



BHARAT FORGE

Bharat Forge Limited

Q2 FY08 Earnings Update

26th October 2007

Financial Highlights Q2

Combined financial statement

The combined financial statement for the Q2 FY 2008 for Bharat Forge & its Wholly Owned Global Subsidiaries is as follows:

Table 1 *Rs. Million*

Particulars	Q2 FY 08	Q2 FY 07	YoY%
Revenue Within India	3,022	2,660	13.6
Global Revenue	7,429	7,049	5.4
Other Income	261	193	
Total Revenue	10,712	9,902	8.2
EBIDTA	2,036	1,800	13.1
EBIDTA %	19.0	18.2	
Profit Before Taxation	1,193	1,118	6.7
PBT %	11.1%	11.3%	
Profit after Taxation	791	742	6.6

The following significantly influenced the combined results for the Quarter:

Positive Impact

- Strong growth in Exports on the back of ramping up of key programs both in Europe and the US.

Negative Impact

- Continued weakness of the dollar against the rupee.
- Significant tapering of production of Commercial Vehicles in US in the previous quarter resulting from the US housing recession.
- Continued sluggishness in the Indian automotive market

The performance of Wholly Owned Subsidiaries on a YOY basis has been flat in local currency terms but, in rupee terms it shows a drop because of the currency translation effect.

Each of the above factors has been addressed in detail in the subsequent sections of the report.

Bharat Forge Stand alone Financials

Table 2 *Rs. Million*

Particulars	Q2 FY 08	Q2 FY 07	YoY %	Q1 FY 08	QoQ %
Domestic Revenue	3,022	2,660	13.6	2,733	10.6
Export Revenue	2,610	1,847	41.3	2,237	16.7
Other Income	253	192		533	
Total Revenue	5,885	4,699	25.2	5,503	7.0
EBIDTA	1,636	1,369	19.5	1,546	5.8
EBIDTA %	27.8	29.1		28.1	
Profit Before Taxation	1,012	922	9.8	983	3.0
PBT %	17.2	19.6		17.9	
Profit after Taxation	677	622	8.8	648	4.5

Table 3 Comparison of Operational performance *Rs Million*

Particulars	Q2 FY 08	Q1 FY 08	% Growth
Profit from ordinary Activities before Tax	1,012	983	3.0
Other Income	253	533	
Profit from Operations before Tax (Excluding other income)	759	450	68.8

The company has been able to address the issue of margin erosion in the previous quarter through a mix of better operational efficiency & series of cost reduction initiatives. Profit before Exchange Gain & Other income grew 68.8% sequentially from Rs 450 million to Rs 759 million.

Revenue

- Domestic revenues have outperformed the market both on y-o-y & sequential basis.
- Exports have continued their stellar performance from Q1 FY08 and have grown 41.3% despite weakness in the US truck industry as well as the negative impact of foreign currency appreciation. The key growth drivers for exports have been:
 - Serial production of several medium and heavy-duty programs in Europe.
 - Significant growth in the US Commercial & passenger Vehicle engine component and non- automotive business.
 - Signs of revival of business with Chinese OEMs.
- If the exports are adjusted for the currency appreciation, the growth works out to 55.5%.

Review of Business

Following table will summarize the geographical distribution of the company's revenue streams in Q2 of FY 08 against that in the corresponding previous periods.

Table 4 Geographical Distribution of Revenue *Rs. Million*

Particulars	Q2 FY 08	Q2 FY 07	Q1 FY 08	Y o Y %	Q o Q %
India*	2,572	2,332	2,348	10.3	9.5
USA	1,311	1,245	1,223	5.3	7.2
Europe	1,096	557	934	96.8	17.3
Asia Pacific	203	45	80	351.1	153.8
Total	5,182	4,179	4,585	24.0	13.0

