

Bharat Forge

Constant evolution

We initiate on Bharat Forge with a BUY rating as the company is expected to benefit from its wide-ranging capabilities and near-term cyclical pick-up in CV sales. The company is diversifying its mix by increasing focus on passenger car components as well as increasing capacities in aluminium forgings (for light-weighting). To acquire new skills, it is actively investing in startups and JVs across electric vehicles/defence segments. We believe that the initiatives in the defence segment are likely to materialise (after several years) as India's defence-based capital expenditure has risen by ~20% in FY21 and the government is aggressively pushing for localisation.

- **A cyclical rebound in global CVs:** The commercial vehicle segment, which accounts for ~40% of revenue, had witnessed a sharp decline in revenue over FY20-21, post the cyclical peak in global CV sales in 2019. Bharat Forge will likely benefit from the pick-up in sales as volumes normalise over FY21-23E (as economies emerge from COVID impact). While US Class-8 truck orders have firmed up from Nov-20 onwards, India heavy truck sales are reviving post the recent budget initiatives and Europe truck sales have bottomed.
- **Adapting to new technologies, expanding in the PV segment:** The company has expanded into the PV segment, which now accounts for 17% of its India turnover (double from 8% levels five years ago). Further, in a bid to acquire new skills, Bharat Forge has invested in multiple EV startups (Tork, Tevva and REFU). Besides, the company is expanding capacities in aluminium forging – this segment will account for 50% of its overseas capacities. BHFC is also building on its light weighting capabilities that can be used for EVs/hybrids.
- **Defence – Atmanirbhar push to benefit Bharat Forge:** While the company has been investing in defence capabilities, the management expects to win orders as the government is focusing on 'Atmanirbhar' localisation initiatives. The recent defence budget has witnessed an increase in capital expenditure outlay to INR 1.35 trillion (\$18.5bn) in FY21, which is ~20% higher YoY. It is the highest-ever increase in capital outlay for defence in 15 years and the spends are expected to remain at these elevated levels in FY22 as well. Bharat Forge has developed protected vehicles and artillery guns, which are undergoing field trials.
- **Initiate with a BUY:** We set a target price of INR 720 at 32x FY23E EPS as we expect earnings growth to recover over FY22-23E. We value the stock at its average historic long-term P/E multiple to factor in (1) the pick-up in the business cycle and (2) emerging opportunities across defence and the PV segments. **Key risks:** a sharp increase in commodity input prices and delayed orders in defence; steel price increase could lead to margin volatility in the near term.

Financial Summary (Standalone)

YE Mar (INR mn)	FY18	FY19	FY20	FY21E	FY22E	FY23E
Net Sales	53,160	65,200	45,639	34,273	43,632	55,798
EBITDA	15,368	19,061	10,155	6,101	10,210	15,735
APAT	7,906	10,713	5,485	2,411	5,815	10,474
Adj. EPS (INR)	17.0	23.0	11.8	5.2	12.5	22.5
Adj. EPS Growth (%)	41.5	35.5	(48.8)	(56.0)	141.2	80.1
P/E (x)	37.1	27.4	53.5	121.8	50.5	28.0
RoE (%)	17.9	21.4	10.2	4.5	10.3	16.6

Source: Company, HSIE Research

BUY

CMP (as on 03 March 21)	Rs 631
Target Price	Rs 720
NIFTY	15,246

KEY CHANGES	OLD	NEW
Rating	-	BUY
Price Target	-	INR 720
EPS %	FY21E	FY22E
	-	-

KEY STOCK DATA

Bloomberg code	BHFC IN
No. of Shares (mn)	466
MCap (Rs bn) / (\$ mn)	294/4,038
6m avg traded value (Rs mn)	1,664
52 Week high / low	Rs 677/208

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	16.9	28.4	42.1
Relative (%)	1.6	(3.6)	8.9

SHAREHOLDING PATTERN (%)

	Sep-20	Dec-20
Promoters	45.8	45.8
FIs & Local MFs	11.8	12.6
FPIs	21.9	23.5
Public & Others	20.5	18.2
Pledged Shares	0.0	0.0

Source : BSE

Aditya Makharia

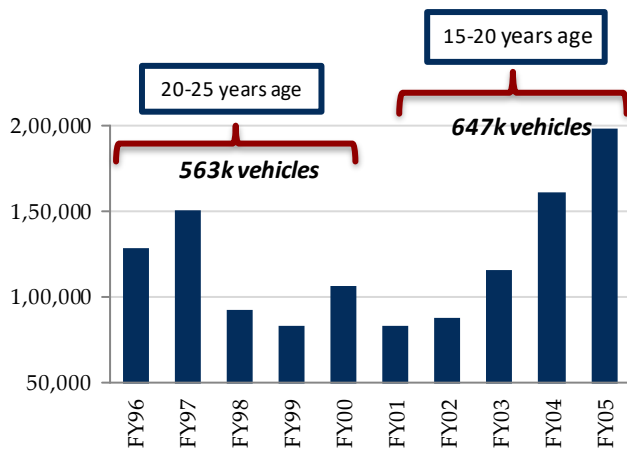
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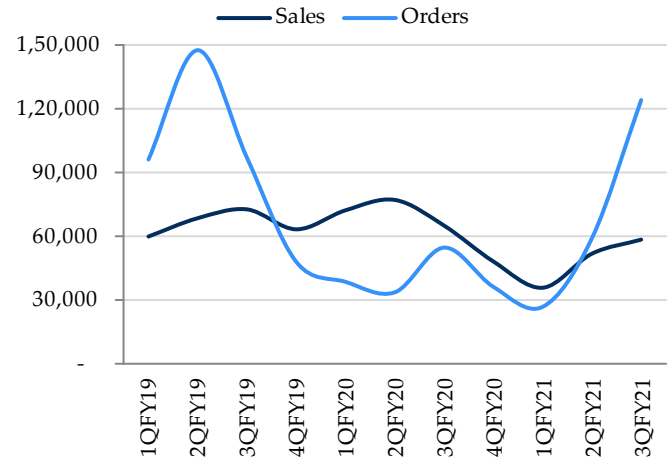
Focus charts

