



BHARAT FORGE

Bharat Forge Limited

Q1 FY08 Earnings Update

24th July 2007

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Financial Highlights Q1

Combined financial statement

The combined financial statement for the Q1 FY 2008 for Bharat Forge & its Wholly Owned Global Subsidiaries is as follows:

Table 1 **Rs. Million**

Particulars	Q1 FY 2008	Q1 FY 2007	Growth %
Revenue Within India	2,732	2,505	9.1
Global Revenue	7,882	7,373	6.9
Other Income	539	237	
Total Revenue	11,153	10,115	10.3
EBIDTA	2,005	1,828	9.7
EBIDTA %	18.0	18.1	
Profit Before Taxation but after exceptional item (Q1 FY 2007)	1,214	1,119	8.5
Profit after Taxation	804	736	9.3

The combined results of the quarter are significantly influenced by four key factors:

1. Movement of major foreign currencies against Indian Rupee.
2. Lower off-take in the Indian market, especially in LCV and M& HCV segment on a sequential basis and a much lower growth rate on a YOY basis.
3. Impact of US Commercial Vehicle slowdown.
4. Significantly higher impact of interest & depreciation due to recently completed capital expenditure and rising interest rates for Rupee denominated borrowings.

BFL has consciously worked towards creating a significant resilience to counter various macro-economic situations that may arise from time to time. Even during the Q1 we have seen many of these steps giving a favorable impact on the revenue and profitability of the company.

Each of these above factors and the mitigating effect are discussed in detail in the subsequent sections of the report.

These have helped the company maintain the EBIDTA, PBT and PAT at the levels similar to those of the corresponding quarter previous year.

Bharat Forge Stand alone Financials

Table 2
Rs. Million

Particulars	Q1 FY 2008	Q1 FY 2007	Growth %
Domestic Revenue	2,732	2,505	9.1
Export Revenue	2,237	1,701	31.5
Other Income	533	232	
Total Revenue	5,502	4,438	24.0
EBIDTA	1,546	1,250	23.7
EBIDTA %	28.1	28.2	
Profit Before Taxation but after extra ordinary items (Q1 FY 07)	983	778	26.3
PBT %	17.9	17.5	
Profit after Taxation & extra ordinary items	648	515	25.8

Revenue

- Domestic revenues have grown keeping its traction intact across the entire cross section of the Indian automotive industry.
- Exports have shown a substantial improvement of 31.5% despite US truck industry slowdown as well as the negative impact of foreign currency movement. The key growth drivers are as follows:
 - Serial production of several medium and heavy-duty programs in Europe.
 - Significant growth in the US passenger car engine component and non- automotive business.
 - Initial re -commencement of business with Chinese OEM.
- If the exports are adjusted for the currency movement, the growth works out to 42.5%. This manifests the strong traction with the global customers and an equally strong order position the company continues to enjoy.

Impact of Foreign Currency

The Q1 saw a significant appreciation in the value of Indian Rupee against major currencies of USD, Euro and GBP. Following table will bring out the impact of the movement vis-à-vis corresponding quarter as well as on a sequential basis.

Table 3

Currency	Average Q1 FY 08	Average Q1 FY 07	Average Q4 FY 07	Change over Q1 FY 07 %	Change over Q4 FY 07 %
US Dollar	40.85	45.25	44.54	(10.0)	(8.3)
Euro	56.34	58.22	58.74	(3.2)	(4.1)
GBP	83.28	84.27	87.04	(1.2)	(4.3)

This severe and rapid change in the values of the major currencies of exports had a negative impact of about Rs. 187 million on the export earnings of the company. The company has been successfully implementing the “Natural Hedge” policy and had dollarized its loan profile to gain benefit from such currency movement.

During the quarter, this strategy paid off and the company accounted for a one time gain on its loan portfolio (net of overseas deposits) of Rs. 333 Million.

BFL is planning to address the issue and the negative impact of the currency movement through a combination of the following key initiatives:

- Significant focus on internal cost reduction and efficiency improvement measures.
- Renegotiation with various vendors for reduction in the US Dollar based costs.
- Seeking renegotiation of cost and price pass through with the customers.

