

BHARAT FORGE LIMITED

Analyst Update - Q2 FY19 Results

BFL 3 MONTH REPORT

“The company witnessed broad based growth across all business segments and geographies during the quarter. Revenue growth was driven by doubling of Passenger vehicle export revenues, accompanied with healthy double digit growth in other key verticals.

This is the 8th sequential quarter of growth in revenue & profitability. Total revenue at Rs 16,792 million grew by 33.5% compared to Q2 FY18. Despite continued inflationary pressures on raw material and manufacturing cost, EBITDA margins at 28.3%, were within the guided range.

During the quarter, the company has secured new business from a global PV OEM in India further strengthening its presence in the domestic PV market.

Two significant points to note in this quarter which are inflection points for the company are the commencement of serial production and ramp up of Aluminum products for domestic PV OEM and the maiden domestic & export order secured from prestigious Global OEM's for CLWT facility.

These order wins coupled with business wins over the past two years further diversifies the business in line with our strategy of de-risking through diversification.

The construction of the Centre for Light Weighting Technology (CLWT) is progressing on track, with strong interest and traction from potential customers.

The Industry 4.0 “Centre of Excellence” in partnership with PTC was inaugurated recently. This Centre will act as the foundation for Machine Learning & Artificial Intelligence, and will enable our progress to Digital Manufacturing with improved operational efficiency and product quality.

Looking ahead, the sustained high demand from our customers across CV, PV, traditional Industrial and Defense & Aerospace, makes us confident of the strong growth prospects for the 2nd half of FY19.”

B.N. Kalyani, Chairman & Managing Director.



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STANDALONE FINANCIAL HIGHLIGHTS Q2 FY19

TABLE 1 <i>Particulars</i>	Rs. Million				
	Q2 FY19	Q1 FY19	QoQ %	Q2 FY18	YoY %
Shipment Tonnage	69,683	66,815	4.3	58,659	18.8
Domestic Revenue	6,951	6,001	15.8	5,285	31.5
Export Revenue	9,434	8,443	11.7	7,039	34.0
Other Operating Income	407	353		256	
Total Revenue	16,792	14,797	13.5	12,580	33.5
EBIDTA	4,753	4,288	10.8	3,815	24.6
EBIDTA %	28.3%	29.0%		30.3%	
Other Income	338	343		366	
PBT	3,856	3,554	8.5	3,183	21.1
PBT %	23.0%	24.0%		25.3%	
Notional Exchange Gain/ (loss)	(410)	(2)		(120)	
PBT after Exchange Gain/ (loss)	3,446	3,552	(3.0)	3,063	12.5
Profit After Tax	2,274	2,345	(3.0)	2,037	11.6
Adjusted PAT	2,684	2,347	14.4	2,157	24.4

- Total revenue in Q2 FY19 at Rs. 16,792 million grew by 33.5% as compared to the same period last year. Strong growth witnessed in both the Auto & Industrial business across geographies.
- EBITDA at Rs. 4,753 million grew by 24.6% as compared to Q2 FY18.
- During the quarter, there was an adverse impact of Rs. 410 million on account of exchange fluctuation on revaluation of foreign currency assets and liabilities. The majority of the impact is in respect of foreign currency loans which have a scheduled repayment (back ended) over the next 6 years.
- PBT before Exchange gain/ (loss) grew by 21.1% on a Y-o-Y basis to Rs 3,856 million in Q2 FY19.
- Adjusted PAT stood at Rs 2,684 million, a growth of 24.4% as compared to Rs 2,157 million in Q2 FY18.

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Particulars	September 30, 2018	March 31, 2018
Long Term Debt	16,639	13,462
Working capital & Bill Discounting	14,227	11,666
Equity	46,480	46,143
Cash	15,687	16,008
D/E	0.66	0.54
D/E (Net)	0.33	0.20
Long Term D/E (Net)	0.02	(0.06)
ROCE (Net of cash)	24.5%	22.5%
RONW	20.8%	17.7%

COMPANY REVIEW

Particulars	Q2 FY19			Q1 FY19			Q2 FY18			Y-o-Y % Growth
	Total	India	Export	Total	India	Export	Total	India	Export	
Commercial Vehicles	6,911	2,894	4,017	6,495	3,120	3,375	5,495	2,341	3,154	25.8
Industrial	6,970	2,748	4,222	5,665	1,796	3,869	5,354	1,988	3,366	30.2
Passenger Vehicles	1,802	607	1,195	1,673	474	1,199	1,043	524	519	72.8
Total	15,683	6,249	9,434	13,833	5,390	8,443	11,892	4,853	7,039	31.9

Particulars	Q2 FY19	Q1 FY19	Q2 FY18
India	7,358	6,354	5,541
Americas	6,617	5,724	4,761
Europe	2,537	2,527	1,922
Rest of World	280	192	356
Total	16,792	14,797	12,580

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INDIA BUSINESS

The M&HCV segment continues to remain strong in FY 2019. In the 2nd quarter, the segment has shown strong growth in sales volumes of 27.7%. A pickup in execution of infrastructure projects supported by recovery in construction and industrial activity have supported demand for bigger haulage trucks and tippers. BFL's M&HCV revenues have increased by 24% in the corresponding period. We expect revenue growth from this segment to remain strong going ahead.

Although, the rise in diesel prices and increase in funding cost coupled with the recent revision in axle load norms may impact sentiment in the short term, the impending implementation of BS-VI emission norms from April 2020 onwards is expected to trigger a pre-buy and maintain the growth momentum in the medium term.

In the PV space, we continue to make inroads with the addition of more PV OEM's to our client base. We have also commenced serial production and ramp up of AI components for an Indian PV OEM.

The Industrial business recorded highest quarterly revenue of Rs. 2,748 million. Growth has been driven by commencement of serial supplies of products catering to the defense sector and continued growth in the Agri segment (diversifying from tractors to farm equipment's with new customer additions).

INTERNATIONAL BUSINESS

North American Class 8 orders continue to exceed expectations with most of the months in CY 2018 hitting all-time highs. Strong freight growth supported by a surging economy continues to strain industry capacity and the large orders from fleet operators to reserve build slots throughout next year reflects the positive outlook in anticipation of a continued vibrant freight market.

Demand in the European truck market continued to be good as a result of high freight activity and customer profitability. Market demand is expected to remain healthy going forward as well.

Robust end markets of Oil & Gas and Construction & Mining continue to support our growth trajectory in the Industrials business. Revenues in Q2 FY19 of Rs. 4,222 million have grown by 25% as compared to Q2 FY18.

We continue to focus on new product development to tap more global opportunities in the Industrial business. This initiative is targeted on the existing sectors we operate in as well as explore new sectors that can be added to de-risk our revenues further across sectors and customers.

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OVERSEAS SUBSIDIARIES

Particulars	Rs. Million		
	Jul – Sep 2018	Apr – Jun 2018	Jul – Sep 2017
Total Income	7,371	8,741	6,263
EBITDA	501	696	483
EBITDA %	6.8%	8.0%	7.7%
PBT	41	241	51

This quarter's performance was impacted by on-going diesel issue in Germany related to new testing norms (WLTP), which impacted the OEM sales. As a result of this, the Aluminum forging business witnessed drop in volumes during the quarter.

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