



BHARAT FORGE

## **Bharat Forge Limited**

### **Q3 FY07 Earnings Update**

**20<sup>th</sup> January 2007**

## Financial Highlights Q3

### Combined financial statement

The combined financial statement for the Q3 FY 2007 for Bharat Forge & its Wholly Owned Global Subsidiaries is as follows:

<b>Particulars</b>	<b>Q3 FY 2007</b>	<b>Q3 FY 2006</b>	<b>Growth %</b>
Revenue Within India	2813	2405	17.0
Other Income in India	162	161	
Global Revenue <b>(Including Other Income)</b>	7396	7001	5.6
Total Revenue	10371	9567	8.4
EBIDTA	1867	1541	21.2
<b>EBIDTA %</b>	<b>18.0</b>	<b>16.1</b>	
Profit Before Taxation	1151	971	18.5
Profit after Taxation	770	627	22.8

### EBIDTA Margin

- EBIDTA margin has shown a significant improvement from 16.1% in Q3 previous year to 18% in the current year.
  - Margins in the Indian operations improved from 27.6% to 28.4% on the back of better product mix and improved capacity utilization.
  - Combined margins of the wholly owned subsidiaries increased from 7.3% to 8.6%
- These margins have been achieved despite the following:
  - Pressure on Energy costs due to high crude prices
  - Increased cost of logistics
  - One time loss suffered by our Scottish operation due to snow storm damage to its factory shed.

## ***Bharat Forge Stand alone Financials***

**Table 2**
***Rs. Million***

<b>Particulars</b>	<b>Q3 FY 2007</b>	<b>Q3 FY 2006</b>	<b>Growth %</b>
Domestic Revenue	2813	2405	17.0
Export Revenue	1958	1589	23.2
Other Income	162	161	
Total Revenue	4933	4155	18.7
EBIDTA	1401	1147	22.1
<b><i>EBIDTA %</i></b>	<b><i>28.4</i></b>	<b><i>27.6</i></b>	
Profit Before Taxation	933	802	16.3
<b><i>PBT %</i></b>	<b><i>18.9</i></b>	<b><i>19.3</i></b>	
Profit after Taxation	630	533	18.2

### ***Revenue***

- In the domestic market BFL retained its market share in the medium & heavy commercial vehicle segment. BFL enhanced its share in the passenger car business with two major manufacturers. In the tractor and agri equipment business BFL gained market share across the industry on the back of better technology and change of source.
- BFL sees this traction improving significantly in the coming quarters with the entry in the LCV segment presently not addressed and growth in the supplies to the passenger car segment.
- Exports have demonstrated a growth of 23.2%, primarily on account of
  - Significant ramp up of the Medium & Heavy Duty Engine Part (HDEP) business in the US & Europe.
  - Ramp up in the Passenger Car Engine Part business, both in the Europe and USA.
  - BFL's US business is continuing to grow with larger share being contributed by fully machined Heavy Duty Engine Parts, passenger car parts and non automotive business.

### ***EBIDTA Margin***

The EBIDTA margin has improved from 27.6% to 28.4%. This has been accomplished through a combination of:

- Superior product mix with higher element of machined components.
- Operating leverage achieved on the ramp up of the new forging and machining capacity.

The EBIDTA margin improvement has been accomplished despite big increases in energy cost due to high crude prices and material cost due to indirect impact of power cost increase faced by steel mills, product mix and development costs incurred in the product development and approval process.

**Finance Costs**

**Table 3**

**Rs. Million**

<b>Particulars</b>	<b>Q3 FY 2007</b>	<b>Q3 FY 2006</b>
Total Revenue	4933	4155
Interest as % to Total Revenue	4.36%	3.71%
Depreciation as % to Total Revenue	5.12%	4.60%
<b>Total Finance Cost</b>	<b>9.49%</b>	<b>8.31%</b>

The increase in interest cost is primarily on account of:

- Higher interest Rates prevailing in India as well as higher LIBOR by about 1% each.
- Higher interest on term loans for the ongoing capacity expansion program

The depreciation is higher due to the ongoing capacity expansion program, which has increased from Rs. 191 million to in Q3 FY 06 to Rs. 253 million in Q3 FY07.

**Profit before Taxation (PBT)**

The operating leverage achieved out of the combination of higher capacity utilization and better product mix has nearly entirely offset the effect of about 1.2% on account of higher fixed finance costs resulting in a very marginal drop in PBT from 19.3% to 18.9%. As the capacity utilization grows further, the finance cost as a percentage to revenue will decline. This will give positive impetus to the PBT margin.

## Review of Business

Following table will summarize the geographical distribution of the company's revenue streams in Q3 & Nine Months of FY 07 against that in the corresponding previous periods.

