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Indian Auto Ancillary Sector

July 15th, 2015

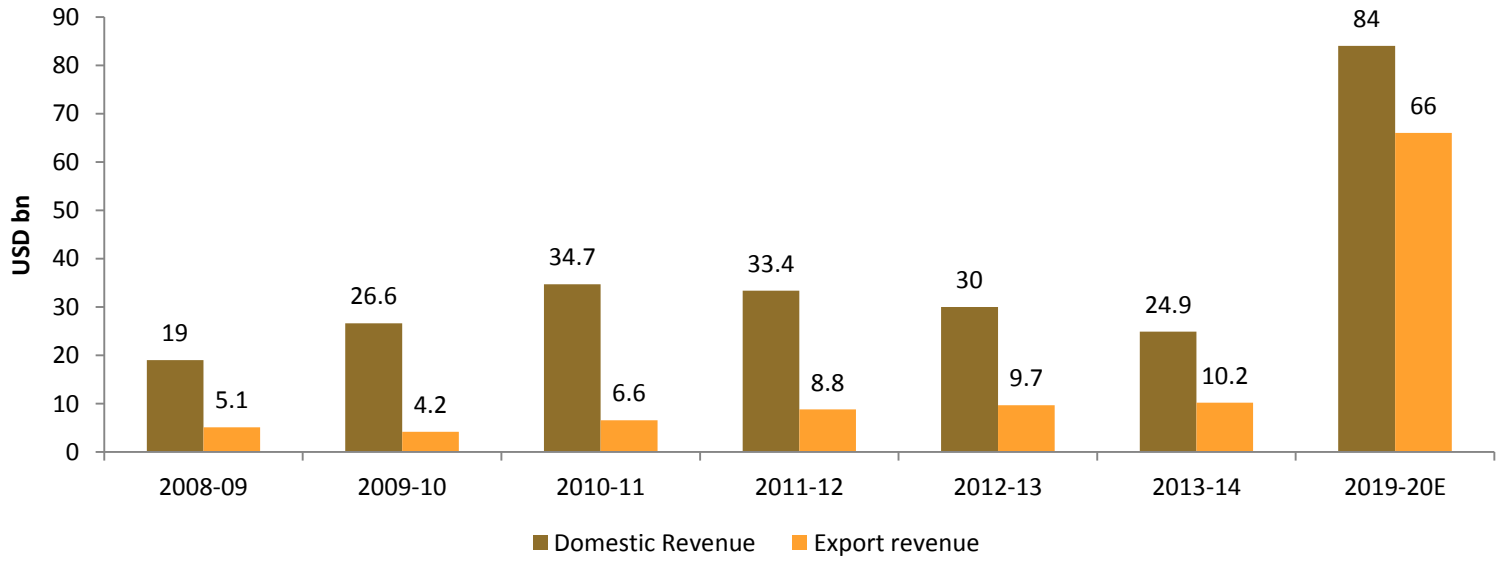
Indian auto component sector

Indian auto ancillary/auto component industry is one of the fastest growing industries and is riding on the success of the auto sector. Indian auto industry is highly competitive with the presence of a large number of global and Indian auto-companies. Auto sector alone contributes nearly 84.3% of the total turnover (OEM) and the rest belongs to the replacement market. The auto component sector clocked a turnover of USD 35.1 bn in FY14, recording a CAGR of 7.8% during the period of 2008-2014 and is projected to become the fourth largest automobile producer globally by 2020 with a turnover over USD 150 bn by FY20, according to Automotive Component Manufacturing Association of India (ACMA). Further, the cumulative foreign direct investment (FDI) inflows into the Indian automobile industry during the period April 2000 – August 2014 was recorded at USD 10,119.9 mn, as per data published by the Department of Industrial Policy and Promotion (DIPP), Government of India. Currently, India is ranked 22 among global component exporting countries. China is at the third spot on the list led by Germany and the US.

Indian auto component sector exports grew by 16.7% to USD 10.2 bn (₹614.9 bn) in FY14 from USD 9.7 bn (₹526.9 bn) in FY13. Europe is the leading marketplace with 38% contribution, while the US topped the list of top export destinations. Low labour costs, availability of skilled labour and high quality consciousness among Indian vendors have spurred the growth of auto component exports from India. Moreover, over the last few years, the structure of the customer base in the global markets has also undergone a major change. According to a joint study by ACMA and McKinsey, India will jump to 9th spot in exports by 2020 and the next imperative for the Indian auto component industry reveals that Indian suppliers still account for just 1% of overall global exports of USD 1,006 bn – indicating a significant upside opportunity for exports. The study findings suggest that globalisation in the auto-suppliers industry is likely to increase.

Indian auto component industry can be broadly segmented into six major segments. Engine and drive transmission parts together contribute about 50% of the auto component industry production. Engine parts, which constitute 31% of the production, mainly comprise of pistons, engine valves, carburettors, fuel injection systems, camshafts, crankshafts and cooling systems. Drive transmission parts, which constitute 19% of the total production, include axle assembly, steering parts and clutch assembly.

Indian auto component sector's turnover trend



The total market size is expected to be more than USD150 bn by 2020, which is nearly three times the current market size of about USD 35.1 bn

