

BHARAT FORGE LIMITED

ANALYST / INVESTOR UPDATE

July 27, 2004

Analysis over corresponding Quarter last year

- Total Income up by 38 % to Rs 2609 million
- Exports up by 20 % to Rs. 954 million
- Exports at 37 % of Total Income
- Domestic Sales up by 52 % to Rs 1613 million
- PBT up by 39 % to Rs 530 million
- PAT up by 29 % to Rs 340 million
- EPS at Rs 8.81 against Rs 6.79

Key Highlights

- BFL has broken into the global heavy-duty diesel engine crankshafts market with two major orders.
- Series production and supplies for passenger car exports has commenced
- Domestic market growth robust
- Strengthening demand from US Commercial Vehicle market for the current year
- CDP Bharat Forge GmbH (CDPBF)- BFL's wholly owned German subsidiary registered topline of Rs 3696 million, net profit of Rs 151 million for half year ended June 2004
- Rights Issue slated to open in the 2nd week of August, 2004

Quarter Review – 30th June 2004

During the quarter under review, BFL's Total Income, PBT and PAT clocked a robust growth. The total income grew by 38% to Rs 2609 million on the back of strong 52% growth in domestic business and 20% growth in exports. PBT and PAT grew by 39% and 29% to Rs 530 million and Rs 340 million respectively reflecting substantial improvement in capacity utilization, productivity and control over costs. The PAT growth has been achieved despite significant increase in tax provision.

On the cost front, the company has achieved significant reduction in variable costs, manpower costs through substantial increase in productivity and internal cost controls. In terms of percentage to total income, manufacturing expenses have gone down from 19.6 % to 16.7% and manpower cost has gone down from 6.9% to 6.1 %. As regards interest cost, the company has converted substantial portion of its total debt into low cost USD denominated debt and this has resulted in reduction in interest cost, and interest as a percentage to total income has reduced from 4.6 % to 3 %. The tax provision for the quarter has gone up to 35.8 % from 31% of PBT.

BFL's proactive strategy of investing in capacity is paying off. The company has recently won two major contracts for machined heavy-duty diesel engine crankshafts from leading global engine manufacturers. These orders will give BFL a strong entry into global heavy-duty Powertrain business. Last year, the company reported that it had won contracts for supply of passenger car crankshafts from Ford and Daimler Chrysler. The execution of these contracts has commenced. The company has started serial production for these orders during the quarter and will ramp up during the current year. Thus, BFL has already secured customers and business in both the new areas for which BFL is enhancing capacities. We will continue our efforts to expand our presence in both these market segments.

The preparatory work for the company's rights issue is complete and the same is slated to open in the second week of August 2004.

Business Review

Domestic Market

The domestic economy was buoyant with the commercial vehicles segment registering a healthy 46 % growth during April-June quarter on the back of robust growth in FY04. BFL's domestic sales clocked Rs 1613 million during the quarter thus registering a jump of 52 % over the corresponding quarter previous year.

Exports

During the quarter, exports business recorded a healthy jump of 20% over the previous corresponding period. Exports were at Rs 954 million representing 37 % of total Income

Of the total exports of Rs 954 million for the quarter, US customer accounted for 48 %, Europe at 30 % and Asia excluding India 22%. The growth in US and Europe is a reflection of our passenger car component exports and US commercial market growth.

BFL has geared up to meet the orders for passenger car components bagged from Ford and Daimler Chrysler last year. The company is ramping up manufacturing through a combination of increased productivity and addition of new capacities.

The company has commissioned one 6000-ton press line towards the end of Q1FY05. We are in process of commissioning one 2500-ton press line. During the year the company, is also installing two 5000-5550 Ton presslines. These presslines will create the capacity needed for smooth ramp up of the passenger car crankshaft production. In addition, we are installing our third large press line and the same will be commissioned in Q1FY06. This will be primarily used for meeting the demand of the Heavy Duty Diesel Engine Crankshaft segment.

New Business

As a part of global strategy the company is focusing on two business segments:

I. Machined Heavy-Duty Diesel Engine Crankshafts

The company has started tying up contracts with global engine manufacturers. In this regard, the company has recently won two major contracts for supply of machined heavy-duty diesel engine crankshafts from two leading global engine manufacturers. The company is investing in three state of the art machine facilities for the same. Two machine lines is expected to be operational in current financial year, that will ensure the phased ramp up for machining heavy-duty diesel engine crankshafts

II. Passenger Car Crankshafts.

As mentioned earlier, the company has commenced serial production for passenger car crankshafts from Ford and Daimler Chrysler for which it had won the orders last year. This business will follow a phased ramp up during the remaining part of the current year. The 5000-5500 ton press lines being installed during the current year would ensure smooth ramp up.

Expansion Program

BFL's capital expenditure program for forging and machining capacity expansion is on schedule. The expansion program coupled with press lines presently under installation would ensure that BFL will progressively add capacity during the current financial year.

Forging Capacities	Expected Commissioning
2500 ton (under installation)	Q2FY2005
5000 ton	Q3 FY2005
5500 ton	Q4FY2005
12500 ton	Q1FY2006

In this way, BFL will ensure adequate forging capacity to meet additional customer demand and ramping up of passenger car business.

As a part of total capacity expansion program the company is investing in three state-of-the-art machining lines for heavy duty diesel engine crankshaft machining. Out of the same two are expected to be installed in current financial year and third will be installed in the next financial year.

After the completion of capacity expansion program the present forging capacity of 1,00,000 MT will increase to over 2,00,000 MT and crankshaft machining capacity will increase by over 2,00,000 nos.

