



BHARAT FORGE

Bharat Forge Limited

Q1 FY09 Earnings Update

31st July 2008

Financial Highlights Q1

Combined financial statement

The combined financial statement for the Q1 FY 2009 for Bharat Forge & its Wholly Owned Global Subsidiaries is as follows:

Particulars	Rs. Million		
	Q1 FY 2009	Q1 FY 2008	Growth %
Revenue Within India	3,399	2,732	24.4
Global Revenue	9,714	7,882	23.2
Other Income	125	206	
Total Revenue	13,238	10,820	22.3
EBIDTA	2,171	1,672	29.8
EBIDTA %	16.4	15.5	
PBT before Exchange gain / (Loss)	1,316	881	49.4
Exchange gain/(Loss)	(693)	333	
Profit Before Taxation but after exceptional item	623	1,214	(48.7)
Profit after Taxation	409	804	(49.1)

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

1. Significant drop in production across all segments in US automotive industry as an after effect of the sub prime crisis. This has affected exports from India into USA & also the operation of BF America.
2. Unprecedented increase in raw material prices - highest historically
3. Depreciation of Indian rupee against all major currencies.
4. Overall sluggishness in the Indian economy.

Although the demand from major geographies continued to be sluggish, BFL could come out with a stable performance with top line growing by 22.3%. This was also aided to some extent by the rupee's depreciation against major currencies.

Among the subsidiaries, BFA had a very difficult quarter due to a prolonged shutdown at one of its key customer facilities and also due to the severe slow down in the US economy. All the other subsidiaries have posted steady growth on a YoY basis.

Bharat Forge Stand alone Financials

Table 2

Rs. Million

Particulars	Q1 FY 2009	Q1 FY 2008	Growth %
Domestic Revenue	3,399	2,732	24.4
Export Revenue	2,975	2,237	33.0
Total Revenue	6,374	4,969	28.3
EBIDTA w/o other income & Exchange loss	1,560	1,013	54.0
EBIDTA %	24.5	20.4	
Other Income	121	200	
PBT w/o exchange gain / (loss)	1,108	650	70.5
PBT %	17.4	13.1	
Exchange Gain / (Loss)	(693)	333	
PBT after Exchange Gain / (Loss)	415	983	(57.8)
Profit After Tax	266	648	(59.0)

Revenue

- Domestic revenues have grown by 24.4%, better than underlying market growth.
- Exports have grown substantially by 33% despite continued slowdown in both US & European automotive industry. The foreign currency movement against the rupee during the quarter favorably supported the export growth.
- Deepening penetration with customers in US & Europe across Automotive & Non automotive segments.
- If the exports are adjusted for the currency movement, the growth works out to 25.6%.

Impact of Foreign Currency

The Quarter saw a significant depreciation in the value of Indian Rupee against major currencies, which was an exact reversal of the situation in Q1 FY08. Following table will bring out the impact of the movement vis-à-vis corresponding quarter as well as on a sequential basis.

Table 3 Rupee Exchange Parity

Currency	As at Q1 FY 09	As at Q1 FY 08	As at Q4 FY 08	Change over Q1 FY 08 %	Change over Q4 FY 08 %
US Dollar	42.91	40.72	39.81	5.4	7.8
Euro	67.26	54.90	62.77	22.5	7.2

BFL has a policy of managing its currency risk through natural hedge offered by foreign currency loans, simple forward covers & packing credit in foreign currency against export receivables.

This quarter, BFL has been affected by the rupee depreciation on revaluation of the above instruments. The table below explains the forex loss incurred by the company during the quarter.

Table 4: Forex loss of Revalorization

Particulars	Rs Million	
	Q1 FY09	Q1 FY08
Gain/(Loss) on Revalorization of FCCB	(568.5)	506.2
Gain/ (Loss) on Revalorization of Other loans	(124.9)	(172.9)
Total Gain/(Loss) on Revalorization	(693.4)	333.3

As can be seen from the above table, the company has recognized a forex loss of Rs 693 million on revaluation of loans consequent to the depreciation of the rupee. The loss incurred on the loans is notional in nature and does not have any effect on the cash flow. The rapid depreciation of the rupee in the said quarter has resulted in a substantial loss on revaluation of foreign currency liabilities. However, the rupee depreciation will benefit exports over a longer time frame during the current year.

Forward Contracts

The Company has not entered into any derivatives / options / swaps / range bound structures to hedge currency risk.

The Company has taken simple forward covers against export receivables. In order to recognize the impact of fluctuation in foreign currency rates arising out of instruments acquired to hedge highly probable transaction, in appropriate accounting periods, the company has from this year decided to apply the principles of recognition set out in the International Accounting standards as suggested by ICAI, which are also reflected in the Accounting Standard-30- Financial Instruments- Recognition and Measurement.

As a result, the impact of unrealized loss (net) consequent to foreign currency fluctuation in respect of effective hedging instruments, to hedge future exports, aggregating Rs. 255.5 million is carried as a Hedging Reserve to be ultimately settled when the underlying transaction arises, in the profit and loss account as against the practice of recognizing the same in the profit and loss account, on valuation at the end of each period.