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Industry Overview

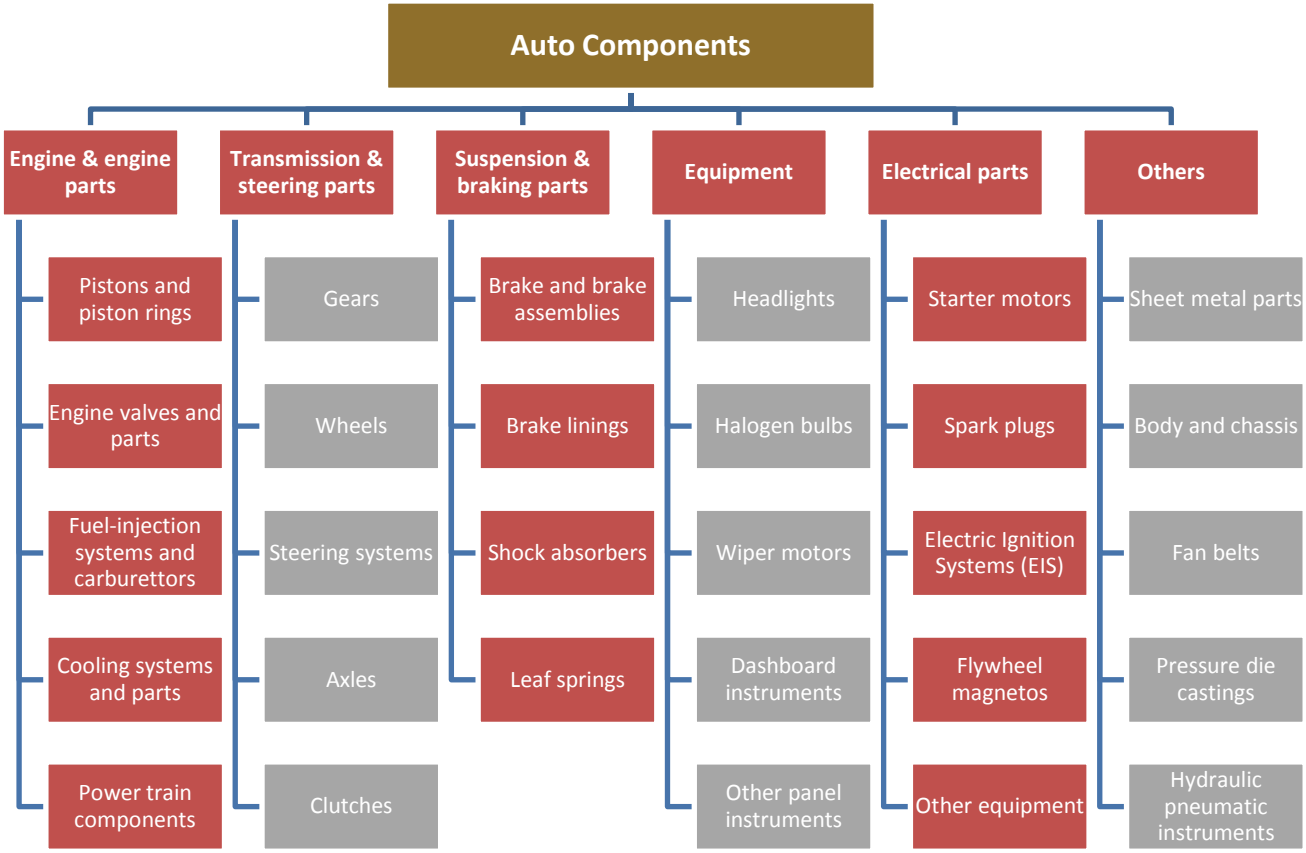
Indian auto component industry is one of the fastest growing industries and is riding on the success of the automobile sector. Coupled with growing demand and technological advancements, the auto component industry in India has emerged as a key market in Asia as well as in the world. The country currently supplies auto components to a number of international automobile makers, such as General Motors, Toyota, Ford and Volkswagen, amongst others.

The automobile industry (OEM), which contributes around 80% of the total auto components sales volume, is one of India's most vibrant and growing industries. This industry accounts for 22% of the country's manufacturing gross domestic product (GDP). The automobile industry in India is expected to be the world's third largest by 2016, with the country currently the world's second largest two-wheeler manufacturer. Two-wheeler sales are projected to rise from 15.9 mn in FY13 to 34 million by FY20E. The segment registered a growth of 7.3% in FY14 to 17.1 mn units. India's domestic market and its growth potential have been a big attraction for many global automakers. India is presently the world's third largest exporter of two-wheelers after China and Japan. According to a report by Standard Chartered Bank, India is likely to overtake Thailand in global auto-export market share by the year 2020.

Advantage in India

- Several global Tier-I suppliers have announced plans to increase procurement from their Indian subsidiaries.
- Cost competitiveness.
- Geographically closer to key automotive markets like the ASEAN, Japan, Korea and Europe.
- Expected to become the fourth largest automobiles producer globally by 2020 after China, US and Japan.

Indian Auto-Component sector

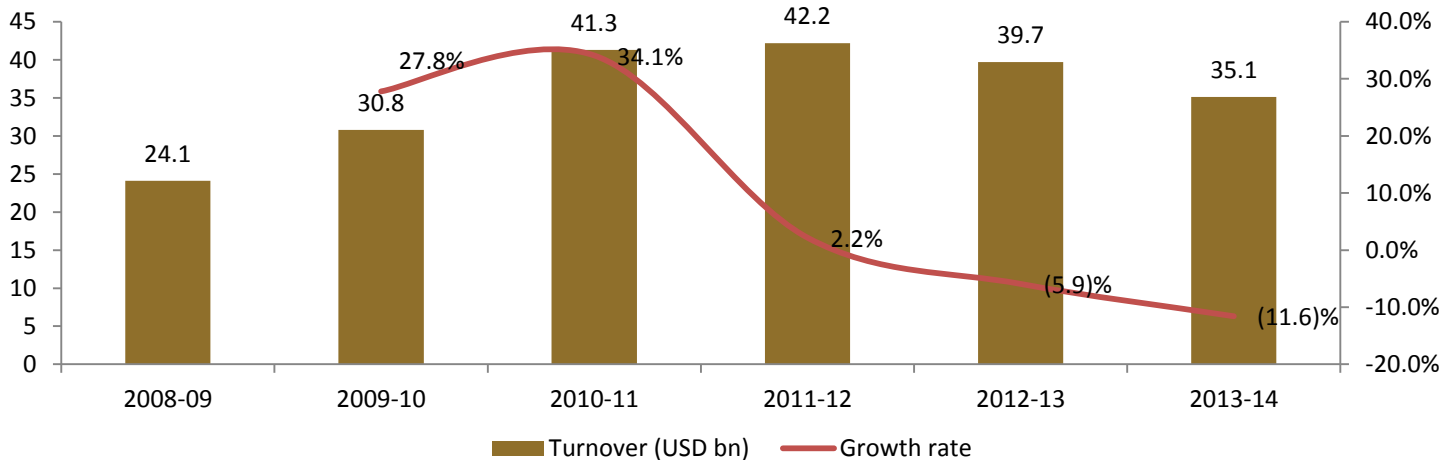


Challenging years are the thing of past, good days ahead...

