

October 11, 2019

Analyst Meet Update

■ Change in Estimates | ■ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY20E	FY21E	FY20E	FY21E
Rating	HOLD		HOLD	
Target Price	430		430	
Sales (Rs. m)	1,04,918	1,10,317	1,04,918	1,10,317
% Chng.	-	-	-	-
EBITDA (Rs. m)	21,174	22,100	21,174	22,100
% Chng.	-	-	-	-
EPS (Rs.)	22.4	23.9	22.4	23.9
% Chng.	-	-	-	-

Key Financials - Consolidated

Y/e Mar	FY18	FY19	FY20E	FY21E
Sales (Rs. m)	83,577	1,01,457	1,04,918	1,10,317
EBITDA (Rs. m)	17,230	20,556	21,174	22,100
Margin (%)	20.6	20.3	20.2	20.0
PAT (Rs. m)	8,226	10,322	10,441	11,116
EPS (Rs.)	17.7	22.2	22.4	23.9
Gr. (%)	(32.6)	25.5	1.2	6.5
DPS (Rs.)	4.5	5.0	6.2	6.2
Yield (%)	1.1	1.2	1.5	1.5
RoE (%)	18.8	20.6	18.3	17.3
RoCE (%)	16.6	18.0	16.5	16.3
EV/Sales (x)	2.7	2.3	2.1	2.0
EV/EBITDA (x)	13.2	11.2	10.6	9.9
PE (x)	24.0	19.1	18.9	17.8
P/BV (x)	4.2	3.7	3.3	2.9

Key Data

BFRG.BO | BHFC IN

52-W High / Low	Rs.637 / Rs.376
Sensex / Nifty	37,880 / 11,235
Market Cap	Rs.197bn/ \$ 2,777m
Shares Outstanding	466m
3M Avg. Daily Value	Rs.1214.79m

Shareholding Pattern (%)

Promoter's	45.90
Foreign	18.89
Domestic Institution	13.50
Public & Others	21.71
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	5.9	(14.9)	(28.0)
Relative	3.8	(13.3)	(34.0)

Deep Shah

deepshah@plindia.com | 91-22-66322235

Amber Shukla

ambershukla@plindia.com | 91-22-66322426

Focusing on diversification for long term growth

We attended BHFC's analyst meet. The management acknowledged short-term challenges in domestic CV industry as recovery in CV volumes expected only by 2HFY21 as well as weak auto exports as US and Europe heavy truck segment is expected to decline ~20% in FY21. However, customer addition in passenger car and ramp-up of new businesses would dilute the impact of weak CV segment. BHFC continues to focus on technology and intends to transform itself as component supplier to a solution provider. We believe ramp up in non-auto exports and increase in share of passenger car segment should partially negate impact of CV business slowdown. We maintain Hold with a target price of Rs430, based on 18x Mar-21E consolidated EPS.

Near term challenges remain in CV business

- BHFC anticipates challenges in domestic CV business will persist with recovery expected only by 2HFY21.
- Heavy truck volumes in US is expected to decline to ~250-270k units in FY20/21 (v/s 330k in FY19). Volumes in Europe markets to remain tepid with flat to -10%. Slowdown is expected to continue in China while LatAM markets is expected to see marginal recovery.
- It expects increase in forging content post BS6 leading to higher demand for light weighting components for ammonia dosing, aluminum cooling system etc. BHFC would be one of the biggest beneficiary as it currently manufactures similar components for US and European customers.

Passenger car segment revenue share to double to 25% by FY25

- To make business immune from cyclicity, BHFC is increasingly focusing on passcar segment where it expects to double the revenue share from the segment to 25% by FY25 from 12% in FY19. The PV segment is a focus area for BHFC, as this segment offers an opportunity size 4x that of CVs.
- BHFC is focusing is on the transmission segment, as the market is shifting from 5-speed to 9-speed automatic gearboxes. It is an opportunity for BHFC due to limited capacity available globally in the space.
- Supply of higher value added products like forge steel, finished machined and forged aluminum chassis components and foray in to driveline and transmission products to help achieve above industry growth in the segment.

