and the demand is expected to grow at 10-12%. Also, continued renewal and expansion of fleet along with a strong freight environment is supporting demand for trucks in US .

New Heavy Commercial Vehicle registration and GDP Growth rate of Europe



source: ACEA

According to IMF, the European economy recovery is strengthening and broadening appreciably. Real GDP growth is projected at 2.4 % in 2017. Private consumption is also on rise. Which can lead to higher freight movement. On the back of these factors the outlook for European economy can be expected to have a stable growth. Moreover, there are some 6.5 million trucks in circulation throughout the EU – the average age of Europe's trucks is 11.7 years and an average age of a long haul truck is 10-12 years which hints that a major replacement of trucks in expected in coming years. Hence, on the back of these factors we can expect a strong CV growth throughout Europe in the next 2-3 years.

USA acqusition: The Company has acquired Walker Forge Tennessee LLC, USA and PMT Holding Inc., USA through its wholly owned subsidiary - Bharat Forge America Inc. in Nov 16. The acquisition of Walker Forge Tennessee creates a strategic manufacturing footprint of the Bharat Forge Group in North America to leverage the existing customer relationships while simultaneously enabling the Group to address new end market segments in Canada and South America and hence widen the scope of their product portfolio and reach just when the Passenger and Commercial vehicles markets are gaining momentum.

The acquired company had a revenue of USD26-27m and now it has expected to report over USD36m (33% growth) and is further expected to reach USD50m within 2019 end.

...Rationale Continued

Bharat Forge to acquire 45% stake in Tork Motorcycles, a Two wheeler EV startup

Getting future Electric Vehicle (EV) ready: BFL Board has recently approved to acquire 45% stake in Tork Motorcycles, a Two wheeler EV startup as a part of its overall E-mobility powertrain development. Tork has developed T6x, an electric motorcycle which is currently under trials and test. Also, BFL has set up an R&D facility in Mira (UK), specifically focused to develop solutions across the entire spectrum of powertrain components and subsystems for electric passenger and commercial vehicles.

These initiatives taken by the company makes them well prepared for foraying into Electric Vehicle segment both in India and across the globe.

Defence: Recently, Bharat Forge has secured its maiden order from the Ministry of Defence worth INR201.6 crore to supply 1,050 dual technology detection equipment, which will be manufactured in India and supplied over 2 years and it is expected to provide double-digit margins to the company.

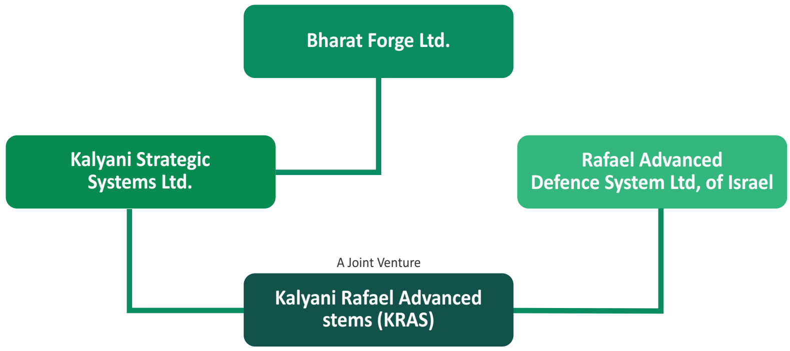
Bharat Forge has secured its order from the Ministry of Defence worth INR201.6 crore to supply 1,050 dual technology detection equipment

Also, Defence Ministry has issued a global request for information (RFI) for development and manufacturing of Future Ready Combat Vehicle (FRCV) under the Strategic Partnership model in collaboration with an Indian partner. Some of the private conglomerates, which includes Bharat Forge, have evinced interest in participating for developing these Combat Vehicles. Each FRCV could be estimated to cost USD5.5million (INR30.25crore).

Israel Aerospace Industries (IAI) had inked a MoU with Kalyani Strategic Systems (defence arm and subsidiary of BFL) to set up a joint venture to provide indigenously manufactured solutions in niche technology areas of defense sector.

Recently, two artillery guns which the company has made, was test-fired in Pokhran and as per media reports the trial was highly successful. The guns will be going for winter-trial to Sikkim. These initial Orders are expected to come by the next 24months (part of a INR50,000 crore FAR plan). Overall the order pipeline remains healthy along with new export orders are coming in.

JV structure with Rafael



Also Rafael Deal is back on the table. The USD500m deal which included a Joint Venture between Kalyani Strategic Systems and with Israel's Rafael Advanced Defense Systems Ltd. to manufacture anti-tank guided missiles (ATGM) under Prime Minister Narendra Modi's 'Make in India' initiative. The company had recently inaugurated its facilities in Hyderabad where the project is to be executed.

Company Overview

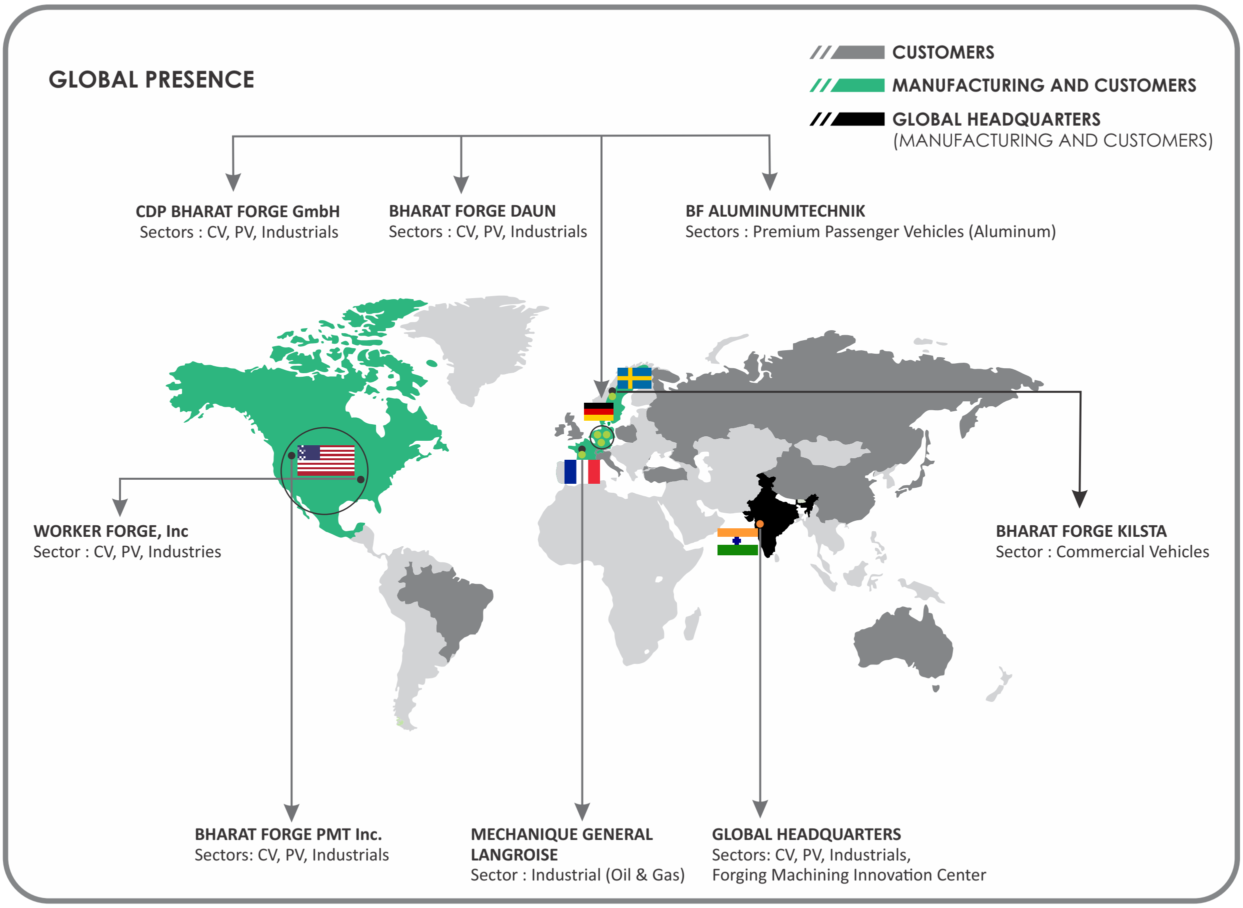
Recipient of Daimler Supplier Award, General Motors Supplier Award and TIME- Indian Global Manufacturer of the year Award

