

# Bharat Forge

<b>BSE SENSEX</b>	<b>S&amp;P CNX</b>
24,021	7,298
Bloomberg	BHFC IN
Equity Shares (m)	232.8
M.Cap.(INRb)/(USDb)	181.6 / 2.7
52-Week Range (INR)	1,363/744
1, 6, 12 Rel. Per (%)	-3/-20/-13
Avg Val, (INR m)	1,199
Free float (%)	53.3

**CMP: INR780 TP: INR965(+24%) Buy**

## Below estimates; Non-Auto hurts revenue growth, negative operating dilutes benefits of gross margin improvement

- Tonnage de-grew by 5% YoY (-7% QoQ) to ~50,741 tons. However, realizations were down 8% YoY (+1.3% QoQ) to INR207/Kg. Net Sales declined 12% YoY (-6% QoQ) by INR10.5b (v/s est. INR11.6b), despite higher auto revenues but impacted by weakness in non-auto segment in both domestic and exports.
- Domestic revenues were flat YoY/QoQ and export revenues were down 14% YoY. Non-Auto revenues declined by ~43% YoY, whereas Autos grew ~16%.
- Gross margins improved ~310bp YoY (-230bp QoQ) to ~65.8% (v/s est 63.2%), driven by favorable mix and low commodity prices. EBITDA margins at 30.2% (v/s est. 29.2%) expanded by 140bp QoQ (flat YoY), restricted by negative operating leverage. Adj. PAT at INR1.69b (v/s est. INR1.83b) down 14% YoY.
- Announced interim dividend of ~INR3/share (v/s total of ~INR7.5/sh in FY15).

**Key highlights from the earnings call:** a) Based on its order book and guidance from customers, it expects 4QFY16 revenues to be at similar level at 3QFY16. b) It would start commercial supplies of its aerospace orders from 4QFY16, and expects to ramp-up to USD10-20m revenues in FY17. c) It doesn't expect any impact on cost for BHFC due to MIP scheme. d) It has lowered its capex guidance for FY16-18 to INR6-7b (v/s INR10b guidance in 2QFY16), as it plans to invest only on R&D and debottlenecking of capacity going forward.

**Earnings cut; maintain Buy:** We lower our EPS for FY16/FY17/FY18 by 7%/5.5%/5%, due to weaker growth in non-auto exports. Valuations at ~19.2x/14.6x FY17E/FY18E consolidated EPS are attractive for a global leader in forgings. Maintain **Buy** with a TP of ~INR965 (18x FY18 EPS).

### Financials & Valuations (INR b)

Y/E Mar	2015	2016E	2017E
Net Sales	76.2	79.5	88.4
EBITDA	14.4	15.5	17.1
PAT	7.4	7.7	9.4
EPS (INR)	31.5	33.1	40.6
Gr. (%)	64.8	4.9	22.6
BV/Sh (INR)	147.9	170.2	196.3
RoE (%)	24.1	20.8	22.1
RoCE (%)	22.0	21.8	23.8
P/E (x)	24.7	23.6	19.2
P/BV (x)	5.3	4.6	4.0

<b>Estimate change</b>	<b>5-7%</b> ↓
<b>TP change</b>	<b>7%</b> ↓
<b>Rating change</b>	↔

