BHARAT FORGE LIMITED

Analyst Update – Q3 FY17 Results

BFL 3 MONTH REPORT

"Despite a weak demand environment in the domestic market and a slow global recovery, the company posted topline growth in the quarter driven by continued focus on diversification and increasing market share across segments, while profitability improved on a sequential basis despite input cost pressure.

Our focus on leveraging the in-house R&D capabilities to increase content per equipment through new product development and increasing our presence and value addition in new segments is creating a strong revenue visibility for the medium term. During the quarter, BFL has secured business from existing and new OEM's & Tier1 customers across Commercial & Passenger Vehicle, Construction & Agriculture, Defense and Aerospace. These order wins are a testament to our ability to develop critical components with shortest possible lead time, the critical factor for our customers.

Looking ahead in to Q4, we anticipate positive demand condition in India driven by higher CV volumes as pre buy ahead of new emission norms. We expect continued recovery in export markets driven by industrial and passenger vehicle sector. The performance of class 8 volume trucks in North America is showing some signs of improvement currently in terms of order intake and we expect the focus on infrastructure to generate better opportunities, while the EU automotive market continues to be reasonably stable.

Global industrial markets are showing green shoots of recovery, which should augur well for our company."

B.N. Kalyani, Chairman & Managing Director.

Key Figures **(Rs Million except EPS)**

Particulars	Q3 FY17	Q2 FY17	% change	Q3 FY16	% change
Total Revenues	9,900	9,359	5.8	11,085	(10.7)
EBITDA	2,719	2,528	7.6	3,411	(20.3)
EBITDA %	**27.5%**	**27.0%**		**30.8%**	
PBT before exchange gain/(loss)	2,005	1,922	4.3	2,623	(23.6)
PAT	1,286	1,269	1.3	1,638	(21.5)
EPS (Rs.)	**5.52**	**5.45**		**7.03**	

STANDALONE FINANCIAL HIGHLIGHTS Q3 FY17

TABLE 1 **Rs. Million**

Particulars	***Q3 FY17***	***Q2 FY17***	***QoQ %***	***Q3 FY16***	***YoY %***
Shipment Tonnage	47,068	46,203	1.9	50,741	(7.2)
Domestic Revenue	4,805	4,658	3.2	4,479	7.3
Export Revenue	4,852	4,515	7.5	6,380	(23.9)
Other Operating Income	243	186		226	
Total Revenue	**9,900**	**9,359**	**5.8**	**11,085**	**(10.7)**
EBIDTA	2,719	2,528	7.6	3,411	(20.3)
EBIDTA %	***27.5%***	***27.0%***		***30.8%***	
Other Income	208	309		251	
PBT	2,005	1,922	4.3	2,623	(23.6)
PBT %	***20.3%***	***20.5%***		***23.7%***	
Exchange Gain/ (loss)	(113)	(51)		(127)	
Exceptional Item	-	-		(42)	
PBT after Ex Gain/ (loss) & Exceptional Item	1,892	1,871	1.1	2,454	(22.9)
Profit After Tax	1,286	1,269	1.3	1,638	(21.5)

- Total Revenues increased by 5.8% in Q3 FY17 to Rs 9,900 million compared to previous quarter driven by growth across domestic & export revenues. Export revenues grew by 7.5% driven by recovery in industrial segment which grew by 46% sequentially.
- Despite input cost pressures, a combination of favorable product mix and focus on cost control enabled EBITDA % to improve from 27.0% in Q2 FY17 to 27.5% in the current quarter.
- PBT before Exchange gain/ (loss) grew by 4.3% sequentially to Rs 2,005 million in Q3 FY17.
- PAT stood at Rs 1,286 million in Q3 FY17, a growth of 1.3% as compared to Rs 1,269 million in Q2 FY17.

KEY FINANCIAL PARAMETERS: STANDALONE

TABLE 2 — **Rs Million**

Particulars	**December 31, 2016**	**March 31, 2016**
Short Term & Long Term Debt	18,491	18,406
Sales Bill Discounting Liability	7,251	9,367
Equity	40,127	35,872
Cash	12,770	11,465
D/E	**0.64**	**0.77**
D/E (Net)	**0.32**	**0.45**

REVIEW OF INDIAN BUSINESS

Automotive Business

The M&HCV industry witnessed a healthy growth in the first quarter but a weak replacement demand and deferment of purchase on uncertainty related to the impact of GST on vehicle prices led to a subdued demand in the following months. However, the industry witnessed some positive growth in volumes this quarter and as the emission norms progress to BS-IV from 1st April 2017, the industry is optimistic about pre-buying and hence a further uptick in demand in Q4 FY 2017. The company's M&HCV revenue grew by 6% in Q3 FY17 as compared to Q2 FY17 as against industry volume growth of 4.8%.