**Table 4** **Rs. Million**

Particulars	Q3 FY 07	Q3 FY 06	Growth %	9 Months FY 07	9 Months FY 06	Growth %
<b>India</b>	2975	2566	<b>15.9*</b>	8565	7145	<b>19.9</b>
<b>USA</b>	1271	830	<b>53.1</b>	3689	2250	<b>64.0</b>
<b>Europe</b>	616	439	<b>40.3</b>	1641	1471	<b>11.6</b>
<b>Asia Pacific</b>	71	320	-	175	916	-
<b>Total</b>	4933	4155	<b>18.7</b>	14070	11782	<b>19.4</b>

\* - The growth in sales 19.4%

### Indian Market & business opportunities

The first Nine Months of FY 07 has witnessed a good growth in the Indian automotive industry.

**Table 5** **No.**

Particulars	9 Months FY 2007	9 Months FY 2006	Growth %
Passenger Cars	1,095,508	932,106	<b>17.5</b>
Medium & Heavy CV	209,495	152,076	<b>37.8</b>
LCV – Presently Addressed	78,522	85,588	<b>(8.3)</b>
Total Addressed Automotive Market	1,383,525	1,169,770	<b>18.3</b>
LCV – Not Presently Addressed	81,688	38,066	<b>114.6</b>
<b>Total CV Market</b>	<b>1,465,213</b>	<b>1,207,863</b>	<b>21.3</b>

**Base source: SIAM**

**Classification between addressed and not addressed: Company information**

The company has continued to engage in a strategic manner with all the key players in the industry with the domestic revenue growing in line with the market growth. The company has gained market share in the passenger car and tractor segment. In addition BFL is getting in to under served & less addressed business segments which are showing strong potential.

## **Global Markets**

### **USA**

USA continues to be a market of strategic importance for the company. Traditionally, the heavy-duty commercial vehicle chassis component business was the main market for the company. However, over the past one year, the company has qualitatively de-risked its business in the US with increased revenue share coming from high value added heavy duty engine components, passenger car components and various industrial applications in the non automotive segment. In these sectors the company is rapidly gaining market share and establishing itself as Development Partner to the global OEM customers. This has effectively insulated the company from the cyclical nature of the US truck industry. Following table will bring out the changing revenue distribution for the company in the US market.

**Table 6**

**Rs. Million**

<b>Particulars</b>	<b>Nine Months FY 07</b>	<b>%</b>	<b>Nine Months FY 06</b>	<b>%</b>	<b>Growth</b>
<b>Heavy Truck Chassis comp</b>	2057	56	1757	78	17.1%
<b>Heavy Duty Crankshafts (HDEP)</b>	851	23	219	10	3.88 times
<b>Passenger Car Crankshafts</b>	401	11	66	3	6 times
<b>Non automotive</b>	379	10	208	9	82.2%
<b>Total</b>	<b>3689</b>		<b>2250</b>		<b>64.0%</b>

- Company is moving up in the value chain in the traditional chassis component business with higher proportion of fully machined components.
- Company continues to gain market share in both HDEP and passenger car crankshaft business.

The above is proved in Q3 where despite marginal drop in the traditional chassis component business, the total US sales grew on the back of growing market share in the passenger car and HDEP business.

BFL has been consciously positioning itself in the global market to be resilient to the normal economic cycles and grow on a sustainable basis. This involved not only selling in multiple geographies but also various key steps such as:

- Enhance the product offering and product portfolio
- Move up the value chain by supplying high value added parts.
- Deeper engagement with the customer backed by approach to provide engineering solutions.

The growth in the US market is a manifestation of the success of the de-risking strategy implemented by the BFL over the years.

## Europe

The European market continues to show steady growth in the period January – November 2006 against the corresponding period previous year. Following table will highlight the same

**Table 7** **No.**

<b>Particulars</b>	<b>Jan – Nov 2006</b>	<b>Jan – Nov 2005</b>	<b>%</b>
<b>Passenger Cars</b>	14,289,992	14,183,184	0.8
<b>LCV</b>	1,902,977	1,802,948	5.5
<b>M&amp; HCV</b>	618,557	586,907	5.4
<b>Total</b>	<b>16,811,526</b>	<b>16,573,039</b>	<b>1.4</b>

Against the steady growth in the Europe, BFL's exports to Europe in the nine months (April – Dec 06) grew by 11.60% & 40.30% in the Q3 (October – December 2006) over the corresponding quarter previous year. Company has progressively ramped up two of its programs for supply of fully machined medium duty crankshafts. The ramp up of the passenger car engine component program has also achieved good progress.