EV - expects 2W, 3W and bus to lead shift to EV

- It expects 2W, 3W, bus (public transport) to lead EV shift race in coming 5-6 years while it don't expect major shift in cars in the long-run.
- BHFC has so-far invested INR2b in EV ecosystem for critical components such as battery and motors housing, BMS (power electronics).

- It has also invested in Tork motorcycles (EV 2W – BHFC owns 49%), Tevva Motors (electric powertrains for CVs where BHFC owns 35%) and Refu electronic (50:50 JV to make EV and hybrid components).
- BHFC is in talk with large OEMs like AL and TTMT to provide EV solutions.

Defence – expects revenue to double by FY23

- BHFC is already supplying components and sub-components to Indian Defense. BHFC has developed ~7 platforms in artillery systems, armoured vehicles, air defense systems, jet engines, defence electronics and transmission parts.
- With the government promoting Make in India, the defense segment, which is significantly dependent on imports, presents a large opportunity for domestic suppliers. BHFC expects major break-through in defence programs in next 2-3 years.
- The management expect doubling of defence revenues by FY23 from Rs4.8b in FY19.

Other highlights

- **Railways:** While these are still nascent business, BHFC is focusing on developing niche products for this segment. BHFC is supplying indigenously developed 3,500-4,500 HP machined crankshafts for Indian railways.
- **Overseas Subsidiaries:** Focus is to move from commoditized steel components (~85% currently) to niche Aluminum components (~40-45%).

Financials

Income Statement (Rs m)

Y/e Mar	FY18	FY19	FY20E	FY21E
Net Revenues	83,577	1,01,457	1,04,918	1,10,317
YoY gr. (%)	30.7	21.4	3.4	5.1
Cost of Goods Sold	32,811	42,143	56,210	60,041
Gross Profit	50,766	59,314	48,708	50,276
Margin (%)	60.7	58.5	46.4	45.6
Employee Cost	10,892	12,463	-	-
Other Expenses	22,644	26,295	27,534	28,176
EBITDA	17,230	20,556	21,174	22,100
YoY gr. (%)	37.7	19.3	3.0	4.4
Margin (%)	20.6	20.3	20.2	20.0
Depreciation and Amortization	4,669	5,208	5,721	6,003
EBIT	12,561	15,348	15,453	16,097
Margin (%)	15.0	15.1	14.7	14.6
Net Interest	1,065	1,272	1,465	1,443
Other Income	1,420	2,028	2,287	2,409
Profit Before Tax	11,961	16,104	16,275	17,063
Margin (%)	14.3	15.9	15.5	15.5
Total Tax	4,418	5,664	5,830	5,943
Effective tax rate (%)	36.9	35.2	35.8	34.8
Profit after tax	7,544	10,440	10,445	11,120
Minority interest	(81)	118	4	4
Share Profit from Associate	-	-	-	-
Adjusted PAT	8,226	10,322	10,441	11,116
YoY gr. (%)	34.9	25.5	1.2	6.5
Margin (%)	9.8	10.2	10.0	10.1
Extra Ord. Income / (Exp)	(602)	-	-	-
Reported PAT	7,624	10,322	10,441	11,116
YoY gr. (%)	8.2	35.4	1.2	6.5
Margin (%)	9.1	10.2	10.0	10.1
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	7,624	10,322	10,441	11,116
Equity Shares O/s (m)	466	466	466	466
EPS (Rs)	17.7	22.2	22.4	23.9