Macro tailwinds of low inflation and low fuel prices which acts as catalyst for fleet operator profitability combined with the government's focus on infrastructure investment and the transition to BS-VI by 2020-21 provides a stable platform for the growth of the CV sector in the medium term. BFL with its plethora of new components and products under development is confident of growing this business faster than the underlying market.

Industrial business

During the quarter, domestic industrial sector grew 35% compared to Q3 FY16 to Rs 1,753 million driven by all round growth across agri equipment's, HHP engines, power and supply of components to Defense sector.

The company using its innovation and in-house R&D expertise continues to focus on new product development to address various "Make in India" initiatives. With favorable regulatory developments, importance to indigenization and an increasing thrust towards infrastructure projects the company is well placed to cater to the various industrial segments. We expect to see increased traction from mining, construction, power, defense and government agencies.

REVIEW OF INTERNATIONAL BUSINESS

TABLE 3: INTERNATIONAL MARKETS REVENUE BREAK-UP

Rs. Million

Particulars	Q3 FY17	Q2 FY17	Q3 FY16
Americas	2,766	2,412	4,065
Europe	1,682	1,781	2,043
Asia Pacific	404	322	272
Total	**4,852**	**4,515**	**6,380**

Automotive Business

In the US, the Class 8 truck market ended year 2016 with a significant correction as compared to 2015. Current demand remains muted as the inventories in the industry still remain slightly elevated though significantly lower as compared to the previous year. Class 8 truck production volumes are further expected to decline in CY 2017. However, recent positive macro-economic news, regulatory mandates and the infrastructure spending bill augur well for BFL.

BFL strategy for the North American truck market is to engage with more OEM by focusing on high technology and jointly engineered solutions to enhance our penetration per unit vehicle.

The European truck market continues to be stable. Healthy freight volumes have helped fleet utilization and combining this with low fuel prices and interest rates have helped profitability of fleet operators.

Industrial business

The Oil & Gas industry in North America is starting to show signs of revival as visible from increase in the rig count, up 138% from the trough in April 2016. This increased activity level coupled with de-stocking of inventory across supply chain has resulted in a jump in Oil & Gas revenues. The increase in commodity prices globally and the intent of the US government to invest in infrastructure augurs well for the mining and construction industry and for BFL's core sectors. BFL's industrial business grew by 46% in Q3 FY17 on a sequential basis, largely driven by a robust North American Oil & Gas industry.

New Product Development & Business wins

One of the key strategies of BFL for future growth has been its focus on leveraging its R&D facility to develop products to enhance its addressable market and increase content per equipment. The key focus areas in NPD are towards solutions for complete powertrain and chassis readiness for BSVI change in 2020, portfolio enhancement in Passenger, Locomotive & Aerospace sector. We expect the bulk of revenue growth will be achieved through sweating of existing assets resulting in better asset turns. These endeavors on new product development are nearing the "harvest" phase.

Capacity Expansion & value enhancement

Buoyed by the slew of global order wins in the passenger vehicle segments over the past few quarters, the company is setting up a 5,000T Press and a 2,000T Press to cater to additional demand for PV products which will address future needs of domestic & export customers. Also, the company is setting up a machining line for passenger car components which will be commercialized in FY 2017-18.

The company is also setting up an ultra-modern forging & machining facility for complex and critical aerospace components which will enable the company to move up the value chain.

OVERSEAS SUBSIDIARIES

Table 4 **Rs. Million**

Particulars	Oct – Dec 2016	Jul – Sep 2016	Oct – Dec 2015
Total Income	5,051	4,995	5,684
EBITDA	474	418	243
EBITDA %	**9.4%**	**8.4%**	**4.3%**
PBT	89	29	(134)

The subsidiaries continue to register improved performance on back of strong focus on productivity improvement and cost control. During the quarter, the subsidiaries registered topline improvement driven by continued growth in CV & PV market segment. EBITDA % improved from 8.4% in previous quarter to 9.4% in this quarter.

Our focus is to work on product mix improvement with thrust on new technology application and light weight forgings to enhance the profitability of the subsidiaries.

During the quarter, the company completed the acquisition of Walker Forge Tennessee LLC (Bharat Forge PMT Technologie LLC) for a transaction value of US$ 14 million.