Scrapping scheme potential: Domestic MHCV sales from FY96-FY05



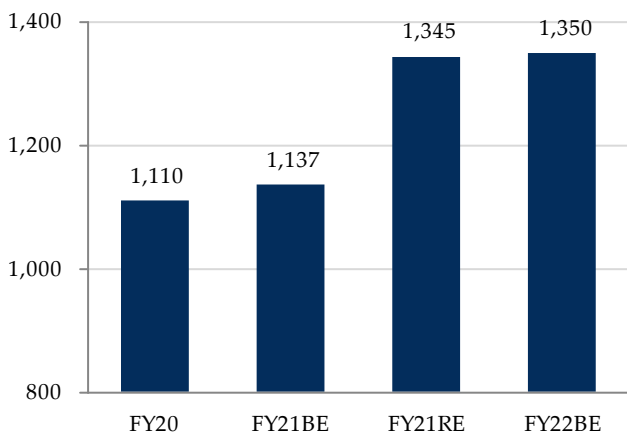
Source: SIAM, HSIE Research

Class-8 US truck orders firm up



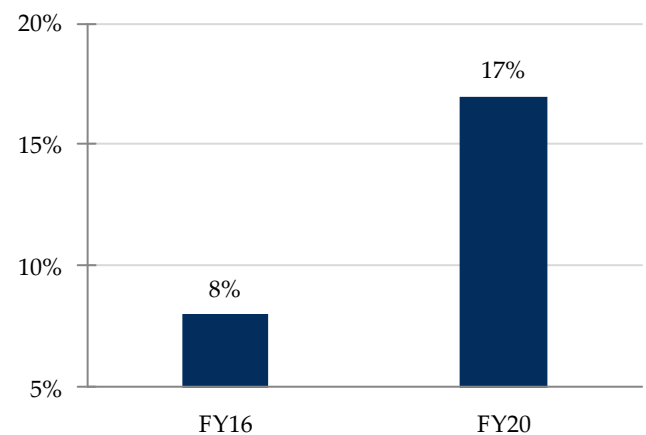
Source: Bloomberg, HSIE Research

Defence Capex (INR bn) increases by 20% YoY – highest increase in 15 years



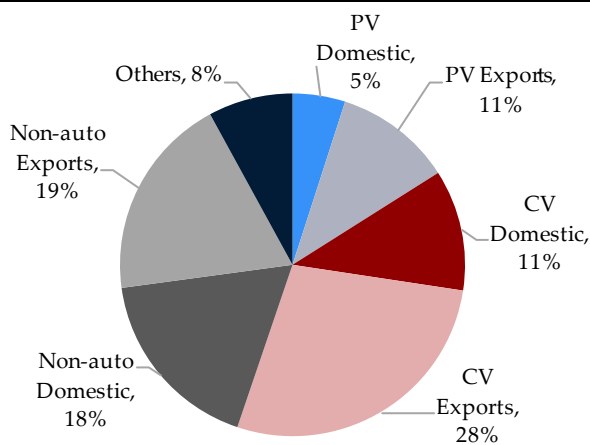
Source: GoI, HSIE Research

Contribution from PV segment to Bharat Forge's revenue doubles in 5 years



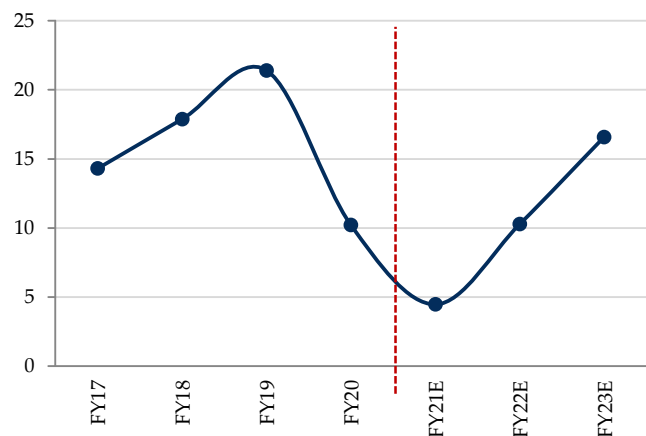
Source: Company, HSIE Research

FY20 diversified segmental revenue mix (%)



Source: Company, HSIE Research

Return on equity (%) to improve over FY22-23E



Source: Company, HSIE Research

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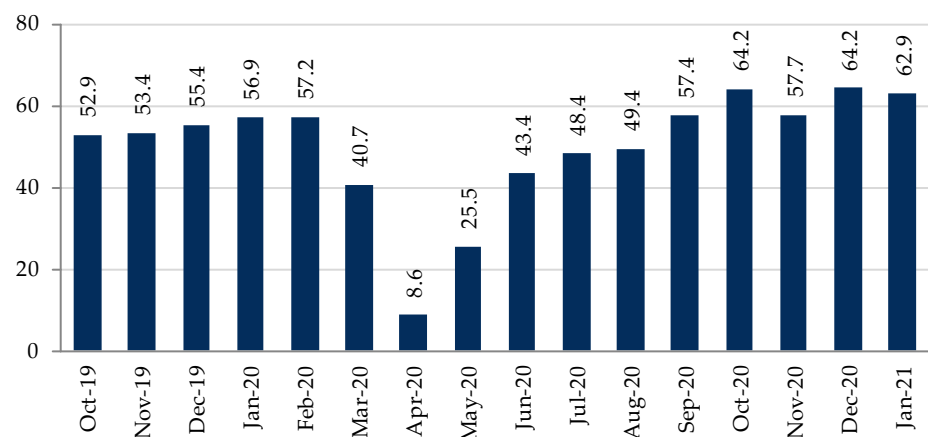
CV sales picking up as demand revives

- Commercial vehicles in India are witnessing an improvement as economic activity normalises. The economy is witnessing positive signs such as rising GST collections and e-way bills and improving freight rates. We expect CV sales to grow in excess of 35% in FY22E, off a low base.
- Further, the budget has focused on the government's infrastructure push in the road, construction, coal and mining sectors. Also, the rural economy has benefitted after good monsoons.
- Auto OEMs highlight that demand revival is being driven by tippers in the M&HCV segment. Replacement demand for goods vehicles is expected to pick up with the transition to BSVI vehicles, while ICV volumes have been driven by the rise in e-com activities.

We expect CV sales to grow in excess of 35% in FY22E, off a low base

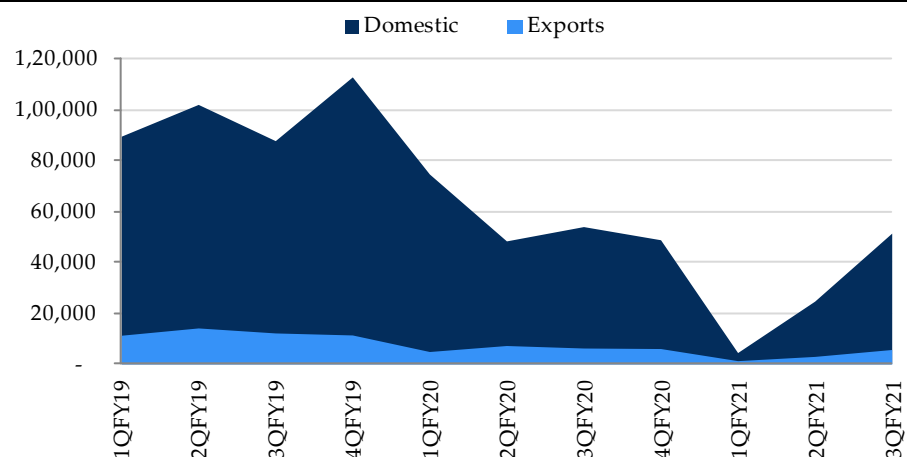
Replacement demand for goods vehicles is expected to pick up with the transition to the BSVI vehicles

E-way bills grew 16% YoY in Jan-21 (sharply higher from Apr-20 lows (in mn))



Source: GoI, HSIE Research

Domestic MHCV volumes in 3Q, at similar levels of last year (volumes in units)



Source: SIAM, HSIE Research

Scrappage scheme to be a potential growth driver

Under the scrappage scheme proposal, transport vehicles older than eight years will be charged a Green Tax at the time of renewal of fitness certificate, at the rate of 10-25% of the current road tax

- The government has announced a voluntary scrapping scheme in the budget for commercial vehicles that are older than 15 years. While further details of the scheme are yet to be announced, it comes against the backdrop of announcements made by the road ministry, which has proposed a green tax to disincentivise the use of older, more polluting vehicles. Under the proposal, transport vehicles older than eight years will be charged a Green Tax at the time of renewal of fitness certificate, at the rate of 10-25% of the current road tax. Vehicles will also undergo an automated fitness test and the registration of vehicles that fail to clear it will not be renewed. (However, public transport vehicles, such as city buses, will be charged a lower Green Tax).
- Based on our estimates, there are ~0.6mn M/HCVs between 15-20 years old and an almost similar number in the 20-25 years bracket (though the on-road population of these vehicles is lower). A gradual phase-out of these vehicles would support CV sales. Even if we assume a 25% phase-out of these older trucks, it will contribute meaningfully to replacement sales. We await finer details regarding the policy, including the incentives offered, if any.