BFL is presently working on several new programs to be launched in next 12 – 18 months, both in the US and European markets, which will achieve further product and customer diversification including non automotive segment in these markets.

## China

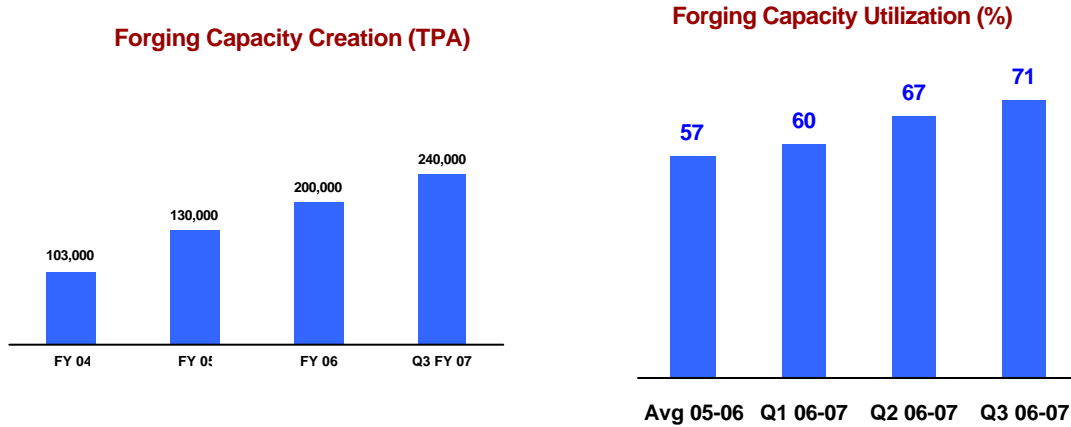
BFL, over past over one year, had witnessed a decline in Chinese demand owing primarily to the huge inventory build up, both at the manufacturers end as well as with the dealership. Further, during this period, the China market had shifted to lighter version of engines requiring low end parts.

However, the correction in the inventory as well as enforcement of emission norms is slowly paving the way for the revival of demand of the heavy duty parts. The fully machined parts required for the heavy truck industry are already developed by the BFL. With this, BFL is witnessing early signs of the impending revival of demand from Chinese market. The China market has shown good overall growth and it is expected to augur well, both for the Indian operations as well as the Chinese operation, which is a JV with FAW in the quarters to come.

## ***Review of Operations***

### ***Capacity Expansion Program***

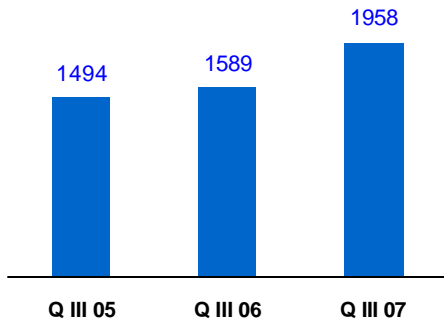
The company has completed its capacity expansion program as planned and with this the installed capacity has increased to 240,000 tons per annum.



The utilization of the forging capacity is progressively moving up in line with the commissioning of various equipment and part approval by the customers.

BFL has started accruing the operating leverages and as the capacity utilization goes further up, the fixed cost absorption will improve significantly leading to improved PBT margins.

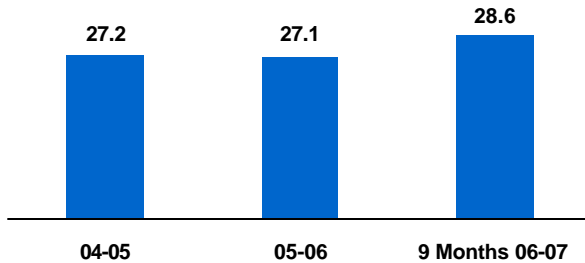
### ***Growth in International business – A perspective*** ***CAGR 15% Rs. Million***



BFL has, over the past several years, consciously developed a global business model. Whilst we have stuck to our core competencies, today our business model spans across geographies, product families & caters to the critical requirements of our marquee global customers. With this, we have seen our key customer relationships graduating from being “supply partnerships” to “Engineering based development partnership”

This offers BFL a tremendous platform to launch into the next phase of rapid, sustained and profitable growth across a wide range of products and applications including high end critical applications for some of the fastest growing sectors such as Aerospace, Wind energy and Hydrocarbon exploration sectors.

### ***Margin Improvement – A Perspective***



BFL has achieved significant improvement in margins on the back of ramp up of capacity utilization & superior product mix despite significant pressure on costs due to increase in energy cost.