* Excluding other operating Income

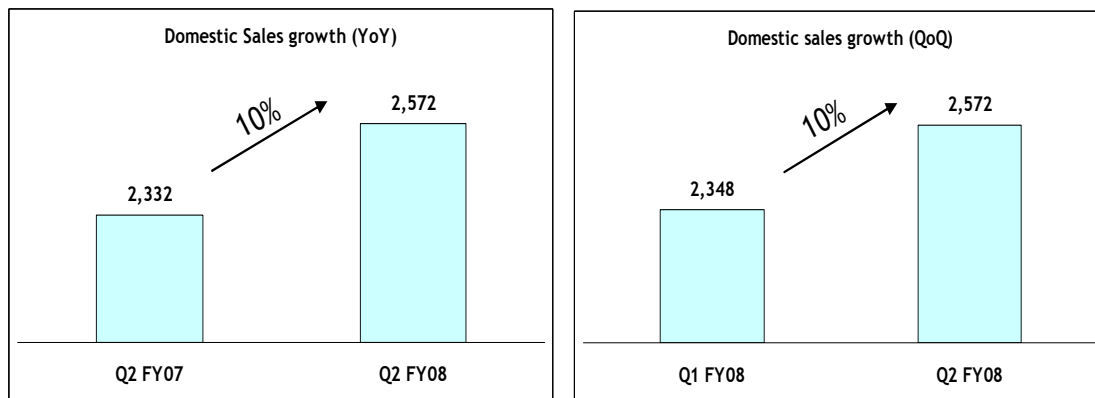
Indian Market & business opportunities

Table 5 Indian Automotive Production *No.*

Particulars	Q2 FY 08	Q2 FY 07	Q1 FY 08	Y o Y %	Q o Q %
Passenger Cars	427,195	379,944	405,847	12.4	5.3
Medium & Heavy CV	66,343	71,467	62,766	(7.2)	5.7
LCV	60,545	55,669	54,661	8.8	10.8
Total Auto Market	554,083	507,080	523,274	9.3	5.9
Total CV Market (M&HCV + LCV)	126,888	127,136	117,427	(0.2)	8.1

Base source: SIAM

The company's domestic revenue has out performed the market on the back of enhanced traction with players in the Diesel Engine & Agri Equipment space.