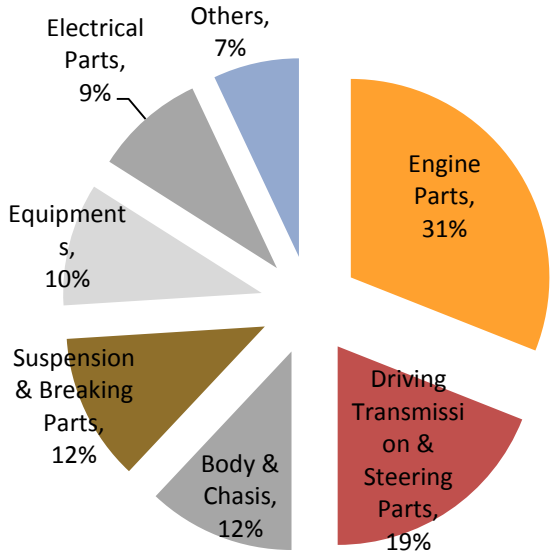
The year 2013-14 was undoubtedly one of the most challenging ones for the domestic auto-component industry. Auto component sales saw a decline during the fiscal year that ended in March'14 on account of flagging vehicle sales, high capital costs, high interest rates, fluctuating exchange rates and slowing down of investment in manufacturing. According to the ACMA, the industry recorded a decline of 2% in rupee terms during FY14, with overall turnover standing at ₹2,117.7 bn (USD 35.1 bn) as against ₹2,160.0 bn (USD 39.7 bn) last fiscal.

The Industry grew at a compound annual growth rate (CAGR) of13.8% (in rupee terms) and 7.8% (in USD terms) for the last six years. However, the auto component industry expects a growth of 4-6% in the 2014-15 as demand from OEM segments, particularly MHCVs, small cars and two-wheelers improves. During the last couple of months, Indian auto industry showed initial sign of revival with increase in auto sales volume. Also, some positive initiatives taken by the Modi-led government during the Union Budget will also help the industry record growth, according to ACMA.

Turnover trend (USD bn)



Production break-up



The industry over the years has developed its capability of manufacturing all components required to manufacture vehicles. This is evident from the high levels of indigenization/localization achieved in the vehicle industry as well as the components developed for the completely Indian made vehicles like the Tata Indica, Tata Indigo, Mahindra Scorpio, Bajaj Pulsar etc. The domestic component industry has now holistic capability to manufacture the entire range of auto-components e.g. engine parts, drive, transmission parts, suspension & braking parts, electricals, body and chassis parts, equipment etc.

Driving transmission & steering parts is the first largest segment and contributes nearly 19% of the total component production in the domestic auto ancillaries industry after the engine parts, which contributes 31% to the total component production.

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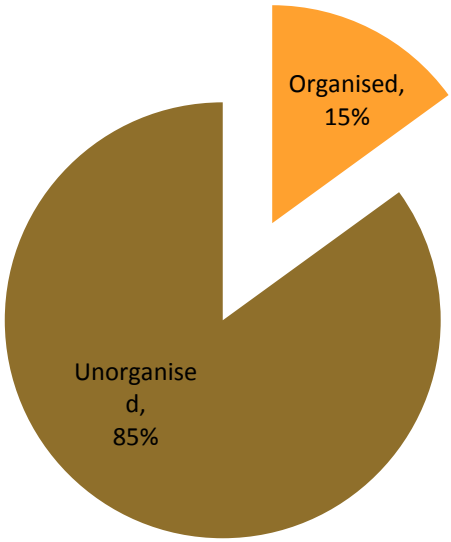
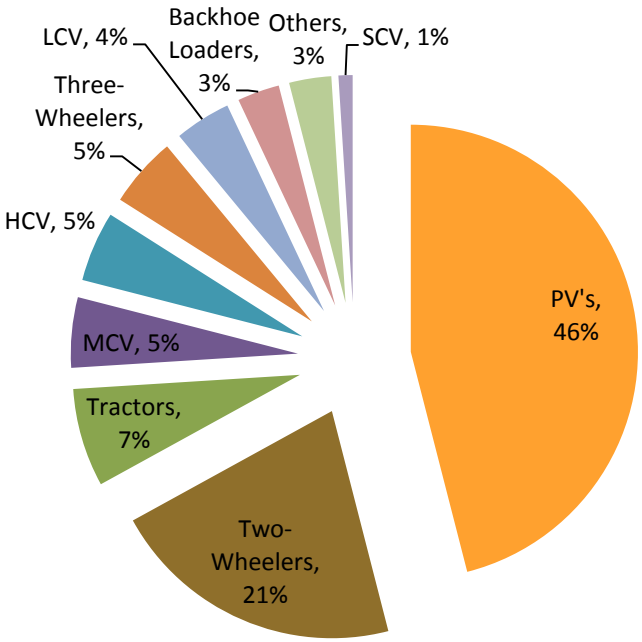
Industry Classification

The Indian auto-component industry can be broadly classified into the organised and unorganised sectors. *The organised sector caters to at-least one of the original equipment manufacturers (OEMs) and consists of high-value precision instruments, while the un-organised sector comprises of low-valued products and caters to the aftermarket category.* As on March'14, the organized sector holds a market share of 15% and the rest belongs to unorganized sector. With the Government mission to make India an export hub for automobile, we expect the organized sector to see higher growth than unorganized sector.



Indian auto ancillary sector has traditionally suffered from poor quality. While this still holds true for the unorganized sector, the organized sector has been resorting to increased automation to reduce the defect levels. On the other hand, the OEM market is very competitive and component manufacturers have to compromise on margins to bag bulk orders. Moreover, delivery schedules and quality standards have to be adhered to very strictly. OEM segment is riding on several factors including auto OEMs' growing thrust on localization, auto suppliers' efforts to expand business in new geographies, strong upside potential to replacement market demand and increasing sophistication of vehicles shoring up part prices.

Auto component consumption by OEM



The OEM market for auto components is characterized by cyclicality in line with end-user automobile industry. The component manufacturer expands capacities and undertakes production in line with production schedules of vehicles manufacturers. Further, servicing the OEM market requires access to technology necessary to meet quality requirements and price competitiveness. India in last decade has grown into a large automotive market particularly for Japanese OEMs, while the European and American's have also entered for the long haul.

