Volume No. IX Issue No. 19 **August 3, 2018**

Kalyani Forge

Rs 348

On a strong wicket

BSE Sensex: 37,556 Nifty-50: 11,361

FINANCIALS: STANDALONE

	NET SALES	OPM (%)	OP	OTHER INCOME	PBIDT	INTEREST	PBDT	DEPRE.	PBT	PBT AFTER EO	TOTAL TAX	PAT	EPS*
1503(12)	242.08	6.30	15.16	0.78	15.94	5.82	10.12	13.1	-2.98	-2.98	-0.72	-2.26	-
1603(12)	230.93	6.60	15.33	2.83	18.16	4.45	13.71	11.67	2.04	2.04	0.94	1.1	3
1703(12)	226.84	6.50	14.68	4.66	19.34	3.73	15.61	10.41	5.2	5.2	1.72	3.48	9.6
1803(12)	258.55	8.30	21.5	6.98	28.48	6.34	22.14	12.95	9.19	9.19	2.63	6.56	18
1903(12P)&	294.75	8.90	26.23	6	32.23	7.1	25.13	14.25	10.89	10.89	3.48	7.4	20.3

*Annualised on Equity Share Capital Rs 3.64 crore; Face value Rs 10. & FY 2019 and FY 2020 financials are as per New Ind AS. (P):Projections. Figures in crore.
Source: Capitaline Database

A constituent of the Kalyani Group, Kalyani Forge Ltd - located in the automotive hub of Pune, is an engineering company with an expertise in metal forming and niche precision forging. The company is a trusted supplier of forged, machined and assembled products for a variety of customers in industries like automotive, construction, power generation, marine, railway, and industrial goods.

The forging capabilities include hot, warm and cold forging & in-house heat treatment as well as machining. Its products comprises of a wide range of engine parts, chassis systems, turbo charger parts, transmission parts, front and rear axle parts, steering parts and non-auto parts.

Financials are improving on expected line and will accelerate further

For the quarter ended Mar 18, Kalyani Forge registered 27% growth in net sales to Rs 69.24 crore. OPM stood at 10.9% resulting in a OP of Rs 7.57 crore as compared to loss of Rs 1.09 crore. Other income was down by 2% to Rs 2.98 crore. Interest cost was higher by 215% to Rs 1.64 crore and depreciation was up by 40% at Rs 3.58 crore.

PBT stood at Rs 5.33 crore as compared to loss at PBT level of Rs 1.11 crore. After providing total tax of Rs 1.32 crore, PAT for Mar 18 quarter stood at Rs 4.01 crore as compared to loss of Rs 0.77 crore for Mar 17 quarter.

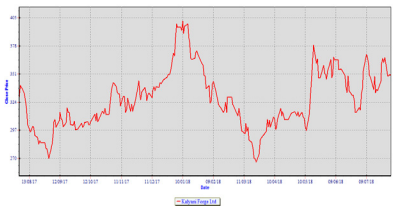
For the 12 months ended Mar 18, net sales stood at Rs 258.55 crore up by 14% YoY. OPM stood at 8.3% up by 180 bps resulting in a 46% increase in OP to Rs 21.50 crore. Other income was higher by 50% to Rs 6.98 crore. Interest cost is higher by 70% to Rs 6.34 crore. Depreciation was higher by 24% to Rs 12.95 crore. PBT thus was higher by 77% to Rs 9.19 crore. Total tax stood at Rs 2.63 crore up by 53%. PAT for 12 months ended Mar 18 stood at Rs 6.56 crore up by 89% YoY.

Management is bullish about the future

The management of the company is expecting a 50% growth given the business opportunities and order book of the company.

Company's outlook has been revised from stable to Positive by Crisil.

The company has successfully approached its customers for cost reimbursements, cost escalations and price revision for future supplies.



STOCK DATA

SE Code	:	513509
BSE Group	:	T
NSE Code	:	KALYANIFRG
Bloomberg	:	KF IN
Reuters	:	KALF.BO
Par Value	:	Rs 10
52-week High/Low	:	Rs 410 / Rs 260
Sector	:	Castings, Forgings & Fastners

SHAREHOLDING PATTERN*

Category		% of equity
Foreign	:	0
Institutions	:	0
Govt Holding	:	0
Corporate Holding	:	0
Promoters	:	58.61
Public & Others	:	41.39
Total:	:	100

* as on 31/06/2018
Source: Capitaline Databases

Has strategically repositioned itself

The company has undergone a strategic repositioning to meet the needs of discerning clients. The company has been able to receive orders from many MNC companies in automobile space. Most of these orders are for machining products which have high value engineering and are having higher margins.

The company sees enormous potential in regaining the market share in Tier 1 businesses which supply directly to OEMs, particularly in fully finished, ready to assemble components.

Company aims to further gain new clients in growing passenger vehicle space not only for engine components but also in transmission, chassis and driveline components and aggregates.

The company also is trying for orders from various new and untapped markets in North America, Europe and East Asia which can lead to new customers in addition to new customers that the company has won in FY 18.

The strategic shift towards high value added and high margin products

Kalyani forge traditionally concentrated only on the raw and hot forged components, which are low margin products. This business was a sticky business with high receivables. However, since past couple of years, with the new management on board, the shift has been made towards high value products and components.

The company has been taking orders of only machined components unlike earlier, where it used to do raw forging. There has been a strategic shift in terms of company doing its business.

There was a steady increase in sales of machined components, engine components; drivers, Rocker Levers, Crank Shaft, Stub Axles, Front Suspension Arm etc in FY 18, which will drive further business and better margins and profitability of the company.