Bharat Forge Limited (BFL), the Pune based Indian multinational is a technology driven global leader in metal forging, having a transcontinental presence across nine manufacturing locations globally, serving several sectors including automotive, power, oil and gas, construction & mining, rail, marine, aerospace and defence. It is a part of Kalyani Group - a USD2.5 billion conglomerate. The Company is India's largest exporter of auto components.

It has manufacturing facilities spread across India, Germany, Sweden, France and USA, Bharat Forge manufactures a wide range of high performance, highly engineered critical and safety components for automotive and industrial applications.

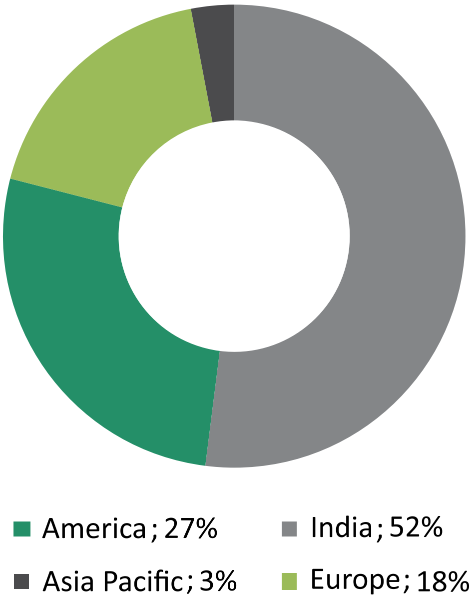
With a customer base that includes top-5 global commercial vehicle and passenger vehicle manufacturers, and virtually every global OEM and Tier I supplier in the automotive space and a wide range of marquee customers in the industrial sector, Bharat Forge has transformed itself from being supplier of components to a preferred technology and engineering driven development partner for all industries.

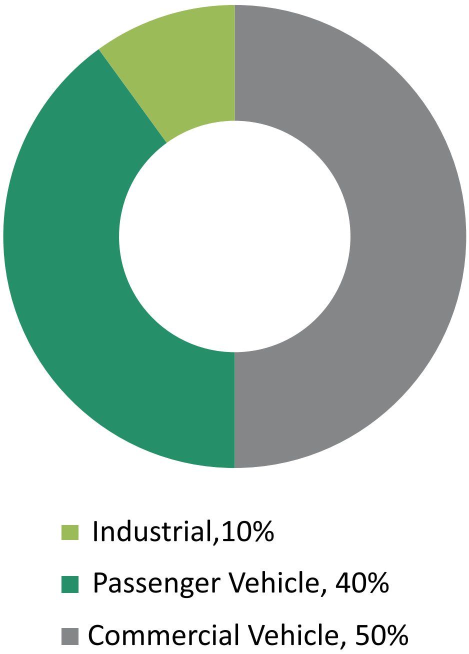
Global presence of the company



Source : Company Annual Report

Break up of Revenue





Source: Company Data

Automotive:

With a customer base that includes virtually every global automotive OEM and Tier I supplier, BFL today is among the few global automotive component manufacturers with capability to offer front line design & engineering, dual shore manufacturing capability and full service supply capability. This ranges from product conceptualization to designing, manufacturing, testing and validating. Automotive Product includes Power Train components (Crankshafts & Connecting rods), Chassis components (Front Axles & Steering Knuckles) and Transmission parts. Based on these, the company is built on strong, sustainable and durable customer relationships which results in the company partnering customers in their long term product development programmes.

Industrial:

BFL's industrial business in the international market is skewed towards the commodities and allied spaces, with exposure to the oil and gas, and construction and mining sectors. While in India, the company had been working across various industrial sectors, namely Oil and Gas, Mining, Power, Aerospace, Railways and Defence.

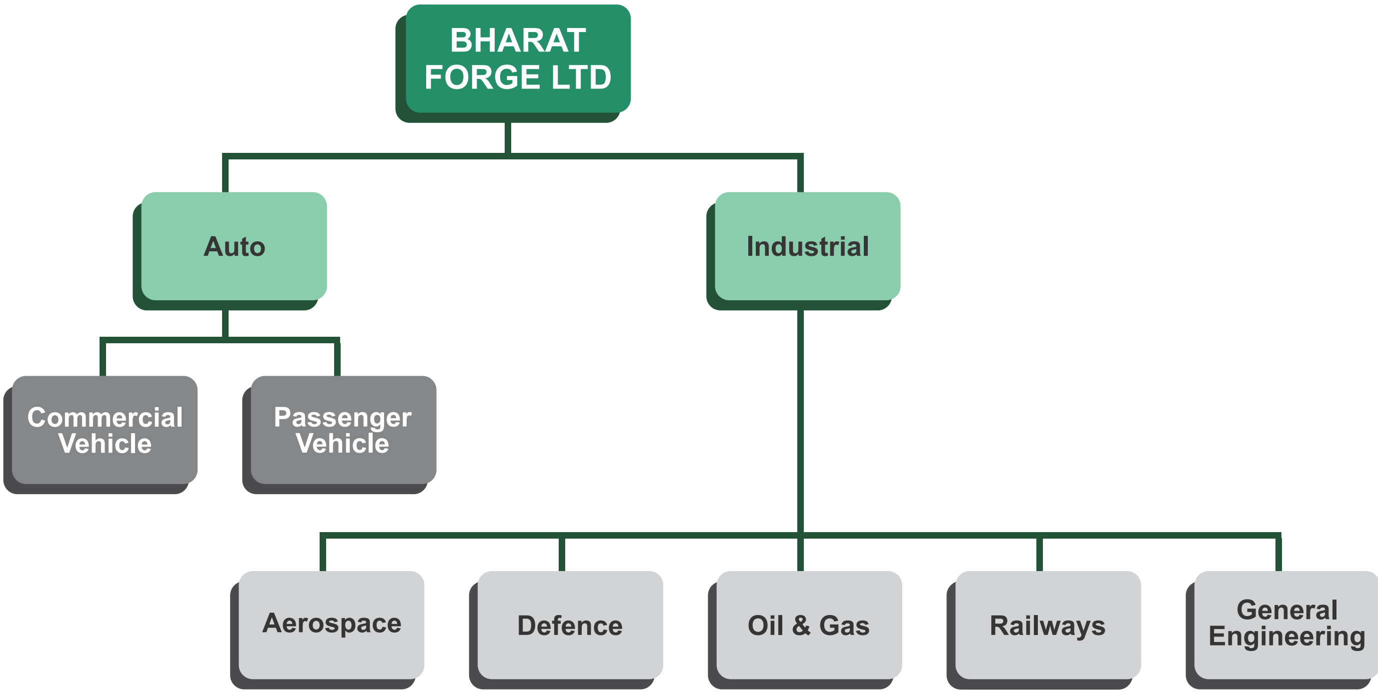
In the oil and gas space, BFL caters to the sub-sector of shale fracking and has a very strong market share. The company's exports have increased substantially in this space. The primary product focuses on valves, drill bits, surface flow and sub-sea equipment. Bharat Forge has identified oil and gas sector possessing a rewarding business potential and is therefore foraying in both the upstream and downstream aspects of these sectors.