By vehicle segmentation, the production mix of Indian auto component industry is skewed heavily towards PV segment which is the main customer, demanding 46% of the total production volumes, followed by two-wheelers segment which accounts for 21% of the total auto component production volumes.

Auto component OEM segment set to grow in line with growth in auto sales

According to reports, Indian passenger vehicle market is expected to grow at a CAGR of 12% to reach 5 mn units by 2020. The two-wheeler market is also expected to grow at the same pace to 29.5 mn units, while the commercial vehicle market will grow at a CAGR of 7% to 1.2 mn units.

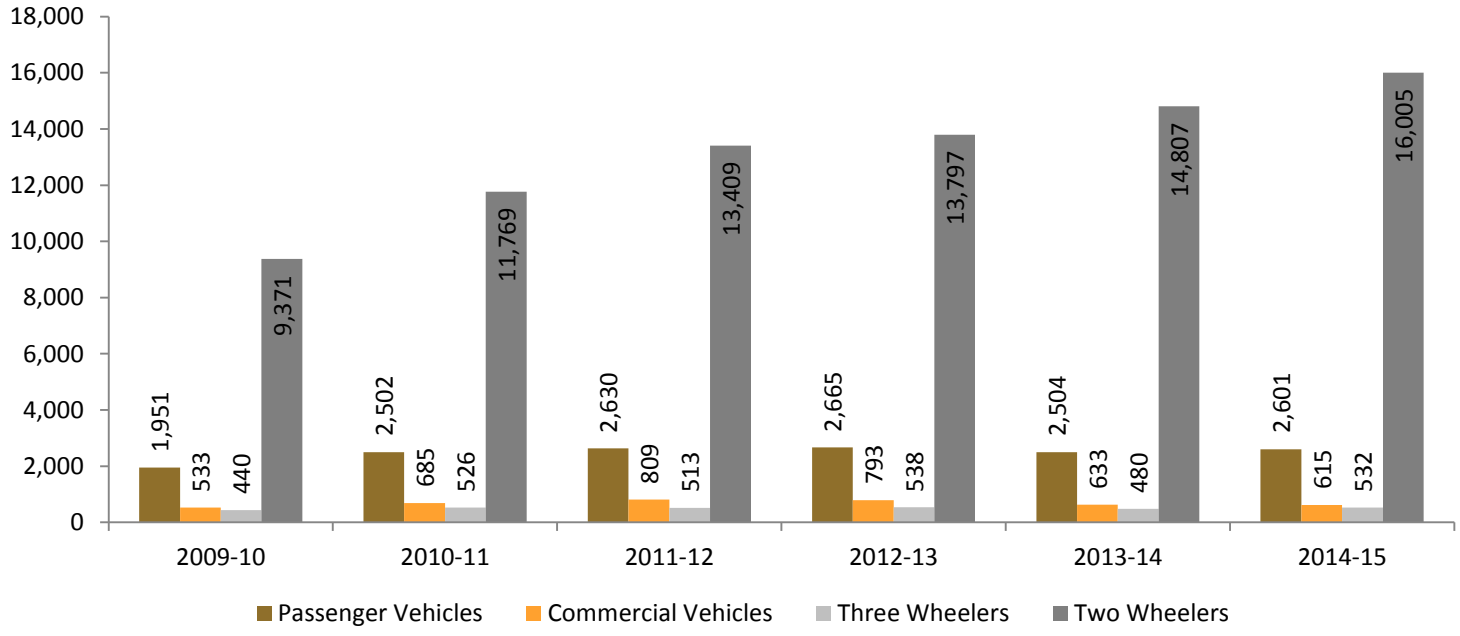
The auto component industry accounts for 22% of the country's manufacturing gross domestic product (GDP). The auto sector is one of the biggest job creators, both directly and indirectly. It is estimated that every job created in an auto company leads to three to five indirect ancillary jobs. India's domestic market and its growth potential have been a big attraction for many global automakers. India is presently the world's third largest exporter of two-wheelers after China and Japan.

In FY15, the domestic automobile industry grew by ~7.2% YoY as against ~3.6% in FY14 and exports grew by ~14.9% YoY during the year as compared to ~7.2% in FY14. In the first half of the year the total vehicle sales in India grew by ~13.8% YoY, whereas in H2FY15 total sales grew by just 1.2% YoY. The higher growth in H1FY15 was mainly due to low base effect and reduction in excise duty benefit. However, poor monsoon and removal of reduction in excise duty benefit dampened the growth in H2FY15. Within the domestic market, Scooter and Medium and Heavy Commercial Vehicle (MHCV) segment grew strongly by 25.1% YoY and 16.1% YoY, respectively. However, Light commercial vehicle (LCV) continues to report negative growth and declined by ~11.6% YoY in FY15 as against a decline of ~17.6% in FY14. Domestic Passenger vehicle sales remained volatile during FY15, where passenger car segment grew by 4.8% YoY, whereas Utility vehicle sales grew by 5.3% YoY. Growth in Passenger car sales in H2FY15 was marginally higher than in the first half. However, in Utility vehicle segment, growth dipped sharply in H2FY15 compared to H1FY15 due to high base effect and few new product launches.

Surprisingly, two wheelers sales registered a growth of 11% in FY15. Within the two wheelers segment, scooters and motorcycles sales grew at ~25.2% and ~2.5% respectively. Scooter sales have been growing strongly over the past few years mainly due to its new age design which suits for both male and female riders, easy to handle as it is gearless and fuel efficiency.

Initial signs of recovery have already seen in almost all the major economies. Higher the economic growth leads to higher job opportunity and earnings. Thus, we expect uptick in auto sales volume and would benefit the auto component industry.

