

Bharat Forge Limited

Q3 FY05 Earnings Update

15 January 2005

Key Highlights

Business

- Bharat Forge Limited (BFL) has had a very strong revenue and earnings growth in the first nine months of this Financial year. The company's export business has begun to accelerate and its domestic business has grown faster than the market.
- In the nine months ended December 31, 2004, the company's total revenues as well as exports surpassed previous financial year figures while PBT margin has been maintained at healthy levels. This growth has been achieved largely with the help of existing capacities and the commissioning of a small part of our new capacity.
- BFL has reported very strong growth in the quarter ended December 31st, 2004. The strategically de-risked, global business model put in place by BFL is delivering strong export growth.
- Total revenues grew by 46.4% with export growing by 76.2% in Q3 of FY05 over corresponding quarter.
- Profit before Taxation (PBT) showed robust growth of 37.4% in Q3 FY 05 over the corresponding period.
- During the quarter the company commenced serial production for its second global passenger car customer.
- BFL acquired CDP Aluminumtechnik (CDP AT) in an all cash deal. This acquisition marks the company's entry into the high-end aluminum auto components for the global passenger car platforms.
- BFL's global business model has begun to prove its mettle. BFL's consolidated global revenue (BFL and its subsidiary) for the quarter ended December, 31 2004 stood at strong Rs. 5288 million with EBIDTA & PBT at Rs. 1230 million and Rs. 932 million respectively. PAT for the quarter was Rs. 576 Million.

Quarterly Performance Highlights

| | Q3 FY05 | Q3 FY04 | <i>Rs million</i> % Growth |
|-------------------|---------|---------|----------------------------------|
| Total Income | 3113 | 2126 | 46.4 |
| Exports | 1494 | 848 | 76.2 |
| Domestic | 1615 | 1271 | 27.1 |
| Others | 4 | 7 | |
| EBIDTA | 879 | 670 | 31.1 |
| EBIDTA (%) | 28.24% | 31.51% | |
| Profit Before Tax | 654 | 476 | 37.4 |
| Tax Provision | 240 | 146 | |
| Profit After Tax | 414 | 330 | 25.5 |
| EPS (Rs) | 10.38 | 8.47 | 22.6 |

Revenue Growth

- Quarterly export revenues grew by 76.2% on the back of strong sustained demand from the US customers, strong demand surge from the China market & commencement of serial production for its second global passenger car customer. Business in most export markets is tied up with long term contracts.

Operations Review

As explained in the past as well as in the annual report, BFL had to give significant rise in the prices of steel to its suppliers. This was in line with the global rise in the prices of steel. BFL has been able to pass on the same to its customers. In the last few quarters, prices of petroleum products have increased due to higher crude prices in the international market. We have been able to maintain a strong EBIDTA level of over 28% consistently in the current financial year primarily on account of higher productivity, focus on value addition, and intensive cost reduction measures. PBT margin has remained strong due to earnings growth outpacing growth in financial costs. BFL began serial production and shipment of products for its second global passenger car customer. This will help the company strengthen its position as a major supplier to the global passenger car industry. As the new capacities come on line, the company will be able to further accelerate the growth in exports.

Performance Highlights for Nine Months

| | Rs million | | |
|-------------------|---------------------------------|---------------------------------|----------|
| | 9 months ended December 2004 | 9 months ended December 2003 | % Growth |
| Total Income | 8631 | 6103 | 41.4 |
| Exports | 3560 | 2478 | 43.7 |
| Domestic | 5018 | 3540 | 41.8 |
| Others | 53 | 85 | |
| EBIDTA | 2429 | 1880 | 29.2 |
| EBIDTA (%) | 28.14% | 30.80% | |
| Profit Before Tax | 1787 | 1284 | 39.2 |
| Tax Provision | 655 | 397 | |
| Profit After Tax | 1132 | 887 | 27.6 |
| EPS (Rs) | 28.82 | 22.70 | 27.0 |

Revenue Growth

- BFL surpassed the last full years' revenue and exports in the first nine months of the current financial year.
- During the nine months BFL achieved all round growth in domestic as well as export market. The total revenue grew by 41.4% to Rs. 8631 Million. The domestic & export revenue grew by 41.8% & 43.7% respectively.
- The company has been able to grow its domestic business at a faster pace than the underlying market.
- As the company had explained earlier, exports growth has begun to accelerate again with a strong growth in the third quarter. The company hopes to further accelerate this with the new capacity coming on line in the next few quarters.
- Export growth was achieved primarily on account of robust recovery in the China Market and sustained growth in the US Market. During the period of nine months BFL commenced serial production for its both passenger car customers. BFL's strategic business model of focusing on wide geography, customer segments and wider customer base is paying rich dividends in the form of growing exports and strong growth visibility.