The Aerospace business unit is a leading supplier of various components - airframe, structural and engine parts for the aviation sector. BFL has always exhibited fundamental strength in technologically advanced new product development and has been one of the foremost suppliers at the sub-component and component levels for Boeing, HAL, and ISRO among others.

The rail business unit is the leading manufacturer of wheel sets, truck frames and rail components in India. The company is aiming to be in the top 3 rail component suppliers of the world.

BFL has been supplying components to the Indian defence sector since last 30 years. With a thrust on incremental domestic supplies, the Company is all the more enthused and prepared to seize enhanced growth potential in this sector.

Diversified Business: Low Risk



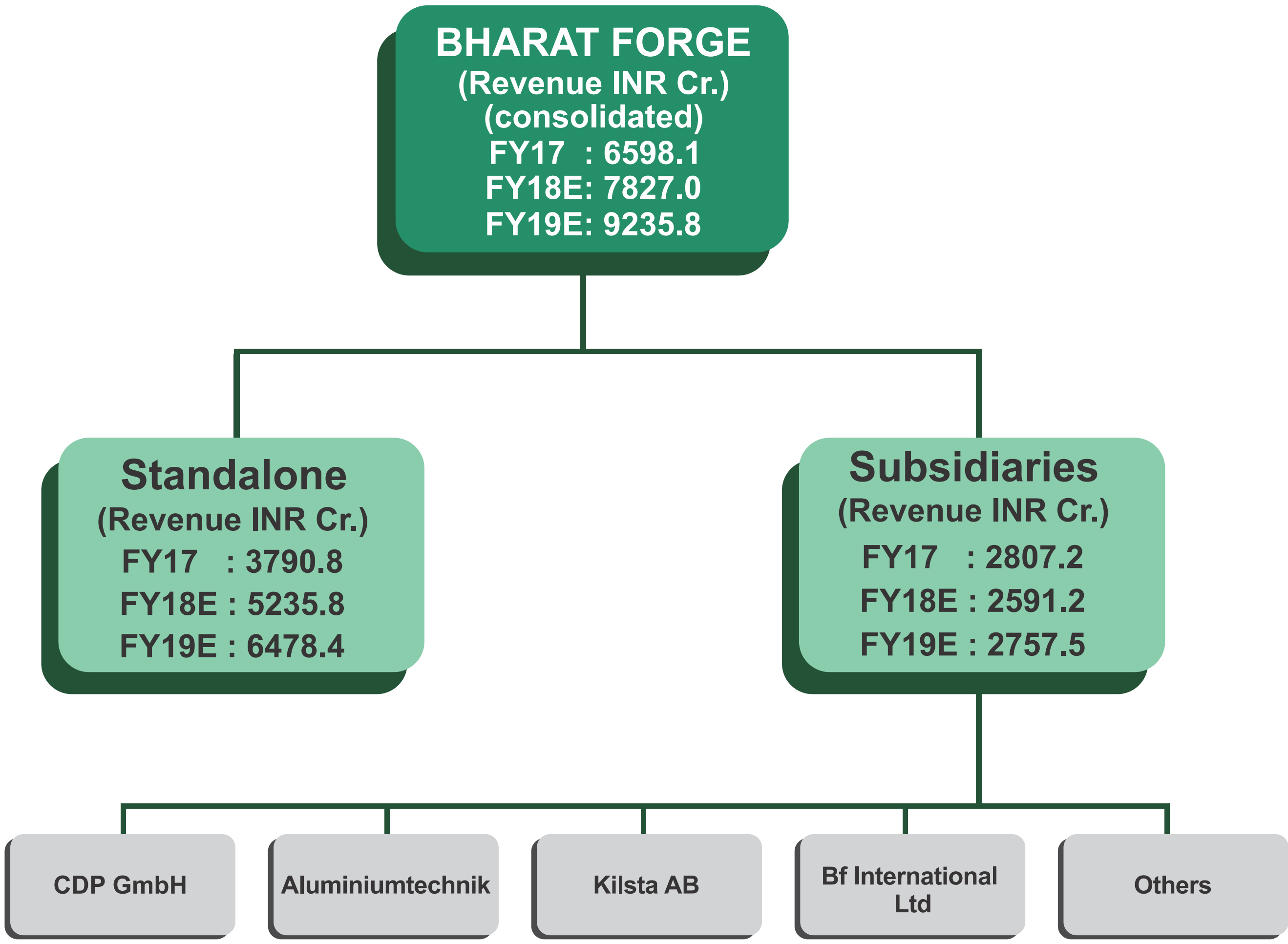
Source: Company Data

Key Products and Clients

Segments	Products	Key Clients
Automotive	Power train components: Crankshafts, connecting rods Chasis components: front axles, steering knuckles Transmission Parts	Daimler, Wolkswagen, Audi, GM, Volvo, Saab, TATA, Ashok Leyland, Ford, Honda BMW, Saab, Mahindra, FPT, YC Diesel
Industrial		
Oil & Gas	Gate Valve Body Surface, Casting head surface, shell surface, Blow out preventer, Annular BOP	Aker Solutions, BHEL, Cameron, FMC tech, GE, Halliburton, WG
Rail	Crankshaft, Axle, Connecting rod, Claw Lock & Piston	Indian Railways, GE, GHH-Valdunes
Aerospace	Wheel Lever Forging, Fan Forging, Main Leg Forging	HAL, Boeing, ISRO
Construction & Mining, General Engineering	Tracklink, Front Spindle, Crankshaft, Connecting Rod	L&T, Thyssenkrupp, Catepillar, FLSmidth, Aditya Birla Group, Cummins, Kirloskar
Defence	Artillery Guns, Combat Vehicles, Defence Equipment, Arms and Ammunition	DRDO, Indian Ordinance Factories, L&T

