



**BHARAT FORGE**

**Bharat Forge Limited**

**Q2 FY09 Earnings Update**

**25<sup>th</sup> Oct 2008**

## Financial Highlights Q2

### Combined financial statement

The combined financial statement for the Q2 FY 2009 for Bharat Forge & its Wholly Owned Global Subsidiaries is as follows:

Particulars	Rs. Million		
	Q2 FY 2009	Q2 FY 2008	Growth %
Revenue Within India	3,353	3,022	11.0
Global Revenue	10,113	7,429	36.1
Other Income	132	152	
Total Revenue	13,598	10,603	28.2
EBIDTA	2,070	1,928	7.4
<b>EBIDTA %</b>	<b>15.2</b>	<b>18.2</b>	
PBT before Exceptional Item	1,173	1,085	8.1
Exchange gain/(Loss)	(875)	109	
Customer Claim acknowledged*	(241)	-	
Profit Before Taxation but after exceptional item	57	1,194	
Profit after Taxation	41	791	

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

1. Deteriorating market conditions in both India and USA and the setting in of recessionary trends in the European automotive market which till recently was experiencing strong growth. Consequently the operations of the overseas subsidiaries have also been affected.
2. Depreciation of Indian rupee against all major currencies.

Despite this, BFL could come out with a stable performance with top line growing by 28.2% albeit aided by the rupee's depreciation.

### Exceptional Item: Customer Claim\*

Due to breakdown of press during February 2007 at BFSSL, the company has acknowledged claims from its customers for reimbursement of all costs, expenses, loss and damage incurred due to this. BFSSL has in turn filed a claim with Insurance Company for business interruption and material damages for an amount of Rs. 3290 lacs. The claim with Insurance Company is yet to be settled.

***Bharat Forge Stand alone Financials***

Table 2 Rs. Million

Particulars	Q2 FY 2009	Q2 FY 2008	Growth %
Domestic Revenue	3,353	3,022	11.0
Export Revenue	3,403	2,610	30.4
Total Revenue	6,756	5,632	20.0
EBIDTA w/o other income & Exchange loss	1,578	1,383	14.1
<b>EBIDTA %</b>	<b>23.4</b>	<b>24.6</b>	
Other Income	102	144	
PBT w/o exchange gain / (loss)	1,055	903	16.8
<b>PBT %</b>	<b>15.6</b>	<b>16.0</b>	
Exchange Gain / (Loss)	(875)	109	
PBT after Exchange Gain / (Loss)	180	1,012	
Profit After Tax	113	677	

***Revenue***

- Domestic revenues grew by 11% aided by moderate gains in the Tractor & Agri equipment business.
- Exports have grown by 30% despite unfavorable market conditions. The foreign currency movement against the rupee during the quarter favorably supported the export growth.
- If the exports are adjusted for the currency movement, the growth works out to 20%.

***Impact of Foreign Currency***

This quarter also, BFL has been affected by the rupee depreciation on revaluation of the foreign currency denominated loan portfolio. The table below explains the forex loss incurred by the company during the quarter.

Table 3: Forex loss of Revalorization Rs Million

Particulars	Q2 FY09	Q2 FY08
Gain/(Loss) on Revalorization of FCCB	(735)	185
Gain/ (Loss) on Revalorization of Other loans	(140)	(76)
<b>Total Gain/(Loss) on Revalorization</b>	<b>(875)</b>	<b>109</b>

As can be seen from the above table, the company has recognized a forex loss of Rs 875 million on revaluation of loans consequent to the depreciation of the rupee. The loss incurred on the FCCBs is notional in nature and does not have any effect on the cash flow. Considering that the redemption of FCCBs are in April 2010 (Tranches 1 & 2), 2012 (Tranche A) and 2013 (Tranche B), the loss pertaining to FCCB revaluation is long-term in nature. Going forward if the same exchange rates continue BFL will gain substantially on exports in the



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balance tenor of the FCCBs. Overall gain on exports in terms of exchange gain is expected to be much higher than the revaluation loss.

**Impact of Raw Material prices**

The impact of increase in raw material prices in the quarter has been around Rs.600 million. This has been fully passed on to the 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 Q2 of FY 09 against that in the corresponding previous periods.