Impact of Raw Material prices

This quarter saw an unprecedented increase in raw material prices of about 25 - 30% which the company has been able to pass on to its customers. However, the higher denominator tends to deflate the EBITDA optically in % terms.

Geographical break up of Revenues

Following table will summarize the geographical distribution of the company's revenue streams in Q1 of FY 09 against that in the corresponding previous periods.

Table: 5 Break up of Revenues **Rs. Million**

Particulars	Q1 FY 09	Q1 FY 08	Y o Y %
India	3,399	2,732	24.4
USA	1,393	1,223	13.9
Europe	1,388	934	48.6
Others	194	80	142.5
Total	6,374	4,969	28.3

Review of Business

India

Table: 6 Indian Auto production **No.**

Particulars	Q1 FY09	Q1 FY08	Q4 FY08	YoY %	QoQ%
LCV	57,927	54,667	69,747	6.0	(16.9)
Medium & Heavy CV	70,619	36,164	87,865	11.8	(19.6)
Total CV Market (M&HCV +LCV)	128,546	117,831	157,612	9.1	(18.4)
Passenger Cars	457,384	406,453	503,632	12.5	(9.2)
Total Auto Market	585,930	524,284	661,244	11.8	(11.4)

Source: SIAM

The Indian automotive industry has witnessed a drop in activity & demand due to difficult economic conditions coupled with high oil prices & hardening of interest rates. This has resulted in a drop in production across all the segments. The Commercial Vehicle segment dropped by 18.4% on a sequential basis.

However, the company continued to grow its domestic business as a result of increased penetration with all major automotive OEM's.

Outlook

The Indian automotive production has dropped by more than 10% over the immediately preceding quarter, primarily as a result of low demand & lack of credit availability. Going forward, we expect the market conditions to be more challenging in the back drop of rising inflation, high crude oil prices, and hardening of interest rates.

USA

Table: 7 US Auto Production Data **No.**

Particulars	Apr-Jun 08	Apr-Jun 07	YoY %
Passenger Cars	961,855	1,081,862	(5.6)%
Medium & Heavy CV	66,422	72,181	(8.0)%
LCV	1,354,813	1,837,777	(26.3)%
Total Auto Market	2,383,090	2,928,820	(18.6)%

Base source: Wards Auto

The US automotive market continues to be fundamentally weak with production faltering on the back of weak economic conditions, record high gas prices & contracting consumer demand. However, irrespective of the market conditions, BFL has been able maintain its exports in to the region.

Outlook

The US Automotive industry continues to be caught in a downward spiral. Analysts do not expect a revival in the near future with key indicators still not showing any reversal of trend.

US being a key market for BFL will definitely affect us, but like in the previous quarters, our diversified product, industry and customer portfolio should help us face these tough market conditions.

Europe

Table: 8 Europe Sales Data **No.**

Particulars	Apr-Jun 08	Apr-Jun 07	YoY %
Passenger Cars	4,190,295	4,289,892	(2.3)%
Medium & Heavy CV	230,742	224,647	(2.7)%
LCV	574,808	592,504	(3.0)%
Total Auto Market	4,995,845	5,107,043	(2.2)%

Base source: Wards Auto

The European Automotive industry recorded a negative growth of 2.2% in the quarter on a YoY basis. BFL's exports into Europe have continued to grow steadily in Q1 FY09.

Europe has grown to become a large market for BFL. Europe contributed the bulk of the growth in exports in FY08. This was driven by acquisition of new customers and products. European market displayed steady growth over the past 2-3 years. But in the current quarter the market has de-grown by 2.2% on a YoY basis due to factors like weakness in global markets, increase in raw material and crude oil prices, among others.

Non Automotive Business

The installation of the non-auto facilities at Baramati and Mundhwa are nearing completion and will come on line very soon. This includes the commissioning of a closed die forging hammer at Baramati, a large open forge Press line at Pune and the machining capacity for the components manufactured. The production is expected to commence as per schedule.

From the next quarter, the facilities will be on stream and BFL has already secured businesses for various non auto sectors such as

- Marine Engines
- Large Stationary Diesel Engine
- Wind Mill Shafts
- Capital goods sector.

The two new facilities will assist BFL to capture the potential offered by the non-automotive businesses. Going forward the non auto business will become a major growth driver and will also support the de-risking strategy followed by the company.

Conclusion

- We expect the auto business to deliver stable performance in the coming quarters. The non auto business is gearing towards capturing the growth opportunity & will become the major growth driver going forward.
- Q1 FY 2009 was a very challenging quarter, due to unprecedented increase in raw material and fuel prices which had an adverse impact on demand for automobiles and also on the overall economy.
- Raw material prices have increased in the quarter but BFL has been able to pass these increases to its customers and maintain its profitability.
- The depreciation of the rupee has led to better realizations on the export front. However, this has resulted in a forex loss due to revalorization of foreign currency liabilities, although notional in nature. Majority of this loss would be recouped in the following quarters through increased realization on exports.
- The Indian & US automotive markets continue to be sluggish & very weak in the back drop of adverse economic conditions. However, BFL hopes to weather this crisis with its well diversified and de-risked business model.