

BHARAT FORGE LIMITED

Analyst Update - FY15 Results

BFL 12 MONTH REPORT

"FY15 has been an encouraging year for the company on many fronts. Operational performance during the year was excellent, driven by productivity improvement, cost efficiency and sweating of assets. Financial parameters improved across the board and this coupled with strong free cash generations resulted in net debt reduction.

On the business front, strong market share gain in the North American Truck market, new customer additions in US and Europe, coupled with the entry into the premium Aerospace segment with 4 marquee customer contracts capped off a strong year".

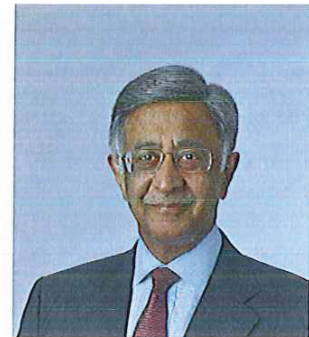
"We continue to make good progress in expanding our product offering in the traditional automotive & industrial business by developing newer processes and materials supported by our world-class in-house innovation Centre. This will enable BFL to increase our penetration in the coming years".

"As we enter into FY16, we are witnessing growth in both Commercial & Passenger Vehicle segment across our key markets. However, Industrial sectors are witnessing mixed fortunes due to the sudden slowdown in Oil & Gas markets and resultant impact on other industrial sectors. Mining continues to be sluggish as well. Overall, we expect topline growth to be better than the underlying market growth"

"Looking ahead into Q1 FY16 we anticipate demand to be higher compared to Q1 FY15 but slightly muted compared to Q4 FY15 primarily due to lower than anticipated recovery in the Indian MHCV market & decline in the Oil & Gas business"

The Company is fully focused and geared up to deliver opportunities arising from the Government's "Make in India" initiative for a wide spectrum of Industrial sectors in India"

B.N. Kalyani, Chairman & Managing Director.



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STANDALONE FINANCIAL HIGHLIGHTS FY15

Particulars	Rs. Million				
	Q4 FY15	Q3 FY15	Q4 FY14	FY15	FY14
Shipment Tonnage	56,679	53,306	48,015	211,668	174,808
Domestic Revenue	4,574	4,086	3,958	16,900	14,571
Export Revenue	7,380	7,335	5,079	27,207	18,482
Other Operating Income	285	557	268	1,374	939
Total Revenue	12,239	11,978	9,305	45,481	33,992
EBIDTA	3,675	3,668	2,304	13,563	8,636
EBIDTA %	30.0%	30.6%	24.8%	29.8%	25.4%
Other Income	200	191	353	933	1,037
PBT	3,154	2,908	1,710	10,872	5,723
PBT %	25.8%	24.3%	18.4%	23.9%	16.8%
Exchange Gain/ (loss)	(78)	(46)	(27)	(263)	111
PBT after Ex Gain/ (loss)	3,076	2,862	1,683	10,609	5,834
Exceptional Items	5	-	124	(36)	124
PBT after Excp Item	3,081	2,862	1,807	10,573	5,958
Profit After Tax	2,032	1,963	1,191	7,190	3,999

- BFL shipment tonnage increased by 18.0% compared to Q4 FY14 on back of growth in domestic M&HCV market and export market.
- Total Revenues grew by 31.5% in Q4 FY15 to Rs 12,239 million as compared to Q4 FY14 driven by 45.3% growth in export revenues & 15.6% increase in domestic revenues.
- EBITDA margins at 30.0% in Q4 FY15 saw an improvement of 520 bps compared to Q4 FY14 primarily driven by increased capacity utilization and favorable product mix.

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- PBT before Exchange gain/ (loss) and Exceptional item increased 84.4% in Q4 FY15 to Rs 3,154 million compared to Rs 1,710 million in Q4 FY14. The increase in PBT is a result of our focus on controlling fixed cost and sweating of assets.
- Exceptional Item in Q4 FY15 refers to the following items
 - Write back of Rs 295 million provision relating to Local Body Tax (LBT) for previous year
 - Impairment of investments in Indian subsidiaries of Rs 290 million which is non cash in nature.
- PAT increased 70.7% from Rs 1,191 million in Q4 FY14 to Rs 2,032 million in Q4 FY15.

KEY FINANCIAL PARAMETERS: STANDALONE

Particulars	Rs Million	
	March 31, 2015	March 31, 2014
Debt	17,974	19,943
Equity	34,957	26,933
Cash	10,130	9,967
D/E	0.51	0.74
D/E (Net)	0.22	0.37

The Long term loan rating of BFL has been upgraded by ICRA from AA (stable outlook) to AA+ (stable outlook).

