

## BHARAT FORGE LIMITED EARNINGS Update - Q3 FY15 Results

### BFL 3 MONTH REPORT

“The performance during the quarter has been robust with exports continuing to shine with all segments registering growth while the domestic revenues were stagnant.

We have generated strong operating cash flows in 9M FY15 which have been used to repay high cost debts further strengthening our balance sheet. The company’s financial performance is clearly benefiting from our focus on new technologies & innovation created through in house R&D, sweating of assets resulting in higher productivity & debt reduction.

During the quarter we have further strengthened our position in the North American truck market with the addition of one new marquee OEM and commenced delivery of products for global orders from the Passenger Vehicle segment.

Looking ahead into Q4, we expect demand to improve across domestic & export market with volumes increasing compared to Q3 FY15.

The recent steep decline in Crude oil price is expected to result in lower growth for some of the industrial sector businesses but the de-risked business model with focus on enhancing product offering, value addition and customer portfolio should ensure continuity of growth momentum of in our business.”

We continue to make significant strides in the “MAKE IN INDIA” campaign across key industries such as Railway, Mining, and Power etc. We plan to inaugurate this month our high tech locomotive component manufacturing facility at the Centre for Advanced Manufacturing (CAM), Baramati.



B.N. Kalyani, Chairman & Managing Director

Table 1: Key Figures

Particulars	(Rs Million)				
	Q3 FY15	Q2 FY15	% Change	Q3 FY14	% change
<b>Total Revenues</b>	11,978	11,383	5.2%	8,321	43.9%
<b>EBITDA</b>	3,668	3,313	10.7%	2,145	71.0%
EBITDA %	<b>30.6%</b>	<b>29.1%</b>		<b>25.8%</b>	
<b>PBT before exchange gain/(loss)</b>	2,908	2,635	10.4%	1,413	105.8%
<b>PAT</b>	1,963	1,745	12.5%	940	108.9%
<b>EPS</b>	8.43	7.49		4.04	

## STANDALONE FINANCIAL HIGHLIGHTS Q3FY15

Table 2		Rs. Million			
Particulars	Q3 FY15	Q2 FY15	QoQ%	Q3 FY14	YoY %
<b>Shipment Tonnage</b>	<b>53,306</b>	<b>52,560</b>	<b>1.4%</b>	<b>42,702</b>	<b>24.8%</b>
Domestic Revenue	4,086	4,114	-0.7%	3,289	24.2%
Export Revenue	7,335	6,975	5.2%	4,797	52.9%
Other Operating Income	557	294		235	
<b>Total Revenue</b>	<b>11,978</b>	<b>11,383</b>	<b>5.2%</b>	<b>8,321</b>	<b>43.9%</b>
EBIDTA	3,668	3,313	10.7%	2,145	71.0%
<b>EBIDTA %</b>	<b>30.6%</b>	<b>29.1%</b>		<b>25.8%</b>	
Other Income	191	300		284	
PBT	2,908	2,635	10.4%	1,413	105.8%
<b>PBT %</b>	<b>24.3%</b>	<b>23.1%</b>		<b>17.0%</b>	
Exchange Gain/ (loss)	(46)	(65)		(30)	
Exceptional Item	-	(41)		-	
PBT	2,862	2,529	13.2%	1,383	106.9%
Profit After Tax	1,963	1,745	12.5%	940	108.9%

- BFL Q3 shipment tonnage at 53,306 tons grew by 24.8% as compared to the same period last year.
- Total revenue increased by 43.9% in Q3 FY15 to Rs 11,978 million as compared to Q3 FY14 led by 52.9% growth in export revenue and 24.2% growth in domestic revenues.
- EBITDA during the quarter grew by 71.0% to Rs 3,668 million and EBITDA margins expanded a healthy 480 bps on a Y-o-Y basis, benefitting from improved product mix and operating leverage.
- Focus on sweating of assets and debt reduction have resulted in fixed cost (depreciation & Interest) in Q3 FY15 falling by 430 bps compared to Q3 FY14.
- PBT before Exchange gain/ (loss) increased by 105.8% in Q3 FY15 to Rs 2,908 million compared to the same quarter previous year while PAT for the quarter witnessed growth of 108.9% to Rs 1,963 million.

## KEY FINANCIAL PARAMETERS: STANDALONE

Particulars	Rs Million	
	December 31, 2014	March 31, 2014
<b>Debt</b>	16,277	19,943
<b>Equity</b>	32,162	26,933
<b>Cash</b>	7,522	9,967
<b>D/E</b>	<b>0.51</b>	<b>0.74</b>
<b>D/E (Net)</b>	<b>0.27</b>	<b>0.37</b>
<b>Net Debt /EBITDA</b>	<b>0.63</b>	<b>1.02</b>
<b>ROCE</b>	<b>22.8%</b>	<b>16.0%</b>
<b>RONW</b>	<b>21.6%</b>	<b>15.0%</b>

Strong operating Cash flows during 9M FY15 have been used to repay debt of Rs 358 crores of which Rs 236 crores was towards high cost rupee debt resulting in reduction of interest expenses. In Q4 FY15 further reduction of Rs 171 crores of high cost Rupee debt will occur.

