KALYANI

BHARAT FORGE

Bharat Forge Limited

Q3 FY08 Earnings Update

21st January 2008

Financial Highlights Q3

Combined financial statement

The combined financial statement for Q3 FY 2008 for Bharat Forge & its Wholly Owned Global Subsidiaries is as follows:

Table 1 *Rs. Million*

Particulars	**Q3 FY 08**	**Q3 FY 07**	**YoY%**
Revenue Within India Global Revenue	3,269 7,530	2,813 7,361	16.2% 2.3%
Total sales Revenue	**10,799**	**10,174**	**6.1%**
EBIDTA w/o other income & Exchange gain / loss	1,749	1,586	10.3%
EBIDTA %	***16.2***	***15.6***	
Other Income (w/o Exchange gain/loss)	218	197	
PBT (w/o Exchange gain / loss)	1,098	1,067	2.9%
PBT %	***10.1***	***10.5***	
Exchange Gain / (Loss)	(23)	84	
Profit Before Taxation	1075	1151	(6.6)%
Profit After Taxation	710	770	(7.8)%

BFL has reported a moderate growth in topline despite the fact that its largest market segments - the domestic CV market & the US CV market have been experiencing slowdown.

The company has also been able to improve its EBITDA margins for combined operations (before considering exchange loss / other income) but at the PBT level (before exchange loss) there is a marginal drop in profitability.

The continous weakening of the US Dollar has had an impact on BFL's profitability. The management is taking actions to overcome this impact by a combination of measures such as cost reduction, price correction, Dollarization of the costs & productivity improvement etc.

The above factors have been addressed in detail in the subsequent sections of the report.

Bharat Forge Stand alone Financials

Table 2 *Rs. Million*

Particulars	Q3 FY 08	Q3 FY 07	YoY %
Domestic Revenue Export Revenue	3,269 2,298	2,813 1,958	16.2 17.4
Total sales Revenue	5,567	4,771	16.7
EBIDTA w/o other income & Exchange gain / loss	1,363	1,155	18.0
EBIDTA %	***24.5***	***24.2***	
Other Income (w/o Exchange gain/loss)	179	162	
PBT without exchange gain /loss	895	849	5.4
PBT %	***16.1***	***17.8***	
Exchange Gain / (Loss)	(23)	84	
Profit Before Taxation	872	933	(6.5)
Profit after Taxation	582	630	(7.6)

Revenue

- BFL's Domestic Auto sales have outperformed the market both on y-o-y & sequential basis due to new programs and gain in market share. BFL is now working as a development partner with several domestic OEMs for their future platforms.

- Exports have registered a growth of 17.4% despite difficult market conditions in the US. Traditional US CV market was down over 45%. The gains are due to the management taking pre-emptive action of de-risking the revenue model & getting into new segments to expand the customer base.

- If the exports are adjusted for rupee appreciation, the growth works out to 30.2%.

Profitability

EBTIDA margin before exchange loss is slightly positive at 24.5%. PBT & PAT are slightly lower primarily due to exchange fluctuation and increase in fixed cost.

Capacity utilization for the quarter was marginally down vis-à-vis Q2 FY08. From the current levels, there is considerable head room for growth using the existing facilities.

Review of Business

Following table will summarize the geographical distribution of the company's revenue streams in Q3 FY08 against Q3 FY07.

Table 3 **Geographical Distribution of Revenue** *Rs. Million*

Particulars	Q3 FY 08	Q3 FY 07	Y o Y %
India*	2,812	2,475	13.6
USA	1,125	1,271	(11.5)
Europe	1,093	616	77.5
Asia Pacific	80	71	12.1
Total	**5,110**	**4,433**	**15.3**

** Excluding other operating Income*

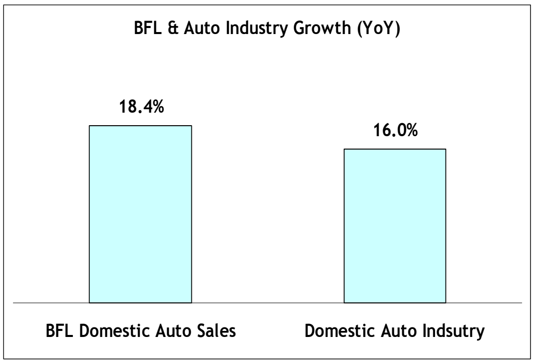
The company has been able to grow because of gain in market share in India & overall growth in Europe despite the slowdown in USA.

