

BHARAT FORGE LIMITED

Analyst Update - FY 2020 Results

BFL 12 MONTH REPORT

“The unprecedented events over the past few months and the subsequent lockdown has completely reversed the positive momentum we had started witnessing across some of our key verticals especially in India. On the heels of robust growth over past 3 years, a routine cyclical correction in CV markets in US and Europe was forecasted for CY 2020. This was further accentuated with the Covid lockdowns from early March 2020.

The full year performance, especially H2 was impacted by the severe slump across sectors in India & globally as well. Despite the weak operating performance, we have continued to maintain a strong balance sheet which will further strengthen going forward.

All our facilities in India and globally have resumed operations in a phased manner since early May 2020, however, with utilization at sub-optimal levels. We continue to support our customers demand globally while also ensuring the safety and well-being of our employees.

FY21 has started on a difficult note with the lockdown impacting demand. Automotive production across Commercial & Passenger Vehicles Globally have been severely impacted. However, we expect the PV business to outperform underlying markets. We expect to see good demand traction in several industrial segments barring Oil & Gas sector. We are hopeful that sequentially things will start to improve from H2 FY21, as economies open up & stabilize. Although the current scenario is very different from what we have ever seen before, we are very confident that the company will come out from these difficult times stronger than before.

Throughout FY21, the company will concentrate efforts on being nimble yet addressing dynamic demands of our customers, but, with a razor sharp focus on **Cash, Cash flow, winning new business and structural cost optimization across, both - fixed and variable costs**. The cost optimization initiatives are over and above the steps taken in FY20, benefit of which will be visible from Q2 FY21 onwards. We have used the lockdown to accelerate the process of digitalization across the plant which will result in sharp productivity improvement as we get back to normal production levels.

Over the past few years, the company invested over Rs 1,300 Crores in setting up new capacities across forging and machining. Our focus will be on filling up these capacities and generate Free Cash Flow which will be utilized for bringing down gross debt levels over the next 3 – 5 years.

B.N. Kalyani, Chairman & Managing Director.



STANDALONE FINANCIAL HIGHLIGHTS FY 2020

TABLE 1	Rs. Million				
<i>Particulars</i>	Q4 FY20	Q3 FY20	Q4 FY19	FY 2020	FY 2019
Shipment Tonnage	40,173	46,998	62,690	201,586	265,952
Domestic Revenue	3,703	4,079	6,577	17,818	26,268
Export Revenue	4,896	6,353	9,626	26,502	37,258
Other Operating Income	213	335	483	1,319	1,674
Total Revenue	8,812	10,767	16,686	45,639	65,200
EBIDTA	1,482	2,394	4,849	10,398	18,760
EBIDTA %	16.8%	22.2%	29.1%	22.8%	28.8%
Other Income	315	398	501	1,609	1,661
PBT	535	1,613	4,214	7,108	15,931
PBT %	6.1%	15.0%	25.3%	15.6%	24.4%
Exchange Gain/ (loss)	(379)	(38)	323	(244)	299
PBT	156	1,575	4,537	6,864	16,230
Profit After Tax	207	1,278	2,995	5,674	10,713
Exceptional Items	(939)	-	-	(939)	-
Profit After Tax	(732)	1,278	2,995	4,735	10,713

- The performance for Q4 & FY20 has been impacted by the lockdown in the last week of March. We estimate that sales loss was to the tune of Rs 2,000 million and impact on profitability of Rs. 900 million.
- Total Revenues declined by 47.2% in Q4 FY20 to Rs. 8,812 million as compared to Rs. 16,686 million in Q4 FY19. For the full year FY 2020, the company recorded total revenues of Rs. 45,639 million, a decline of 30% as compared to FY 2019.
- PBT before Exchange gain/ (loss) for Q4 FY20 declined by 87.3% to Rs 535 million as compared to Q4 FY19, while for FY 2020 the same declined by 55.4% on a yearly basis.
- Exceptional item of Rs 939 million consists of Rs 890 million towards impairment of investments in Tevva Motors & Rs 49 million towards VRS.