GEOGRAPHICAL REVENUE BREAK-UP

Particulars	Rs. Million					
	Q4 FY15	Q4 FY14	Growth %	FY15	FY14	Growth %
India	4,859	4,226	15.0%	18,274	15,510	17.8%
Americas	4,904	2,914	68.3%	17,413	9,179	89.7%
Europe	2,145	1,756	22.1%	8,447	7,847	7.6%
Asia Pacific	331	409	-19.1%	1,347	1,456	-7.5%
Total	12,239	9,305	31.5%	45,481	33,992	33.8%

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REVIEW OF INDIAN MARKET

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

Particulars	Q4 FY15	Q4 FY14	YOY%	FY15	FY14	YOY %
LCV	111,220	116,044	-4.2%	428,530	477,523	-10.3%
Medium & Heavy CV	82,332	62,557	31.6%	268,553	221,699	21.1%
Total CV Market	193,552	178,601	8.4%	697,083	699,222	-0.3%
Passenger Cars	866,430	806,426	7.4%	3,218,883	3,086,407	4.3%
Total Auto Market	1,059,982	9,85,027	7.6%	3,915,966	3,785,629	3.4%

Source: Society of Indian Automobile Manufacturers (SIAM)

In FY 2015 the domestic automotive market grew for the first time in 3 years as total production increased by 3.4% as compared to FY 2014. The M&HCV segment witnessed a trend reversal in FY 2015 as compared to the decline in previous 2 years. Total M&HCV volumes in FY 2015 stood at 268,553, a 21% increase in volumes as compared to FY 2014. Lower diesel prices and strong freight rates acted as tail winds in the resurgence of the sector in FY2015. BFL continued to outperform the industry growth as the revenues from the CV business increased by 26.4% as compared to FY 2014 mainly due to ramp up of orders from new customers.

The return of the first time buyer and a positive sentiment in the urban markets resulted in the passenger vehicle volumes increasing by 4%. Revenues for the company from the passenger vehicle segment grew by 5.3% as compared to FY 2014.

In FY 2015, the revenues from the industrial segment grew by 11.2% as compared to FY 2014 on the back of increased demand from the energy sector.

The recent steps taken by the government to revive the capex cycle in India by way of allocation of coal blocks, resumption of Iron ore mining, focus on public sector investment in the Road and Railways sector augurs well for the Commercial Vehicle sector and also for the resurgence of the capital goods sectors. These measures coupled with the governments "Make in India" programme, aimed at creating a vibrant manufacturing sector and an import substitution market opens up a potentially huge and once in a lifetime opportunity for technology focused manufacturing companies.

As a part of the "Make in India" program, focused efforts and activities have been undertaken to address the programs of the Govt. of India in the Rail, Power, Defense and Aerospace sector. Our focus on technology, innovation along with a strong R & D approach should assist in positioning the company at the front to address these new opportunities.

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REVIEW OF INTERNATIONAL BUSINESS

Automotive Business

The export markets continued to do well with strong growth in all the segments the company operates in. The US markets and the passenger vehicle segment showed phenomenal growth in FY 2015 as compared to the previous year.

In CY 2014, the US auto industry supported by robust economic growth showed a strong performance and recorded the highest sales since the financial crisis. The Class 8 truck production volumes grew by around 20% while the Passenger vehicle segment also witnessed growth.

The last 4 months of the FY 2015 (November 2014 – February 2015) witnessed a sharp uptick in Class 8 trucks net orders, causing a jump in backlog from normal levels of 100,000 units to around 190,000 units. The OEM's did not react by adding shifts or production capacity with an objective of extending the longevity of the cycle. We expect the truck market demand environment to remain benign for 2-3 years, subject to occurrence of GFC type event which may lead to collapse in demand.

In Europe, the M&HCV volumes are still substantially below the previous peaks with the volumes declining by nearly 6% in CY 2014 as compared to CY 2013. The introduction of EURO VI emission norms had a dampening impact on demand due to price increase and technology related absorption issues. However, these factors have stabilized towards the end of CY 2014. Looking ahead, the expected continuation of Eurozone economic recovery bodes well for the automotive industry. We expect the Heavy Truck segment volumes to grow by 2%-5% over the next 2 years.