### Standalone quarterly performance

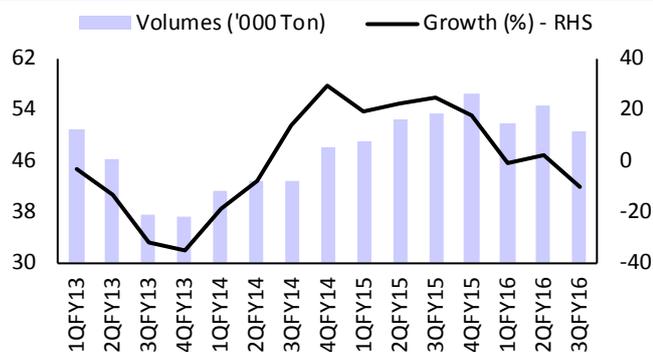
	FY15				FY16				(INRMillion)		Est 3QE	Variance (%)
	1Q	2Q	3QE	4Q	1Q	2Q	3Q	4QE	FY15	FY16E		
<b>Tonnage</b>	49,123	52,560	53,306	56,679	51,984	54,559	50,741	64,967	211,668	55,971	55,971	-9.3
Change (%)	19.0	22.8	24.8	18.0	5.8	3.8	-4.8	14.6	-4.8	-73.6	5.0	
<b>Realization (INR '000/ton)</b>	201.2	216.6	224.7	215.9	217.1	204.7	207.3	168.0	214.9	206.9	206.9	0.2
Change (%)	4.9	9.7	15.3	11.4	7.9	-5.5	-7.7	-22.2	8.8	-3.7	-7.9	
<b>Net Op Income</b>	9,881	11,383	11,978	12,239	11,285	11,168	10,520	10,913	45,480	43,887	11,582	-9.2
Change (%)	24.8	34.7	43.9	31.5	14.2	-1.9	-12.2	-10.8	33.8	-3.5	-3.3	
RM/Sales (%)	36.3	40.1	37.3	39.0	35.3	36.5	34.2	35.0	38.3	35.3	36.8	-250bp
Staff Cost (% of Sales)	8.0	7.1	6.9	7.3	8.2	8.2	9.0	9.4	7.3	8.7	8.2	80bp
Other Exp. (% of Sales)	26.9	24.3	25.6	24.3	25.9	26.5	26.6	26.0	25.2	26.3	25.9	70bp
<b>EBITDA</b>	2,833	3,247	3,623	3,597	3,461	3,215	3,173	3,230	13,300	13,078	3,381	-6.2
EBITDA Margins (%)	28.7	28.5	30.2	29.4	30.7	28.8	30.2	29.6	29.2	29.8	29.2	100bp
Non-Operating Income	242	300	191	200	288	255	231	226	933	1,000	225	2.7
Interest	316	314	264	224	213	222	226	231	1,118	892	225	0.6
Depreciation	658	664	687	497	643	653	674	682	2,505	2,652	670	0.5
<b>PBT</b>	2,101	2,529	2,863	3,081	2,894	2,594	2,461	2,543	10,573	10,534	2,711	-9.2
Effective Tax Rate (%)	31.0	31.0	31.4	34.1	32.5	32.5	32.5	33.0	32.0	32.5	32.5	0bp
<b>Rep. PAT</b>	1,450	1,745	1,964	2,032	1,953	1,751	1,662	1,703	7,190	7,110	1,830	-9.2
<b>Adj. PAT</b>	1,450	1,773	1,964	2,029	1,953	1,751	1,690	1,703	7,214	7,110	1,830	-7.6
Change (%)	60.0	84.1	109.0	83.0	34.7	-1.3	-14.0	-16.1	84.2	-1.4	-6.8	

E: MOSL Estimates

**Net Revenues impacted due to slowdown in industrial business...**

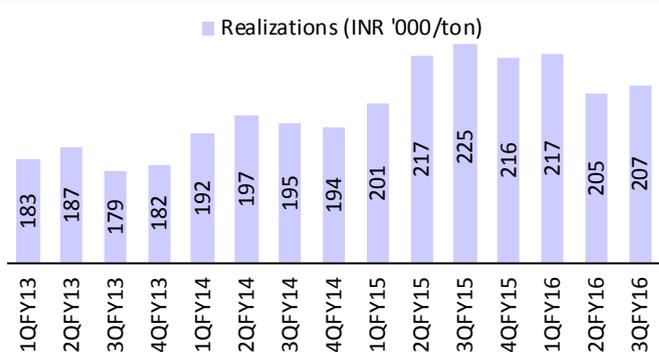
- Tonnage de-grew by 5% YoY (-7% QoQ) to ~50,741 tons. However, realizations were down 8% YoY (+1.3% QoQ) to INR207/Kg.
- Thus resulting in Net Sales of INR10.5b (v/s est. INR11.6b) down 12% YoY (-6% QoQ), despite higher auto revenues but impacted by weakness in non-auto segment in both domestic and exports.
- Domestic revenues were flat YoY/QoQ and export revenues were down 14% YoY (-1% QoQ).
- US revenues declined 18% YoY (-3% QoQ) and EU revenues were also down 7% YoY (+4% QoQ).
- Non-Auto revenues declined by ~43% YoY, whereas Autos grew ~16% driven by ~20% growth in PVs.
- Deflationary steel prices would have hurt revenue growth by ~1pp.