Indian Market Analysis

Table 4 **Indian Automotive Production** *No.*

Particulars	Q3 FY 08	Q3 FY 07	Q2 FY 08	YoY %	QoQ %
LCV	69,109	57,099	60,545	21.0	14.1
Medium & Heavy CV	74,140	75,303	66,343	(1.5)	11.8
Total CV Market (M&HCV +LCV)	**143,249**	**132,402**	**126,888**	**8.2**	**12.9**
Passenger Cars	425,455	357,747	427,195	18.9	(0.4)
Total Auto Market	**568,704**	**490,149**	**554,083**	**16.0**	**2.6**

Source: SIAM



Although BFL's Domestic revenues have gone up by 13.6%, its sales to the Commercial Vehicle & Passenger Vehicle segments have grown by 18.4% as against the industry growth rate of 16% indicating continued strong traction with all the major players.

Global Markets

USA

Table 5 **US Automotive Production** *No.*

Particulars	Oct - Dec 07	Oct Dec 06	YoY %
Passenger Cars	968,371	1,033,668	(6.3)
M&HCV	57,978	104,701	(44.6)
LCV	1,546,317	1,478,307	4.6
Total Auto Market	**2,572,666**	**2,616,676**	**(1.7)**

Base *source: Wards Auto*

The US Commercial Vehicle industry has been the traditional mainstay of BFL's business in the USA. As seen from table 5, US M&HCV industry has been hit with the production slowing down substantially in Oct - Dec 2007 as compared to Oct – Dec 2006 and this has affected BFL's exports to USA.

The following factors have affected the CV market in the US:

1. General economic slowdown in USA.
2. Q4 CY2006 was significantly higher as compared to Q4 CY 2007 due to pre buy as a result of the change in emission norms.

The above factors have affected BFL commercial Vehicle Exports (Engine & Chassis) into USA. Because of the de-risking strategy followed in USA, the loss due to the slowdown has been limited to 12%. Had the revenue model been what it was two years ago, BFL would have suffered a far bigger drop in sales to USA.

Europe

Table 6 **New Vehicle Registration - Europe** No's

Particulars	Oct - Nov 07	Oct - Nov 06	YoY %
Passenger Cars	2,577,570	2,515,447	2.5
LCV	461,692	426,613	8.2
M&HCV	146,225	118,209	23.7
Total Auto Market	**3,185,487**	**3,060,269**	**4.1**

Base *source: ACEA December No's not available*

Europe is a very strategic market for BFL because Europe is at the front end of technology modernization in the automotive industry and the largest CV manufacturers are European.

The European Auto industry is seeing pretty strong demand from Eastern Europe, especially in the Commercial Vehicle segment and this is expected to continue for the next 2-3 years.

BFL's revenue from European markets continued to grow at a strong rate compared to the same quarter previous year, primarily because of gain in market share with the existing customers. BFL continues to work with all the major OEMs with long term engagement for their new platforms.

Asia Pacific

Table 7 **China Production Data** No's

Particulars	Oct -Dec 07	Oct - Dec 06	YoY %
Passenger Cars	1,760,989	1,422,249	23.8
Commercial Vehicle	610.791	544,490	12.2
Total Auto Market	**2,371,780**	**1,966,739**	**20.6**

Base *source: CAAM*

The Chinese Automotive industry is witnessing strong growth. There is a huge opportunity in the Chinese market but of volatile nature. BFL is planning to address this demand by setting up capacities globally as the capacities initially created for the China business in India has been allotted for new European medium & heavy duty CV business.

Business Outlook

India

The Domestic market after witnessing YOY drop in the first two quarters of FY08 has shown signs of initial recovery in Q3 and industry experts expect it to gain momentum in the coming quarters. Being a development partner for the Domestic OEMs, BFL has good visibility into customer demand and expects to see an increase in revenue & market share once the new programs come online.