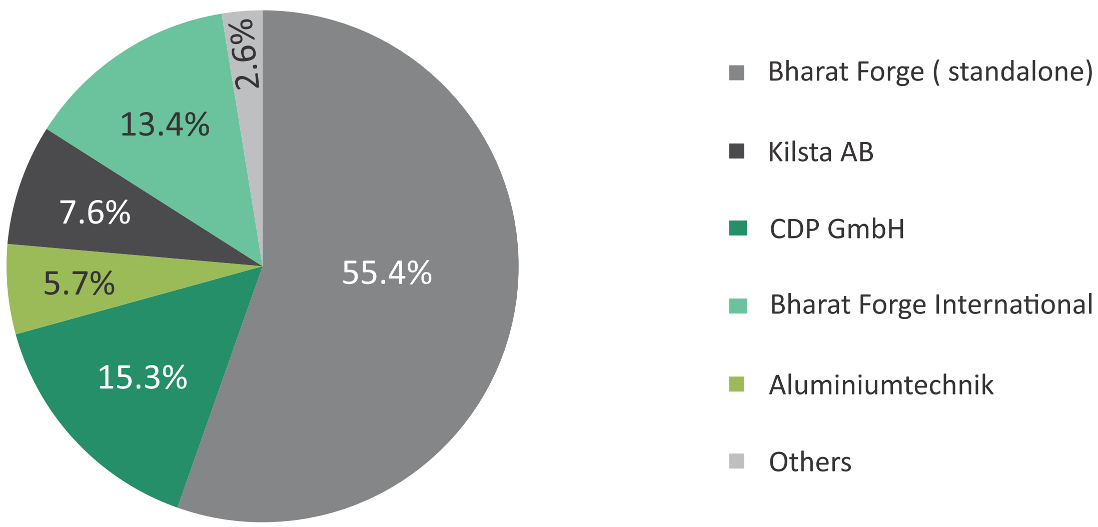
Source: Company Data

Organisational Structure



Source: Company Data, SMIFS Research

Revenue Segregation



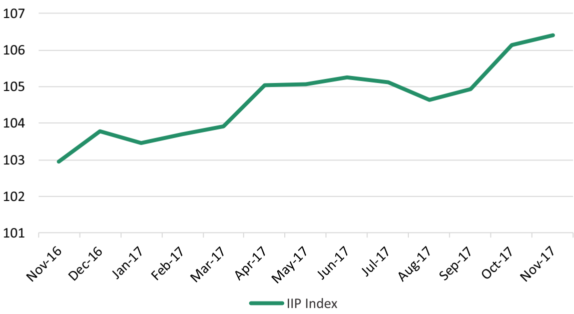
Source: Company Data

Growth Opportunities

- US Market: Multi-Fold Growth
- Growth for Domestic Market
- Impetus from Subsidiaries

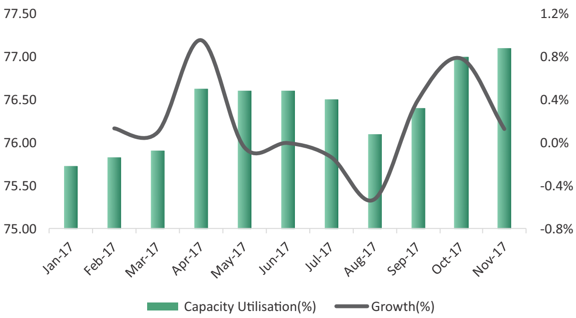
US Market: Multi-Fold Growth

US Industrial production is witnessing a strong upward growth trajectory



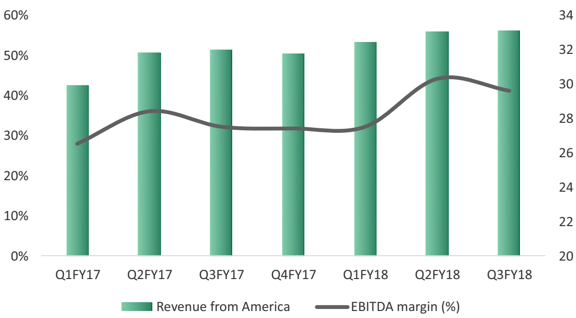
Source: Bloomberg, SMIFS Research

Capacity Utilisation has been rising which will lead to further investments



Source: Bloomberg, SMIFS Research

As Revenues from US has increased EBITDA margins have also improved



Source: Company Data

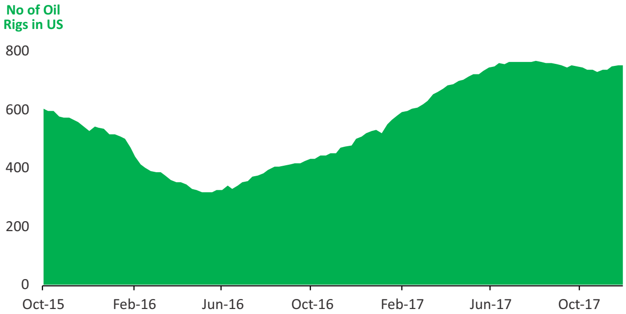
Recovery of US Industrial Production: In the third quarter of 2017, U.S. real gross domestic product was up 2.3% on a year-over-year basis. During the past 12 months, total industrial production has increased 3.4%, contributed by accelerating growth in the manufacturing (plus 1.4%) and mining (plus 5.3%). Along with these factories are using more of their capacity and hiring more workers. We expect U.S. industrial production will grow at an accelerating rate into the first half of 2018, supported by increasing activity in manufacturing, mining and electric and gas utilities. Also the economic expansion is expected to persist throughout the remainder of 2018, The Trump administration has proposed a massive amount of $1 trn by 2025 for infrastructure developments which could boost construction, mining and capital goods sector. The US Govt has also implemented Tax Cuts which could again spur further investments .

According to the Federal Reserve the average US capacity utilization over the past 42 years is 80.1%. We have witnessed a rising capacity utilization in 2017 which is moving toward its historical mean. Considering the above factors, the whole country could expect a boost in infrastructure, construction, mining which would further surge in freight movement across the country leading to fleet expansion of commercial vehicles, especially heavy commercial vehicle.

For Bharat Forge this could mean expansion of business and higher export revenue. Hence, as export being the high margin segment, any increase in export revenue would further improve profitability margins.

