



## MORNING FARSIGHT

Friday, August 10, 2018

**BHARAT GEARS**

**CMP:RS 180**

**TRGT:RS 220**

**TIME HORIZON: 1 YEAR**

Bharat Gears, manufacturing various types of gears (hypoid and spiral gears, differential gears and shafts, complete automotive transmissions, gear box sub-assemblies and differential assemblies etc) mainly for tractors, commercial vehicles, buses, and utility vehicles across its 3 manufacturing facilities, has posted good Q1FY19 earnings for second consecutive quarters and now is seen a strong turnaround candidate at an inflection point. For Q1FY19, company's income has risen to Rs 146 cr from Rs 107 cr YoY, a growth of 36% YoY. EBITDA has risen to Rs 15 cr from Rs 6.5 cr YoY, a multi fold rise of over 2.3x with healthy EBITDA margin of 10.3%. PAT is placed at Rs 3.4 cr against loss of Rs (1.1) cr YoY, leading to an EPS of Rs 4.19 for Q1FY19, which was at Rs 7.93 for FY18 and negative Rs (1.87) in FY17. Going ahead, agriculture, construction equipment and CV sales are expected to witness robust growth in sales and recently, Ashok Leyland has raised its volume growth guidance to 15% from 10% earlier guided for FY19 and expects more than 30% growth in FY20 (largely due to pre buying ahead of BS6 norms). Further, M&M has also increased outlook for FY19 industry volume growth to 12-14% from 8- 10%, which are signs of beautiful times to come for everything and anything catering to CV / Tractor, be it auto ancillary or financing. Further, Bharat Gears, despite operating on low scale, is well established player in the Indian tractor gear market and has esteemed clientele of Ashok Leyland, SML Isuzu, M&M, Escorts, Rico Auto, TAFE, New Holland Fiat India, Carraro India etc. In its annual report for FY18, management has stated that company was facing a capacity constraint on the back of sudden spurt in CV / Tractor demand and has been taking various innovative capacity enhancement initiatives. At Mumbra Plant, the company has increased capacity by 10% by reducing cycle times on CGC, modifying fixtures to improve loading per charge on batch furnaces and by reducing bum outs between change over times for some components, after due process validation. Company likely to end FY19 with an income of over Rs 600 cr, is available at M Cap of Rs 145 cr and EV of Rs 270 cr, leading to EV/Sales of just 0.45. Also, on an estimated EBITDA of Rs 65 cr and EPS of Rs 15 for FY19, stock is trading at an EV/EBITDA of 4.1x and PE 12x. Share ruling at Rs 180 can move to Rs 220 in 1 year timeframe.

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Disclosure of interest statement – • Analyst interest of the stock /Instrument(s): - No. • Firm interest of the stock / Instrument (s): - No.