Auto sales volume trend (000's units)



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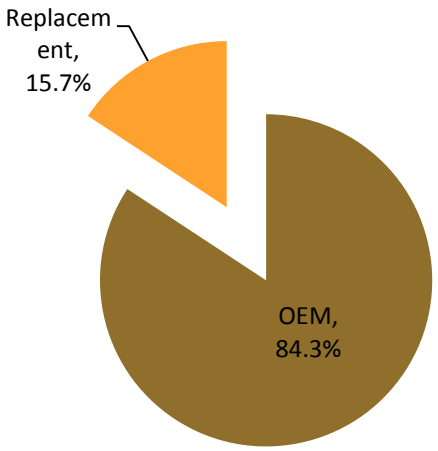
Auto component sales distribution by markets (value terms)

The size of the replacement market (15.7% of the total auto component sales in value terms) in India is significantly owing to large vehicle base. The replacement market in the country grew by 12% in FY14 to ₹356.0 bn as against ₹317.9 bn in the previous fiscal.

Due to moderation in vehicle sales and depressed market sentiments, the investment declined to around USD 0.5-0.7 bn during FY14 in the auto component sector as against an investment of around USD 1.2-1.7 bn in a year ago period, according to ACMA.

However, the low vehicle scrapping rate in the country also necessitates frequent replacement of parts. In volume terms, two/three wheelers are the largest customer segment of auto-component market, followed by passenger cars and commercial vehicle. The replacement market acts as a steadying factor in the automobile industry and provides a partial hedge against the risk of recession in the auto sector. The component manufacturer enjoys better bargain power in the replacement market as compared to the OEM and as a result, the margins in the replacement market are higher.



- Higher number of old vehicle on-road lead to demand for component to rise.

Batteries, tyres and lubricants, which have shorter shelf lives, have strong replacement demand. Supplier companies like Amara Raja Batteries, Exide Industries, Apollo Tyres, MRF, Ceat and JK Tyres stand to gain from this demand. The automobile population has more than doubled in the past 7-8 years, creating huge replacement demand for products such as tyres, batteries and engine oils, which have an average shelf life of 2.5 to 3 years. A major chunk of these vehicles would need replacement of tyres and batteries in FY15 and FY16. For MRF, the market leader in tyres, the replacement market constitutes nearly 76% of its turnover, while it is 55-60% for Ceat and 75% for JK Tyre. JK Tyre expects major demand to come from the replacement market in coming quarters.

Industry officials said that the replacement market for components with shorter shelf lives will see a double digit growth, compared with single-digit and flat growth in sales to OEMs.

Interestingly, export revenue pie grew even during slowdown

Interestingly, India's export share rose to 29.1% in FY14 as against 24.4% during FY13. ***Our analysis suggests that this was majorly due to depreciation of domestic currency (cost competitiveness) and also the outcome of the efforts put in by the domestic players to survive in the slowdown.***

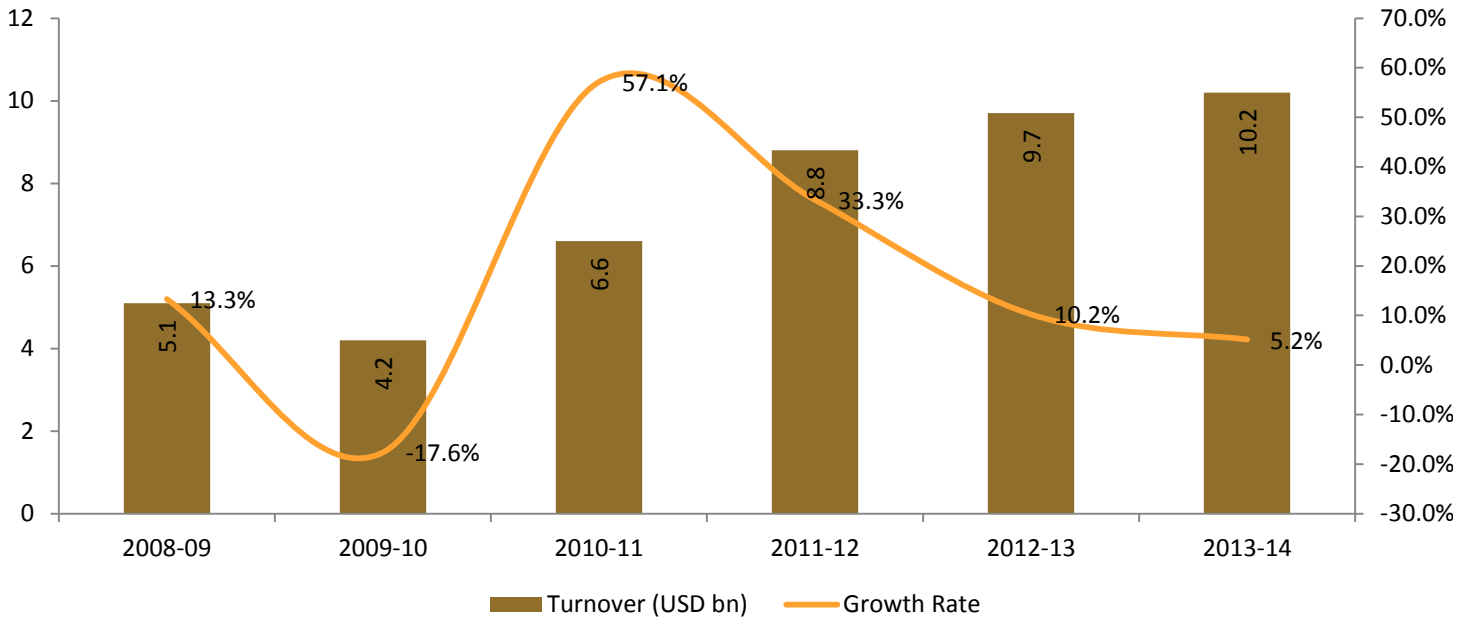
During the last two years, domestic auto sales volume was hit by slowdown in economic growth hence hampered OEM sales volume. To partially hedge the risk of slowdown in the domestic market, the component manufacturers forayed into new market and are successful in doing so. ***Going ahead, with the revival in domestic market (which already show initial sign of revival) and higher export sales, the component sector prospects look promising.***

Indian component manufacturers are well positioned to capture overseas opportunity in the coming 2-3 years

The domestic industry's focus on exports has been part of industry's initiatives to counter the cyclicality in the domestic auto sector. During FY14, the exports of auto components grew by 16.7% to ₹614.9 bn (USD 10.2 bn) from ₹526.9 bn (USD 9.7 bn) in FY13. Europe accounted for 38% of exports followed by Asia at 25% and North America at 21%. Exports to Europe increased by 14.5% over the previous fiscal, while exports to Latin America and Asia registered a growth of 16.5% and 5.4% respectively. The key export items include engine parts, transmission parts, brake system & components, body parts, exhaust systems, turbochargers etc.