EBIDTA Margin

The above measures, which are nothing but the manifestation of the success of BFL’s global strategy encompassing following key principles:

- De-risking the business model.
- Structural hedge for the foreign currency exposure.
- Entry into high value / high value added segments including non-automotive applications in the global market.

Finance Costs

Table 4 **Rs. Million**

Particulars	Q1 FY 2008	Q1 FY 2007
Total Revenue	5,502	4,438
Interest as % to Total Revenue	4.25%	3.97%
Depreciation as % to Total Revenue	5.98%	5.16%
Total Finance Cost	10.23%	9.13%

The increase in the interest cost is primarily on account of three major factors.

- Impact of the higher interest Rates prevailing in India.
- Increased working capital requirement to support higher level of activity.

BFL has completed its automotive capacity expansion program with a total capital outlay of close to Rs. 7 billion in Q4 07. BFL is now geared up to

execute the large global orders as well as address the rapidly growing Indian market. However, Q1 witnessed a significantly lower off-take in the domestic market, both sequentially as well as on a YOY basis. This has led to higher percentage charge of fixed costs such as depreciation, thereby leading to a higher finance cost.

Profit before Taxation (PBT)

Company has achieved a healthy PBT margin of 18% despite two major factors:

- Significant impact on exports due to currency fluctuation
- Significantly lower growth rate in sales in the domestic markets on YOY basis. On a sequential basis, the sales have actually dropped due to reduced off-take across the entire spectrum of automotive industry in India.

This was possible through a combination of:

- Substantial improvements in Export Earnings.
- Benefit of structural foreign exchange hedge policy implemented by the company which resulted in a gain on loan revalorization of Rs. 333 million.

Key point in the PBT performance

- The company's PBT could have been significantly better but for the sudden and rapid drop in the off take in the domestic market. This drop was mainly in the high value business and led to lower capacity utilization during the quarter.
- Company had been witnessing the slowdown in the US heavy truck market on account of significant pre - buy in 2006 ahead of change in the emission norms.
- Although, the de-risked US business helped the company maintain the overall US revenue and improve the same marginally, the slowdown in India kept the revenue and capacity utilization at a relatively low level.
- This impacted the overall fixed cost structure and the same is reflected in the PBT performance of Q1.

Review of Business

Following table will summarize the geographical distribution of the company's revenue streams in Q1 of FY 08 against that in the corresponding previous periods.

Table 5 **Rs. Million**

Particulars	Q1 FY 08	Q1 FY 07	Q4 FY 07	Y o Y %	Q o Q %
India*	2,732	2,505	3,154	9.1	(13.3)
USA	1,223	1,173	1,221	4.3	0.2
Europe	933	469	725	98.9	28.7
Asia Pacific	81	59	61	37.3	32.8
Total	4,969	4,206	5,161	18.1	(3.7)