**Exhibit 1: Recovery in volume moderated**



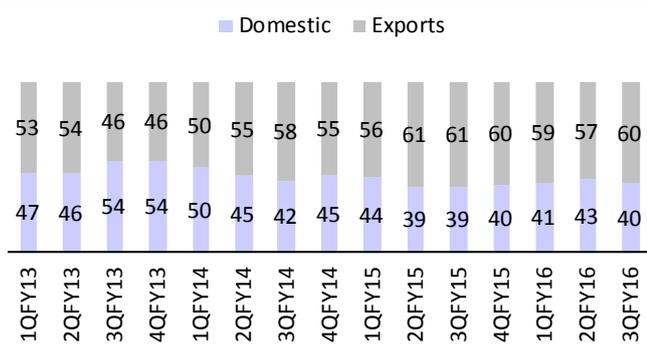
Source: Company, MOSL

**Exhibit 2: Realization drops to INR207k/ton**



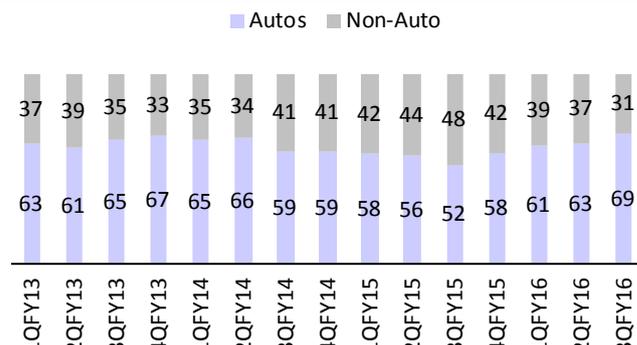
Source: Company, MOSL

**Exhibit 3: Exports now contribute over 60% of S/A revenues**



Source: Company, MOSL

**Exhibit 4: Non-Auto contribution down to 31%**



Source: Company, MOSL

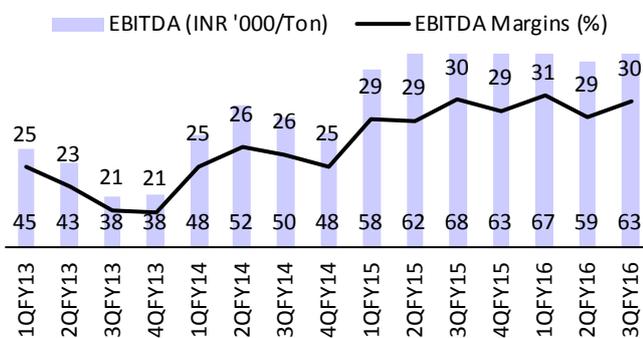
**Exhibit 5: Revenue break-up**

INR m	3QFY14	4QFY14	1QFY15	2QFY15	3QFY15	4QFY15	1QFY16	2QFY16	3QFY16
India	3,289	4,226	4,363	4,408	4,643	4,859	4,615	4,789	4,230
Growth (%)	-9	16	11	23	41	15	5	3	-13
Contribution (%)	41	45	44	39	39	40	41	43	40
US	2,216	2,914	3,296	4,285	4,928	4,904	4,393	4,171	4,026
Growth (%)	26	81	76	105	122	68	3	-15	-18
Contribution (%)	27	31	33	38	41	40	39	37	38
EU	2,118	1,756	1,887	2,293	2,122	2,145	1,795	1,916	1,997
Growth (%)	90	33	3	6	0	22	-22	-10	-7
Contribution (%)	26	19	19	20	18	18	16	17	19
Others	463	409	335	397	285	331	482	292	267
Growth (%)	101	122	21	5	-38	-19	21	2	-19
Contribution (%)	6	4	3	3	2	3	4	3	3
<b>Total</b>	<b>8,086</b>	<b>9,305</b>	<b>9,881</b>	<b>11,383</b>	<b>11,978</b>	<b>12,239</b>	<b>11,285</b>	<b>11,168</b>	<b>10,520</b>
Growth (%)	20	38	25	39	48	32	-1	-7	-14

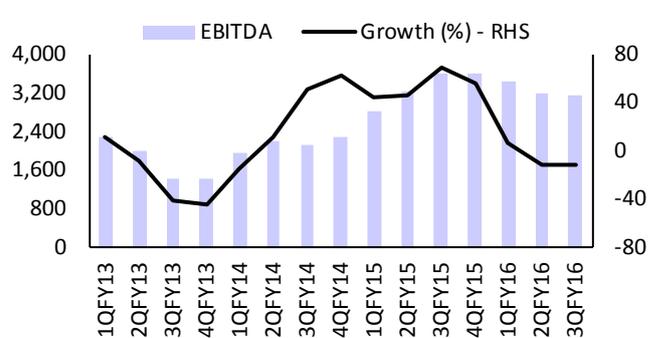
Source: Company, MOSL

**Highest ever Gross margins at ~65.8%, EBITDA margins at ~30.2% driven by RM cost savings and favorable mix**

- Gross margins improved ~310bp YoY (-230bp QoQ) to ~65.8% (v/s est 63.2%), driven by favorable mix and low commodity prices.
- EBITDA margins at 30.2% (v/s est. 29.2%) expanded by 140bp QoQ (flat YoY), restricted by negative operating leverage.
- Adj. PAT at INR1.69b (v/s est. INR1.83b) down 14% YoY (-3.5% QoQ).

**Exhibit 6: EBITDA margins remain stable in 29%-30% range**

Source: Company, MOSL

**Exhibit 7: EBITDA decline ~12% YoY**

Source: Company, MOSL

**Outlook – Key extracts from the management commentary**

- It has initiated actions to rationalize cost across all activities to realign with the prevailing demand environment and put more thrust on operational efficiency, accelerating New Product Development and New Customer acquisition.
- BFL's sales in the domestic M&HCV segment have grown by 28.0% vis-a-vis market growth of 21.9% driven by product specific market share increase.
- It has identified four sectors for import substitution under 'Make in India' program, viz mining, power, railways/marine and defence.
- For international M&HCV segment, it expects Europe CV demand to be flat to slightly positive, whereas US Class 8 trucks are expected to decline to 270,000 units (~306k in CY15) in CY 2016.

- In US PV segment, it has grown at 112% in 9MFY16 driven by ramp up of new orders.
- Non-Auto exports have declined by ~36% in 9MFY16, impacted by weakness in shale gas and mining.
- The decline in profitability of the international subsidiaries in 3QFY16 quarter is a result of one off operational related issues which have now been fixed. We expect the performance of the subsidiaries to improve driven by market growth & ramp up of the new aluminum forging business.