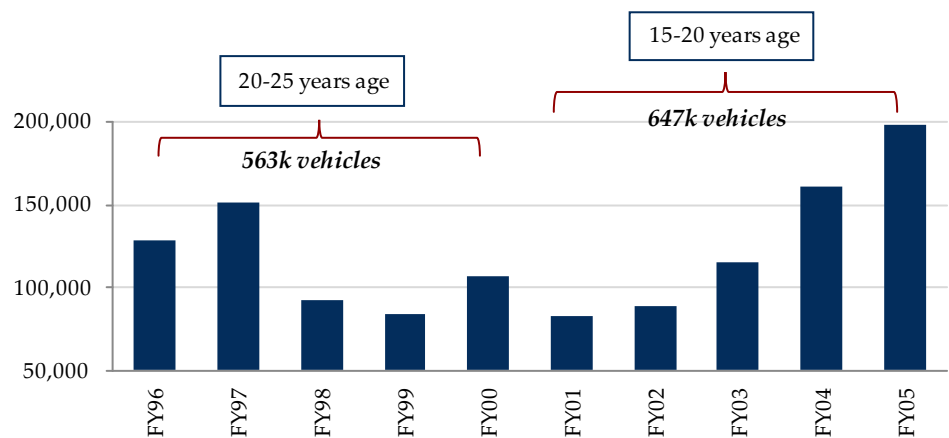
MHCV vehicle parc

Period	Vehicle Parc	Age	Estimated vehicles plying
FY96 - FY00	563,121	20-25 years	300K
FY01 - FY05	646,871	15- 20 years	450-500K

Source: SIAM, HSIE Research

Domestic MHCV sales from FY96-FY05

Based on our estimates, there are ~0.6mn M/HCVs between 15-20 years old and an almost similar number in the 20-25 years bracket



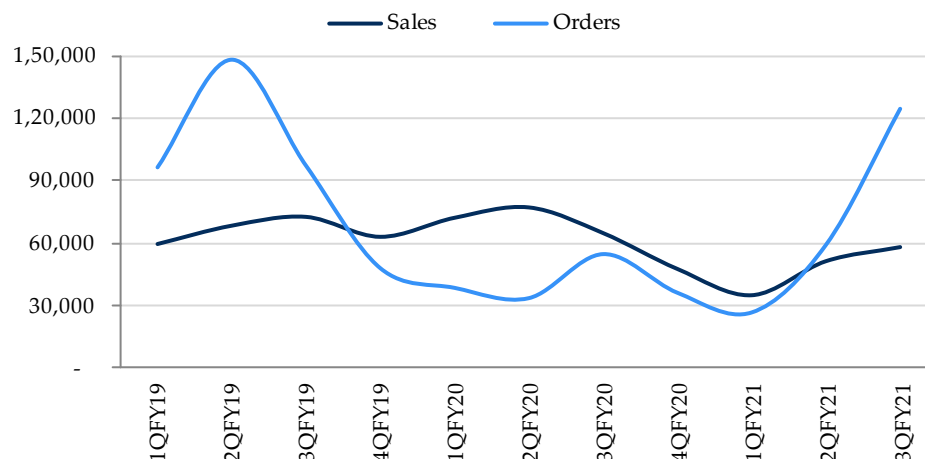
Source: SIAM, HSIE Research

- The scrappage scheme will partially offset the impact from the commissioning of the dedicated freight corridor in the near term, in our view.

Global truck sales - rebounding

- The recovery in US Class-8 Truck orders is also underway, with the sales having fallen sharply in 1H CY20. Class 8 orders in Nov-Dec'20 were above 50,000 units p.m., which is an encouraging recovery sign. The total orders for 2020 totalled 283,000 units, after a weak start to the year. As the US economy and world economies recover post the COVID pandemic, the sales will recover over FY21-23E.

US Class-8 truck orders are picking up



Source: Bloomberg, HSIE Research

- We expect EU truck sales to recover from these levels. Already sales in November (+6% YoY) and December (+12% YoY) have turned positive after several months of decline.

EU truck sales (volumes in units)

CY17	3,07,997
CY18	2,85,376
CY19	2,83,524
CY20	1,98,352

Source: Industry, HSIE Research

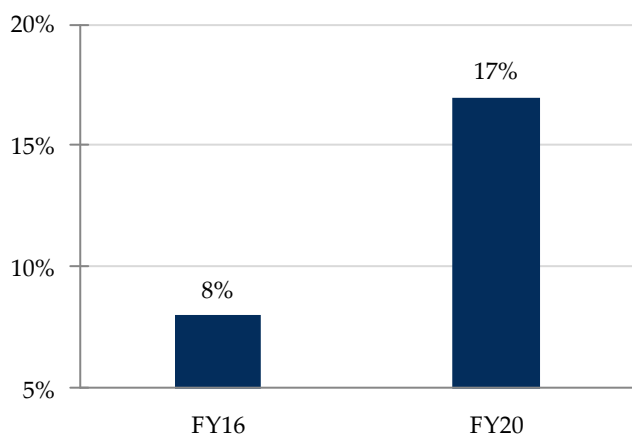
Class 8 orders in Nov& Dec-20 were above 50,000 units p.m., which is an encouraging recovery sign

We expect EU truck sales to recover from the current levels

Diversification initiatives - with a focus on passenger vehicles

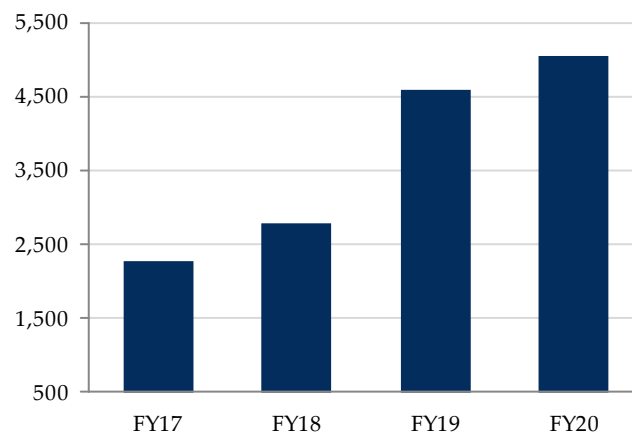
- The company had re-entered the PV segment in FY14, a strategic move that opened a lateral opportunity to capture the shift in the passenger car market. **In line with this strategy, the PV segment now accounts for 17% of overall revenue, almost double of the 8% share five years back.**
- Growth has been driven by exports, with the share of PV exports rising to 12% of Bharat Forge's India revenue in FY20 (from 2% in FY14). The company is expecting a similar trend in the domestic car market as well.

Contribution from PV segment to Bharat Forge's revenue doubled over the last 5 years



Source: Company, HSIE Research

Revenue from PV exports (INR mn) contributes 12% to total revenue



Source: Company, HSIE Research

- Bharat Forge has also set up a light-weighting facility in Nellore in India (for Aluminum castings). The facility will support a wide range of products, including the transition towards the EV business. The company is engaging with Indian and global OEMs for new orders.
- There is significant global traction for forged aluminium chassis components as well. To take advantage of the same, BHFC is expanding its AL forging capacity in Germany. These forgings are used for light-weighting components.

Bharat Forge Aluminiumtechnik GmbH (INR mn)	CY17	CY18	CY19	CY20
Turnover	4,166	4,835	5,034	4,710
PBT	257	288	266	80
PAT	257	288	266	80
% of Holding	100%	100%	100%	100%

Source: Company, HSIE Research

- The share of aluminium forgings will increase from 15-20% to 50% of its international capacity as the company expands capacity in Europe and North America.

Global forging capacity by region (TPA)

India	406,150
Europe	165,000
North America	30,000

Source: Company, HSIE Research

Bharat Forge has invested in multiple startups across EVs (Tork, Tevva and REFU), defence (Aeron Systems) and other segments

The company has constantly diversified its revenue mix and is increasingly focusing on PVs and defense segment

Adapting to new technologies:

- In a bid to disrupt its business model as well as to acquire new skills, Bharat Forge has invested in multiple startups across EVs (Tork, Tevva and REFU), defence (Aeron Systems) and other segments. REFU, which makes modules (power and control electronics) for e-mobility, is an investment that will enhance its capabilities. Although the company has written-off its investment in Tevva Motors (as prudent policy), it has access and license to its technology and is working on calibrating it to suit the Indian conditions. This ensures that the company is positioning itself for future technologies as well as disruptions.

