

BHARAT FORGE LIMITED

Analyst Update - Q3 FY20 Results

BFL 3 MONTH REPORT

“The quarter gone by was a repeat of the previous quarter in terms of weak end market demand and financial performance. Domestic and export revenues were down more than 30% in Q3 FY20 compared to the same quarter previous year.

The Passenger Vehicle business continues to stand out across both domestic and export markets with strong outperformance against underlying demand. The PV business grew by 8.7% compared to same quarter last year.

BFL’s international operations in Europe have also been badly impacted by the decline in end market demand. We have initiated restructuring & cost optimization actions. These actions coupled with investing in creating capacity towards a favorable product mix will eventually result in a sustainable & stronger business overseas.

We continue to strengthen the Balance Sheet with cash of ~Rs 1,930 crores on books as of December 2019 while the return ratios were sub-par driven by underutilization of capacities.

Looking ahead, over the next 3-6 months, we expect demand to remain soft given the uncertainty in India due to the transition to BS VI and continuation of weakness in North America & Europe. However, we believe that the phase of sequential decline in the financial performance for the company is nearing an end and the new phase of growth will commence in FY21. The convergence of our cost reduction initiatives and business development will enable BFL to come out stronger from this current down turn”



B.N. Kalyani, Chairman & Managing Director.

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STANDALONE FINANCIAL HIGHLIGHTS Q3 FY20

TABLE 1 <i>Particulars</i>	Rs. Million				
	Q3 FY20	Q2 FY20	QoQ %	Q3 FY19	YoY %
Shipment Tonnage	46,998	53,541	(12.2)	66,764	(29.6)
Domestic Revenue	4,079	4,480	(9.0)	6,739	(39.5)
Export Revenue	6,353	7,725	(17.8)	9,755	(34.9)
Other Operating Income	335	390		431	
Total Revenue	10,767	12,595	(14.5)	16,925	(36.4)
EBIDTA	2,394	3,005	(20.3)	4,870	(50.8)
EBIDTA %	22.2%	23.9%		28.8%	
Other Income	398	495		479	
PBT	1,613	2,315	(30.3)	4,307	(62.5)
PBT %	15.0%	18.4%		25.4%	
Notional Exchange Gain/ (loss)	(38)	197		388	
PBT after Exchange Gain/ (loss)	1,575	2,512	(37.3)	4,695	(66.5)
Profit After Tax	1,278	2,449	(47.8)	3,099	(58.8)

- Total revenue in Q3 FY20 at Rs. 10,767 million declined by 36.4% as compared to the same period last year. Sharp decline witnessed in both the Auto & Industrial business across geographies.
- EBITDA at Rs. 2,394 million declined by 50.8% as compared to Q3 FY19.
- PBT before Exchange gain/ (loss) declined by 62.5 % on a Y-o-Y basis to Rs 1,613 million in Q3 FY20.
- PAT stood at Rs 1,278 million, a decline of 58.8% as compared to Rs 3,099 million in Q3 FY19.

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Particulars	December 31, 2019	March 31, 2019
Long Term Debt	19,080	15,722
Working capital & Bill Discounting	13,634	16,220
Equity	56,975	53,982
Cash	19,303	17,252
D/E	0.57	0.59
D/E (Net)	0.24	0.27
Long Term D/E (Net)	(0.00)	(0.03)
ROCE	11.4%	21.2%
RONW	12.8%	19.8%

COMPANY REVIEW

Particulars	Q3 FY20			Q2 FY20			Q3 FY19			Y-o-Y % Change
	Total	India	Export	Total	India	Export	Total	India	Export	
Commercial Vehicles	4,066	1,109	2,956	4,396	935	3,461	6,717	2,681	4,036	-39.5%
Industrial	4,182	1,934	2,248	4,929	2,256	2,673	7,413	2,696	4,717	-43.6%
Passenger Vehicles	1,759	610	1,149	2,167	576	1,591	1,618	616	1,001	8.7%
Total	10,006	3,653	6,353	11,492	3,767	7,725	15,748	5,993	9,755	-36.5%

Particulars	Q3 FY20	Q2 FY20	Q3 FY19
India	4,414	4,870	7,170
Americas	4,508	5,475	6,590
Europe	1,652	1,896	2,654
Rest of World	193	354	511
Total	10,767	12,595	16,925

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INDIA BUSINESS

The Indian auto industry in Q3 FY20 showed similar trend to the first two quarters of the fiscal as production continued to fall across passenger vehicles and commercial vehicles as compared to the previous year. 9M FY20 M&HCV and PV production is down 43% and 14% respectively as compared to 9M FY19.

