



BHARAT FORGE

Bharat Forge Limited

Q3 FY09 Earnings Update

22nd January 2009

Financial Highlights Q3

Bharat Forge Stand alone Financials

Table 1 Rs. Million

Particulars	Q3 FY 09	Q3 FY 08	YoY %
Domestic Revenue	2,087	3,269	(36.2)
Export Revenue	2,444	2,298	6.4
Total sales Revenue	4,531	5,567	(18.6)
EBIDTA w/o other income & Exchange gain / loss	886	1,389	(36.2)
EBIDTA %	19.6	25.0	
Other Income (w/o Exchange gain/loss)	112	153	
PBT before exchange gain /loss	301	895	(66.4)
PBT %	6.6	16.1	
Exchange Gain / (Loss)	(282)	(23)	
Profit Before Taxation	19	872	(97.8)
Profit after Taxation	44	582	(92.4)
PAT + Depreciation + Exchange Gain/Loss	745	958	(22.2)

Revenue

- In volume terms, the sale tonnage dropped from 47,717 tons to 25,780 tons on a yoy basis. But net sales have not dropped proportionately because of a combination of steel price pass thru and product mix.
- BFL's Domestic revenues have declined by 36.2% on a YoY basis in Q3 on the back of domestic M&HCV production plummeting by 62% (YoY) due to declining demand, deteriorating macroeconomic fundamentals and tight liquidity.

Impact of Base Effect:

Table 2 Rs. Million

Particulars	Q3 FY09	Q3 FY08
Net Sales	4,531	5,567
Less: Price Increase on account of steel pass thru (approx)	350	-
Net Sales excluding price increase	4,181	5,567
EBITDA	886	1,389
EBITDA % of Net sales excluding price increase	21.2%	25.0%

The EBITDA margins show a drop because of the base effect of raw material prices and are optically deflated. The above table shows the EBITDA margins on a normalized basis vis-à-vis last year.

Review of Business

Following table will summarize the geographical distribution of the company's revenue streams in Q3 FY09 against Q3 FY08.

Table 3 Geographical Distribution of Revenue *Rs. Million*

Particulars	Q3 FY 09	Q3 FY 08	Y o Y %
India	2,087	3,269	(36.2)
USA	914	1,125	(18.8)
Europe	1,363	1,093	24.7
Asia Pacific	167	80	108.8
Total	4,531	5,567	(18.6)

Indian Market Analysis

Table 4 Indian Automotive Production *No.*

Particulars	Q3 FY 09	Q3 FY 08	Q2 FY 09	YoY %	QoQ %
LCV	42,870	69,109	57,927	(38.0)	(26.0)
Medium & Heavy CV	28,759	75,727	70,619	(62.0)	(59.3)
Total CV Market (M&HCV +LCV)	71,629	144,836	128,546	(50.5)	(44.3)
Passenger Cars	392,818	430,204	457,384	(8.7)	(14.1)
Total Auto Market	464,447	575,040	585,930	(19.2)	(20.7)

Source: SIAM

The Indian automotive industry is witnessing strong headwinds on various counts. After witnessing a growth of 10.2% in passenger & Commercial vehicle production in the 1st half of FY 2009, the industry has seen overall production levels drop by 20% and the M&HCV production plunging by 62%.

This unforeseen drop in production was a result of a severe slow down in Industrial production, excess inventory and tight liquidity conditions. This led to a series of block closures by the OEM's during the quarter. Consequently BFL's Domestic sales fell from Rs 327 crores in Q3 FY08 to Rs 209 crores in Q3 FY09.

Global Markets

USA

Table 5 US Automotive Production *No.*

Particulars	Oct - Dec 08	Oct Dec 07	YoY %
Passenger Cars	821,086	962,640	(14.7)
M&HCV	46,828	58,398	(19.8)
LCV	927,733	1,544,000	(39.9)
Total Auto Market	1,795,647	2,565,038	(30.0)

Base source: Wards Auto

Europe
Table 6 New Vehicle Registration - Europe No's

Particulars	Oct - Dec 08	Oct - Dec 07	YoY %
Passenger Cars	2,990,470	3,707,819	(19.3)
LCV	436,589	585,475	(25.4)
M&HCV	163,775	200,387	(18.3)
Total Auto Market	3,590,834	4,493,681	(20.1)

Base source: ACEA

The current crisis in the global auto industry is two fold in nature

- Financial: Drastically limited access to credit & high cost of credit affecting the consumer's propensity to purchase.
- Economic: With countries in every corner of the globe falling into a recession, global freight movement & hence demand for vehicles is in a free fall.