**Table: 4 Break up of Revenues** Rs. Million

Particulars	Q2 FY 09	Q2 FY 08	Y o Y %
India	3,353	3,022	11.0
USA	1,522	1,311	16.1
Europe	1,561	1,096	42.4
Others	320	203	57.6
<b>Total</b>	<b>6,756</b>	<b>5,632</b>	<b>20.0</b>

**Review of Business**

**India**

**Table: 5 Indian Auto production** No.

Particulars	Q2 FY09	Q2 FY08	Q1 FY09	YoY %	QoQ%
LCV	69,158	60,534	57,927	14.2	19.4
Medium & Heavy CV	58,092	66,763	70,619	(13.0)	(17.7)
<b>Total CV Market (M&amp;HCV +LCV)</b>	<b>127,250</b>	<b>127,297</b>	<b>128,546</b>	<b>0.0</b>	<b>(1.0)</b>
Passenger Cars	476,041	427,640	457,384	11.3	4.1
<b>Total Auto Market</b>	<b>603,291</b>	<b>554,937</b>	<b>585,930</b>	<b>8.7</b>	<b>3.0</b>

Source: SIAM

The Indian automotive industry and in particular the Commercial Vehicle segments is continuing to encounter headwinds with demand dropping amidst weak fundamentals such as slowing down of industrial production, increasing cost of ownership due to high interest rates etc. This has culminated in drop in production in the M&HCV segment of 17.7% on a sequential basis.

The company was able to marginally grow its domestic business as a result of its presence across various segments such as Tractor & agri equipment, Non Auto etc.

**USA**

**Table: 6 US Auto Production Data**

Particulars	Jul - Sep 08	Jul - Sep 07	Apr-Jun 08	YoY %	QoQ %
Passenger Cars	980,846	901,332	961,855	8.8	2.0
Medium & Heavy CV	52,182	59,279	65,798	(12.0)	(20.7)
LCV	965,699	1,519,529	1,353,457	(36.4)	(28.6)
<b>Total Auto Market</b>	<b>1,998,727</b>	<b>2,480,140</b>	<b>2,381,110</b>	<b>(19.4)</b>	<b>(16.1)</b>

Base source: Wards Auto

The US Automotive industry is being severely impacted by a combination of plummeting housing prices, turmoil in financial markets, expensive consumer credit and falling used car values. However, despite these adverse conditions, BFL has been able maintain its exports in to the region.

**Europe**

**Table: 7 Europe Sales Data**

Particulars	Jul - Sep 08	Jul - Sep 07	Apr- Jun 08	YoY %	QoQ %
Passenger Cars	3,369,820	3,735,784	4,190,284	(9.8)	(19.6)
Medium & Heavy CV	178,831	193,346	230,742	(7.5)	(22.5)
LCV	457,082	520,794	574,808	(12.2)	(20.5)
<b>Total Auto Market</b>	<b>4,005,733</b>	<b>4,449,924</b>	<b>4,995,845</b>	<b>(10.0)</b>	<b>(19.8)</b>

Base source: ACEA

The European Automotive industry recorded a negative growth of 10.0% in the quarter on a YoY basis while BFL's exports into Europe have continued to grow steadily in Q2 FY09.

European markets have displayed steady growth over the past 2-3 years. But in the current quarter the market has de-grown by 10.0% on a YoY basis due to factors like weakness in global markets, high commodity prices among others.

**Non Automotive Business**

The installation of the non-auto facilities at both Baramati and Mundhwa have been completed and trial production has started. The serial production is expected to commence as per schedule.

The non-auto facilities are coming on-line at a time when the global auto markets are in deep recession. These facilities will generate additional business and help us cushion the impact of the fall in business in other sectors to some extent.

- The global financial crisis and its impact on industries is posing challenge across sectors.
- We are gearing up to face these tough conditions by taking measures aimed at reducing costs and improving productivity as also exploring new business opportunities.
- The non-auto facilities will commence production as per schedule. These facilities will help us partially off-set the effects of the slowdown in global automotive industry.