US Oil & Gas: US is leading the world oil's production for the third year in a row; a direct hit on OPEC's further plans on cutting production. As per the International Energy Association, U.S. will account for 80% of the increase in global oil supply between now and 2025, as shale producers find ever more ways to pump oil profitably even at lower prices. By the late 2020s, it is expected that the U.S. will become a net exporter of oil for the first time since the 1950s. Higher oil prices (if supply reduction is strong enough to rise them) will mean a bigger market share for the current US shale oil and gas industry, where some producers have

US Oil Rig Count has been rising

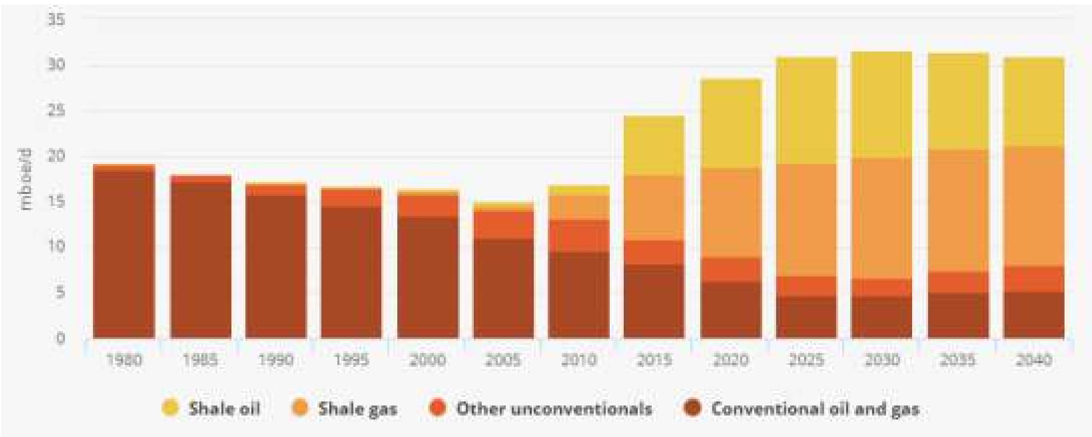


Source: IEA, SMIFS Research

managed to run the business with lower costs (an incentive created by the low oil prices). Activity is already showing positive numbers, the US oil rig count has increased for the first time in the last two years.

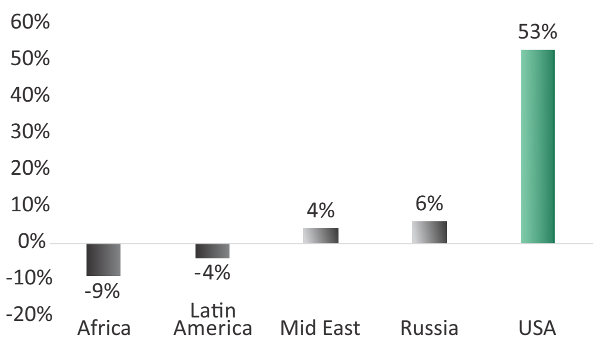
Oil and gas production in the United States

New Policies Scenario, 1980-2040



Source: IEA, World Energy Outlook

Country wise investment on Shale Assets in 2017 over 2016



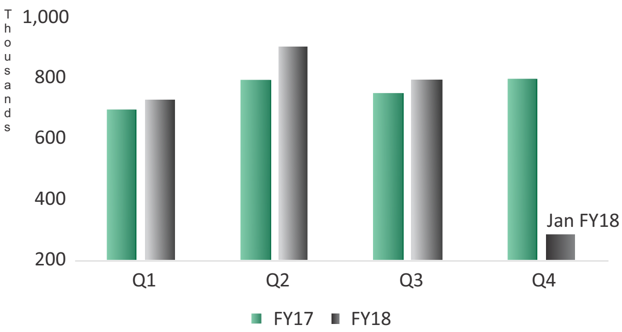
Source: IEA, SMIFS Research

On the back of growing demand from India, China, USA and also control in supply we expect that crude is likely to hover around in the range of USD65-70 in near future. Hence, the above trend in investment in Oil & Gas Industry to continue for at least next 2 years.

Bharat Forge has developed a reputation for supplying high value and high technology Oil & Gas forgings in the global markets with applications across surface, sub-sea, deep-sea and shale. The company is also continuing to increase product offerings which can be seen from the company's sharp uptrend in exports with a stronger than last year order book. Hence, we expect the rising potential Investments in this sector to continue considering the new US government's strong idea of making the country stronger self-sufficient player in energy requirements. Looking at these factors, this could mean that Bharat Forge could significantly increase its share of order inflows in the next upcoming years and generate higher earnings.

Growth for Domestic Market

Total Passenger Vehicle sales has been increasing over the years on the back of rising individual comsumption



Source: SIAM, SMIFS Research

Huge potential in Passenger Vehicle segment: India has been a standout performer in recent years. Its auto market doubled in size in just a decade. This owes largely to a growing economy that has lifted consumer incomes. Gross domestic product per capita shot up about 70% between 2007 and 2016 to just over USD1,700, as per World Bank data. In the Passenger Vehicle segment the no. of passenger vehicles sold is increasing rapidly.

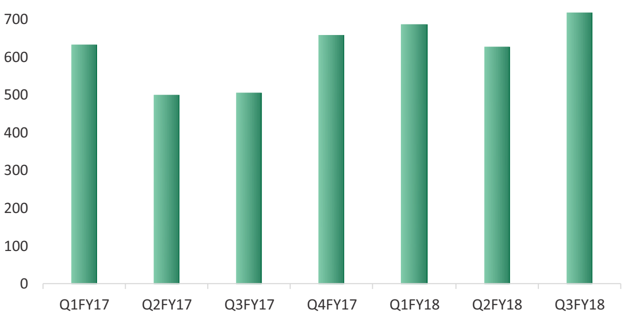
Although revenue from passenger vehicle segment is increasing, the contribution is still low at 10%. With domestic passenger vehicle segment riding the growth we expect Bharat Forge could increase its market share in this segment with its increased focus on light forged products and introducing new and improved products along with new client addiction.

Railway Modernisation: Indian Railways is going through a modernisation phase with projects such as manufacturing new and improved coaches & locomotives, laying down separate freight corridor, High Speed Rail, replacing and also increasing its railways tracks. Recently, the Railways has proposed its highest plan outlay of INR1.46 lakh crore for the next fiscal.

Bharat Forge has been supplying products to the Railways for many years. However, the share of revenue from Railways is still low. This gives the opportunity to capitalize this opportunity and gain higher revenues.

Impetus from Subsidiaries

Revenue From Subsidiaries over the Quarters

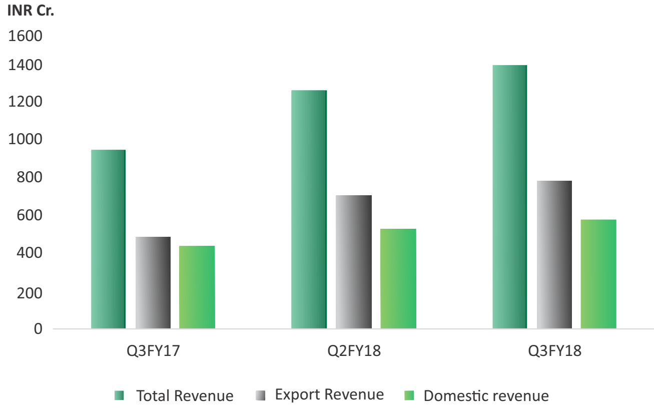


Source: Company Data, SMIFS Research

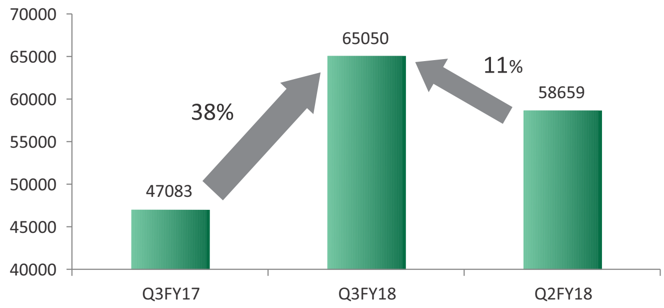
Drive in Subsidiary Growth: Bharat Forge has its subsidiaries in US, Germany, France and Sweden. The subsidiary contributes around 40% to total revenue. Thus they play an imminent role in the success of the overall company. The revenue momentum has already started to pick up and likely to continue in the medium term. With major markets like US and Europe growing, the subsidiaries of the company could capitalize the rising demand from Industrials as well as Auto sector.