### Key highlights from the earnings call

- **4QFY16 outlook:** Based on its order book and guidance from customers, it expects 4QFY16 revenues to be at similar level at 3QFY16.
- **PV business:** PV segment grew 20% YoY in 3QFY16, translating into contribution of 9% of sales (v/s 7% in 3QFY15 v/s target of ~15% by FY18). It has started with transmission components and is winning orders for power train component and at a later stage plans to add machined components. Hence, it expects PV business to grow double digit over next 2-3 years.
- **Domestic Non-Auto:** For Make in India' it has won sample orders from Mining, Power and Ship Building segment, apart gaining traction in new segments like Renewable, marine etc. It has lots of orders from railways, shipment for which will start this year, but ramp-up to happen only from FY17.
- **Aerospace:** It would start commercial supplies of its aerospace orders from 4QFY16, and expects to ramp-up to USD10-20m revenues in FY17.
- **No impact of MIP:** It doesn't expect any impact on cost for BHFC due to Minimum Import Price (MIP) scheme for imported steel, as it uses specialized steel which is not covered under MIP.
- **Utilization levels** are low at ~70% for Pune plant and <50% for Baramati plant (non-auto).
- **Capex guidance cut:** It has lowered its capex guidance for FY16-18 to INR6-7b (v/s INR10b guidance in 2QFY16), as it plans to invest only on R&D and debottlenecking of capacity going forward.

### Valuation & view

**Bharat Forge has emerged stronger, leaner and healthier from the downcycle:** BHFC has broadened its revenue stream by entering new segments (non-auto) and global markets. The share of auto business has declined from ~80% in FY07 to ~54% in FY15 and the share of India has reduced from ~60% to ~40%. Further, it has increased value-addition by focusing on machined components, the contribution of which has increased to ~51% in FY14, boosting realizations and margins. It has improved its balance sheet by focusing on controlling debt through lower capex, resulting in it to be net-debt free by FY17 and net-cash of ~INR9b in FY18.

**Auto business: New customer/component addition to drive CV segment; PVs also to witness ramp-up**

While outlook for US Class 8 trucks for CY16 is negative, impact on BHFC would be limited. BHFC is gaining market share in global CV forgings, as it has added new customers like PACCAR in US and DAF (subsidiary of PACCAR) in EU. In the last 1.5 years, BHFC has developed capabilities in truck transmission parts, which should improve its content per truck considerably and drive growth in the CV segment from FY17. The PV segment is a focus area as this segment offers an opportunity size 4x that of CVs. Its targets to improve its revenue contribution from PVs from ~5% to 15% of standalone revenues in 18-24 months.

**Non-auto business – Worst of O&G/mining in FY16; Ramp-up in Aerospace, Rail to drive FY17**

Non-Auto exports have declined over 30% in 1HFY16 impacted by weakness in Oil& Gas and mining/construction segment. In Aerospace, BHFC currently has four contracts from marquee customers, execution of which would start from 3QFY16 and ramped-up in FY17. This segment is on track for becoming USD100m over next 5 years. In Railways, Approvals in place for engine components with OEMs are resulting in steady order flow. BHFC has become the main supplier to Indian Railways for all key components of diesel locomotive engines. It supplies components to GE in the US and is likely to supply to GE in India too, as it sets up a locomotive factory in India.

**Multiple levers to support/improve profitability**

We expect consolidated revenues to grow at a CAGR of ~14% over FY16-18 (adjusted for FAW JV exit), with profitability remaining stable at higher levels, driven by improvement in market mix and product mix, machined components and operating leverage. We estimate cumulative FCF generation of ~INR33b during FY16-18, enabling debt free balance sheet from ~INR11.8b (net debt-equity of 0.3x). Improving asset turns and profitability would drive improvement in consolidated RoE to ~24.8% in FY18 (+400bp in 2 years).

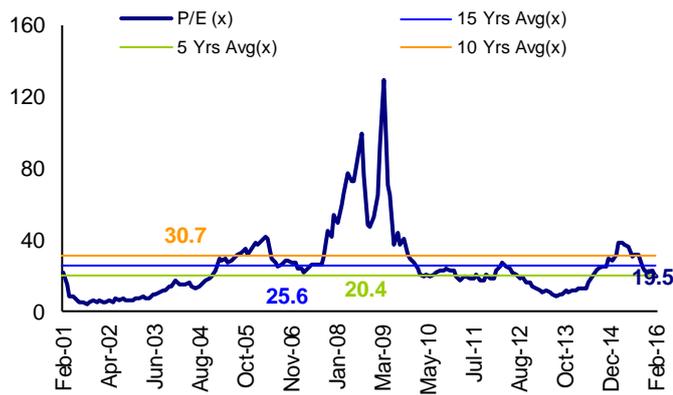
**Lower EPS and lower target P/E multiple; maintain Buy:** We lower our EPS for FY16/FY17/FY18 by 7%/5.5%/5%, due to weaker growth in non-auto exports. Valuations at ~19.2x/14.6x FY17E/FY18E consolidated EPS are attractive for a global leader in forgings. Maintain **Buy** with a TP of ~INR965 (18x FY18 EPS; we have lowered are target P/E multiple by 20% as we roll-over to FY18.)

