

Bharat Forge Limited

	Amount Rated	Rating Action
		June 2016
Non Convertible Debenture	Reduced from Rs 166.7 Crore to Rs 83.3 crore	[ICRA] AA+/Stable reaffirmed
Non Convertible Debenture	Reduced from Rs 114.4 Crore to Rs 52.8 crore	
Long Term Loan	USD 50 Million	
Fund Based Limit	Rs 1,500 Crore	
Non Fund Based Limit	Rs 400 Crore	[ICRA] A1+ reaffirmed

Note: Amount in Rs crore

ICRA has reaffirmed the long term rating of Bharat Forge Limited (BFL) at [ICRA]AA+ (pronounced ICRA double A plus) for Rs 83.3 (reduced from Rs. 166.7 crore)¹, USD 50 million long term loans and Rs 52.8 crore (reduced from Rs 114.4 crore) NCDs programs and Rs. 1,500 crore fund based bank facilities[†]. ICRA has also reaffirmed short-term rating of [ICRA] A1+ (pronounced ICRA A One Plus) Rs. 400 crore non-fund based bank facilities[†].

The ratings reaffirmation reflects BFL's comfortable capital structure and coverage indicators in the backdrop of healthy cash accruals from operations and subsequent repayment of debt. The ratings also draws comfort from BFL's dominant position in the global automotive forgings industry, especially in the CV chassis and engine component space, its large scale of operations, strong and diversified customer base across auto and non-automotive segments & geographies and its technical capabilities. The rating strengths are partially offset by BFL's high working capital intensity, with sizeable portion of debt involving bill discounted of reputed customers. ICRA also takes note of BFL's dependence on cyclical CV industry, which has affected performance of domestic operations in the past. Nonetheless, ICRA believes that BFL's business model has improved as reflected by lower break-even levels and steady cash generation from existing business streams.

During FY2015-16, BFL's standalone performance was impacted by slowdown in N. American M&HCV market as well as weak off-take in oil & gas segment. While company's standalone revenue declined by 6% during FY2015-16, its operating margin remained fairly resilient at 29% level supported by favourable exchange rate, better product mix and benign commodity prices. The performance is likely to remain muted in current fiscal as well, given weak outlook for US class-8 truck market as well as subdued demand in non automotive segment, especially for oil & gas exploration segment. To counter weak demand in M&HCV and oil & gas segment, BFL is enhancing its presence in passenger vehicle & transportation segment and focusing on accelerating new product development. However, coverage indicators as well as liquidity profile should remain comfortable as company has no major capital expenditure or investment plans in the medium term. BFL's liquidity profile continue to remain strong with liquid investments/cash surplus of over Rs 1,000 crore (as on Mar'16) and sizeable unused bank facilities.

BFL derives about 40% of its consolidated revenue from European market and hence it is exposed to uncertainty in EU zone post Brexit. At present, company sells about 40% of its exports via its UK based subsidiary i.e. Bharat Forge International Limited (BFIL), which is essentially a trading arm and does not have any manufacturing activity of its own. BFL does not have material exposure to UK based OEMs/customers. However, BFL is exposed to uncertainty in EU zone which could impact performance of Indian as well as European subsidiaries, in case of slowdown in European automotive demand.

Company Profile

Incorporated in 1961, Bharat Forge Limited (BFL) is the flagship company of the Pune-based Kalyani Group, which has interest in forging, auto components, specialty steels, Infrastructure, renewable energy and specialty chemicals business. BFL is the largest forging company in the world. The company operates in two main market segments – automotive and non-automotive components. BFL manufacturers a wide range of components for CVs, PVs and diesel engines. Sizeable proportion of its revenues also come from manufacturing of components for non-automotive sectors such as railways, oil & gas, energy, general

¹ 100 lakh = 1 crore = 10 million

[†] For complete rating definition please refer to ICRA website www.icra.in or any of the ICRA Rating Publications.



engineering and construction equipment. BFL is listed with NSE and BSE and as on 31st March 2016 promoters' held a 46.74% stake in the company.

Since 2004, the company made several strategic acquisitions of forging companies in key geographies. BFL has acquired two companies in Germany, one in Sweden, one in Scotland, one in France and another one in USA and established a joint venture with majority stake in China. Though, over the years, company has exited its Scottish, American and Chinese ventures. At present, globally the company has an installed capacity of 560,000 MTPA in forging, 1,200,000 units and 753,200 units in crankshaft and machined chassis components respectively.

BFL has a diversified global customer base including the top five CV & PV manufacturers in the world. BFL's customer base includes virtually every global automotive OEM and Tier I supplier.

June 2016

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