Bharat Forge's investments in startups

Investments (INR mn)		% of shares held	FY19	FY20
Refu Drive GmbH, Germany	Associate	50.0%	-	919
TEVVA Motors (Jersey) Limited	Associate	35.3%	893	893
Tork Motors Private Limited	Associate	48.9%	260	300
Aeron Systems Private Limited	Associate	22.4%	-	80
Eternus Performance Materials Private Limited	Subsidiary	51.0%	-	4

Source: Company, HSIE Research

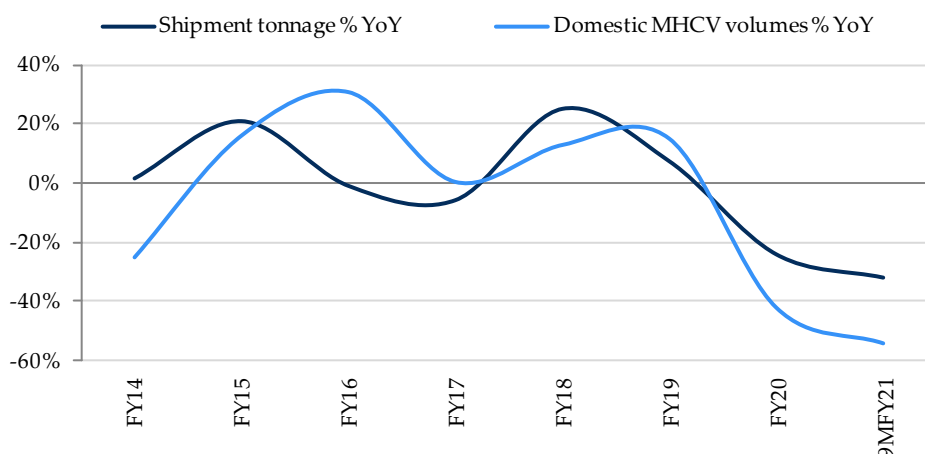
- **Bharat Forge has diversified its revenue base:** The company has constantly diversified its revenue mix. After driving exports and non-auto in the 2000s, which now account for 50/35% of revenue respectively, the company is increasing focus on passenger vehicles, as highlighted earlier. Further, the company is building its capabilities in the defence segment.

Bharat Forge's diversification roadmap

FY 01-07	Export focus and overseas acquisitions
FY 07-10	Setting up non-auto capacities and expanding in this segment
FY14	Re-entered the PV segment
FY21-24	Expect traction from segments such as defence to materialise

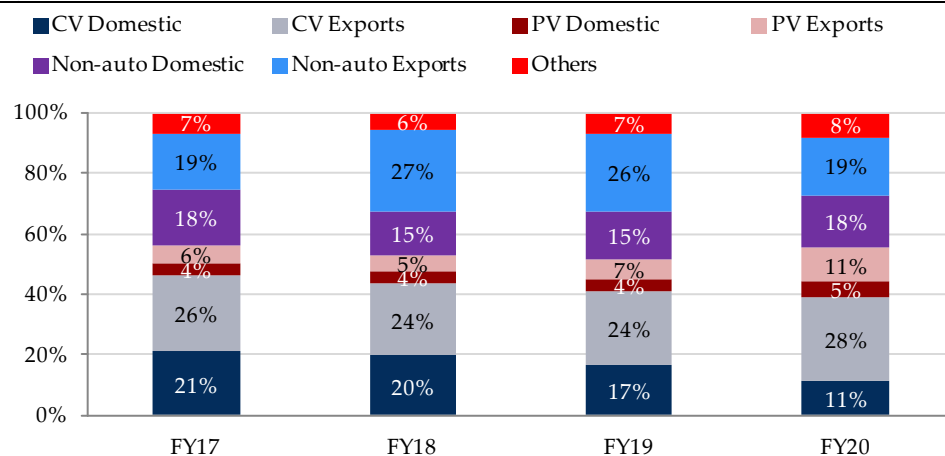
Source: Company, HSIE Research

Bharat Forge is reducing its dependence on the domestic MHCV segment



Source: SIAM, Company, HSIE Research

Segmental revenue mix (%)



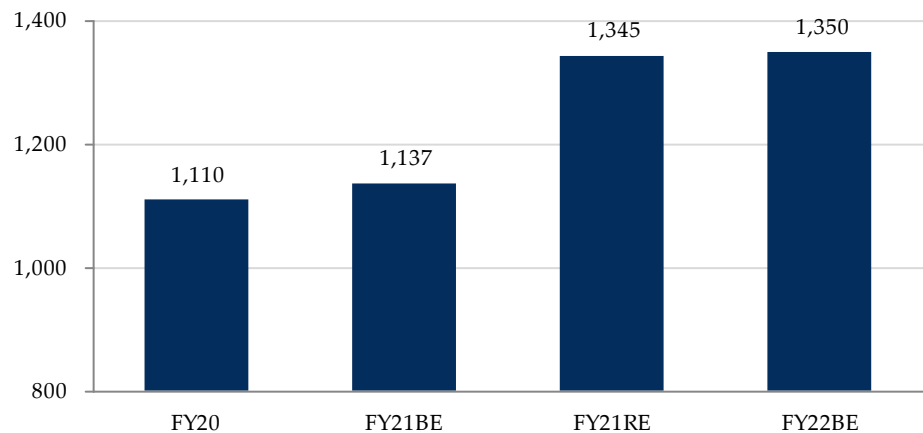
Source: Company, HSIE Research

Defence: localisation push to benefit Bharat Forge

The management is hopeful of winning defence orders, especially as the government is focusing on 'Atmanirbhar' localisation initiatives

- **Defence – Atmanirbhar push to benefit Bharat Forge:** While the company has been investing in defence capabilities over the past few years, the management is hopeful of winning orders, especially as the government is focusing on 'Atmanirbhar' localisation initiatives.
- The recent defence budget has increased the capital expenditure outlay to INR 1.35 trillion (\$18.5bn) in FY21, which is ~20% higher YoY. This is the highest ever increase in capital outlay for defence in 15 years and the spends are expected to remain at these elevated levels in FY22 as well.

Budget spend on defence (INR bn) have risen 20% YoY

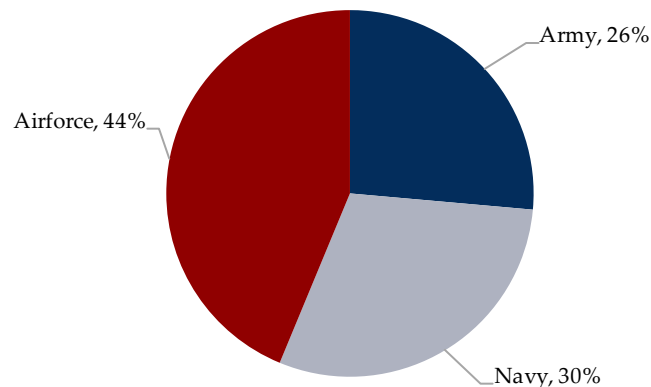


Source: GoI, HSIE Research

The company has recently won an order for INR 1.8bn for protected armoured vehicles.

- The expenditure is allocated to the various defence functions. Bharat Forge is currently developing products for land-based defence systems.