## REVIEW OF INDIAN MARKET

**Table 4: Domestic Automotive Production Data (No's)**

Particulars	Q3 FY15	Q2 FY15	QoQ%	Q3 FY14	YoY %
LCV	103,661	110,825	-6.5%	115,718	-10.4%
Medium & Heavy CV	60,961	62,933	-3.1%	41,158	48.1%
<b>Total CV Market (M&amp;HCV +LCV)</b>	<b>164,622</b>	<b>173,758</b>	<b>-5.3%</b>	<b>156,876</b>	<b>4.9%</b>
Passenger Cars including Vans	621,544	656,161	-5.3%	602,955	3.1%
Utility Vehicles	147,997	165,214	-10.4%	145,461	1.7%
<b>Total Auto Market</b>	<b>934,163</b>	<b>995,133</b>	<b>-6.1%</b>	<b>905,292</b>	<b>3.2%</b>

Source: SIAM

The domestic automotive market in the quarter gone by continued to struggle with weak demand on a sequential basis across segments while the performance was encouraging compared to the same period last year, albeit on a low base.

M&HCV production in India declined by -3.1% in Q3 FY15 compared to Q2 FY15 while it witnessed a surge compared to the depressed volumes prevalent in Q3 FY14.

The recent softening of crude oil prices and the subsequent transmission of benefit to the end users coupled with reduction in interest rates & expected higher economic activity augurs well for the automotive segment & in particular the M&HCV space going into FY16. The consumer oriented PV segment is likely to get a boost from new launches and revival of the urban markets. The demand for trucks is also expected to increase due to the governments renewed thrust on infrastructure.

The performance of the company in the automotive sector continues to track the performance of the underlying market. Revenues from the Commercial Vehicle sector in Q3 FY15 grew by 54% as compared to Q3 FY14 as against the volume growth of 48%.

## REVIEW OF EXPORT MARKETS

**Table 5 : Export Revenue**

**Rs. Million**

<i>Particulars</i>	<i>Q3 FY15</i>	<i>Q2 FY15</i>	<i>Growth %</i>	<i>Q3 FY14</i>	<i>Growth %</i>
<b>Americas</b>	4,928	4,285	<b>15.0</b>	2,310	<b>113.3</b>
<b>Europe</b>	2,122	2,293	<b>-7.4</b>	2,095	<b>1.3</b>
<b>Asia Pacific</b>	285	397	<b>-28.2</b>	392	<b>-27.3</b>
<b>Total</b>	<b>7,335</b>	<b>6,975</b>	<b>5.2</b>	<b>4,797</b>	<b>52.9</b>

The automobile market in North America continues to grow on back of the improving economy. The American truck market showed the strongest 3 month (October to December) volumes since 2006. The class 8 truck market in CY2014 has grown by 15%.

The growth stagnation in the Eurozone economy has affected the overall demand in the European markets. The M&HCV market volumes for the quarter ending December was down by 22% as compared to the same period last year due to significant pre-buy of commercial vehicles in advance of new emission norms in Oct – Dec 2013.

In the coming quarter, we expect continuation of growth in the North American market. Though overall industrial environment in the Eurozone is expected to pick up on account of the quantitative easing program announced by the ECB, we are cautiously optimistic and believe that benefits of the QE program will take time to reflect and the demand would remain flat in the near term.

## Industrial Sector Update

### Acquisition of Mécanique Générale Langroise (MGL)

During the quarter, BFL through its European Subsidiary acquired 100% in Mécanique Générale Langroise (MGL). MGL is a strong technology oriented company focused on precision machining and other high value added processes like cladding for critical application in the Oil & Gas industry. MGL supplies turnkey components for drilling application like Blow out Preventers (BoP), Surface & sub-sea well heads in addition to components for power sector.

This acquisition is largely focused on further consolidating BFL position in the Oil & Gas space by enhancing service offerings and geographical reach. This also brings BFL closer to its customers and increases the value addition provided to them.

BFL's traditional industrial segment continues to perform well with oil & gas sector and the Heavy Horse Power Engine segment providing the momentum. In Q3 FY15, the Industrial segment accounted for 48% of standalone while for 9M FY15, the segment contributed 47% of standalone sales.

BFL's presence in the Oil & Gas vertical is across Surface, Sub-sea and shale gas (new & maintenance) application catering to customers in North America, Asia – Pacific Region & Europe. The recent steep decline in Crude Oil prices has started to have an impact on the industry and we expect demand for our products supplied in to the Oil & Gas sector to grow albeit at a slower pace. However, we are working on mitigating any potential impact through enhancing the products offering and expanding the customer base to ensure the growth momentum sustains.

## FINANCIAL HIGHLIGHTS – OVERSEAS SUBSIDIARIES

Table 6

Rs Million

Particulars	Oct-Dec 2014	Jul – Sep 2014	Oct-Dec 2013
Total Revenue	5,826	5,432	6,781
EBITDA	343	312	581
<b>EBITDA %</b>	<b>5.9%</b>	<b>5.7%</b>	<b>8.6%</b>
PBT before exceptional item	53	10	215

The performance of the overseas operations has slightly improved in the quarter due to better volumes from underlying Commercial Vehicle & Premium Passenger Vehicle Market. Oct – Dec 2013 was a market aberration due to significant pre-buy of commercial vehicles in advance of new emission norms.

## OUTLOOK

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Indicative demand outlook across various geographies on a sequential basis

Particulars	India	North America	Europe
Commercial Vehicles	↑	↑	↔
Passenger Vehicles – High End	—	↑	↑
Passenger Vehicles – Mass Market	↑	↑	↓
Oil & Gas	—	↓	—
Construction & Mining	↑	↓	↓