**Exhibit 8: Change in estimates**

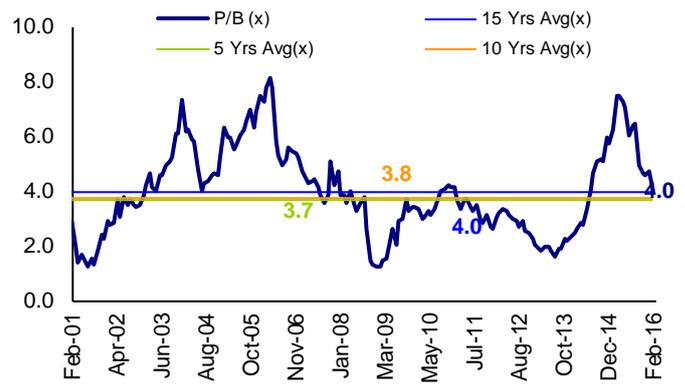
	FY16E			FY17E			FY18E		
	Rev	Old	Chg (%)	Rev	Old	Chg (%)	Rev	Old	Chg (%)
Net Sales	79,524	82,833	-4.0	88,366	93,096	-5.1	102,393	109,308	-6.3
EBITDA (%)	19.5	19.9	-40bp	19.4	19.7	-30bp	19.9	20.5	-60bp
Net Profit	7,701	8,306	-7.3	9,442	9,997	-5.5	12,477	13,149	-5.1
EPS (INR)	33.1	35.7	-7.3	40.6	42.9	-5.5	53.6	56.5	-5.1

Source: MOSL

**Exhibit 9: Valuations trading above historical average, reflecting improving fundamentals**



Source: MOSL



Source: MOSL

**Exhibit 10: Comparative Valuation**

Auto OEM's	CMP * (INR)	Rating	TP (INR)	P/E (x)		EV/EBITDA (x)		RoE (%)		RoCE (%)		
				FY16E	FY17E	FY16E	FY17E	FY16E	FY17E	FY16E	FY17E	
Bajaj Auto	2,378	Buy	2,948	18.4	15.1	11.6	9.8	32.7	34.7	46.6	46.5	
Hero MotoCorp	2,580	Buy	2,962	16.6	13.9	10.6	9.0	42.8	41.8	59.7	57.1	
TVS Motor	286	Buy	370	30.4	18.4	18.0	11.7	24.7	32.6	23.6	32.0	
M&M	1,183	Neutral	1,261	18.7	14.9	14.3	12.4	15.7	15.7	17.3	17.7	
Maruti Suzuki	3,657	Buy	4,819	22.5	17.4	10.5	9.1	17.6	19.8	24.7	26.4	
Tata Motors	311	Buy	480	8.7	6.8	3.1	2.6	18.4	18.8	16.9	17.2	
Ashok Leyland	88	Buy	103	23.0	12.3	11.1	6.9	19.9	30.9	20.9	31.7	
Eicher Motors#	18,169	Buy	21,561	52.3	33.6	27.9	18.9	31.6	41.2	34.6	46.2	
<b>Auto Ancillaries</b>												
<b>Bharat Forge</b>	<b>780</b>	<b>Buy</b>	<b>965</b>	<b>23.6</b>	<b>19.2</b>	<b>12.4</b>	<b>10.9</b>	<b>20.8</b>	<b>22.1</b>	<b>21.8</b>	<b>23.8</b>	
Exide Industries	129	Buy	183	17.8	14.2	10.7	8.7	13.7	15.4	18.7	19.9	
Amara Raja Batteries	866	Buy	1,100	28.6	21.5	16.9	13.3	25.8	25.4	36.1	33.6	
BOSCH	16,355	Buy	20,331	43.3	33.6	27.8	21.7	15.2	17.3	22.4	24.5	