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY18	FY19	FY20E	FY21E
Non-Current Assets				
Gross Block	80,211	86,671	98,978	1,02,978
Tangibles	80,211	86,671	98,978	1,02,978
Intangibles	-	-	-	-
Acc: Dep / Amortization	45,217	50,425	56,146	62,149
Tangibles	45,217	50,425	56,146	62,149
Intangibles	-	-	-	-
Net fixed assets	34,994	36,246	42,832	40,829
Tangibles	34,994	36,246	42,832	40,829
Intangibles	-	-	-	-
Capital Work In Progress	3,438	8,307	1,000	1,000
Goodwill	-	-	-	-
Non-Current Investments	15,011	15,237	17,237	19,237
Net Deferred tax assets	(2,147)	(2,062)	(2,062)	(2,062)
Other Non-Current Assets	-	-	-	-
Current Assets				
Investments	-	-	-	-
Inventories	13,599	18,447	17,247	18,134
Trade receivables	19,605	21,478	23,571	24,783
Cash & Bank Balance	3,041	4,755	9,204	13,373
Other Current Assets	-	-	-	-
Total Assets	99,768	1,15,783	1,24,600	1,31,561
Equity				
Equity Share Capital	931	931	931	931
Other Equity	45,586	52,529	59,472	67,090
Total Networth	46,517	53,461	60,404	68,021
Non-Current Liabilities				
Long Term borrowings	32,570	37,728	35,728	33,728
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	13,268	13,664	17,247	18,134
Other current liabilities	4,972	8,569	8,861	9,317
Total Equity & Liabilities	99,768	1,15,783	1,24,600	1,31,561

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY18	FY19	FY20E	FY21E
PBT	11,961	16,104	15,453	16,097
Add. Depreciation	4,669	5,208	5,721	6,003
Add. Interest	1,902	52	2,283	2,405
Less Financial Other Income	1,420	2,028	2,287	2,409
Add. Other	(955)	-	-	-
Op. profit before WC changes	17,578	21,364	23,457	24,505
Net Changes-WC	(3,979)	(6,747)	786	(1,452)
Direct tax	(3,925)	(5,502)	(5,830)	(5,943)
Net cash from Op. activities	9,674	9,115	18,413	17,110
Capital expenditures	(5,684)	(11,318)	(5,000)	(4,000)
Interest / Dividend Income	-	-	-	-
Others	(2,458)	(433)	(2,000)	(2,000)
Net Cash from Inv. activities	(8,142)	(11,751)	(7,000)	(6,000)
Issue of share cap. / premium	290	-	-	-
Debt changes	(38)	7,521	(2,000)	(2,000)
Dividend paid	(2,522)	(2,806)	(3,498)	(3,498)
Interest paid	(875)	(1,038)	(1,465)	(1,443)
Others	-	-	-	-
Net cash from Fin. activities	(3,144)	3,676	(6,963)	(6,941)
Net change in cash	(1,612)	1,040	4,450	4,168
Free Cash Flow	3,990	(2,203)	13,413	13,110

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY19	Q4FY19	Q1FY20	Q2FY20E
Net Revenue	16,925	16,686	13,466	13,038
YoY gr. (%)	21.7	13.8	(9.0)	(22.4)
Raw Material Expenses	6,234	6,216	4,983	4,772
Gross Profit	10,691	10,470	8,483	8,266
Margin (%)	63.2	62.7	63.0	63.4
EBITDA	4,869	4,849	3,519	3,412
YoY gr. (%)	18.3	21.9	(17.9)	(28.2)
Margin (%)	28.8	29.1	26.1	26.2
Depreciation / Depletion	907	821	886	800
EBIT	3,963	4,028	2,633	2,612
Margin (%)	23.4	24.1	19.6	20.0
Net Interest	136	315	388	360
Other Income	867	825	377	400
Profit before Tax	4,694	4,538	2,622	2,652
Margin (%)	27.7	27.2	19.5	20.3
Total Tax	1,596	1,543	881	875
Effective tax rate (%)	34.0	34.0	33.6	33.0
Profit after Tax	3,098	2,995	1,741	1,777
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	3,098	2,995	1,741	1,777
YoY gr. (%)	35.8	85.3	(25.7)	(21.9)
Margin (%)	18.3	17.9	12.9	13.6
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	3,098	2,995	1,741	1,777
YoY gr. (%)	35.8	198.5	(25.7)	(21.9)
Margin (%)	18.3	17.9	12.9	13.6
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	3,098	2,995	1,741	1,777
Avg. Shares O/s (m)	466	466	466	466
EPS (Rs)	6.7	6.4	3.7	3.8

