

Q3-FY19 Result Update

- ❑ Bharat Forge Limited (BFL) has reported a growth of 21.7% in its standalone revenues in Q3-FY19 at ₹16,925 million as against ₹13,905 million in Q3-FY18. The growth in the revenues was primarily driven by Oil & Gas vertical and the Aerospace & Defence vertical of the company accompanied with healthy growth in other key verticals. The shipment tonnage has reported a growth of 2.6% at 66,764 in Q3-FY19 as against 65,050 in Q3-FY18.
- ❑ On margins front, the company's standalone operating margins stood 28.8% in Q3-FY19 at ₹4,870 million as against 29.6% at ₹4,115 million in Q3-FY18. The margins for the company declined marginally by 80 basis points during the quarter. However, the margins were within the guidance provided by the company. The adjusted PAT margins for the company stood 18.3% at ₹3,098 million in Q3-FY19 as against 16.4% at ₹2,282 million in same quarter previous year.
- ❑ On domestic business front, The M&HCV segment which continued to remain strong in H1-FY19 has witnessed some moderation in past few months on account of tightening credit environment, revision in axle load norms and sharp increase in fuel prices along with subdued freight rates. BFL's M&FICV revenues in Q3-FY19 stood at 2,695 million. In the PV space, BFL continues to make inroads with the addition of more clients, revenues from the segment grew 9% during the quarter.
- ❑ The Industrial business of the company has recorded a growth of 32% in Q3-FY19 at ₹2,690 million as against ₹2,041 million. Growth has been driven by Defence sector and Agriculture segment.
- ❑ On international business, North American Class 8 orders posted robust growth in CY-18 hitting all-time highs however, have witnessed moderation in past few months. However, the company currently has a strong order backlog of more than 300 thousands units at present. The management has guided for orders to normalize in next few months in CY-19. Demand in the European truck market continued to remain healthy on account of higher freight utilization and freight operator profitability with stable expectations. While Oil & Gas market continued to be stable while construction, infrastructure and mining activity continued to be good in most parts of the world. The market for industrial off-road and power generation engines also continued to be robust.
- ❑ The overseas subsidiaries not forming part of standalone business has reported a growth of 13.7% at ₹8,161 million. The moderation in growth was primarily due to seasonality and WLTP related issues. To improve the performance in its subsidiaries, the company continues to focus on increasing Aluminium Forgings business and productivity improvement which should add to overall improvements in growth as well as profitability.
- ❑ Going ahead we continue remain positive on BFL growth prospects from organic as well as inorganic means. The new facilities at Baramati and Nellore are nearing completion and expected to start commercial production in the next two quarters, providing the impetus for growth. We maintain our **BUY** rating on the stock with target price to **₹ 860 per share**.

Quarterly Results (Standalone)

Standalone						
(In ₹ mn)	Q3-FY19	Q3-FY18	Chg	9M-FY19	9M-FY18	Chg
Net Sales	16,925	13,905	21.7%	48,514	38,494	26.0%
Operating Expense	12,055	9,790	23.1%	35,014	27,351	28.0%
EBITDA	4,870	4,115	18.3%	13,500	11,143	21.2%
Other Income	867	267		1,548	893	
Depreciation	907	807		2,645	2,362	
EBIT	4,830	3,575	35.1%	12,402	9,673	28.2%
Interest	136	143		709	545	
PBT	4,695	3,432	36.8%	11,693	9,128	28.1%
Tax	1,596	1,151		3,975	3,058	
Exceptional Items	-	-		-	-	
PAT	3,098	2,282	35.8%	7,718	6,070	27.2%

Margins

Margins	Q3-FY19	Q3-FY18	Chg	9M-FY19	9M-FY18	Chg
Operating Margin %	28.8%	29.6%	-82	27.8%	28.9%	-112
Net Margin %	18.3%	16.4%	190	15.9%	15.8%	14