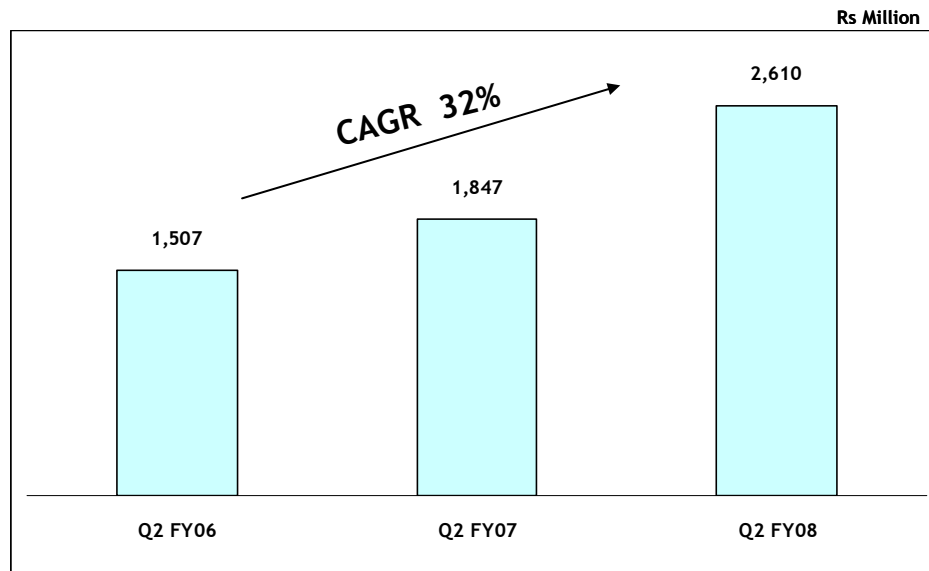


Exports

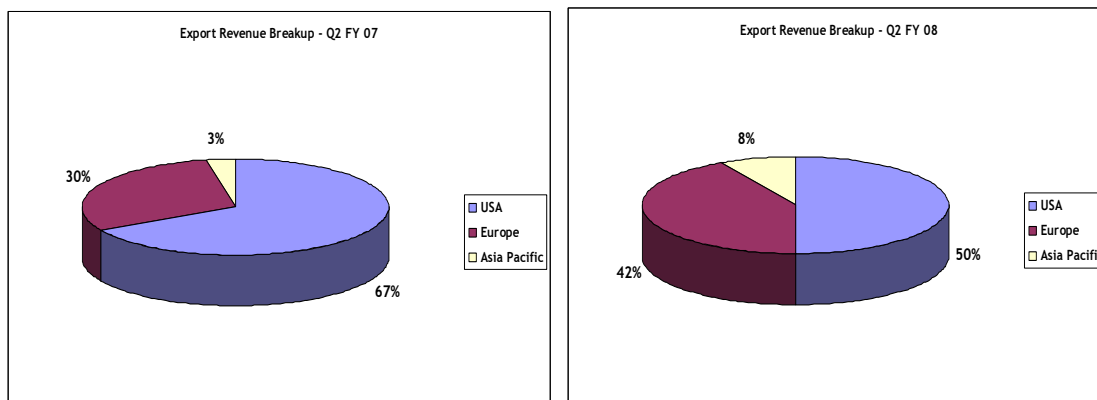
The main highlight of this quarter’s performance has been the growth in Exports on the back of successful ramp up of Commercial Vehicle & Passenger Vehicle engine component program to USA and the Medium & Heavy duty Commercial vehicle engine component program into Europe.

Another important aspect of the Exports growth over the past few years has been the diversification of the revenue stream between USA, Europe & Asia Pacific. The % of exports into USA has substantially decreased from 67% to around 50%, while that of Europe has increased from 30% in Q2 FY07 to 42% in Q2 FY08.

Successful ramp up of Export production



Composition of Export Revenue Region wise



Global Markets

USA

Table 6 US Market De-risking Rs. Million

Particulars	Q2 FY 08	Q2 FY 07	Q1 FY 08	YoY %	QoQ %
Heavy Truck Chassis components	497	701	511	(29.1)	(2.7)
Heavy Duty Crankshafts (HDEP)	253	220	216	15.0	17.1
Passenger Car Crankshafts	350	152	260	130.3	34.6
Non automotive	211	172	236	22.7	(10.6)
Total	1,311	1,245	1,223	5.3	7.2%

Table 7 US Automotive Production No.

Particulars	Jul -Sep 07	Jul - Sep 06	Apr - Jun 07	YoY %	QoQ %
Passenger Cars	895,830	994,506	1,019,170	(9.9)	(12.1)
M&HCV	59,634	114,283	69,534	(47.8)	(14.2)
LCV	1,516,777	1,411,167	1,838,754	7.5	(17.5)
Total Auto Market	2,472,241	2,519,956	2,927,458	(1.9)	(15.5)

Base source: Wards Auto

The US commercial Vehicle industry is still soft due to the significant pre buy in 2006 as a result of the change in emission norms. However, this quarter the production has tapered off significantly due to US housing recession and the sub prime crisis.

This has affected the company's traditional chassis business into US but the US exports still grew by 5.3% on the back of successful ramp up of production of Passenger & Commercial Vehicle engine components.

This highlights the success & effectiveness of the revenue de-risking within the US, undertaken by the company over the past few quarters.

Europe

Table 8 European Market De-risking Rs. Million

Particulars	Q2 FY 08	Q2 FY 07	Q1 FY 08	YoY %	QoQ%
Commercial Vehicle Chassis	271	123	260	120.3	4.2
Heavy Duty Crankshafts (HDEP)	504	160	338	214.4	49.1
Passenger Car Crankshafts	169	116	132	45.7	28.0
Non automotive	152	158	204	(3.8)	(25.5)
Total	1,096	557	934	96.8	17.3

Table 9 New Vehicle Registration - Europe No's

Particulars	Jul - Sep 07	Jul - Sep 06	YoY %
Passenger Cars	3,726,712	3,630,965	2.6
LCV	510,752	457,620	11.6
M&HCV	194,293	183,807	5.7
Total Auto Market	4,431,757	4,272,392	3.7

Base source: ACEA

In Q2 FY 08 BFL's revenue from European market has almost doubled compared to the same quarter previous year. This has been achieved on the back of:

- Ramping up of Serial production for medium & heavy-duty engine components programs.
- Growth in sales of M&HCV in Europe in the latter part of the first half and the beginning of the second half.