Source: Company Data, PL Research

Key Financial Metrics

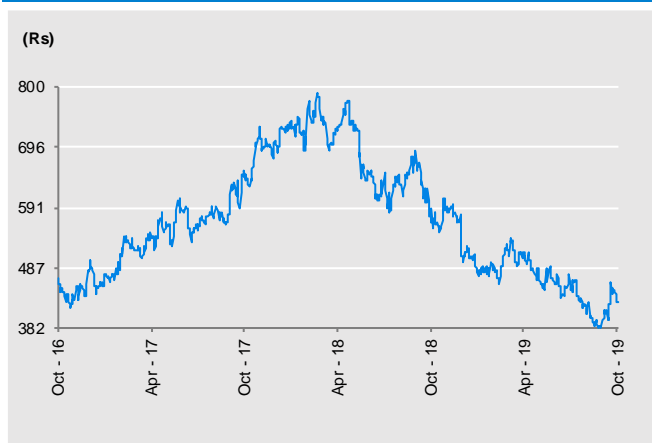
Y/e Mar	FY18	FY19	FY20E	FY21E
Per Share(Rs)				
EPS	17.7	22.2	22.4	23.9
CEPS	27.7	33.4	34.7	36.8
BVPS	99.9	114.8	129.7	146.1
FCF	8.6	(4.7)	28.8	28.2
DPS	4.5	5.0	6.2	6.2
Return Ratio(%)				
RoCE	16.6	18.0	16.5	16.3
ROIC	10.9	12.4	11.7	12.3
RoE	18.8	20.6	18.3	17.3
Balance Sheet				
Net Debt : Equity (x)	0.6	0.6	0.4	0.3
Net Working Capital (Days)	87	94	82	82
Valuation(x)				
PER	24.0	19.1	18.9	17.8
P/B	4.2	3.7	3.3	2.9
P/CEPS	15.3	12.7	12.2	11.5
EV/EBITDA	13.2	11.2	10.6	9.9
EV/Sales	2.7	2.3	2.1	2.0
Dividend Yield (%)	1.1	1.2	1.5	1.5

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY18	FY19	FY20E	FY21E
Shipment Tonnage (tons)	2,42,103	2,65,952	2,52,654	2,60,234
Realisation (Rs/ton)	2,19,575	2,45,157	2,73,459	2,71,481

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	03-Oct-19	Hold	430	441
2	13-Aug-19	BUY	430	401
3	04-Jul-19	Hold	513	476
4	20-May-19	Hold	513	486
5	05-Apr-19	Hold	504	512
6	14-Feb-19	Hold	504	478
7	07-Jan-19	Accumulate	696	480
8	05-Nov-18	Accumulate	696	607

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Ashok Leyland	Hold	75	68
2	Bajaj Auto	Reduce	2,646	2,898
3	Bharat Forge	Hold	430	441
4	CEAT	Reduce	757	965
5	Eicher Motors	Reduce	15,800	18,285
6	Exide Industries	Accumulate	209	196
7	Hero Motocorp	Accumulate	2,529	2,667
8	Mahindra & Mahindra	Hold	563	563
9	Maruti Suzuki	BUY	6,842	6,754
10	Motherson Sumi Systems	Accumulate	111	99
11	Tata Motors	Hold	139	122
12	TVS Motors	Hold	405	405

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

ANALYST CERTIFICATION

(Indian Clients)

We/I, Mr. Deep Shah- MBA Finance, Mr. Amber Shukla- MBA Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

(US Clients)

The research analysts, with respect to each issuer and its securities covered by them in this research report, certify that: All of the views expressed in this research report accurately reflect his or her or their personal views about all of the issuers and their securities; and No part of his or her or their compensation was, is or will be directly related to the specific recommendation or views expressed in this research report.