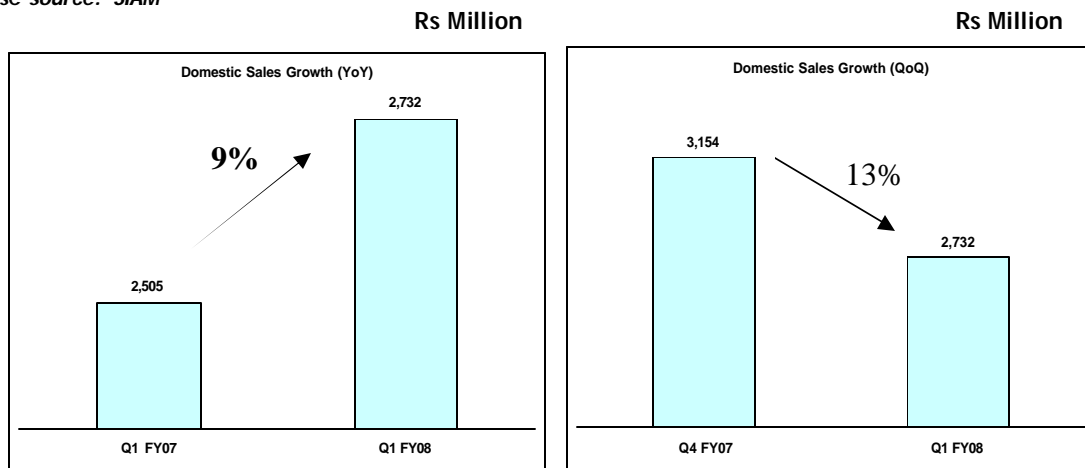
* Excluding Other Income

Indian Market & business opportunities

Table 6 **No.**

Particulars	Q1 FY08	Q1 FY07	Q4 FY07	YoY %	QoQ %
Passenger Cars	405,847	358,350	449,342	13.3	(9.7)
Medium & Heavy CV	62,766	62,726	84,771	0.1	(26.0)
LCV incl Ace	54,661	47,432	65,524	15.2	(16.6)
Total Auto Market	523,274	468,508	599,637	11.7	(12.7)
Total CV Market (M&HCV + LCV)	117,427	110,158	150,295	6.6	(22.0)

Base source: SIAM



The company has continued to engage in a strategic manner with all the key players in the industry with the domestic revenue moving in line with the market movement.

Global Markets

USA

Table 7
Rs. Million

Particulars	Q1 FY08	%	Q1 FY07	%	Growth
Heavy Truck Chassis comp	511	42	710	61	(28.0) %
Heavy Duty Crankshafts (HDEP)	216	18	204	17	5.9 %
Passenger Car Crankshafts	260	21	61	5	Over 4 times
Non automotive	236	19	198	17	19.2%
Total	1,223		1,173		4.3%

Table 8
No.

Particulars	Apr-Jun 07	Apr-Jun 06	YoY %
Passenger Cars	1,015,054	1,147,492	(12)%
Medium & Heavy CV	87,182	120,954	(28)%
LCV	1,837,400	1,782,617	3%
Total Auto Market	2,939,626	3,051,063	(4)%

Base source: Wards Auto

As can be noticed from the above table, US heavy truck production dropped by 28% over the corresponding quarter previous year. This has affected BFL's traditional heavy truck chassis component business in the US by a similar proportion. Despite this anticipated drop in sales of CV chassis components, the overall sales have registered a growth of 4.3%. The growth is even more impressive at 15.8% if adjusted for currency fluctuation.

This underlines the strong position the company enjoys in the US market across several segments ranging from passenger car segment to non-automotive applications and the success of the company's de-risking strategy.

Europe

Table 9
Rs. Million

Particulars	Q1 FY08	%	Q1 FY07	%	Growth
Commercial Vehicle Chassis	260	28	103	22	152.4 %
Heavy Duty Crankshafts (HDEP)	371	40	149	32	149.0 %
Passenger Car Crankshafts	131	14	138	29	(5.1)%
Non automotive	171	18	79	17	116.5%
Total	933		469		98.9%

Europe has always been the key player in the BFL's global strategy through strong engagement with the customers, large and state of the art manufacturing capacity within Europe and front line design & engineering capability.

In Q1 FY 08 BFL's revenue from European market has almost doubled compared to the same quarter previous year. This has been achieved on the back of:

- Commencement of Serial production for two medium & heavy-duty engine components programs.
- Growth in non-automotive sales for applications such as Agri equipment, Oil & Gas segments.

China

Table 10

No.

Particulars	Apr-Jun 07	Apr-Jun 06	Y o Y %
Passenger Cars	1,570,885	1,322,408	19%
Commercial Vehicles	690,646	518,471	33%
Total Auto Market	2,261,531	1,840,879	23%

Base source: CAAM

In the Earnings update of Q4 FY 2007, BFL had informed that the China market is witnessing strong growth and the inventory build up is getting progressively corrected. In the quarter April - June 2007, the CV market grew by 33% on a YOY basis and 14% on a sequential basis.

BFL has begun to see revival of China business and has made initial supplies to one of the customers. This situation is expected to improve further as the inventory correction gets completed. BFL is now planning a process to assign new capacities for these components as the capacities initially created for the China business were allotted for new European medium and heavy-duty truck business. This process is expected to take between 9-12 months.