USA

Table 8 US Automotive Production *No.*

Particulars	Jan - Dec 07	Jan - Dec 06	YoY %
Passenger Cars	3,924,539	4,366,966	(10.1)
M&HCV	278,924	461,818	(39.6)
LCV	6,547,686	6,431,463	1.8
Total Auto Market	**10,751,149**	**11,260,277**	**(4.5)**

Base *source: Wards Auto*

The US M&HCV production numbers were expected to be weak on the back of new emission norms which came into effect from Jan 1st 2007 resulting in a significant pre-buy in the Oct- Dec period of 2006.

The drop in production in the US CV market due to pre-buy was estimated to be in the range of 24% but the actual drop witnessed was over 40%. This has resulted in lower production and slower ramp-up of BFL's new HDEP programmes.

The recovery of the markets were expected to begin in the last quarter of CY 2007 but has been further delayed by at least 2 more quarters due to the economic slowdown. Based on the feedback received from our customers, we expect the markets to revive in second half of 2008.

Going forward, with the expected recovery of the US CV market & new businesses being ramped up in the Non Auto space, BFL is poised for significant growth in the coming quarters.

Europe

European automotive industry has been growing at a steady pace and we expect it to grow at similar rate in the coming year also. The Commercial Vehicle space is witnessing positive growth and the same is expected to continue for the year ahead also. BFL is well poised to take advantage of this growth going forward.

Update on Non Automotive Capacity Expansion

The Company's non-auto capacity expansion programme is well on stream and commercial production for its Baramati & Open Forge plants will commence in Q4 FY09 & Q1 FY10 respectively. This will be a major inflection point and will begin to add significantly to the top line at the end of FY09.

BFL is planning to address the following sectors

- Power & Energy
- Rail & Marine
- Oil & Gas
- Capital Goods, Metals & Mining
- Aerospace

These are all high value high value added products with growth coming from India, Emerging markets & developed economies.

BFL is increasing its focus on non-auto business within India especially capital goods, energy & rail. BFL has existing capacities to start off and will increase its presence once the new capacities come online.

BFL has received tremendous response from major global capital goods manufacturers across sectors such as energy, power generation, oil & gas, aerospace, rail and marine transportation and various other growing industrial sectors & is setting up global scale state of the art facilities to address these opportunities.

Inflection Points Going Forward.

BFL has registered relatively stable performance despite US & Domestic CV markets slowing down which are the mainstay of BFL's business. On this backdrop, the outlook for BFL going forward is optimistic. At this point it would be useful talking about the key growth drivers or the inflection points for BFL, going forward:

Turnaround in the US market – Recovery of the CV market would give BFL tremendous upside. The anticipation is that the markets would see a recovery in the second half of the current calendar.

Recovery of the Indian market – Although the Indian markets have shown signs of recovery in Q3, it still has a lot of ground to cover. The Q3 performance gives the company a lot of hope and the expectations are that it should get better in Q4.

Beginning of production at Baramati – The Baramati plant is expected to begin trial production in Q2 of FY 2009 and serial production by Q4 of FY 2009. This would mark BFL's foray into the Non-auto space in a big way. The products are high value and highly value added products and the customers are both domestic & global

Beginning of production at Heavy Forge Division, Pune – Also part of the non-auto foray, this plant is expected to begin trial production in the middle of the next fiscal year and serial production in Q1 of FY 2010. A large portion of the products are non dollar denominated.

Conclusion

1. BFL has been able to have stable performance despite adverse market conditions in both domestic & US Markets. This is attributable to the de-risking strategy followed by the company over the past few years.

2. The market conditions are expected to improve going forward and this augurs well for Bharat Forge.

3. The non- auto expansion will add a new dimension to the de-risking strategy and will become a major growth driver going forward.

4. BFL is foraying into the fast growing capital goods sector and aims to become a significant player in the near future. The proposed JV with NTPC is the first step in this direction.

5. The company is endeavoring to grow its top line & bottom line using the existing capacities through a series of measures such as

    - Addressing the Non Auto business, both Domestic & Exports.
    - Improving market penetration in the domestic markets.
    - Improving productivity
    - Cost reduction