DISCLAIMER

Indian Clients

Prabhudas Lilladher Pvt. Ltd, Mumbai, India (hereinafter referred to as "PL") is engaged in the business of Stock Broking, Portfolio Manager, Depository Participant and distribution for third party financial products. PL is a subsidiary of Prabhudas Lilladher Advisory Services Pvt Ltd. which has its various subsidiaries engaged in business of commodity broking, investment banking, financial services (margin funding) and distribution of third party financial/other products, details in respect of which are available at www.plindia.com.

This document has been prepared by the Research Division of PL and is meant for use by the recipient only as information and is not for circulation. This document is not to be reported or copied or made available to others without prior permission of PL. It should not be considered or taken as an offer to sell or a solicitation to buy or sell any security.

The information contained in this report has been obtained from sources that are considered to be reliable. However, PL has not independently verified the accuracy or completeness of the same. Neither PL nor any of its affiliates, its directors or its employees accepts any responsibility of whatsoever nature for the information, statements and opinion given, made available or expressed herein or for any omission therein.

Recipients of this report should be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The suitability or otherwise of any investments will depend upon the recipient's particular circumstances and, in case of doubt, advice should be sought from an independent expert/advisor.

Either PL or its affiliates or its directors or its employees or its representatives or its clients or their relatives may have position(s), make market, act as principal or engage in transactions of securities of companies referred to in this report and they may have used the research material prior to publication.

PL may from time to time solicit or perform investment banking or other services for any company mentioned in this document.

PL is in the process of applying for certificate of registration as Research Analyst under Securities and Exchange Board of India (Research Analysts) Regulations, 2014

PL submits that no material disciplinary action has been taken on us by any Regulatory Authority impacting Equity Research Analysis activities.

PL or its research analysts or its associates or his relatives do not have any financial interest in the subject company.

PL or its research analysts or its associates or his relatives do not have actual/beneficial ownership of one per cent or more securities of the subject company at the end of the month immediately preceding the date of publication of the research report.

PL or its research analysts or its associates or his relatives do not have any material conflict of interest at the time of publication of the research report.

PL or its associates might have received compensation from the subject company in the past twelve months.

PL or its associates might have managed or co-managed public offering of securities for the subject company in the past twelve months or mandated by the subject company for any other assignment in the past twelve months.

PL or its associates might have received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months.

PL or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months

PL or its associates might have received any compensation or other benefits from the subject company or third party in connection with the research report.

PL encourages independence in research report preparation and strives to minimize conflict in preparation of research report. PL or its analysts did not receive any compensation or other benefits from the subject Company or third party in connection with the preparation of the research report. PL or its Research Analysts do not have any material conflict of interest at the time of publication of this report.

It is confirmed that Mr. Deep Shah- MBA Finance, Mr. Amber Shukla- MBA Research Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

The Research analysts for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

The research analysts for this report has not served as an officer, director or employee of the subject company PL or its research analysts have not engaged in market making activity for the subject company

Our sales people, traders, and other professionals or affiliates may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest.

PL and its associates, their directors and employees may (a) from time to time, have a long or short position in, and buy or sell the securities of the subject company or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the subject company or act as an advisor or lender/borrower to the subject company or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.

US Clients

This research report is a product of Prabhudas Lilladher Pvt. Ltd., which is the employer of the research analyst(s) who has prepared the research report. The research analyst(s) preparing the research report is/are resident outside the United States (U.S.) and are not associated persons of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer, and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

This report is intended for distribution by Prabhudas Lilladher Pvt. Ltd. only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a 6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person, which is not the Major Institutional Investor.

In reliance on the exemption from registration provided by Rule 15a-6 of the Exchange Act and interpretations thereof by the SEC in order to conduct certain business with Major Institutional Investors, Prabhudas Lilladher Pvt. Ltd. has entered into an agreement with a U.S. registered broker-dealer, Marco Polo Securities Inc. ("Marco Polo").

Transactions in securities discussed in this research report should be effected through Marco Polo or another U.S. registered broker dealer.

Prabhudas Lilladher Pvt. Ltd.

3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India | Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

www.plindia.com | Bloomberg Research Page: PRLD <GO>