Non-auto business

The export industrial business registered 83% growth from Rs 7,220 million in FY 2014 to Rs 13,223 million in FY 2015 led by surge in business from Energy segment and growth in other sectors. This growth has been achieved despite declining demand environment in Oil & Gas and the mining business during the course of the year.

CY 2014 has been a rough year for the Oil & Gas sector with crude oil prices rapidly declining from peak levels of US\$ 140 per barrel to as low as US\$ 40 per barrel in the span of few months. The sector participants believe the new normal for crude oil to be in the range of US\$ 65 per barrel to US\$ 80 per barrel and we are confident that the industry will adapt to these levels. We expect the inventory destocking to reduce over the next 2-3 months and new orders to come through post that.

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The Oil & gas sector, mining sector and the agriculture sector are witnessing challenging times due to sharp decline in commodity prices while the construction sector is stable and the transportation sector is growing on back of infrastructure investments globally. BFL remains well positioned in the market with a diverse customer base & product portfolio. Though the market has come down in activity levels, we are firmly on track to increase our client base and enhance product offerings.

The mining sector has been in a lull for a prolonged period and the belief is that an upturn is imminent though the timing is uncertain. The Indian Government’s focus on infrastructure development could give this sector much needed boost which could spark sector revival globally.

The company made tremendous progress in its journey of further developing the industrial business. In the aerospace sector, BFL has achieved all the requisite approvals and the expertise to forge, machine and supply value added critical parts. The progress has been recognized and has successfully entered into relationship with four global OEM’s with clear constructive roadmap to transform this relationship from single product to a portfolio of products over the next few years. This entry not only enables BFL to enter into a counter cyclical, long cycle business but also will assist in developing our capabilities on specialty material.

OUTLOOK

Indicative demand outlook for FY16 across various geographies

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



CONSOLIDATED FINANCIALS – FY 2015

Table 5

Rs. Million

Particulars	FY15	FY14	YOY %
Total Revenue	76,248	67,158	13.5%
EBITDA	14,750	10,302	43.2%
EBITDA %	19.3%	15.3%	
PBT before exceptional item	10,795	6,285	71.8%
Exceptional Income/ (Expenditure)	428	1,037	
PBT after Exceptional item	11,223	7,322	53.3%
PAT after Minority Interest	7,666	5,251	46.0%
Loss from Discontinued Operations	(40)	(265)	
Profit After Tax	7,626	4,985	53.0%

KEY FINANCIAL PARAMETERS: CONSOLIDATED

TABLE 6

Rs Million

Particulars	March 31, 2015	March 31, 2014
Debt	25,464	25,612
Equity	34,441	26,832
Cash	11,386	11,949
D/E	0.74	0.95
D/E (Net)	0.41	0.51

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OVERSEAS SUBSIDIARIES FINANCIALS – CY 2014

The financial statement for CY 2014 for the overseas subsidiaries is as follows. These incorporate the financial results of its wholly owned overseas subsidiaries in Europe.

Particulars	Rs. Million	
	CY 2014	CY 2013
Total Revenue	34,408	33,500
EBITDA	1,107	1,943
EBITDA %	3.2%	5.8%
PBT before Exceptional Item	211	712
PBT after exceptional item	81	1,198
PAT after Minority Interest	(13)	1,105
Loss from Discontinued Operations	(31)	(230)
Profit After Tax	(44)	875

FINANCIALS - INDIAN SUBSIDIARIES – FY 2015

The financial statement for FY 2015 for the Indian subsidiaries is as follows. These incorporate the financial results of its wholly owned subsidiaries and BFL's Joint Venture operations with Alstom & David Brown.

Particulars	Rs Million	
	FY 2015	FY 2014
Total Income	5,937	7,953
EBITDA	130	(157)
PBT	238	(174)
PAT after Minority Interest	158	(197)

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FINANCIALS – OVERSEAS SUBSIDIARIES: JAN-MAR 2015

Particulars	Rs. Million		
	Jan – March 2015	Oct – Dec 2014	Jan – March 2014
Total Income	5,857	5,826	6,423
EBITDA	351	343	499
EBITDA %	6.0%	5.9%	7.8%
PBT	5	2	188

The wholly owned subsidiaries performance in the Jan – Mar 2015 quarter has been flattish compared to Oct – Dec 2014. Profitability has been impacted due to increase in Depreciation and interest cost on account of the new facility at BF-AT which is in ramp up phase. We expect the performance in CY2015 to remain sluggish. We continue with our efforts to change product mix and improve productivity and expect the results to be visible in CY 2016.

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