The above factors amongst others have caused the markets to decline to levels not seen since the 1990's. All the major OEM's implemented block closures, to align production levels with demand. Consequently BFL's sales into the CV and Passenger vehicle segments were severely affected.

Combined financial statement

The combined financial statement for Q3 FY 2009 for Bharat Forge & its Wholly Owned Global Subsidiaries is as follows:

Table 7 Rs. Million

Particulars	Q3 FY 09	Q3 FY 08	YoY%
Revenue Within India	2,087	3,269	(36.2)%
Global Revenue	7,512	7,531	(0.3)%
Total sales Revenue	9,599	10,800	(11.1)%
EBIDTA w/o other income & Exchange gain / loss	974	1,776	(45.2)%
EBIDTA %	10.1	16.4	
Other Income (w/o Exchange gain/loss)	143	192	
PBT (before Exchange gain / loss and exceptional item)	103	1,098	(90.6)%
PBT %	1.1	10.2	
Exchange Gain / (Loss)	(400)	(23)	
Exceptional Item: Manpower Redundancy cost	(67)	-	
Profit Before Taxation	(364)	1,075	(133.9)%
Profit After Taxation	(366)	710	(151.5)%

The above results should be seen in the light of the following

- Till September 2008, the global automotive environment was stable. In fact, in the 1st half of FY2009, the Indian automotive industry registered a growth of 10.2% in Commercial & Passenger vehicle production.
- But, during the third quarter, the demand for automobiles across all segment, saw an unprecedented and sudden drop which caught the entire industry by surprise. This resulted in block closures by all major OEMs across the globe in Q3 resulting in severe cut in BFL's production schedule.

BFL was impacted by the above occurrences, both at its overseas and domestic operations. The drop in volumes has affected the profitability substantially, resulting in PBT (before exchange gain/loss and exceptional item) dropping from Rs 1098 million to Rs 103 million.

The rupee continued to depreciate in Q3 against the US\$ and as a result, BFL incurred an exchange loss of RS 282 million on revalorization of its foreign currency loans. BFK & BFSSL also incurred an exchange loss of Rs 118 million on account of strong appreciation of the Euro against the Swedish Kroner & GBP. The exceptional item of Rs 67 million is on account of manpower redundancy provisions at the subsidiaries.

Update on Non Automotive Capacity Expansion

The non auto facilities (HFD-II and CAM, Baramati) have commenced operations, as per schedule. The Heavy forge division was inaugurated in August 2008 & is in ramp up mode while the Baramati facility is under trial production and will be developing different parts for customers in the current quarter and serial production is expected to start as per schedule.



HEAVY FORGE DIVISION – II

New Business Development

We are in the process of identifying new businesses for our existing facilities (Auto) which are under-utilized at present due to the downturn. These new businesses will be in the non-automotive space.

Some of the opportunities being actively pursued include

- Closed & Open die forgings for Gas & Steam turbines.
- New product range for Oil & Gas sector including fully machined products.
- Closed & Open die Gearbox components for Wind Energy
- Engine & Structural components for Aerospace sector.

Cost Reduction measures implemented

BFL has implemented several cost reduction measures aimed to lower costs and break-even levels at both the Indian operations as well as at the subsidiaries.

- **Rightsizing Operations:** In view of the depressed demand, BFL has optimized the operational levels at all the facilities. We have also undertaken measures to reduce operational costs at all the facilities aimed at optimizing facility cost in line with the foreseeable demand.
- **Cost reduction on variable as well as fixed costs, including energy, consumables & SG&A.**
- **Working capital reduction:** - Reduction in Inventory & Receivables.

Conclusion

- Q3 was a very tough quarter which saw one of the most sudden and unprecedented downturns across the entire automotive industry.
- This has severely affected all auto component suppliers including Bharat Forge.
- Industry Analysts expect markets to remain in a depressed condition in the near future.
- BFL will continue the “right-sizing” actions to align with normalized demand levels.
- It will try to supplement the reduced volumes in Auto with new businesses from the non-automotive sector.
- BFL’s non-automotive expansion has come on stream and will ramp up to higher levels in the coming months and help counter the drop in auto business to a certain extent.