Quarterly Financial Performance (Standalone)

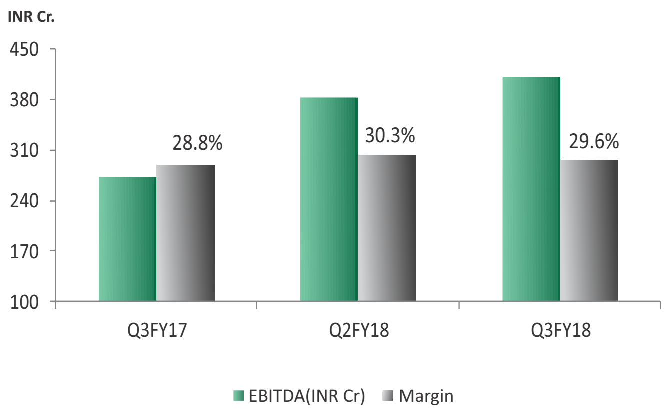
Revenue



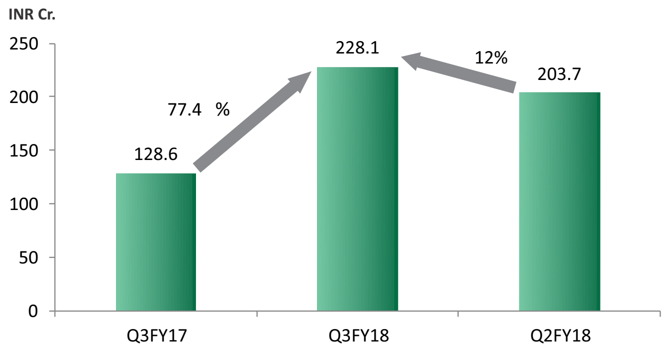
Shipment Tonnage



EBITDA



PAT



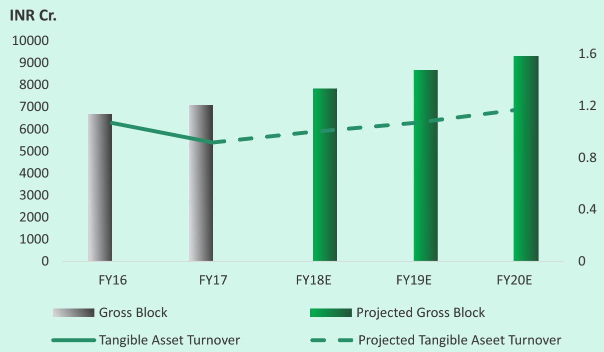
Source: Company Data, SMIFS Research

Bharat Forge has secured new orders worth USD100 million YTD FY18 across geographies and business applications

The company has secured new orders worth USD100 million YTD FY18 across geographies and business applications excluding CV segment. In Q3FY18 EBITDA (excluding Other Income) grew 51.3% from last year corresponding period to INR411.5 crores with margins expanding by 80bps and PAT was a whopping 77.4% growth to INR228.1crores. This impressive growth story has been factored by increased market share and product developments & geographical diversification. The company has managed to surpass the Bloomberg estimates for Q3FY18 in terms of Revenue, EBITDA and Net Profit by fair margins. Segment wise the Commercial Vehicle has grown by 46%, Passenger vehicle by 57% and Industrials grew by 16% compared to last year same period Revenue from USA has almost doubled from what was last year contributing 70% of total revenues. The Company's overseas subsidiary has earned INR717.7 crores, a growth of 42%.

Key Performance Indicators

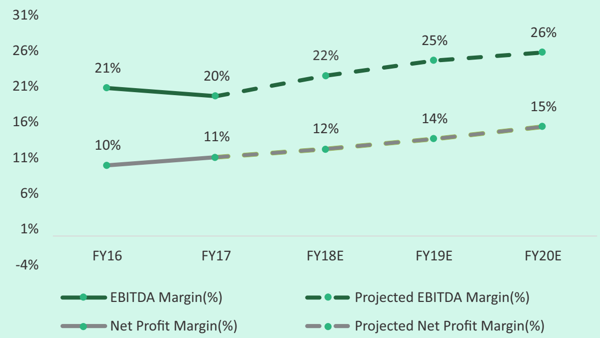
Asset Utilisation



Tangible Asset turnover has dipped in FY17 due to increased CAPEX. Later expected to recover and rise threafter. This depicts better utilisation of Tangible Asset and convert them to higher revenues.

Source : Company data, SMIFS Research

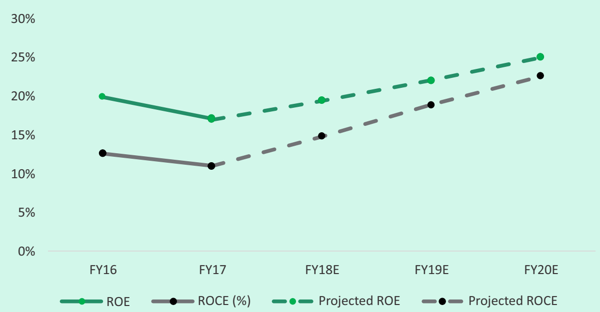
Operating Margins



Both Net profit margin and EBITDA margin are expected to rise and also expand which depicts higher operating efficiency.

Source : Company data, SMIFS Research

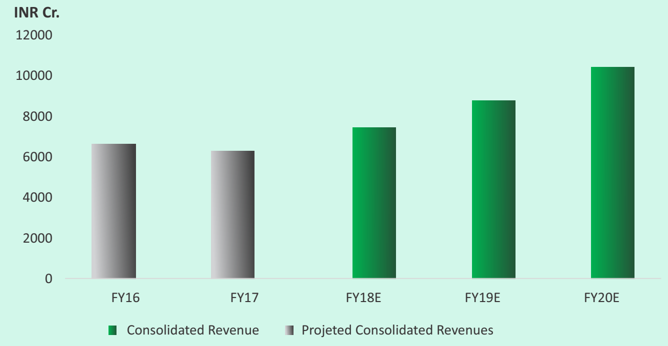
Return Ratios



Both ROE and ROCE are expected to improve on the back of improving margins and higher profitability.