Business Outlook

As a part of global growth strategy, Bharat Forge is focusing on three business segments.

Commercial Vehicle Chassis Components

BFL is a leading supplier of chassis components for Commercial vehicles globally with strong and deep relationship with marquee US Tier I customers where we have substantial market share and also have strong presence among European OE Customers.

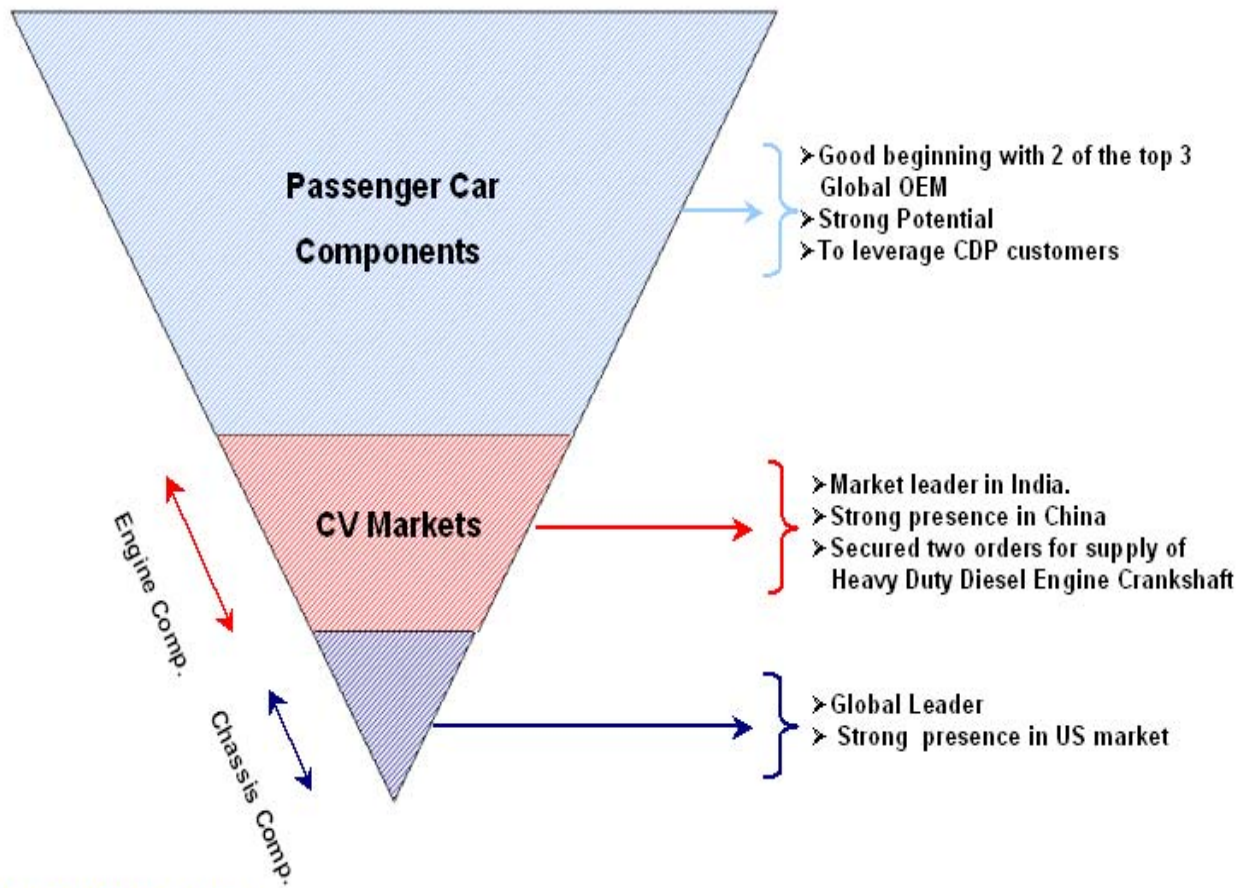
Passenger Car Engine Components

BFL made a strong beginning in this hitherto untapped global market segment by bagging orders from the two of the top three global passenger car manufacturers. It will be our endeavor to expand our customer base in this segment and we are putting in place adequate manufacturing capacities for the same. Our German subsidiary CDPBF has existing strong relationship with marquee European passenger car manufacturers for supply of chassis components. This will offer significant opportunity to BFL to leverage the relationship to win business with these customers for the engine component business.

Commercial Vehicle Engine Components

BFL is a market leader in India in CV engine components. It has made a strong entry in the Chinese market. BFL has identified heavy-duty diesel engine crankshaft as one of the focus areas for growth. BFL has already secured orders from two of the top three global heavy-duty engine manufacturers. We are working on expanding our customer base and market penetration in this segment.

BUSINESS OUTLOOK



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Rights Issue

BFL's Rights Issue for part funding the expansion program of Rs3500 million is slated to open in the second week of August 2004.

The Rights issue will entail equity offering of face value of Rs 10 each at a premium of Rs. 550/- per share in the ratio of 1 share for every 20 equity share held. For every two Right shares offered and allotted. The allottees will be entitled to a free detachable warrant convertible after 12 months at a 15% discount to the then prevailing market price with a floor of Rs 1200.

CDP-Bharat Forge Financials

Our German subsidiary CDPBF is performing well and has registered a topline of Rs 3696 million and net profit of Rs 151 million for half year ended June 2004. CDPBF is paying off the balance Euro 5 million tranche to the administrative receiver out of the total consideration payable, from its own internal accruals and BFL is not required to contribute for the same.

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