Defence capital expenditure allocation



Source: GoI, HSIE Research

- India is increasing its focus on the domestic manufacturing of defence equipment. A few recent contracts awarded highlight the government's intentions towards the same, including the INR 480bn deal with Hindustan Aeronautics Ltd to procure 83 new Tejas light combat aircraft and the Indian Army's procurement of 118 Arjun Mark-1A tanks worth INR 84bn.
- Bharat Forge is offering artillery systems and developing Protected Vehicles as its mainstay in defence. The company has developed the Towed Artillery Gun (155mm x 52 Calibre), which is in advanced stages of testing, while the company awaits further approvals for it. The company has recently won an order for INR

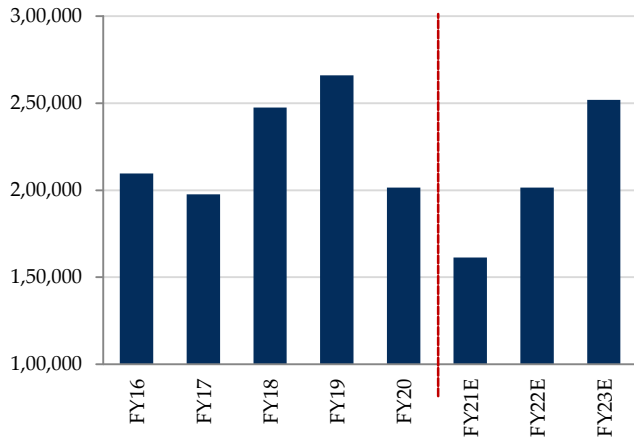
1.8bn for protected armoured vehicles. Bharat Forge has also collaborated with a global defence company - the Paramount Group - for the development of joint technologies, capabilities, and expertise of both groups to manufacture armoured vehicles in India.

- To advance its research and enhance its capabilities, the company has established defence technology and research centres in India. Besides, it has also made strategic investments/acquisitions in companies including Eternus, AERON to further augment its defence technological capability. These initiatives have given it access to new technologies.

Financial charts

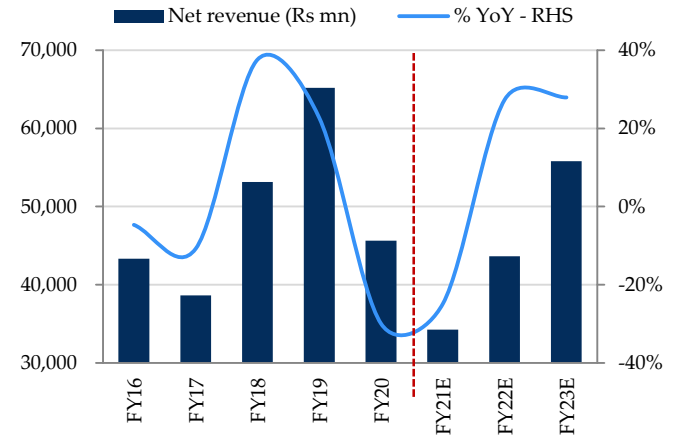
- Bharat Forge's financials have declined sharply in FY21E, owing to the COVID impact. After witnessing a revenue decline over FY20-21, we expect demand to normalise over FY22-23E, driven by the company's broad-basing strategy. The company's profitability is expected to improve, driven by rising utilisation as well as diversification of the product mix, which de-risks its business model.

Bharat Forge Shipment Tonnage (MT)



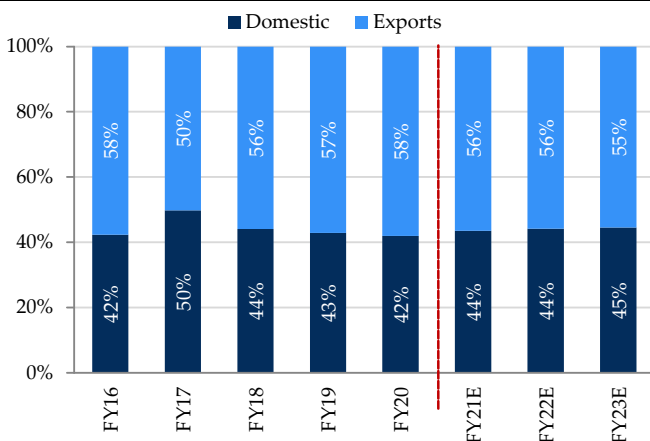
Source: Company, HSIE Research

Net revenue



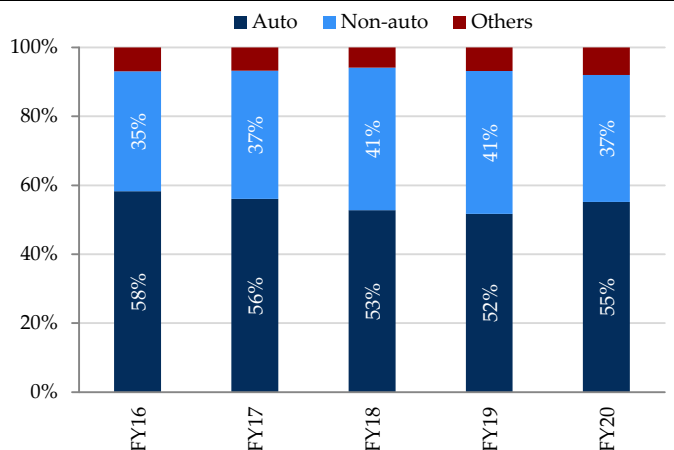
Source: Company, HSIE Research

Geographical revenue split (%)