# Nos. are on CY basis

Source: Company, MOSL

## Key operating metrics

### Exhibit 11: Revenue model

INR M	FY12	FY13	FY14	FY15	FY16E	FY17E	FY18E
Autos	20,411	17,541	18,333	22,970	26,517	30,677	36,288
% of total revenues	61	60	59	53	64	67	67
CV	18,013	14,837	15,930	19,529	22,680	25,821	30,218
% of total revenues	54	51	51	45	55	57	56
PV	2,398	2,704	2,403	3,441	3,837	4,856	6,069
% of total revenues	7	9	8	8	9	11	11
Non-Autos	13,190	11,455	12,827	20,045	14,640	14,945	17,828
% of total revenues	39	40	41	47	36	33	33
<b>Market mix (net sales incl Op Income)</b>							
India	19,514	15,645	15,511	18,273	20,213	23,154	28,046
% of total revenues	53	50	46	40	46	48	49
Growth (%)	13	-20	-1	18	11	15	21
Exports	17,346	15,867	18,483	27,207	23,673	25,424	29,392
% of total revenues	47	50	54	60	54	52	51
Growth (%)	42	-9	16	47	-13	7	16
USA	8,083	8,933	9,179	17,413	19,851	22,828	27,622
% of total revenues	22	28	27	38	45	47	48
Growth (%)	40	11	3	90	14	15	21
EU	7,751	5,862	7,848	8,447	9,123	10,400	12,272
% of total revenues	21	19	23	19	21	21	21
Growth (%)	44	-24	34	8	8	14	18
Others	1,512	1,072	1,456	1,347	-5,300	-7,804	-10,502
% of total revenues	4	3	4	3	-12	-16	-18
Growth (%)	45	-29	36	-7	-493	47	35
<b>Total Net Op Revenues</b>	<b>36,860</b>	<b>31,512</b>	<b>33,993</b>	<b>45,480</b>	<b>43,887</b>	<b>48,578</b>	<b>57,438</b>
Growth (%)	25	-15	8	34	-4	11	18
Subsidiary Revenues	25,931	20,153	33,166	30,767	35,638	39,788	44,955
Growth (%)	21	-22	65	-7	16	12	13
<b>Net Consolidated Revenues</b>	<b>62,791</b>	<b>51,666</b>	<b>67,158</b>	<b>76,247</b>	<b>79,524</b>	<b>88,366</b>	<b>102,393</b>
Growth (%)	23	-18	30	14	4	11	16
S/A EBITDA margins (%)	24.8	22.7	25.4	29.2	29.8	29.2	29.2
Consol EBITDA margins (%)	15.9	15.3	15.3	18.9	19.5	19.4	19.9
<b>Consol EPS (INR)</b>	<b>18.0</b>	<b>11.9</b>	<b>19.1</b>	<b>31.5</b>	<b>33.1</b>	<b>40.6</b>	<b>53.6</b>
Growth (%)	39.1	-34.2	61.3	64.8	4.9	22.6	32.1

Source: Company, MOSL

## Financials and Valuations

Income Statement						(INR Million)		
Y/E Mar	2011	2012	2013	2014	2015	2016E	2017E	2018E
<b>Net Sales</b>	<b>50,869</b>	<b>62,791</b>	<b>51,666</b>	<b>67,158</b>	<b>76,247</b>	<b>79,524</b>	<b>88,366</b>	<b>102,393</b>
Change (%)	52.9	23.4	-17.7	30.0	13.5	4.3	11.1	15.9
<b>EBITDA</b>	<b>7,852</b>	<b>9,964</b>	<b>7,915</b>	<b>10,272</b>	<b>14,407</b>	<b>15,520</b>	<b>17,110</b>	<b>20,414</b>
EBITDA Margin (%)	15.4	15.9	15.3	15.3	18.9	19.5	19.4	19.9
Depreciation	2,550	3,022	3,195	3,572	3,624	3,692	3,926	4,051
<b>EBIT</b>	<b>5,302</b>	<b>6,943</b>	<b>4,720</b>	<b>6,700</b>	<b>10,783</b>	<b>11,828</b>	<b>13,184</b>	<b>16,364</b>
Interest	1,534	1,860	1,672	1,692	1,356	1,071	1,027	1,006
Other Income	675	915	1,121	1,249	1,368	1,201	1,860	2,331
Extraordinary items	-77	0	366	1,037	428	0	0	0
<b>PBT</b>	<b>4,365</b>	<b>5,998</b>	<b>4,535</b>	<b>7,295</b>	<b>11,222</b>	<b>11,958</b>	<b>14,016</b>	<b>17,688</b>
Tax	1,397	1,796	1,529	2,100	3,587	4,257	4,574	5,211
Tax Rate (%)	32.0	29.9	33.7	28.8	32.0	35.6	32.6	29.5
Min. Int. & Assoc. Share	67	72	-41	-28	-30	0	0	0
<b>Reported PAT</b>	<b>2,902</b>	<b>4,130</b>	<b>3,047</b>	<b>5,223</b>	<b>7,665</b>	<b>7,701</b>	<b>9,442</b>	<b>12,477</b>
<b>Adjusted PAT</b>	<b>2,954</b>	<b>4,130</b>	<b>2,804</b>	<b>4,485</b>	<b>7,374</b>	<b>7,701</b>	<b>9,442</b>	<b>12,477</b>
Change (%)	889.5	39.8	-32.1	59.9	64.4	4.4	22.6	32.1