Source : Company data, SMIFS Research

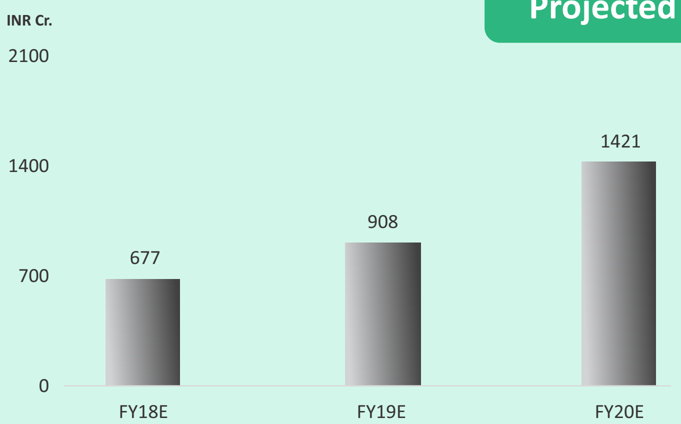
Gross Revenues



Revenues are likely to grow on the back on new product development and expanding market share.

Source : Company data, SMIFS Research

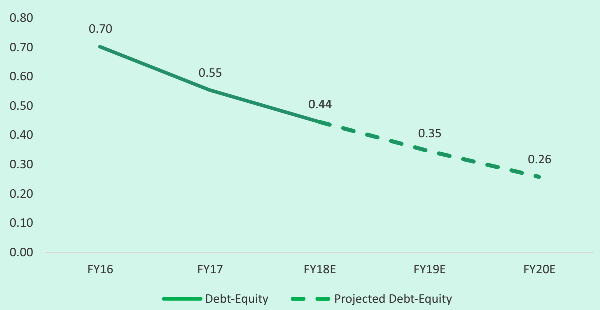
Projected FCFF



Clear visibility of improving Free Cash flow going forward on the back of improving profitability and working capital management.

Source : Company data, SMIFS Research

Financial Leverage



Financial leverage has gone down to 0.55 in FY17 from 0.70 in FY16 and this trend is likely to continue on the back of strong free cash flow generation.

Source : Company data, SMIFS Research

SWOT Analysis

Strengths

- Well diversified and de-risked business model with widespread geographical reach and product range.
- Strategic proximity and strong customer relationships on domestic as well as international front.
- Both domestic and offshore fully integrated manufacturing capabilities along with strong customer and product profile.
- Technological superiority and vast metallurgical knowledge.
- Under a strong group comfort of Kalyani Group.
- Strong Customer base.

Weaknesses

- Heavy dependence on US and European markets having its own business cycle and technological & regulatory requirements.
- Exposed to currency fluctuation risk (however, it is an opportunity as well as risk).
- Not much presence in other fast growing economies like China, Brazil and Africa.
- Capacity Utilisation is at edge. Almost 90% capacity has been utilised.

Opportunities

- Huge business opportunities in Automotive as well as Industrial application in India as well in International markets such as Asia Pacific, China, Africa and South America.
- Transition from BS-IV to BS-VI, emerging market of EV could create huge business opportunities.
- Growth in India is picking up with sectors such as Infrastructure, Railways are going through massive developments. This could be another area that can be capitalized.
- Rising Consumerism and emerging middle class are leading to massive growth in Passenger Vehicles. The company could focus more and increase its market share in Domestic Passenger Vehicle Segment.
- Strong focus on R&D gives the company for innovations, technological upgradation and new product development.
- Presence huge market nations such as USA, Europe and China which can lead ramp up in revenues.

Threats

- Competition from low cost component manufacturing countries such as China and Thailand.
- Adverse Government Policies and actions in International markets.
- Consolidating subsidiaries could bring down profits due to poor management.
- Slowdown and cyclical nature of auto industry.

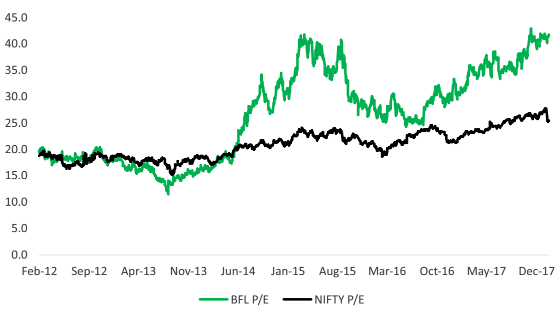
Outlook And Valuation

Due To BS VI norms auto component OEM industry to see INR 30-40 thousand crore investment in coming future.

Boost from Government to procure domestically developed defence equipment as per Defence Procurement Policy

India's oil exploration and production sector will see investments worth USD40 billion over the next four to five years

NIFTY PE v/s BFL PE



Going forward, BS VI norms is likely to be implemented from April 2018 in Delhi and before April 2020 Pan India. As per The Society of Indian Automobile Manufacturers (SIAM), an investment of INR1 lakh crore for upgrading products to meet various upcoming regulations has been forecasted. Of this, the auto component industry is slated to spend about 30-40% which we believe to result in healthy order inflows for the Company. Meanwhile in US we believe rising freight rates should mean good years ahead for fleet owners and their equipment providers due to which sales for Bharat Forge products could be expected to continue a decent growth. US tax rate cut will further have positive effect on the company's subsidiary.

Also as part of the Defence Procurement Procedure (DPP)-2016, which focuses on defence procurement procedures to give a boost to "Make in India" by promoting indigenous design and development of defence equipment, aims to reduce ammunition imports and procure all ammunition requirements from domestic source. With this push from the Government on incremental domestic supplies, the company could snatch a sizeable chunk from this huge upcoming potential domestic market.

On the aerospace front, the management is planning to shift from forged components to fully machined components. The company continues to retain healthy relation and supply Titanium Forging components to Boeing. From this sector the Company has set a target of USD100 million revenue by FY20.

In the Oil & Gas space, the company's exports have increased substantially with stronger order book numbers than last year. The management expects the momentum to continue on the back of new product development on new platforms that are underway. According to Indian Petroleum and Natural Gas Ministry, India's oil exploration and production sector will see investments worth USD40 billion over the next four to five years. With the company's vast repository of metallurgical knowledge, and in-house innovation capabilities, a good potential can be expected to be capitalized by the company from this field.

Considering the positive opportunities for the company coupled with greenfield expansion and US truck sales picking up, we expect the EPS of the company to grow at a CAGR of more than 30% for the next 2 years. Also due to improving ROCE, we assign a PE multiple of 24.5 to FY20E EPS, to arrive at a price target of INR859.

Earlier, we have recommended this stock for our "Top Investment Ideas" report dated 07-Dec-2017 and we maintain our previous price target.

Key Risks

The Company uses (Steel, Energy, Freight) as raw material. Any adverse price movement can severely affect the profitability of the company.

Geo Political Risk: More than 50% of revenue comes from export to USA and Europe. Any Uncertainties in these regions can have adverse effect on the profitability of the company.

Currency Risk: With such large exposure in foreign currency, the Company is always exposed to currency risk fluctuations.

Raw Material price & Supply Risk: The Company uses (Steel, Energy, Freight) as raw material. Any adverse price movement can severely affect the profitability of the company.

Interest Rate Risk: The Company is expanding its presence globally by using borrowed funds. Any Interest rate fluctuation can cause uncertainty in company's profitability.

Technology Innovation Factor: Bharat Forge manufactures different components that need continuous technological upgradation. A good amount of investment in research & development is necessary to relevant such types of upgradation.