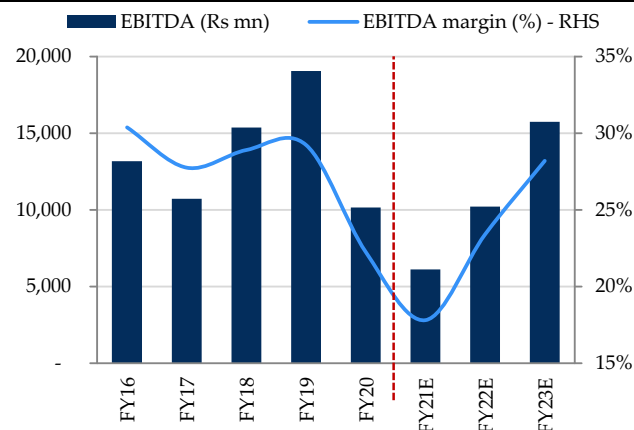
Source: Company, HSIE Research

Segmental break-up



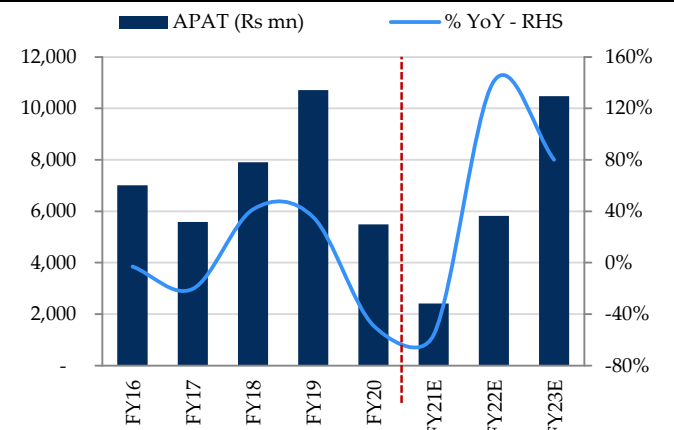
Source: Company, HSIE Research

EBITDA margin



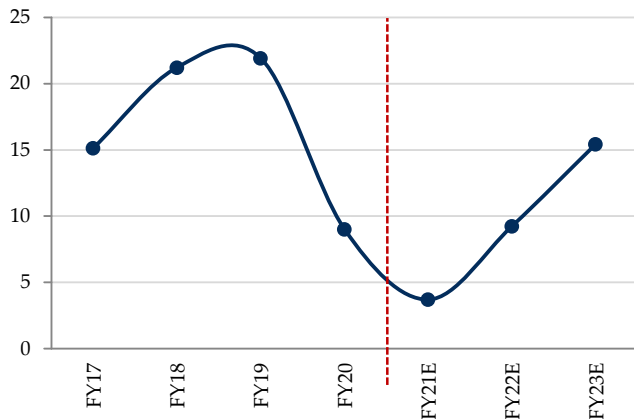
Source: Company, HSIE Research

Adj. PAT



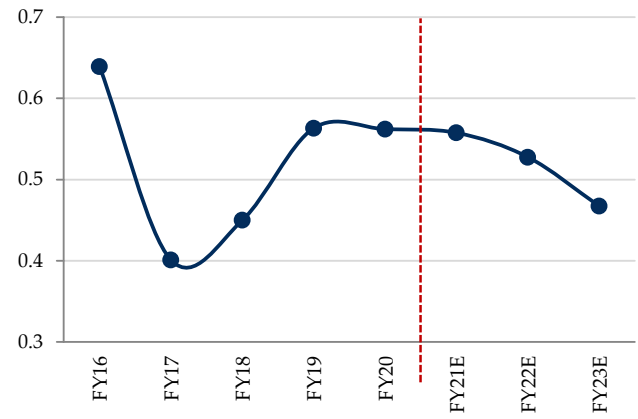
Source: Company, HSIE Research

Return on capital employed (%)



Source: Company, HSIE Research

Gross Debt : Equity (x)

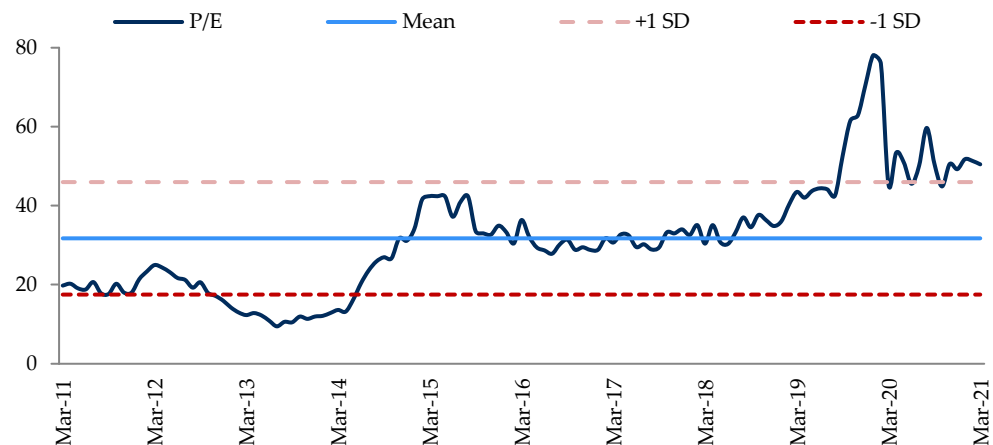


Source: Company, HSIE Research

Target price, valuation and risks

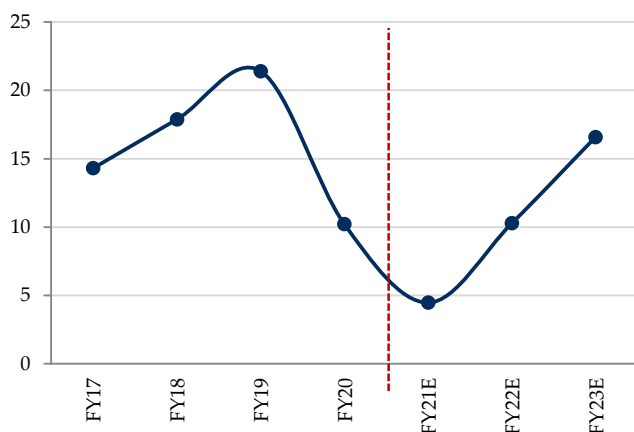
- We set a target price of INR 720 at 32x FY23E EPS as earnings growth will recover over FY22-23E. We expect PAT to increase to over INR 10bn in FY23E (up from INR 2.4bn currently). We value the stock at its average historic long-term PE multiple to factor in (1) the pick-up in the business cycle and (2) emerging opportunities across defense and PV segments.

1 year rolling forward P/E band chart



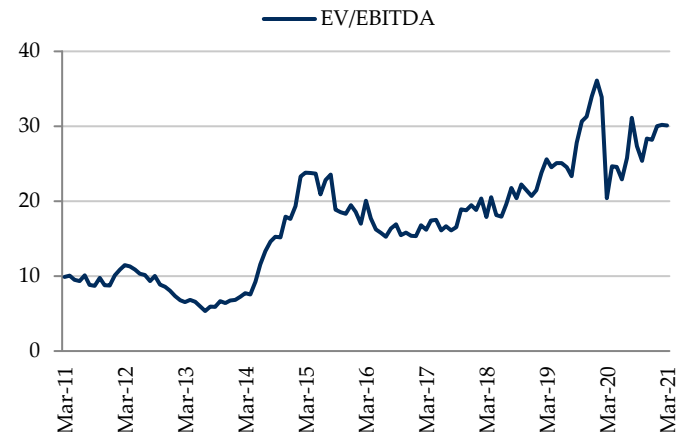
Source: Bloomberg, Company, HSIE Research

Return on Equity (%)



Source: Bloomberg, Company, HSIE Research

1 year rolling forward EV/EBITDA



Source: Bloomberg, Company, HSIE Research

Key assumptions

- We expect tonnage volumes to rise 25% CAGR over FY21-23E, off a low base.
- Both domestic and export segments are expected to contribute to the above, led by economic recovery as well as further expansion into PV and other segments.

Key assumptions

	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Shipment tonnage (MT)	2,09,697	1,97,573	2,47,515	2,65,952	2,01,586	1,61,269	2,01,586	2,51,983
% YoY	-1%	-6%	25%	7%	-24%	-20%	25%	25%
Revenue (INR mn)								
Domestic	18,353	19,229	23,448	27,942	19,137	14,927	19,255	24,840
% YoY	0%	5%	22%	19%	-32%	-22%	29%	29%
Exports	24,985	19,417	29,712	37,258	26,502	19,346	24,377	30,958
% YoY	-8%	-22%	53%	25%	-29%	-27%	26%	27%
Total	43,338	38,647	53,160	65,200	45,639	34,273	43,632	55,798
% YoY	-5%	-11%	38%	23%	-30%	-25%	27%	28%

Source: Company, HSIE Research

Key risks:

- **Oil & Gas revenues have declined:** Amongst the non-auto segment, the contribution from the Oil & Gas segment has fallen due to volatile crude oil prices. Revenue from this segment declined from a peak of over INR 10bn in FY19 to less than INR 5bn (~10% of revenue) in FY20. To offset this, the company is expanding into other segments. Further, as oil prices increase, some amount of demand will also normalise.
- **Steel prices are rising:** This can impact margins amidst the nascent recovery. While Bharat Forge has steel pass-through contracts with its customers, margins could be volatile in the near term.
- A second COVID-related lockdown could delay economic recovery.