KEY FINANCIAL PARAMETERS: STANDALONE

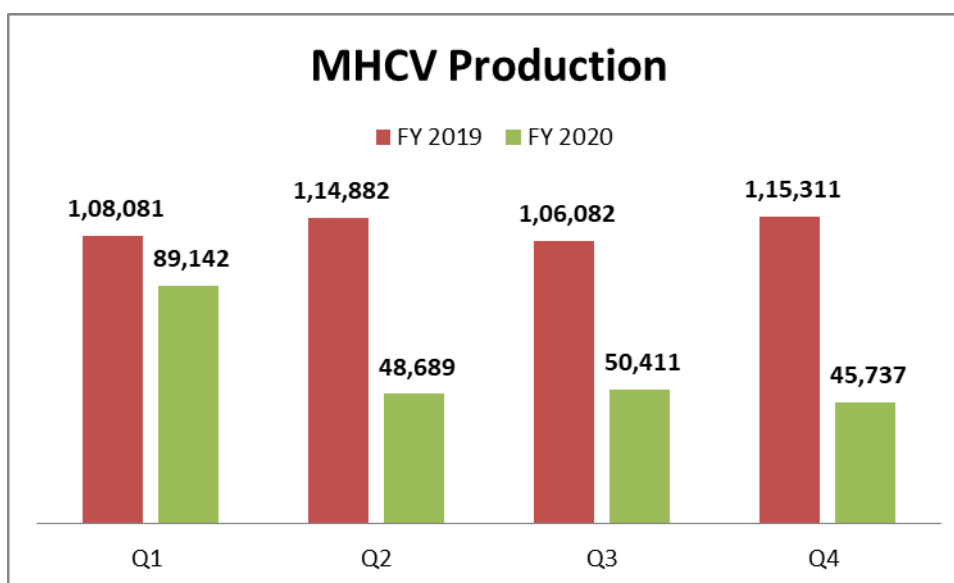
TABLE 2 Particulars	Rs Million	
	March 31, 2020	March 31, 2019
Long Term Debt	18,351	15,722
Working capital & Bill Discounting	14,084	16,220
Equity	53,551	53,982
Cash	18,821	17,252
D/E	0.61	0.59
D/E (Net)	0.25	0.27
Long Term D/E (Net)	-	(0.03)
ROCE	9.5%	21.2%
RONW	8.8%	19.8%

REVIEW OF INDIA BUSINESS

➤ Automotive

FY20 was expected to be a year of growth, driven by expectation of pre-buy ahead of change in emission norms from BS IV to BS VI. This expectation was not misplaced given the experience in other geographies which have witnessed emission change.

However, the deterioration in the fundamentals of the economy through the year, led to a sharp decline in demand across both Passenger & Commercial Vehicles. The OEM's started to curtail production and focus on liquidating BS IV inventory in the system. The M&HCV sector was the most impacted. Full year production was down 47% as compared to FY2019. BFL's revenues from CV space in FY2020 declined by 53%.



The outlook for the domestic automotive sector in FY2021 is uncertain in the backdrop of Covid 19 impact on various factors which influences demand off-take. Any government intervention will go a long way in reviving sentiment.

In the passenger vehicle segment, the company continues to perform better than the underlying market. BFL's revenues from Passenger Vehicles declined by 4.6% as against an industry decline of 15% on back of new customer addition and increasing market share.

In the near term, it is difficult to predict the traction from the domestic automotive market while we are confident of increasing our content per vehicle in the medium to long term.

➤ Industrials

The industrial sectors we address (Construction & Mining, PSU including Defense & Power, engineering sector) have a significant linkage to government spending on infrastructure and defence. Clearly, the past 12 months have seen some slowdown in activity levels and the same is visible in our industrial business performance. Recent Government initiatives like the Sagarmala project, National Infrastructure Pipeline (NIP), opening up of coal mining, the space sector to private entities do provide a big fillip to the activity levels and also provide long term visibility. We expect the industrial space to remain subdued in the near term.

INDIA REVENUES

Particulars	Q4 FY20	Q3 FY20	Q4 FY19	Rs. Million		
				FY 2020	FY 2019	Y-o-Y (%)
Commercial Vehicles	983	1,109	2,273	5,182	10,948	-52.7%
Industrial	1,773	1,934	2,877	8,058	10,133	-20.5%
Passenger Vehicles	542	610	672	2,263	2,373	-4.6%
Others*	618	761	1,238	3,634	4,488	
Total	3,916	4,414	7,060	19,137	27,942	-31.5%

* Others include other operating income, sale of manufacturing scrap etc.

REVIEW OF INTERNATIONAL BUSINESS

➤ Automotive

The Class 8 truck market from CY 2016 to CY 2019 has grown from 228,347 units to 344,558 units, a CAGR of 14.7% on back of a strong economy and solid freight demand. As per ACT research, CY2020 was expected to be the start of a down cycle with volumes declining by 30% to around 240,000 units. However, post Covid19, the expectation now for CY2020 is a sharper decline of >50% to around 160,000.

The passenger vehicle segment continues its positive growth trajectory with the segmental revenues growing by 4% despite the lockdown towards the later part of the quarter. We expect the passenger vehicle business to contribute more going forward as we continue to expand our presence in this segment by increasing our product portfolio, moving up the value chain and adding new customers.

➤ **Industrial**

Over the past decade or so, we have worked hard at diversification of portfolio. This market and product expansion is helping in the current crisis.

The Oil & Gas industry in North America has been the most impacted sector because of the pandemic and the subsequent closure of economies across the globe. Drilling activities have come to a standstill and its impact on our business has been very adverse. The revenues from this segment from a peak of > Rs 1,000 crores in FY2019 is now down to < Rs 500 Crores and we expect it to come down further in FY2021. We are seeing stable demand in the high horsepower engine as well as construction & mining segments.