Review of Business

- Domestic market continued the robust growth in the first nine month of the current year as well. All the segments of the domestic automotive market witnessed strong growth in the first nine months.

(Nos)

| Category | 9 mths ended Dec 2004 | 9 mths months ended Dec 2003 | % Growth |
|--------------------|--------------------------|---------------------------------|----------|
| M&HCV | 150000 | 113694 | 31.9 |
| LCV | 97797 | 76346 | 28.1 |
| Passenger Cars/Uvs | 877269 | 688782 | 27.4 |

Source SIAM

BFL achieved a strong 41.8% growth in domestic revenue in the nine months ended December 2004 over the corresponding period last year, which is higher than industry growth.

Company is aggressively following the strategy of achieving global footprint in a de-risked business environment. During the quarter, besides the sustained demand from US market, the company witnessed a strong resurgence of demand from Chinese market.

Acquisition of CDP Aluminiumtechnik (CDPAT)

- On 10 December 2004, Bharat Forge acquired 100% ownership interest in CDP Aluminiumtechnik GmbH & Co KG (CDP AT) in an all cash deal. The company is being renamed Bharat Forge Aluminiumtechnik (BF-AT).
- BF-AT is a significant player in Europe in the area of aluminium auto components used in passenger cars and other automotive applications. It is a profitable company with an annual turnover of over Rs 200 crores (€ 35 Million) and a staff complement of 130 employees. BF-AT has developed and patented its technology of aluminium forgings in Germany. Its customers include major automobile manufacturers such as BMW, Audi, Volkswagen, Ford, etc.
- The acquisition has significantly enhanced BFL's product range and technological capabilities. With this acquisition, Bharat Forge is now capable of addressing the requirements of global passenger car manufacturers for both steel & aluminum auto components.

Capacity Expansion Program

- The company's ongoing capacity expansion program is progressing as per the schedule. Most of the orders for the key equipment have been placed and the same has begun to arrive in the factory as per the delivery schedule. The forging capacity expansion will be complete in the Q2 of FY 2006 and machining capacity expansion will be completed by Oct-December 2005.

International Recognition

- Bharat Forge Limited was included in the Forbes 'Best under a Billion' list for the second consecutive year in the November 1st 2004 issue of Forbes magazine.

Outlook

Business Potential

- The domestic market for CV & Passenger car is expected to continue to show moderate to good growth in the medium term.
- The US market continues to be strong and outlook is extremely robust.
- The European market is also expected to be strong for the passenger car and CV segment. Our manufacturing presence in Europe through CDPBF & BF-AT will be leveraged in capturing this very strong business opportunity.
- As mentioned earlier, the Chinese market has shown a strong recovery in demand and it is expected to continue in the medium term. The primary driver is the huge infrastructure spending ahead of the 2008 Olympics as well as the general buoyancy in the Chinese automotive market. We have strong supply relationship with the two largest Chinese truck manufacturers and this gives us a great opportunity to participate in the demand boom.

Global Business Review

- BFL has chalked out a well thought out strategy of accelerated growth through organic & global inorganic growth initiatives.
- The company's global operations are performing extremely well and have demonstrated good growth. This is a result of the synergies between BFL and its global subsidiaries in jointly servicing their common clients.
- BFL's Consolidated global revenue and earnings for the quarter ended December 31st 2004 are as follows:

| Particulars | Rs. Million |
|------------------------|--------------------|
| Total Revenue | 5288 |
| EBIDTA | 1230 |
| Profit Before Taxation | 932 |
| Profit after Tax | 576 |

(The above figures do not include the results of BF-AT acquired on December 10th 2004 as the effective ownership period post acquisition is negligible)

These results are a reflection of the resounding success of BFL's global business strategy.

- BFL will leverage this strong financial performance & equally strong market presence to act as the critical mass for launching focused & aggressive global growth initiatives.

Conclusion

- BFL sees a strong demand over from both domestic and global markets & is preparing to address the same by substantially expanding its forging & machining capacities.
- BFL will pursue organic & inorganic growth initiatives to realize its vision of achieving global leadership.
- With strong financials, deep customer relationships and state of the art technological capabilities, BFL has chalked out clear, focused & aggressive strategy to address these opportunities.
- With the above initiatives, BFL is very confident of accelerating its growth rate in the coming quarters and sees the results of this quarter as a strong step in that direction.