Many of BFL’s new facilities have commenced commercial production recently and are presently in the process of ramp up. As these stabilize and reach a higher level of utilization over the period of next 12-18 months, will lead to a significantly higher level of operation efficiency.

## ***New business initiatives – An update***

### ***Long Term Contracts***

BFL's global business model has reached a point of inflection where the company is now engaging in contracts with global OEM customers for long term contracts with significantly larger annual value than in the past.

This is the reflection of BFL's design & engineering capability, speed to market, scalable production capacity, global delivery capability through a dual shore manufacturing and competitive cost structure.

BFL has been in discussion for tying up four such long term contracts with global OEM, each with an annual value in excess of USD 50 million. The scope of these contracts span across a wide range of critical and safety components for the automotive as well as non automotive applications.

BFL has finalized one Long Term Contract with a Global Customer for the supply of range of products in the automotive applications. BFL is also in advanced stage of discussions for additional long term contracts for the supply of products for both Auto & Non – Automotive Applications such as energy sector, aerospace and locomotive sector.

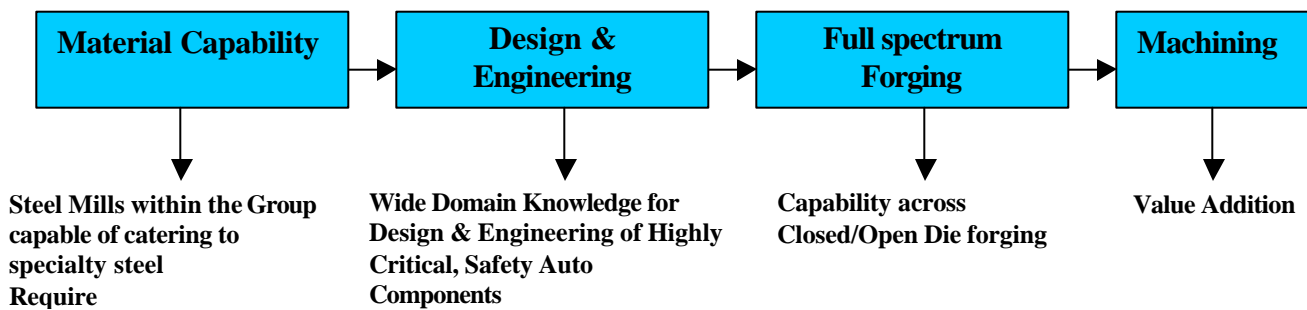
***Aerospace Sector***

The opportunity in the Indian Aerospace Component business is estimated to be US\$ 30 – 35 billion till 2015. The business arising due to the offset is in the range of US\$ 10 billion for related components.

Leading aircraft manufacturers have announced plans to set up maintenance bases in India.

Against this backdrop India is rapidly gaining competitive edge in this high end business as well. The companies like BFL, with full spectrum capabilities right from the material stage upto value added manufacturing capability are in an extremely advantageous position to realize this opportunity.

***Non-Automotive Business- Total Value Chain Capability***



BFL is partnering with the leading players in the Indian aviation industry to realize the off set and outsourcing opportunity in this sector.

In addition, BFL will also look for gaining critical technology inputs, customer relationships and market presence through inorganic route as well.

## ***Conclusion***

- BFL has demonstrated good margin improvement, both in Indian operations as well the operations of its wholly owned subsidiaries.
- The results of the Q3 underline the successful role played by the twin strategy implemented by BFL involving:
  - a. De-risked growth
  - b. Focus on value added relationship with the customers.
- The successful conclusion of the long term contract with the global OEM reinforces the fact that BFL is the most preferred supplier whom the customers are relying on a long term basis.
- These financial results, business development coupled with the state of the art manufacturing capability installed by BFL, gives it a significant edge in the automotive business for sustainable growth.
- The opportunity in the non automotive business is extremely strong.
- BFL is positioning itself well to address this opportunity with:
  - a. State of the art manufacturing capacity
  - b. Dialogue with the potential global customers for the contract in several high end niche segments such as aerospace, locomotive and power generation.
- BFL's automotive business is now on track and BFL is extremely well positioned with almost all the global OEM customers with key relationships graduating into the Development Partnerships.
- BFL is now positioning itself in the non automotive segment with a three pronged approach involving creation of the state of the art capability, tie up long term contracts with the customers and focus on business tie ups and inorganic growth.
- With this BFL is confident of sustaining the growth in the automotive business in the quarters to come and achieving rapid growth in the new focus area of non automotive business in the years to come.
- The foray into non automotive business will enable BFL to address much wider range of customers, products, geographies leveraging the tremendous global growth in core industries such as infrastructure, energy & transportation.