Business Outlook

India

In Q1 the Indian automotive market showed a negative growth over the immediately preceding quarter, primarily as a reaction to the rise in lending rates. The macro economic indicators in India are still strong and economy is still growing well. All the fundamental reasons, which, in the medium term augur well for the growth in the automotive sector, are still valid. These include:

- Overloading restrictions
- Infrastructure investment
- Progressive adoption of stricter emission norms
- Over all growth in the economy.

These lead the company to believe that the Indian market will revive, sooner than later. BFL is ready for this revival, both with fully integrated capacity as well as strong relationships with the customers.

USA

US market has also shown a drop in sales of commercial vehicles on a YOY basis. The key reason for the drop in off-take in the US market is the change in the emission norms. Based on the current indications, the market is expected to recover in early 2008.

USA continues to be a significant market for BFL not only for the traditional business but also for the new non automotive foray in several sectors such as transportation, aerospace and Oil & Gas.

This anticipated revival in the automotive industry will augur well for BFL's long-term growth prospects in the US market.

Europe

European market is amongst the largest and the most stable automotive market. At the same time, it is extremely competitive and demanding in terms of quality and technology capabilities.

BFL has a strategically positioned itself in this market through a three-pronged approach:

1. A strong relationship with marquee global customers not only for the present products.
2. Development partnership with major OEM customers, through the frontline design and engineering capability
3. Large, technologically advanced and diverse manufacturing footprint in Europe.

BFL is extremely well positioned to take the benefit of this competitive position in the times to come.

Non Automotive Business

BFL recently commenced the installation of its non-automotive manufacturing facility at Pune and Baramati.

The focus of the non-automotive business foray is two fold:

1. De-risking the revenue stream at the highest level
2. Significantly enhance the addressable market, both in terms of revenue as well as diverse nature of applications.

The installation of the capacity is progressing as per schedule and BFL expects to commence commercial production between March to September 2008 in a phased manner.

This includes the commissioning of closed die forging hammer at Baramati, Large open forge Press line at Pune and the machining capacity for the components manufactured.

The non automotive business will not only enable BFL to address a wide spectrum of end applications but also enhance its capability to manufacture a diverse range of highly critical, high value and high value added components.

BFL has received tremendous response from major global capital goods manufacturers across sectors such as energy, power generation, oil & gas, aerospace, rail and marine transportation and various other growing industrial sectors. We anticipate tying up new business in a variety of these industries such that we build a significant order pipeline by the time the new non automotive manufacturing facilities are productionized.

Conclusion

- Q1 FY 2008 was a tough quarter, both due to rapid appreciation in the value of Indian Rupee as well as significantly low off take in the Indian automotive market.
- Indian interest rates traded at higher levels compared to the previous quarters.
- BFL, however, has successfully countered many of these issues through various de-risking measures taken over past few years.
- BFL is placing significant focus on several internal measures aimed at achieving reduction in costs and improvement in operating efficiency. This would include major focus on productivity improvement, control over fixed costs and enhancement in equipment capability.
- BFL is focusing on significantly improving its product mix in favor of high value added products, there by giving a positive impetus to the revenue and margins.
- Early signs of recommencement of demand from China will also augur well for further business growth in the quarters to come.
- The demand drivers in the short term are more localized reasons such as sudden increase in the Interest rates in India and change in the emission norms in the USA. The macro economic factors in both India and USA continue to be strong. US truck market is expected from early 2008.
- The non-automotive business is showing good growth in the US market leading both to high value added business as well as further de-risking of the overall business.
- BFL has, over the years taken several steps to achieve long term global competitiveness, encompassing:
 - World scale capacities
 - State of the Art technology capabilities
 - Global manufacturing footprint
 - Customer relationships with worlds best automotive companies
 - Global design and engineering capability
 - World class HR practices giving a major focus on learning, training and development.

BFL will draw upon these to rally around these tough challenges and emerge as an even stronger player in the global automotive component business.