Peer set comparison

	Mcap (Rs bn)	CMP (Rs/sh)	Reco	Adj EPS (Rs/sh)			P/E (x)			RoE (%)		
				FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
AUTOS												
Ashok Leyland	386	131	REDUCE	0.1	3.8	5.2	970.3	34.5	25.1	0.5	14.7	18.3
Bajaj Auto	1,129	3,901	BUY	162.5	179.5	211.6	24.0	21.7	18.4	22.4	22.3	23.7
Eicher	71	2,599	REDUCE	56.8	87.4	115.2	45.7	29.7	22.6	14.6	19.6	21.8
Escorts Ltd.	164	1,341	ADD	76.7	82.3	92.6	17.5	16.3	14.5	17.9	14.9	14.6
Hero Motocorp	684	3,424	BUY	147.2	170.6	204.1	23.3	20.1	16.8	19.7	20.6	21.8
Mahindra	1,015	852	ADD	40.5	42.7	50.7	21.0	20.0	16.8	13.6	13.3	14.1
Maruti Suzuki	2,152	7,125	BUY	156.7	260.6	332.6	45.5	27.3	21.4	9.4	14.4	16.5
Tata Motors	1,254	349	BUY	(13.3)	3.3	14.0	NA	105.8	24.9	(7.9)	2.0	8.1
AUTO ANCILLARIES												
Amara Raja	156	914	ADD	36.2	44.0	52.5	25.3	20.8	17.4	15.8	16.7	17.3
Bharat Forge	294	631	BUY	5.2	12.5	22.5	121.8	50.5	28.0	4.5	10.3	16.6
Endurance	196	1,393	BUY	36.3	45.8	55.9	38.4	30.4	24.9	15.9	17.5	18.3
Gulf Oil Lubricants	38	771	BUY	37.8	40.7	44.0	20.4	19.0	17.5	23.4	22.3	21.6
Ramkrishna Forgings*	19	591	NR	(0.7)	29.3	44.3	NA	20.2	13.3	(0.2)	10.4	13.9
Subros	22	332	BUY	7.2	12.8	18.4	46.4	26.0	18.1	6.1	10.1	13.1
Sundram Fasteners	150	715	ADD	15.8	18.2	23.3	45.2	39.3	30.6	15.6	15.8	17.7

Source: HSIE Research, *Bloomberg consensus NR= Not rated

Annexure

- Bharat Forge has multiple subsidiaries overseas including CDP Germany, Kilsta Sweden, etc.

Subsidiaries financials (INR mn)

Bharat Forge CDP and Bharat Forge Daun GmbH (both Germany-based)	CY16	CY17	CY18	CY19	CY20
Sales	13,844	12,354	15,023	16,955	14,582
EBITDA	319	985	1,194	1,171	926
EBITDA margin (%)	2.3%	8.0%	7.9%	6.9%	6.3%
PAT	-282	238	255	672	-819

Bharat Forge Kilsta AB (Sweden)	CY16	CY17	CY18	CY19	CY20
Sales	6,573	5,799	6,954	7,569	7,145
EBITDA	344	144	90	-43	-721
EBITDA margin (%)	5.2%	2.5%	1.3%	-0.6%	-10.1%
PAT	57	-156	-184	-367	-273

Bharat Forge PMT (Tennessee, US)	CY17	CY18	CY19	CY20
Sales	134	2,618	3,461	2,922
EBITDA	-10	156	144	30
EBITDA margin (%)	-7.5%	6.0%	4.2%	1.0%
PAT	-10	58	-9	-119

Source: Company, HSIE Research

Consolidated financials

Income statement summary

INR mn	FY17	FY18	FY19	FY20
Revenue	63,961	83,577	101,457	80,558
% YoY	-6%	31%	21%	-21%
EBITDA	12,510	17,230	20,556	11,147
EBITDA margin (%)	20%	21%	20%	14%
PBT	9,468	11,958	15,990	4,617
APAT	6,138	8,123	10,330	4,036

Source: Company, HSIE Research

Balance sheet summary

INR mn	FY17	FY18	FY19	FY20
SOURCES OF FUNDS				
Total Shareholders' Funds	41,164	46,517	53,761	52,197
Minority Interest	100	294	298	320
Total Debt	23,212	27,110	37,728	39,996
Net Deferred Taxes	3,032	2,544	2,702	1,311
TOTAL SOURCES OF FUNDS	67,508	76,465	94,489	93,824
APPLICATION OF FUNDS				
Net Block	32,768	34,994	36,243	40,017
CWIP	4,532	3,438	8,307	11,427
Investments	3,687	11,174	9,837	5,522
Net Current Assets	26,522	26,859	40,103	36,858
TOTAL APPLICATION OF FUNDS	67,508	76,465	94,489	93,824

Source: Company, HSIE Research

Financials

Standalone Income Statement

INR mn	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Net Revenues	43,338	38,647	53,160	65,200	45,639	34,273	43,632	55,798
<i>Growth (%)</i>	(4.7)	(10.8)	37.6	22.6	(30.0)	(24.9)	27.3	27.9
Material Expenses	14,894	13,205	18,870	24,357	17,489	13,024	16,842	21,259
Employee Expenses	3,725	3,759	4,359	4,863	4,824	4,456	4,712	5,022
Other Operating Expenses	11,551	10,956	14,563	16,919	13,171	10,693	11,868	13,782
Total Expenses	30,170	27,921	37,792	46,139	35,484	28,173	33,422	40,063
EBITDA	13,168	10,726	15,368	19,061	10,155	6,101	10,210	15,735
<i>EBITDA Margin (%)</i>	30.4	27.8	28.9	29.2	22.3	17.8	23.4	28.2
<i>EBITDA Growth (%)</i>	(1.0)	(18.5)	43.3	24.0	(46.7)	(39.9)	67.4	54.1
Depreciation	3,085	2,949	3,067	3,466	3,449	3,511	3,613	3,908
EBIT	10,084	7,777	12,300	15,595	6,706	2,590	6,597	11,827
Other Income (Including EO Items)	1,081	1,375	(145)	1,660	670	1,588	1,926	2,312
Interest	905	728	848	1,024	1,450	1,092	971	553
PBT	10,260	8,425	11,307	16,231	5,926	3,086	7,552	13,585
Tax (Incl Deferred)	3,284	2,574	4,234	5,518	1,191	741	1,737	3,111
RPAT	6,976	5,851	7,073	10,713	4,735	2,345	5,815	10,474
EO (Loss) / Profit (Net Of Tax)	(42)	380	(1,332)	-	(939)	(87)	-	-
APAT	7,005	5,587	7,906	10,713	5,485	2,411	5,815	10,474
<i>APAT Growth (%)</i>	(2.9)	(20.2)	41.5	35.5	(48.8)	(56.0)	141.2	80.1
Adjusted EPS (INR)	15.0	12.0	17.0	23.0	11.8	5.2	12.5	22.5
<i>EPS Growth (%)</i>	(2.9)	(20.2)	41.5	35.5	(48.8)	(56.0)	141.2	80.1

Source: Company, HSIE Research

Standalone Balance Sheet

INR mn	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
SOURCES OF FUNDS								
Share Capital – Equity	466	466	931	931	931	931	931	931
Reserves	35,350	41,854	45,212	53,051	52,619	53,555	57,791	66,686
Total Shareholders Funds	35,815	42,319	46,143	53,982	53,551	54,486	58,722	67,618
Long Term Debt	13,933	7,903	9,098	14,182	15,954	15,954	16,273	16,599
Short Term Debt	8,961	9,077	11,666	16,220	14,138	14,421	14,710	15,004
Total Debt	22,894	16,980	20,764	30,401	30,093	30,375	30,983	31,603
Net Deferred Taxes	2,370	3,033	2,545	2,702	1,311	308	343	343
Other Non-current Liabilities & Provns	827	567	348	252	646	710	781	860
TOTAL SOURCES OF FUNDS	61,906	62,900	69,800	87,338	85,600	85,880	90,830	1,00,423
APPLICATION OF FUNDS								
Net Block	22,769	23,733	25,276	26,339	28,078	30,567	34,554	39,646
CWIP	3,219	3,743	3,024	7,126	8,945	8,251	7,446	6,722
Investments	6,980	9,490	16,768	16,519	12,904	13,345	13,571	13,808
Other Non-current Assets	4,513	4,758	3,843	5,333	4,619	5,081	5,589	6,148
Total Non-current Assets	37,483	41,724	48,911	55,317	54,546	57,244	61,160	66,323
Cash & Equivalents	10,979	11,013	5,717	9,101	15,067	16,591	17,297	20,591
Inventories	3,663	4,265	5,381	7,604	7,576	6,103	6,814	6,879
Debtors	14,222	13,805	18,142	22,584	16,549	12,395	14,345	16,816
Other Current Assets	5,444	5,964	5,509	4,784	3,437	3,780	4,158	4,574
Total Current Assets	34,309	35,047	34,748	44,073	42,629	38,869	42,614	48,860
Creditors	4,317	4,640	6,889	8,119	6,113	4,225	6,336	7,491
Other Current Liabilities & Provns	5,568	9,231	6,971	3,934	5,462	6,008	6,609	7,270
Total Current Liabilities	9,886	13,871	13,860	12,053	11,575	10,234	12,945	14,761
Net Current Assets	24,423	21,176	20,889	32,021	31,054	28,636	29,670	34,100
TOTAL APPLICATION OF FUNDS	61,906	62,900	69,800	87,338	85,600	85,880	90,830	1,00,423