Financial Details

Income Statement (Consolidated)

Particulars (INR Cr.)	FY16	FY17	FY18E	FY19E	FY20E
Net Revenues	**6,809.1**	**6,396.1**	**7,640.6**	**9,016.0**	**10,683.9**
Expenses	5,401.1	5,145.1	5,923.5	6,804.1	7,943.2
EBITDA	**1,408.1**	**1,251.0**	**1,717.2**	**2,211.9**	**2,740.8**
Depreciation & Amortisation	453.0	452.0	540.4	572.1	560.1
EBIT	**955.1**	**799.0**	**1,176.8**	**1,639.7**	**2,180.6**
Interest Expense	116.0	100.0	66.9	53.2	37.4
Other Income	132.1	119.3	162.2	178.7	190.0
PBT	**965.8**	**946.8**	**1,272.1**	**1,765.3**	**2,333.2**
Taxes & Deferred Taxation	316.5	249.2	339.9	539.6	700.9
Adjusted Net Profit	**675.4**	**710.7**	**932.2**	**1,225.7**	**1,632.3**
Minority Interest	(3.1)	6.1	6.7	7.4	8.1
Profit attributable to Equity Sh.	**678.5**	**704.6**	**925.5**	**1,218.3**	**1,624.2**

Balance Sheet (Consolidated)

Particulars (INR Cr.)	FY16	FY17	FY18E	FY19E	FY20E
Share Capital	46.6	46.6	93.1	93.1	93.1
Reserves & Surplus	3,366.7	4,069.8	4,670.2	5,522.0	6,657.4
Networth	**3,413.2**	**4,116.4**	**4,763.4**	**5,615.1**	**6,750.6**
Minority Interest	(4.3)	10.0	16.1	22.2	28.3
LT Borrowings	1,638.1	1,059.1	911.7	688.5	435.3
ST Borrowings	1,305.2	1,262.2	1,143.5	1,117.9	1,163.6
Provisions	49.3	53.8	55.1	58.8	62.7
Deferred Tax Liability (Net)	196.4	260.6	238.0	274.4	310.4
Total Equity and Liabilty	**8,292.0**	**8,840.7**	**9,491.5**	**10,433.8**	**11,758.8**
Gross Fixed Asset	6,690.5	7,084.3	7,841.8	8,671.3	9,268.8
Accumulated Depreciation	3,612.8	3,863.4	4,358.6	4,878.9	5,385.8
Investments	800.4	1,191.5	1,350.8	1,550.8	1,800.8
Inventory	996.8	1,075.2	1,156.9	1,377.8	1,615.2
Debtors	1,401.7	1,341.1	1,521.9	1,598.3	1,784.3
Cash & Cash Equivalent	371.1	288.4	199.4	250.9	728.4
Loans & Advances	26.6	39.2	39.2	39.2	39.2
Total Assets	**8,292.0**	**8,840.7**	**9,491.5**	**10,433.8**	**11,758.8**
Capital Employed	5,051.4	5,175.4	5,675.1	6,303.6	7,185.8
Working Capital	**1,385.6**	**1,013.9**	**1,039.1**	**1,139.0**	**1,664.5**

Cashflow Statement (Consolidated)					
Particulars (INR Cr.)	**FY16**	**FY17**	**FY18E**	**FY19E**	**FY20E**
PBT	**965.8**	**946.8**	**1,272.1**	**1,765.3**	**2,333.2**
Depreciation & Amortisation	453.0	452.0	540.4	572.1	560.1
Interest Expense	116.0	100.0	66.9	53.2	37.4
Increase/(Decrease) in WC	200.3	15.6	2.8	(22.7)	(93.7)
Tax Paid	304.4	273.0	358.1	499.3	661.1
Cashflow from Operating Activities	**1,358.6**	**1,088.5**	**1,431.5**	**1,757.1**	**2,052.2**
Capital Expenditure	886.9	635.2	808.2	891.6	663.6
Increase/(Decrease) in Investments	(50.9)	567.6	159.3	200.0	250.0
Cashflow from Investing Activities	**(869.0)**	**(3.8)**	**(863.0)**	**(971.4)**	**(778.1)**
Increase/(Decrease) in Debt	(66.1)	(981.6)	(266.0)	(248.9)	(207.5)
Cashflow from Financing Activities	**(509.0)**	**(1,170.4)**	**(611.3)**	**(673.3)**	**(738.4)**
Net Cashflow	**(19.4)**	**(85.6)**	**(42.9)**	**112.4**	**535.7**
Closing Balance	**357.9**	**272.3**	**199.4**	**250.9**	**728.4**

Key Ratios

Margins					
Particulars	**FY16**	**FY17**	**FY18E**	**FY19E**	**FY20E**
EBITDA Margin	20.7%	19.6%	22.5%	24.5%	25.7%
PAT Margin	9.9%	11.1%	12.2%	13.6%	15.3%

Per Share Data					
Particulars	**FY16**	**FY17**	**FY18E**	**FY19E**	**FY20E**
BVPS	73.31	88.41	102.31	120.60	144.99
EPS	14.51	15.26	20.02	26.33	35.06
Cash EPS	29.18	23.38	30.75	37.74	44.08
DPS	11.50	3.00	4.97	6.54	8.72
No. of Shares	232.79	232.79	465.59	465.59	465.59

Financial Ratios					
Particulars	**FY16**	**FY17**	**FY18E**	**FY19E**	**FY20E**
RoE	19.9%	17.1%	19.4%	21.7%	24.1%
RoCE	12.6%	11.0%	14.8%	18.6%	21.7%
RoA	8.1%	8.0%	9.8%	11.7%	13.9%
Net Debt/Equity (x)	0.37	0.19	0.15	0.08	(0.04)
Net Debt/EBITDA (x)	0.90	0.62	0.41	0.20	(0.11)

Valuation Ratios (X)					
Particulars	**FY16**	**FY17**	**FY18E**	**FY19E**	**FY20E**
P/E	50.9	48.4	36.9	28.1	21.1
P/BV	10.1	8.4	7.2	6.1	5.1
EV/EBITDA	26.4	29.7	21.6	16.8	13.5

Du-Pont Analysis					
Particulars	**FY16**	**FY17**	**FY18E**	**FY19E**	**FY20E**
EBIT margin	15.9%	16.4%	17.5%	20.2%	22.2%
Asset Turnover	82.1%	72.3%	80.5%	86.4%	90.9%
Financial Leverage(x)	2.49	2.19	2.06	1.95	1.90
Tax Burden	67.7%	71.4%	71.5%	71.5%	71.5%
Interest Burden(x)	0.89	0.89	0.89	0.89	0.89
ROE	19.6%	16.5%	18.5%	21.7%	24.3%

Source : Company data, Ace Equity, SMIFS Research

Link for our earlier report:

https://www.smifs.com/files/reports/636495589947825681_SMIFS%20ResearchTop%20Investment%20Ideas_December%202017.pdf

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Stock Recommendation	Expected absolute returns (%) over 12 months
Strong Buy	>20%
Buy	between 12% and 20%
Accumulate	between 6% and 12%
Hold	between 0% and 6%
Sell	0 to <-10%
Neutral	No Rating

Bloomberg Ticker for Stewart & Mackertich Research: SMIF<Enter>

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