But a silver lining seems to be visible as the pace of contraction of truck volumes softened in Q3 FY20 and the quarter witnessed growth in commercial vehicle production (both M&HCV and LCV) as compared to Q2 FY20. Nearing the transition deadline to the BS VI emission standard, effective 1st April, 2020, measures undertaken for inventory corrections have also helped keep inventory at dealers & OEM's at low levels. We believe the worst for the M&HCV sector could be behind us and we could see gradual recovery in the coming months. For the quarter, our CV business revenues performed better than the underlying market and grew by 19% as compared to Q2 FY20.

In the PV space, we continue to focus on ramping up of our orders from new OEM's. Revenues from the PV business witnessed a growth of 6% as compared to Q2 FY20.

The Industrial business continues to face lack of traction on account of the general economic slowdown which mainly impacted our end market segments of Agri and Construction & Mining but this was largely mitigated by good growth in our Rail and Wind power business.

The company is fully prepared for the transition to BSVI and will maintain its leadership position in the domestic market. Our work on increasing content per vehicle and collaborating with customers to address new opportunities is progressing well.

INTERNATIONAL BUSINESS

CY 2018 and CY 2019 witnessed strong growth both on renewal and on expansion of truck fleets in the European and North American heavy truck market. US Class 8 volumes were more than 300,000 for 2 consecutive years. But a lower growth in demand for transport and an increased freight capacity with a relatively newer truck fleet, scope for fleet expansion looks muted. OEM's are thus adjusting their production in anticipation of a weak CY 2020 to meet the lower demand and facilitate necessary inventory destocking at dealers.

The industrial vertical continues to struggle from subdued activity in our key markets. We are also starting to see traction from global Rail vertical which will further de-risk the industrial business.

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CONSOLIDATED FINANCIAL HIGHLIGHTS Q3 FY20

Particulars	Rs. Million				
	Q3 FY20	Q2 FY20	QoQ %	Q3 FY19	YoY %
Total Revenue	18,328	21,581	-15.1%	24,640	-25.6%
EBIDTA	2,361	3,176	-25.7%	4,169	-43.4%
EBIDTA %	12.9%	14.7%		16.9%	
PBT	980	1,966	-50.2%	3,180	-69.2%
Exchange Gain/ (loss)	(118)	192		425	
Exceptional Item	(276)	-		-	
PBT after Exchange Gain/ (loss)	586	2,158	-72.8%	3,605	-83.7%
Profit After Tax	490	2,127	-77.0%	2,198	-77.7%
Associate/ JV (Profit /Loss) share	(86)	(73)		(29)	
Minority Interest	14	15		14	
Profit After Tax	418	2,069	-79.8%	2,183	-80.9%

Particulars	Rs Million	
	December 31, 2019	March 31, 2019
Long Term Debt	24,740	19,350
Equity	55,555	54,059
Cash	19,964	18,352
Long Term D/E	0.45	0.36
Long Term D/E (Net)	0.09	0.02

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TABLE 8 OVERSEAS MANUFACTURING OPERATIONS

Particulars	Rs. Million		
	Jul – Sep 19	Apr - Jun 19	Jul – Sep 18
Total Revenue	6,324	7,493	7,379
EBITDA	258	367	319
EBITDA %	4.1%	4.9%	4.3%
PBT before Exchange Gain/(Loss)	(236)	(64)	(2)

The performance of the subsidiaries have been impacted by weak underlying demand. While the AI Forging business continues to deliver robust performance, the steel forging business has been the laggard.

We are undertaking cost reduction measures towards which we have made a provision of Rs 276 million. While these measures are remedial in nature to tackle weak demand, the long term strategy of moving to a more favorable product mix with the creation of capacity focused on light materials is making steady progress. We remain steadfast in our efforts in resizing the operations and turning around the subsidiaries from CY20.

TABLE 9 Indian Subsidiaries

Particulars	Rs. Million		
	Q3 FY20	Q2 FY20	Q3 FY19
Total Revenue	89	217	152
EBITDA	(25)	8	24
EBITDA %	-	3.7%	15.8%
PBT before Exchange Gain/(Loss)	(31)	(2)	17

TABLE 10 BFL + BFIL (Trading Subsidiary)

Particulars	Rs. Million		
	Q3 FY20	Q2 FY20	Q3 FY19
Total Revenue	11,915	13,871	17,109
EBITDA	2,128	2,801	3,826
EBITDA %	17.9%	20.2%	22.4%
PBT before Exchange Gain/(Loss)	1,247	2,032	3,165

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