Indian auto component makers are well positioned to benefit from globalisation of the sector as exports potential could be increased by up to four times to USD 40 bn by 2020 from current USD 10.2 bn, according to a joint report published by ACMA and McKinsey -- Capturing the global opportunity. Indian suppliers are well positioned to benefit from these global trends and can significantly accelerate their international presence in the next few years.

Auto component export sales trend



India is emerging as a major production base for small cars and an export hub for Sports utility vehicles (SUV),

India is building a reputation in designing and manufacturing low cost cars. Additionally, Global automobile majors are looking to leverage India's cost-competitive manufacturing practices and are assessing opportunities to export SUVs to Europe, South Africa and Southeast Asia too.

The imperative for the Indian auto component industry' reveals that Indian suppliers still account for just 1% of overall global exports of USD 1,006 bn – indicating a significant upside opportunity for exports. The auto industry is a critical cog in the wheel of the Indian manufacturing sector. Further the government aims to develop India as a global manufacturing hub and expect that Indian auto component sector has huge export potential.

The auto component industry is also scaling up, as global car manufacturers are increasing their component sourcing from India, due to cost competencies. However, the competition is intense in the component sector as most global firms have entered the market.

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Make in India

The government recently launched **"Make in India"** campaign to make India a manufacturing hub. As the "Make in India" story unfolds, the road ahead for the automobile industry is fraught with both excitement and challenge. The Make in India story will, in all likelihood, be led by the automobile and auto component sector as it accounts for over ~30% of the entire manufacturing sector in India. In this context it is little wonder that large automotive companies like Volvo, VW, GM, Bosch, Magna are investing into the Indian automotive market with not only the view of a large market but as well as a global manufacturing hub.

Key Government Policy

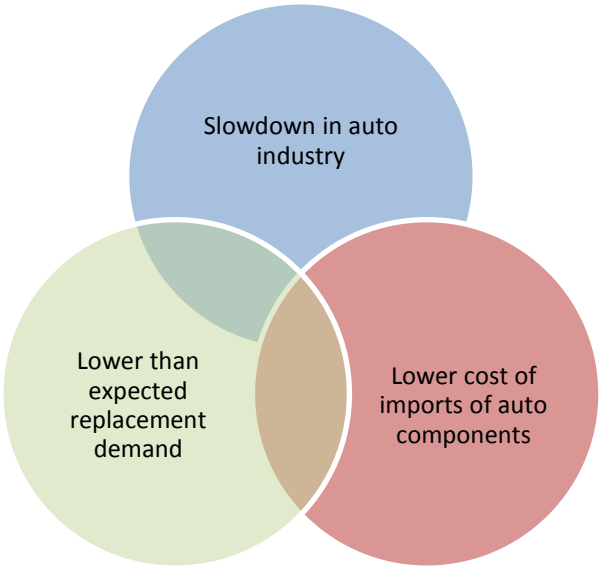
- **FDI and exemption from licensing**: In the auto component sector, 100% foreign equity investment is allowed via automatic route. Additionally, the manufacturing and imports in this sector are exempt from licensing and approvals.

- **R&D incentives for Industry**: Weighed deduction of 200% is granted to assess for any sums paid to a national laboratory, university or institute of technology, or specified people with a specific direction and that the said sum is used for scientific research within a program approved by the prescribed authority.

- **State Incentives**: Incentives are in areas like subsidized land cost, relaxation in stamp duty exemption on sale and lease of land, power tariff incentives, concessional rate of interest on loans, investment subsidies, tax incentives, backward areas subsidies and special incentive packages for mega projects.

Factors driving growth in the Indian auto component sector	
Establishing special auto parks and virtual SEZs for auto components	Reforms in Government Policy
Lower excise duty on specific parts of hybrid vehicles	
Low manufacturing and Labor cost accompanied by availability of manpower	Advantage in India
Large and growing domestic automobile market of India	
Competitive advantages facilitating emergence of outsourcing hub	
High export potential market	Others
Proven R&D capabilities	
High quality standards	

Key risks



Key risks

Customs duty on alloy steel, mild steel, aluminium alloy and secondary aluminium alloy

Aluminium alloy suppliers benchmark their prices based on the landed prices. This makes the inputs expensive for the domestic component manufacturers. However, due to various trade agreements, auto components are facing reduced customs tariffs in comparison to the basic raw materials needed for their manufacture; thus resulted in inverted tariff structure in some of the cases. Elimination of customs duty on the raw material will therefore set right the equation.

Shortage of power leads to increased production cost

Due to power shortages manufacturers have to resort to generating their own power though gen-sets, thus increasing the cost of production. ACMA has recommended that such manufacturers can avail input credit on diesel procured for internal power generation.

Financial performance of Indian auto component companies

Company	Year ended	Sales (₹bn)	EBITDA Margin (%)	NPM (%)	ROCE (%)	ROE (%)	EPS (₹)	BVPS (₹)
Bosch*	Dec'13	8,820.1	14.6	9.6	13.1	19.6	281.8	2,004.5
	Mar'15	12,085.5	16.4	11.1	25.1	18.2	21.43	2339.8
Motherson Sumi	Mar'14	30,427.9	7.9	2.5	25.9	25.9	8.7	33.6
	Mar'15	35,031.9	9.1	2.5	25.3	30.9	9.8	37.7
Bharat Forge	Mar'14	6,716.1	15.3	7.3	17.6	18.6	21.4	115.2
	Mar'15	7,624.8	18.9	9.8	21.1	22.1	32.7	147.9
Exide Industries	Mar'14	8,308.7	10.4	6.6	7.7	15.7	6.4	40.7
	Mar'15	9,568.5	10.1	6.4	7.5	16.0	7.2	45.2
Amara Raja Batteries*	Mar'14	3,451.8	16.7	10.5	35.9	27.0	21.5	79.8
	Mar'15	4,230.1	17.2	9.7	33.3	24.2	24.1	99.9
Apollo Tyres	Mar'14	12,785.2	15.3	7.8	32.7	22.0	19.9	99.0
	Mar'15	13,412.0	13.8	7.3	30.7	19.4	19.3	90.8