Asia Pacific

Table 10 China Production Data No's

Particulars	Jul - Sep 07	Jul - Sep 06	YoY %
Passenger Cars	1,469,905	1,183,477	24.2
Commercial Vehicle	583,553	463,800	25.8
Total Auto Market	2,053,458	1,647,277	24.7

Base source: CAAM

The inventory build up in China has got progressively corrected over the past two quarters in a substantial way and on the back of this BFL has registered a growth of over 350%, showing signs of revival.

The China market is of importance to BFL due to the sheer size and QoQ growth registered by the major OEMs. In the period July- Sept, the industry grew by 24.7% with the commercial vehicle segment growing by 25.8%.

Business Outlook

India

The Indian automotive market continues to be sluggish. However, all the fundamental macro economic factors still hold good. Other variables such as stable freight rates & volumes as visible from the QoQ nos makes BFL believe that the market is showing signs of revival. BFL is optimistic that the markets will pick up sooner rather than later.

USA

As mentioned in Q1 FY 08 analyst update, the US M & HCV market has dropped, in off take due to the change in emission norms beginning 2007.

The US Medium & Heavy Commercial Vehicle production continues to show signs of softness and has significantly tapered off in the last three months resulting from decreased freight volumes largely due to the US housing recession.

Expectations are that the housing recession will delay the recovery cycle for the North American commercial vehicle into the calendar year 2008.

Europe

Europe plays a very important role in our global plans due to the presence of our manufacturing facility & also due to the fact that it is the front end of technology modernization in the automotive industry. The automotive market in Europe continues to be stable with growth coming in the commercial vehicle segment.

Non Automotive Business

BFL announced the capacity expansion installation of its non-automotive manufacturing facility at Baramati & Pune in Q2 FY07 with the facilities coming online for trial production in Q1 & Q2 FY09 respectively.

This includes the commissioning of closed die forging hammer and machining capacity for the components manufactured at Baramati and the large open forge Press line at Pune.

The installation of the capacity is progressing as per schedule and BFL expects to commence trial production of parts between April and September 2008 in a phased manner and serial production in Q4 FY09 and Q1 FY10 at Baramati & Pune.

Centre for Advanced Manufacturing

A state of the art 80 Mtr Ton Counter blow Hammer and a complementary machining line will be installed at the Baramati Facility. This facility will primarily be catering to the Rail & Marine Sector, Aerospace sector & Mining & Construction sector.

The parts, which will be manufactured, include

- Engine Components such as Crankshafts & connecting rods for the Rail & marine sector, Diesel Engines, Compressors & Power Generation sector.
- Components for the Construction & mining sector.
- Engine & structural components for the Aerospace sector.
- Various machining facilities for different sizes of crankshafts for automotive & large marine engines.

Heavy Forge Division

A 4000T open die press will be installed at the upcoming facility in Pune. This facility will primarily cater to the Wind energy, Oil & Gas refining, Power generation and the Capital goods sector. This facility can produce parts ranging up to 70 tons.

The parts, which will be manufactured, include

- Shafts for the Wind Energy Sector, Power Gen sector.
- Well Heads, X-mas Tree for the Oil & Gas Industry.
- Shafts, Gear blanks etc. for the Capital Goods sector.

Conclusion

- BFL has got strong growth momentum in both the domestic & export market for automotive applications.
- The de-risking policy followed by BFL over the past few years has insulated the company from market fluctuations and has resulted in a continuous growth.
- BFL is also exploring ways of increasing its revenues from the domestic & European markets in order to increase the share of non-dollar denominated revenues.
- BFL has significantly addressed the issue of margin erosion in the last quarter by combination of operational efficiencies & cost reduction initiatives. This process will continue for the next few quarters.
- The non-automotive expansion is on track and will contribute significantly to revenue in the quarters to come. BFL has already secured customer commitments for many of the businesses.
- BFL has been able to maintain its traction with all its customers and this has resulted in better than the market growth in domestic as well as exports.