Source: Company, Anand Rathi Research

(In ₹ mn)	FY-17	FY-18	FY-19E	FY-20E
Net Sales	63,961	83,577	98,621	1,19,824
Operating Expense	51,451	66,347	77,812	93,583
EBITDA	12,510	17,230	20,809	26,242
Other Income	1,193	1,420	1,479	1,797
Depreciation	4,520	4,669	5,099	5,467
EBIT	9,183	13,981	17,189	22,572
Interest	1,000	1,065	1,172	1,325
Misc. items	1,284	(954)	-	-
PBT	9,467	11,961	16,017	21,247
Tax	2,866	4,418	5,916	7,847
Minority Interest	445	81	-	-
PAT	7,046	7,624	10,101	13,399

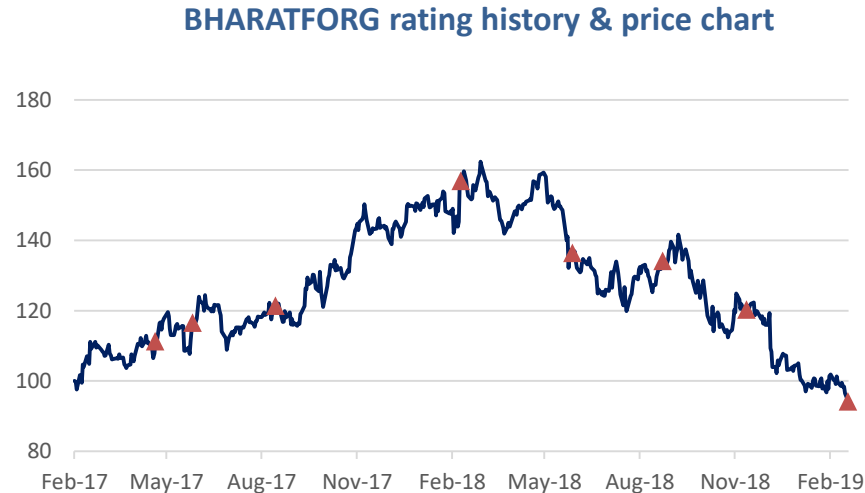
Margins	FY-17	FY-18	FY-19E	FY-20E
Sales Growth %	-6.1%	30.7%	18.0%	21.5%
Operating Margin %	19.6%	20.6%	21.1%	21.9%
Net Margin %	11.0%	9.1%	10.2%	11.2%

(In ₹ mn)	FY-17	FY-18	FY-19E	FY-20E
<u>Liabilities</u>				
Equity Share Capital	466	931	931	931
Reserves & Surplus	40,698	45,586	55,687	69,086
Total Shareholder's Funds	41,164	46,517	56,618	70,017
Minority Interest	100	294	294	294
Long-Term Liabilities	10,591	11,262	11,262	11,262
Other Long-term Liabilities	1,885	2,008	2,008	2,008
Deferred Tax Liability	2,606	2,147	2,147	2,147
Short-term Liabilities	32,062	37,539	44,182	53,681
Total	88,407	99,768	1,16,512	1,39,411
<u>Assets</u>				
Net Fixed Assets	37,300	38,432	40,736	41,586
Long-Term L&A	3,324	3,089	3,089	3,089
Non Current Investments	3,687	11,174	11,174	11,174
Other Non-Current Assets	1,896	1,264	1,264	1,264
Current Asset	42,201	45,809	60,250	82,298
Total	88,407	99,768	1,16,512	1,39,411

(Key Ratios)	FY-17	FY-18	FY-19E	FY-20E
EPS (₹)	15.1	16.4	21.7	28.8
P/E (x)	30.3	28.0	21.1	15.9
P/B (x)	5.2	4.6	3.8	3.0
ROE	17.1%	16.4%	17.8%	19.1%
ROCE	18.6%	20.9%	23.8%	26.3%



Rating and Target Price history:



Source: Ace Equity, Anand Rathi Research

NOTE: Prices are as on 18 February 2019 close.

BHARATFORG rating details

Date	Rating	Target Price	Share Price
20-Apr-2017	BUY	750	541
26-May-2017	BUY	750	566
14-Aug-2017	BUY	750	590
09-Feb-2018	BUY	860	763
28-May-2018	BUY	860	663
23-Aug-2018	BUY	860	652
12-Nov-2018	BUY	860	587
18-Feb-2019	BUY	860	458

Source: Ace Equity, Anand Rathi Research



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