**Standalone numbers*

Outlook

In FY14, the turnover of the auto components sector declined ~2% to USD 35 bn. In FY15-16, we expect the sector to grow at a CAGR of 7-8% and is likely to meet a target (set by ACMA) of USD 150 bn of sales by 2020, with domestic market share of about 56% of the total sales. The Indian auto components industry is well poised to achieve robust growth in the coming years owing to rising domestic demand in the OEM market. Also, the decline in raw material cost, such as decrease in cost of rubber, will help in improving the operating margins and consequently aid in increasing the exports from the auto components sector in India. On the export front, Europe and the US will continue to be the largest markets, but growth will be faster in emerging geographies - the Association of Southeast Asian Nations, Latin America and North Africa.

Further, favorable government policies such as Auto Policy 2002, Automotive Mission Plan 2006-2016, National Automotive Testing and R&D Infrastructure Projects (NATRiPs) as well as concessions provided on excise duties in the Union Budget 2015-16, will help the Indian auto components industry achieve considerable growth. India is all set to become a global outsourcing hub with several foreign players such as Honda, Ford, etc., planning to invest in the country. This will significantly help the auto components sector to grow.

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Motherson Sumi Systems Ltd. (MSSL)

Investment Rationale

- **Opportunities abound -** MSSL currently derives ~75% of its consolidated revenues from India and Europe, however these two geographies account for just ~25% of the global 75 mn car market. The management's recent comments indicate that the next target geography for them is the US and China which would mean that the addition of these geographies will significantly increase the company's exposure to the global car market. Setting up of plants in Mexico/China for SMR and SMP and recent acquisition of the North American firm Stoneridge's wiring harness business are the initial foundations which would possible yield fruitful results in the coming quarters.

- **Stoneridges' wiring harness business provides synergy benefits** - MSSL's latest acquisition of the North American company Stoneridge's wiring harness business would enable it to have an access to the CV segment where it has a miniscule presence. The acquisition will help the company in further solidifying its footprint in the American market. With MSSL's capability of turning around acquisitions and expertise in wiring harness business, we see strong traction in revenues and profitability for the wiring harness division.

- **Inorganic route has been a critical part of MSSL growth strategy** - One of the key drivers for the 47.8% 10-year CAGR in consolidated revenues has been the sound acquisition strategy of the company. MSSL's strategy is to acquire assets with high growth potential with their existing customer contracts and relationships. Further, it improves and stabilizes its business through enhanced quality and delivery parameters and engineering support, coupled with its management know-how and experience.

Valuation

MSSL's performance remained healthy in Q4FY15 in terms of revenue as well as profitability. The company has recently acquired the wiring harness business of Stoneridge having a turnover of ~USD 300 mn and is in the process of acquiring Scherer & Trier. These are by far the largest acquisitions for the core business of wiring harnesses, which will provide the company market recognition in North America & Europe and are expected to provide further headroom to growth. Meanwhile, the management has indicated of improving its return on capital employed (ROCE) to 40% on consolidated basis by FY20.

Stock Data

Current Market Price (₹)	524
Target Price (₹)	**620**
Potential upside (%)	~18
Reuters Code	MOSS.NS
Bloomberg Code	MSS:IN

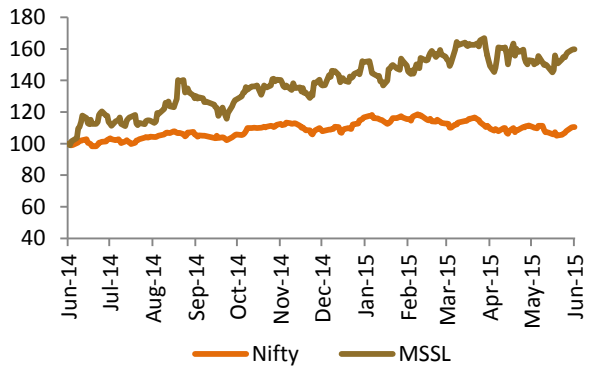
Key Data

Market Cap (₹bn)	462
52-Week Range (₹)	534.6/340
1-yr Avg. Daily Trading Value (₹mn)	1.4
Promoters (%)	65.6
FII Holding (%)	18.3
DII Holding (%)	5.2
Public & Others Holding (%)	10.9

Fiscal Year Ended

Y/E March*	FY14	FY15
EBITA Margin (%)	7.9	9.1
NPM (%)	2.5	2.5
EPS (₹)	8.7	9.8
Book Value per share (₹)	33.6	37.7
P/E (x)	60.2	53.5
P/BVPS (x)	15.6	13.9
EV/EBITDA	16.6	13.6
ROCE (%)	25.9	25.3
ROE (%)	25.9	30.9

One Year Relative Price Performance



*Consolidated numbers

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Exide Industries Ltd.

Investment Rationale

- Exide Industries has high exposure to the OEM segment, which has a very thin margin, and low exposure to the replacement market, which enjoys a high margin. A battery lasts for around three years in a car/auto and hence the replacement demand for cars/ autos sold in FY12-FY14 is expected to increase over the next two years, due to higher numbers of cars sold in FY10-12. Initial signs of demand recovery are visible in autos. In our view, a richer product mix oriented towards higher replacement market would build a strong case for Exide Industries' margin expansion in FY15-FY16E.

- Exide Industries has decided to increase manufacturing capacity at its existing plant by adding new capacity in the beginning of FY16 as the signs of revival in the automobile sector have begun to show up after the car makers reported improvement in sales over the past couple of months following subdued demand in the past two years. The company has planned a capex of ₹800 crore in FY16E vs. ₹306 crore in FY15. This is mainly towards expanding its capacity, in two wheelers from 22 million to 26 million, four wheelers from 12.2 million to 13.8 million and industrial segment from 2.8 billion ah to 3.2 billion ah. A part of the capex would also be used towards technological up-gradation. With expectations of an overall demand revival, the company's industrial segment volume growth is expected to be healthy.