Balance Sheet						(INR Million)		
Y/E Mar	2011	2012	2013	2014	2015	2016E	2017E	2018E
Share Capital	466	466	466	466	466	466	466	466
Reserves	19,064	21,373	22,098	26,367	33,976	39,158	45,242	54,360
<b>Net Worth</b>	<b>19,529</b>	<b>21,839</b>	<b>22,564</b>	<b>26,832</b>	<b>34,442</b>	<b>39,624</b>	<b>45,707</b>	<b>54,826</b>
Debt	19,014	27,835	28,249	25,612	23,645	21,645	19,645	17,645
Deferred Tax	1,321	886	1,345	1,645	1,638	1,638	1,638	1,638
<b>Total Capital Employed</b>	<b>41,406</b>	<b>52,517</b>	<b>53,800</b>	<b>54,259</b>	<b>59,745</b>	<b>62,927</b>	<b>67,011</b>	<b>74,129</b>
Gross Fixed Assets	45,010	49,798	56,452	53,945	56,984	69,570	71,820	74,070
Less: Acc Depreciation	20,383	23,270	26,807	28,604	30,697	34,389	38,315	42,365
<b>Net Fixed Assets</b>	<b>24,627</b>	<b>26,527</b>	<b>29,645</b>	<b>25,340</b>	<b>26,287</b>	<b>35,181</b>	<b>33,505</b>	<b>31,704</b>
Capital WIP	2,007	5,168	6,324	5,827	8,586	1,000	1,000	1,000
Investments	2,614	4,450	4,160	8,012	4,955	4,955	4,955	4,955
<b>Current Assets</b>	<b>27,501</b>	<b>37,197</b>	<b>34,266</b>	<b>36,166</b>	<b>42,552</b>	<b>46,982</b>	<b>55,542</b>	<b>68,904</b>
Inventory	8,115	10,961	11,320	10,386	10,339	11,983	13,315	15,429
Debtors	7,539	8,134	6,114	8,660	8,535	9,804	10,894	12,624
Cash & Bank	3,964	6,337	5,554	4,227	6,820	10,401	14,894	21,804
Loans & Adv, Others	7,883	11,765	11,278	12,893	16,858	14,793	16,438	19,047
<b>Curr Liabs &amp; Provns</b>	<b>15,342</b>	<b>20,825</b>	<b>20,594</b>	<b>21,086</b>	<b>22,634</b>	<b>25,190</b>	<b>27,991</b>	<b>32,434</b>
Curr. Liabilities	13,120	18,251	18,461	18,080	19,648	22,075	24,530	28,424
Provisions	2,222	2,575	2,133	3,006	2,987	3,115	3,461	4,011
<b>Net Current Assets</b>	<b>12,159</b>	<b>16,372</b>	<b>13,672</b>	<b>15,080</b>	<b>19,917</b>	<b>21,791</b>	<b>27,551</b>	<b>36,470</b>
<b>Total Assets</b>	<b>41,406</b>	<b>52,517</b>	<b>53,800</b>	<b>54,259</b>	<b>59,745</b>	<b>62,928</b>	<b>67,011</b>	<b>74,129</b>

## Financials and Valuations

### Ratios

Y/E Mar	2011	2012	2013	2014	2015	2016E	2017E	2018E
<b>Basic (INR)</b>								
EPS	13.0	18.0	11.9	19.1	31.5	33.1	40.6	53.6
Cash EPS	23.9	31.0	25.6	34.5	47.1	48.9	57.4	71.0
Book Value	83.9	93.8	96.9	115.2	147.9	170.2	196.3	235.5
DPS	3.5	4.0	3.4	4.5	7.5	9.0	12.0	12.0
Payout (incl. Div. Tax.)	31.9	25.8	30.7	23.6	27.5	32.7	35.6	26.9
<b>Valuation(x)</b>								
P/E				40.8	24.7	23.6	19.2	14.6
Cash P/E				22.6	16.6	15.9	13.6	11.0
Price / Book Value				6.8	5.3	4.6	4.0	3.3
EV/Sales				3.0	2.6	2.4	2.1	1.7
EV/EBITDA				19.8	13.8	12.4	10.9	8.7
Dividend Yield (%)				0.6	1.0	1.2	1.5	1.5
<b>Profitability Ratios (%)</b>								
RoE	17.3	20.0	12.6	18.2	24.1	20.8	22.1	24.8
RoCE	15.8	17.8	11.6	15.4	22.0	21.8	23.8	27.1
<b>Turnover Ratios (%)</b>								
Asset Turnover (x)	1.2	1.2	1.0	1.2	1.3	1.3	1.3	1.4
Debtors (No. of Days)	54	47	43	47	41	45	45	45
Inventory (No. of Days)	58	64	80	56	49	55	55	55
Creditors (No. of Days)	70	69	67	57	53	60	60	60
<b>Leverage Ratios (%)</b>								
Net Debt/Equity (x)	0.6	0.8	0.8	0.5	0.3	0.2	0.0	-0.2

### Cash Flow Statement

(INR Million)