Source: Company, HSIE Research

Standalone Cash Flow

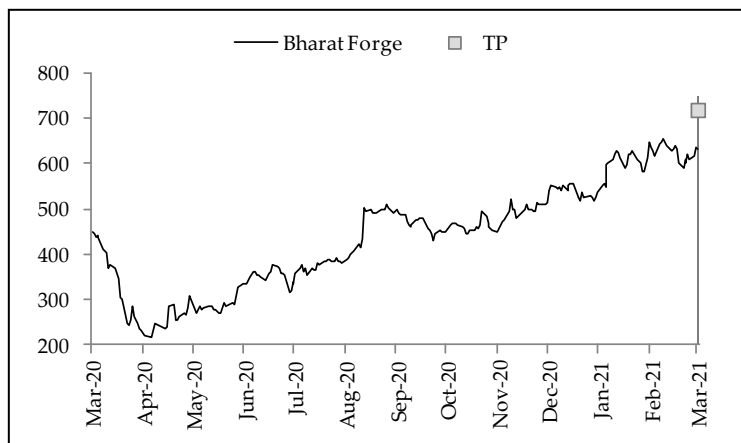
INR mn	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Reported PBT	10,260	8,425	11,307	16,231	5,926	3,086	7,552	13,585
Non-operating & EO Items	(1,081)	(1,375)	145	(1,660)	(670)	(1,588)	(1,926)	(2,312)
Interest Expenses	905	728	848	1,024	1,450	1,092	971	553
Depreciation	3,085	2,949	3,067	3,466	3,449	3,511	3,613	3,908
Working Capital Change	5,995	3,282	(5,009)	(7,747)	6,932	3,942	(327)	(1,136)
Tax Paid	(4,307)	(1,911)	(4,722)	(5,361)	(2,582)	(1,743)	(1,702)	(3,111)
OPERATING CASH FLOW (a)	14,856	12,097	5,637	5,953	14,505	8,300	8,180	11,488
Capex	(5,857)	(4,436)	(3,892)	(8,631)	(7,007)	(5,306)	(6,795)	(8,275)
Free Cash Flow (FCF)	9,000	7,661	1,745	(2,678)	7,498	2,994	1,386	3,212
Investments	756	(3,014)	(6,582)	(1,338)	4,723	(839)	(663)	(718)
Non-operating Income	1,081	1,375	(145)	1,660	670	1,588	1,926	2,312
INVESTING CASH FLOW (b)	(4,020)	(6,075)	(10,619)	(8,309)	(1,614)	(4,557)	(5,531)	(6,682)
Debt Issuance/(Repaid)	(3,863)	(5,913)	3,784	9,637	(309)	283	608	620
Interest Expenses	(905)	(728)	(848)	(1,024)	(1,450)	(1,092)	(971)	(553)
FCFE	4,232	1,020	4,680	5,935	5,739	2,185	1,022	3,279
Change in net worth	(1,343)	2,755	(726)	(67)	(3,193)	-	0	(0)
Dividend	(4,229)	(2,101)	(2,524)	(2,806)	(1,974)	(1,410)	(1,579)	(1,579)
FINANCING CASH FLOW (c)	(10,340)	(5,988)	(314)	5,740	(6,926)	(2,219)	(1,942)	(1,512)
NET CASH FLOW (a+b+c)	496	34	(5,297)	3,385	5,966	1,524	707	3,294
Closing Cash & Equivalents	10,979	11,013	5,717	9,101	15,067	16,591	17,297	20,591

Key Ratios

	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
PROFITABILITY (%)								
GPM	65.6	65.8	64.5	62.6	61.7	62.0	61.4	61.9
EBITDA Margin	30.4	27.8	28.9	29.2	22.3	17.8	23.4	28.2
EBIT Margin	23.3	20.1	23.1	23.9	14.7	7.6	15.1	21.2
APAT Margin	16.2	14.5	14.9	16.4	12.0	7.0	13.3	18.8
RoE	19.9	14.3	17.9	21.4	10.2	4.5	10.3	16.6
RoIC (or Core RoCE)	19.2	15.1	21.2	21.9	9.0	3.7	9.2	15.4
RoCE	17.7	14.1	20.3	22.0	9.6	5.0	9.6	14.8
EFFICIENCY								
Tax Rate (%)	32.0	30.6	37.4	34.0	20.1	24.0	23.0	22.9
Fixed Asset Turnover (x)	1.9	1.6	2.1	2.5	1.6	1.1	1.3	1.4
Inventory (days)	30.9	40.3	36.9	42.6	60.6	65.0	57.0	45.0
Debtors (days)	119.8	130.4	124.6	126.4	132.4	132.0	120.0	110.0
Other Current Assets (days)	45.9	56.3	37.8	26.8	27.5	40.3	34.8	29.9
Payables (days)	36.4	43.8	47.3	45.5	48.9	45.0	53.0	49.0
Other Current Liab & Provsns (days)	46.9	87.2	47.9	22.0	43.7	64.0	55.3	47.6
Cash Conversion Cycle (days)	113.2	96.0	104.2	128.3	127.9	128.3	103.5	88.4
Debt/EBITDA (x)	0.9	0.6	1.0	1.1	1.5	2.3	1.3	0.7
Net D/E (x)	0.3	0.1	0.3	0.4	0.3	0.3	0.2	0.2
Interest Coverage (x)	11.1	10.7	14.5	15.2	4.6	2.4	6.8	21.4
PER SHARE DATA (INR)								
Adj. EPS	15.0	12.0	17.0	23.0	11.8	5.2	12.5	22.5
Adj. CEPS	21.6	18.9	21.8	30.5	17.6	12.6	20.2	30.9
Dividend	7.5	7.5	4.5	5.0	3.5	2.5	2.8	2.8
Adj. Book Value	77	91	99	116	115	117	126	145
VALUATION								
P/E (x)	41.9	52.6	37.1	27.4	53.5	121.8	50.5	28.0
P/BV (x)	8.2	6.9	6.4	5.4	5.5	5.4	5.0	4.3
EV/EBITDA (x)	23.2	27.9	20.1	16.5	30.4	50.4	30.1	19.4
EV/Revenues (x)	7.0	7.8	5.8	4.8	6.8	9.0	7.0	5.5
OCF/EV (%)	4.9	4.0	1.8	1.9	4.7	2.7	2.7	3.8
FCF/EV (%)	2.9	2.6	0.6	(0.9)	2.4	1.0	0.5	1.1
FCFE/Mkt Cap (%)	1.4	0.3	1.6	2.0	2.0	0.7	0.3	1.1
Dividend Yield (%)	1.2	1.2	0.7	0.8	0.6	0.4	0.4	0.4

Source: Company, HSIE Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
03-Mar-21	631	BUY	720

Rating Criteria

BUY: >+15% return potential
ADD: +5% to +15% return potential
REDUCE: -10% to +5% return potential
SELL: >10% Downside return potential

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