- Commercial vehicle sales are expected to pick up supported by revival in Indian economy. This will have a positive impact on Exide Industries' average realizations as most commercial vehicles run on diesel engines and diesel vehicle batteries are sold at a premium as compared to the petrol variant batteries. Further an increase in dieselization of domestic passenger vehicle would also help the company in maintaining the realization growth. In addition, most of two wheelers (2W) are coming with electric start and use valve regulated lead acid (VRL) batteries, which have a shorter replacement cycle and thus, the company's volume of the two-wheeler segment is expected to grow at a better pace.

Valuation

We expect Exide Industries' revenue to grow at a CAGR of ~15% over FY14-17E, owing to improving demand outlook, initial signs of market share gains in replacement segment and consequent margin expansion on operating leverage. Exide Industries' improved performance in the last couple of quarters has been largely driven by the improvement in industrial battery segment, which is ~35% of the business. With volume recovery expected in 2015, the operating leverage benefits to help the company in maintaining its EBITDA margins in the 15-16% range in FY15-16E.

Stock Data

Current Market Price (₹)	152
Target Price (₹)	**182**
Potential upside (%)	~20
Reuters Code	EXID.NS
Bloomberg Code	EXID:IN

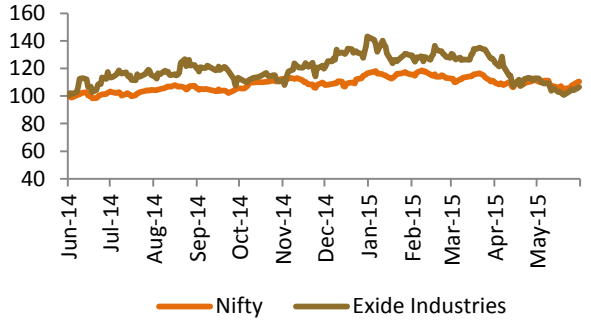
Key Data

Market Cap (₹bn)	129
52-Week Range (₹)	205.2/139.8
1-yr Avg. Daily Trading Value (₹mn)	1.1
Promoters (%)	46.0
FII Holding (%)	17.5
DII Holding (%)	16.0
Public & Others Holding (%)	20.5

Fiscal Year Ended

Y/E March*	FY14	FY15
EBITA Margin (%)	10.4	10.1
NPM (%)	6.6	6.4
EPS (₹)	6.4	7.2
Book Value per share (₹)	40.7	45.2
P/E (x)	23.8	21.1
P/BVPS (x)	3.7	3.4
EV/EBITDA	13.5	12.3
ROCE (%)	23.1	22.7
ROE (%)	15.7	16.0

One Year Relative Price Performance



*Consolidated numbers

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Bharat Forge Ltd. (BFL)

Investment Rationale

- Over the last ten years, BFL has transformed itself from a supplier of auto components to diversified engineering company. In order to reduce dependency on the auto sector, BFL continued to explore investing opportunity in creating new capacities for high margin non-automotive segment across globe for new business development. For the last three years, the industrial sector has been a major growth driver for BFL, fuelled by a strong product pipeline, new customer acquisition and new products supply for existing customers.
- As part of its diversification strategy, BFL has opened an advance manufacturing centre for railways at the Baramati plant in Q4FY15 for making railway and components. The new plant will develop critical and sophisticated components and products for the railway sector globally. Initially, the company will be supplying critical components like turbo chargers and locomotive crankshafts for the Indian Railways, marking the first Indian company to supply parts to the Indian Railways.
- The export market of the company fared well during FY15. The Americas market showcased extraordinary growth of ~90% YoY. The highest sales growth in this region came from the Class 8 truck production whose volumes grew by ~20%. During the last four months of FY15, orders from Class 8 trucks pushed the order backlog from normal levels of 100,000 units to 190,000 units. Even in Europe, despite increasing effects of the introduction of EURO VI emission on prices, the demand continued to favour the company. The export industrial business registered 83% growth reaching at ₹13,233 mn in FY15 led by surge in the business from the Energy segment due to increasing demand of oil &gas in the wake of declining prices coupled with the greater market attainment at the international level.

Valuation

With richer product mix and strong growth in export business, BFL expects to further enhance its revenue visibility in the coming years. We continue to remain positive on the stock on the back of improved domestic business performance. We believe that BFL is well placed to take advantage from recovery in domestic and global economy. Further, softening of crude oil prices and declining debt profile to keep its profitability firm in FY17E. Considering the robust growth from US CV market as well as business expansion in Industrial segment, we believe that the stock will continue to trade at higher valuations as compared to its peers.

Stock Data

Current Market Price (₹)	1,101
Target Price (₹)	**1,320**
Potential upside (%)	~20
Reuters Code	BFRG.NS
Bloomberg Code	BHFC:IN

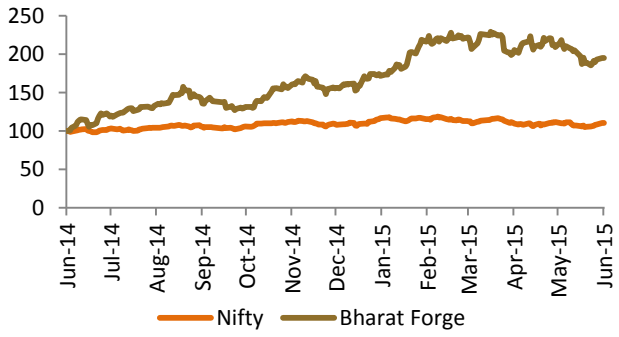
Key Data

Market Cap (₹bn)	256
52-Week Range (₹)	1,363/630
1-yr Avg. Daily Trading Value (₹mn)	4.8
Promoters (%)	46.7
FII Holding (%)	17.6
DII Holding (%)	14.0
Public & Others Holding (%)	21.6

Fiscal Year Ended

Y/E March*	FY14	FY15
EBITA Margin (%)	15.3	18.9
NPM (%)	7.3	9.8
EPS (₹)	21.4	32.7
Book Value per share (₹)	115.2	147.9
P/E (x)	51.4	33.7
P/BVPS (x)	9.6	7.4
EV/EBITDA	23.3	16.9
ROCE (%)	17.6	21.1
ROE (%)	18.6	22.1

One Year Relative Price Performance



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