Sales of raw forged components are reducing and high value added products are increasing. Over the past years, the company has also cleaned up its balance sheet.

All these efforts have resulted in strong base creation for the company for higher future growth.

Diversified client base

Of the total sales of the company, auto industry would be accounting for around 70% and rest would be non-auto segment sales.

Within auto space, the company supplies majorly to CV players i.e. M&HCV and to small extent to Tata Ace which is into LCV segment. Within CV space, Ashok Leyland, Tatas, Volvo, Daimler Chrysler are major customers.

Next comes passenger car segment and key customers are Honda, Maruti and others. The company also supplies to Honda and Hero in 2 wheeler space.

Both the Passenger car industry and M&HCV and HCV industry are showing strong volume growth and are expected to continue to do well going forward.

Domestically, the Auto, non-Auto sale ratio of the company has been about 70:30 over the years. The company's focus is also on non automotive business be it power, construction including the growing trends in industrial, marine, aerospace, heavy engineering, infrastructure and railways. Going forward, the ratio of Auto to Non-auto, will shift to 60:40 in the coming years, while all the sectors will continue to grow in absolute terms. Internationally, more than 50% of the export business is to non-automotive sectors.

Kalyani Forge's new customers, higher sales of value added machined components and buoyant demand will help the company to forge ahead

The management of the company is expecting a 50% growth given the business opportunities and order book of the company

Within non auto space, Cummins Global, Kirloskar Oil Engines, JCB are some of the major customers. The company is qualified for supplies to all major OE but its constantly shifting to higher value added products. The company is in talks with many such non-auto majors and expects to increase its non-auto share going forward. The 'make in India' policy of some of the large MNC companies, to which the company caters to globally, will also result in higher sales for the company. The company's order book is becoming healthy both qualitative and quantitative wise.

Exports to pick up

Exports constitute around 20% of total sales for FY 18, if one considers deemed exports.

The company's focus is to get more export orders from same customer for same products and for new products and to acquire new businesses from new customers, who earlier used to buy from some other vendors.

The company was able to consistently acquire new customers in international markets such as Germany, Italy and in Asian markets. The execution of orders for these contracts has been completed in FY 18 and the company has received repeat orders from these customers. These are auto OEM major companies and are looking for a dedicated vendor base in India. Every year the size of the orders and the value to be executed will increase.

Thus, exports will gradually increase and will help in overall growth of the company.

Expanding capacities for high margin products

The company is slowly adding press lines and machining lines for the production of higher value added products. It did capex of about Rs 15 crore in FY 17 and Rs 20 crore in FY 18 for setting up new machining lines for value added products. These lines were for the new orders received in FY 18.

With increasing size of orders of value added products, there will be more such capex in FY 19

Is different from Bharat Forge

Although both Bharat Forge and Kalyani Forge are part of Kalyani group, there was a strategic intent of the founder Dr. Neelkanth Kalyani, to keep both the companies different.

While Bharat Forge focuses on larger and voluminous forging and crankshafts both for automotive and non automotive business, Kalyani Forge is more into smaller, unique and customized forging and pressed and assembled components. Both the companies fundamentally excel in different range of offerings. The company does not sell to any group company of the Kalyani group currently.

Kalyani Forge has been conservative on investments so far, but the company is a lot more bullish now about growth in the coming years. There is a huge and growing market for forged and machined components particularly suited to the company's areas of expertise. The company is also open for inorganic growth.

Valuation

Book value of the company as on March 18 stood at Rs 294 per share.

For FY 19, we expect the company to register net sales of Rs 294.75 crore and PAT of Rs 7.40 crore. This gives an EPS of Rs 20.3. The current market price of Rs 348 discounts this FY19 projected EPS 17.1 times.

A steady increase in sales of machined components, engine components; drivers, Rocker Levers, Crank Shaft, Stub Axles, Front Suspension Arm etc in FY 18, which will drive further business and better margins and profitability of the company

The company was able to consistently acquire new customers in international markets such as Germany, Italy and in Asian markets. The execution of orders for these contracts has been completed in FY 18 and the company has received repeat orders from these customers

KALYANI FORGE : STANDALONE RESULTS

	1803(03)&	1703(03)&	VAR. (%)	1803(12)	1703(12)	VAR (%)
Net Sales	69.24	54.69	27	258.55	226.84	14
OPM (%)	10.9%	-2.0%		8.3%	6.5%	
Operating Profits	7.57	-1.09	LP	21.50	14.68	46
Other Income	2.98	3.05	-2	6.98	4.66	50
PBDIT	10.55	1.96	438	28.48	19.34	47
Interest	1.64	0.52	215	6.34	3.73	70
PBDT	8.91	1.44	519	22.14	15.61	42
Depreciation	3.58	2.55	40	12.95	10.41	24
PBT before EO	5.33	-1.11	LP	9.19	5.20	77
EO	0.00	0.00	0	0.00	0.00	0
PBT after EO	5.33	-1.11	LP	9.19	5.20	77
Tax Expense	1.32	-0.34	PL	2.63	1.72	53
PAT	4.01	-0.77	LP	6.56	3.48	89
EPS* (Rs.)	#	#		18.0	9.6	

*Annualised on Equity Share Capital Rs 3.64 crore. Face value Rs 10. & Quarterly results and full year results are as per New Accounting Standard. # EPS not annualised due to seasonality of business. EO: Extraordinary items. EPS is calculated after excluding EO and relevant tax. PL: Profit to Loss. LP: Loss to Profit. Figures in crore.
Source: Capitaline Database