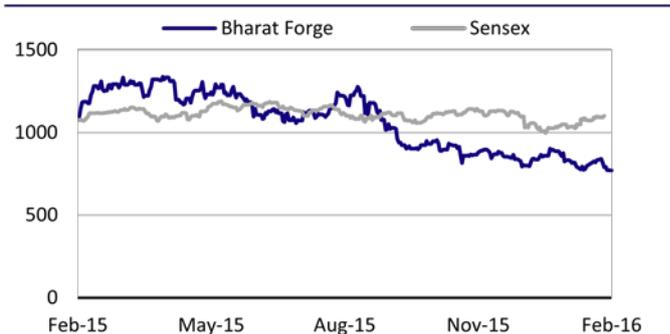
Y/E Mar	2011	2012	2013	2014	2015	2016E	2017E	2018E
Adjusted EBITDA	7,852	9,964	7,915	10,272	14,407	15,520	17,110	20,414
Non cash opr. exp (inc)	529	1,425	1,802	692	1,798	1,201	1,860	2,331
(Inc)/Dec in Wkg. Cap.	-4,090	-2,307	-385	-1,629	-1,240	1,707	-1,266	-2,009
Tax Paid	-567	-1,710	-1,193	-2,113	-4,088	-4,257	-4,574	-5,211
Other operating activities	0	0	0	0	0	0	0	0
<b>CF from Op. Activity</b>	<b>3,724</b>	<b>7,372</b>	<b>8,139</b>	<b>7,222</b>	<b>10,877</b>	<b>14,171</b>	<b>13,129</b>	<b>15,525</b>
(Inc)/Dec in FA & CWIP	-3,986	-6,903	-5,288	-5,843	-7,113	-5,000	-2,250	-2,250
<b>Free cash flows</b>	<b>-262</b>	<b>469</b>	<b>2,851</b>	<b>1,379</b>	<b>3,764</b>	<b>9,171</b>	<b>10,879</b>	<b>13,275</b>
(Pur)/Sale of Invt	-334	-3,940	2,391	3,343	1,913	0	0	0
Others	0	0	0	0	0	0	0	0
<b>CF from Inv. Activity</b>	<b>-4,320</b>	<b>-10,843</b>	<b>-2,896</b>	<b>-2,500</b>	<b>-5,201</b>	<b>-5,000</b>	<b>-2,250</b>	<b>-2,250</b>
Inc/(Dec) in Net Worth	3,884	0	0	0	0	0	0	0
Inc / (Dec) in Debt	-3,541	7,902	-454	-3,477	-621	-2,000	-2,000	-2,000
Interest Paid	-1,487	-1,940	-2,111	-1,701	-1,460	-1,071	-1,027	-1,006
Divd Paid (incl Tax) & Others	-272	-1,343	-949	-1,221	-1,519	-2,519	-3,359	-3,359
<b>CF from Fin. Activity</b>	<b>-1,416</b>	<b>4,619</b>	<b>-3,513</b>	<b>-6,399</b>	<b>-3,599</b>	<b>-5,590</b>	<b>-6,386</b>	<b>-6,365</b>
<b>Inc/(Dec) in Cash</b>	<b>-2,012</b>	<b>1,148</b>	<b>1,729</b>	<b>-1,677</b>	<b>2,077</b>	<b>3,581</b>	<b>4,493</b>	<b>6,910</b>
Add: Opening Balance	5,977	1,197	2,345	4,074	2,397	4,474	8,055	12,548
<b>Closing Balance</b>	<b>3,964</b>	<b>2,345</b>	<b>4,074</b>	<b>2,397</b>	<b>4,474</b>	<b>8,055</b>	<b>12,548</b>	<b>19,458</b>

## Corporate profile

### Company description

BHFC, part of USD2.5b Kalyani group, is global leader in forging business having transcontinental presence across India, Germany and Sweden, serving several sectors including automotive, power, oil and gas, construction & mining, locomotive, marine and aerospace.

Exhibit 1: Sensex rebased



Source: MOSL/Bloomberg

Exhibit 2: Shareholding pattern (%)

	Sep-15	Jun-15	Sep-14
Promoter	46.7	46.7	46.7
DII	13.9	13.6	15.2
FII	18.0	18.5	16.7
Others	21.3	21.2	21.3

Note: FII Includes depository receipts Source: Capitaline

Exhibit 3: Top holders

Holder Name	% Holding
Life Insurance Corporation Of India	3.2
Reliance Capital Trustee Company Ltd	2.7
Copthall Mauritius Investment Ltd	1.3
Amrit Petroleums Pvt Ltd	1.2
NA	0.0

Source: Capitaline

Exhibit 4: Top management

Name	Designation
B N Kalyani	Chairman & Managing Director
G K Agarwal	Deputy Managing Director
Amit B Kalyani	Executive Director
B P Kalyani	Executive Director
S E Tandale	Executive Director
Kishore Saletore	Executive Director & CFO
Anand Daga	Company Secretary

Source: Capitaline

Exhibit 5: Directors

Name	Name
Lalita D Gupte	Naresh Narad
P C Bhalerao	P G Pawar
P H Ravikumar	S M Thakore
T Mukherjee	Vimal Bhandari

Exhibit 6: Auditors

Name	Type
Dhananjay V Joshi & Associates	Cost Auditor
S R B C & Co LLP	Statutory

Source: Capitaline

Exhibit 7: MOSL forecast v/s consensus

EPS (INR)	MOSL forecast	Consensus forecast	Variation (%)
FY16	33.1	34.4	-3.8
FY17	40.6	42.3	-4.1
FY18	53.6	51.3	4.4

Source: Bloomberg

NOTES

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