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## BHARAT FORGE

# Positives have been Factored in

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Bharat Forge's quarterly year-on-year volume growth of about 29% is a sign that its strategy of expanding revenue stream beyond the conventional segments is paying off.

The upbeat March-quarter numbers defy a more than 20% slump in domestic sales of commercial vehicles during the period. Bharat Forge, the world's largest manufacturer of forgings, supplies power train and chassis components and transmission parts to automakers. Its key clients include Daimler, Tata Motors, Mahindra Navistar and Ashok Leyland.

The company's quarterly volume growth was driven by higher sales to manufacturers of light commercial vehicles, tractors and agriculture equipment (within the auto category), which helped offset the pressure due to falling sales to makers of heavy commercial vehicles. For 2013-14, Bharat Forge's sales to commercial vehicles segment declined by about 21% from a year ago. It is currently 41% below the highs of 2012.

On the other hand, the company's revenue from the non-auto segment is showing improvement.

In a conference call after declaration of results, the company's management said volume growth in North American truck segment is likely to be 8-10% in the current fiscal, compared with a flat growth a year ago.

Bharat Forge's capacity utilisation at its domestic and global operations stands at 65-70%, giving it enough room for margin expansion in case demand in the CV segment picks up.

Analysts, however, appear divided on whether the company can sustain domestic margin at about 25%. Some say it will be difficult as it captures the entire benefit machining mix and hereon, domestic market sales are likely to increase, which is a margin dilutive. Over and above these operational steps, Bharat Forge is focusing on de-leveraging balance sheet.

According to Bloomberg, earnings are expected to grow 20% and 17.7% for FY15 and FY16, respectively. Bharat Forge's shares are trading at a P/E of 20 times on a one-year forward basis, which is at a premium to their historical average. Given that the stock has run up by 52% since the beginning of the year, it seems that all positive factors such as de-leveraging, margin expansion, and CV cycle revival in India, have already been priced in.

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