The pandemic has also severely impacted the aviation market with possibility of change in travel behavior going ahead. This has led to a sharp rise in cancellation of aviation OEM company order book. This will have an adverse impact on our Aerospace business for the existing products in the near term. However, we continue to make good progress in new customer penetration including a steady expansion of product portfolio. This will not only help us sustain period of low overall demand, but also create a solid platform for growth and potentially a platform for customer expansion. We are confident of registering YoY growth in this segment.

Additionally, we remain focused on developing and winning new products & pipeline including new customers in the Industrial segment – both in India and globally.

INTERNATIONAL REVENUES

TABLE 4

Rs. Million

Particulars	Q4 FY20	Q3 FY20	Q4 FY19	FY 2020	FY 2019	Y-o-Y (%)
Commercial Vehicles	2,388	2,956	4,061	12,702	15,912	-20.2%
Industrial	1,403	2,248	4,210	8,753	16,471	-46.9%
Passenger Vehicles	1,105	1,149	1,355	5,047	4,875	3.5%
Total	4,896	6,353	9,626	26,502	37,258	-28.9%

TABLE 5

Rs. Million

Particulars	Q4 FY20	Q3 FY20	Q4 FY19	FY 2020	FY 2019	Y-o-Y (%)
Americas	3,396	4,508	7,075	18,673	26,022	-28.2%
Europe	1,426	1,652	2,233	6,842	9,912	-31.0%
Rest of World	74	193	318	987	1,324	-25.5%
Total	4,896	6,353	9,626	26,502	37,258	-28.9%

➤ Overseas Operations

Performance of international subsidiaries have been sup-optimal and course correction measures were being implemented. These included major fixed cost reduction and re-aligning the product portfolio towards Aluminium forgings etc. There were signs that things were improving with losses reducing sequentially.

While most of the plants were closed in April 2020, subdued level of operations have resumed in May / Jun. However, Covid19 pandemic has caused a significant impact on demand across the European market. As per ACEA, PV & CV sales are down >40% till May 2020 as compared to the same period previous year. **In light of such severe demand drop, despite cost reduction initiatives and aid from various government to take care of partial wage cost, the overseas operations are expected to post a Cash loss of about EUR 5 million in Jan – Jun 2020.**

We are committed to our investments and growth plan for Aluminum business. However, in the current scenario, we are reevaluating the demand from our customers for the Aluminium forging business in North America and are planning our capacity expansion accordingly. We are also looking at possibility of utilizing the existing capacity in Europe to address the immediate demand requirements.

CONSOLIDATED FINANCIALS

TABLE 6 OVERSEAS MANUFACTURING OPERATIONS		Rs. Million	
Particulars	CY 2019	CY 2018	
Total Revenue	27,861	32,321	
EBITDA	845	2,075	
EBITDA %	3.0%	6.4%	
PBT before Exchange Gain/(Loss)	(912)	559	
Exceptional Item	(264)	-	
PBT	(1,230)	559	
PAT	(1,138)	267	

Exceptional item of Rs. 264 million pertains to redundancy payment to employees.

TABLE 7 INDIAN SUBSIDIARIES		Rs Million	
	FY 2020	FY 2019	
Total Income	840	1,318	
EBITDA	(5)	94	
Profit Before Tax	(40)	79	
PAT after minority Interest	(33)	60	

TABLE 8 BFL + BFIL		Rs. Million	
	FY 2020	FY 2019	
Total Income	51,857	67,818	
EBITDA	10,548	18,115	
Profit Before Tax	7,028	15,193	
PAT	4,670	9,995	

CONSOLIDATED (Rs. Million)	FY 2020				FY 2019			
	BFL + BFIL	WOS	Indian Subs	Total	BFL + BFIL	WOS	Indian Subs	Total
Total Revenue	51,857	27,861	840	80,558	67,818	32,321	1,318	1,01,457
EBITDA	10,548	845	(5)	11,388	18,115	2,075	94	20,284
EBITDA %	20.3%	3.0%	-	14.1%	26.7%	6.4%	7.1%	20.0%
PBT	7,028	(912)	(40)	6,076	15,193	559	79	15,831
Exchange Gain/(Loss)	(202)	(54)	14	(242)	342	(69)	-	273
Exceptional Items	(525)	(264)	-	(789)	-	-	-	-
Associate/JV Profit/(Loss)	(423)	-	-	(423)	(118)	-	-	(118)
PAT	4,670	(1,138)	(33)	3,499	9,995	267	60	10,322

TABLE 10 Rs. Million

Particulars	March 31, 2020	March 31, 2019
Long Term Debt	23,445	19,350
Working Capital + Bill Discounting	20,037	20,943
Equity	52,517	54,059
Cash	20,070	18,352
Long Term D/E	0.45	0.36
Long Term D/E (Net)	0.06	0.02