BHARAT FORGE

Bharat Forge Limited

Q4 FY08 Earnings Update

20th May 2008

FY 2008 Market scenario and key performance highlights

FY2008 was a very challenging & testing year on both the domestic & export fronts.

- The domestic CV segment after recording a 26% CAGR over the past 4 years slowed down significantly with CV production registering a modest growth of less than 5%. However, BFL's sales to the Domestic CV segment grew by **12%** YoY.
- In FY2008, the rupee appreciated significantly against the US$ lowering the realization on exports by Rs.879 Million.
- Conditions in the US Automotive industry continuously deteriorated in 2007. M&HCV production dropped by **40%** against expectations of a 24% drop.
- However, BFL Exports in Rupee terms grew by 28% while the growth in Dollar terms was a strong 40%.
- The company de-risking strategy has enabled it to continue growing in spite of a downturn in two of its major markets.
- In the domestic market, this has been achieved by increased penetration with all the major OEM's leading to increased market share.
- In the US market, BFL opened up new businesses in the Passenger Vehicles & Non auto segments and gained market share in the HDEP segment.
- The Company's foray into non auto will lead to further de-risking of the business model by adding several new segments in addition to marquee new customers.
- The Company has seen tremendous growth in Europe due to its development pipeline as a result of its strong presence and relationships in the region.
- Fixed costs have increased substantially due to the previous capacity expansion programmes but the markets have not grown to the anticipated levels.

Consolidated Financial highlights.

The consolidated financial statement for FY 2008 for Bharat Forge & its Global Subsidiaries is as follows. These incorporate the financial results of Bharat Forge Ltd. as a stand-alone entity, its wholly owned subsidiaries (WOS) and of the China operations.

Table 1 ***Rs. Million***

Particulars	FY2008	FY2007	% Growth
Revenue – India	13,239	11,940	**10.9**
Revenue – global Operations	34,277	30,812	**11.2**
Total Revenue	47,516	42,752	**11.1**
EBIDTA	8,037	7,433	**8.1**
EBIDTA %	***16.9***	***17.4***	
PBT before Exceptional items	4,498	4,485	**0.3**
PBT %	***9.5***	***10.5***	
PBT	4,498	4,363	**3.1**
PAT after minority Interest	3,015	2,906	**3.8**
Fully Diluted EPS Rs.	13.44	13.13	

Consolidation Protocol

Table 2

Operating results of	Period	Remarks if any
Wholly Owned Subsidiaries	CY 2007	100% Consolidation on line by line basis for the full year.
FAW Bharat Forge - China	CY 2007	Consolidated on line by line basis & Share net of minority loss shown separately as required by Indian Accounting standards

Consolidated revenues grew by 11% on the back of strong growth in BFL's exports business. EBITDA margins have dropped marginally primarily because of lower realization of dollar sales from India and higher manufacturing expenses as a result of rise in fuel cost for the group.

Bharat Forge Stand alone Financials – Q4 & FY 2008

Table 3 *Rs. Million*

Particulars	Q4 FY08	Q4 FY07	Growth %	FY 2008	FY 2007	Growth %
Domestic Revenue Export Revenue	3,332 2,465	3,154 2,007	5.6 22.8	12,355 9,610	11,131 7,513	11.0 27.9
Total Revenue	5,797	5,161	12.3	21,965	18,644	17.8
EBIDTA w/o other income & Exchange gain / loss	1,437	1,247	15.2	5,222	4,676	11.7
EBIDTA %	*24.8*	*24.2*		*23.8*	*25.1*	
Other Income	126	197		623	784	
PBT without exchange gain /(loss)	958	944	1.38	3,406	3,641	(6.5)
PBT %	*16.5*	*18.3*		*15.5*	*19.5*	
Exchange Gain / (Loss)	(158)	21		261	25	
PBT before Exceptional item	800	965	(17.10)	3,667	3,666	
Exceptional item	303	-		303	(68)	
PBT	1,103	965	14.3	3,970	3,598	10.3
PAT	828	643	24.8	2,736	2,410	13.5

- In the domestic market BFL grew by 11%, in line with the underlying market.

- In FY 2008 Exports demonstrated an excellent growth of 27.9% in rupee terms. This was despite the Rupee appreciating against the US$ and a major slowdown in US M&HCV segment, BFL's biggest Export market. This was achieved primarily through the successful ramp up of various medium and heavy duty engine part (HDEP) and Passenger car programs both in Europe and USA.

Strong revenue growth on both the domestic & export front in FY2008 has clearly highlighted the effectiveness & importance of the de-risking strategy under unfavorable market conditions.

Exceptional item:

- The exceptional Item shown in the results is the profit on transfer of BFL's investment in one of its wholly-owned subsidiaries to another wholly-owned subsidiary. The amount of Rs.303 million is the Long- term capital gain upon the transfer of this investment. In the consolidated financial statements, the above referred exceptional item of income has been eliminated (since the transaction is between parent & subsidiary companies).
- This transaction was completed in March 2008 and with this all our subsidiaries other than US subsidiary are now under our subsidiary in Germany
- This move is part of our strategy to consolidate the value of our global subsidiaries under one entity.

Foreign Exchange Strategy

- The Company manages currency risk through
  - Natural hedge offered by foreign currency liability
  - Availment of Packing Credit in Foreign Currency
  - Simple forward covers

- As per Indian Accounting Standards, foreign currency loans, forward contracts and packing credit loans are revalued at the end of each quarter till maturity of the same.

- On maturity of forward contracts and packing credit loans, sales are booked at contracted rate.

The Company has not entered into any derivatives / options / swaps / range bound structures to hedge currency risk.

Performance of Subsidiaries

The results of the Wholly-owned subsidiaries and China operations for CY 2007 v/s. CY 2006 is given below:

Table 4

Particulars	CY 2007 Subsidiaries	CY2006 Subsidiaries	Growth
Total Income	**24,718**	**23,299**	**6.09%**
PBDIT	**1,933**	**1,948**	**-0.77%**
(% to Total Income)	7.82%	8.36%	
PBT (before exceptional items)	**832**	**819**	**1.63%**
(% to Total Income)	3.37%	3.52%	
PBT (after exceptional items)	**832**	**765**	**8.80%**
(% to Total Income)	3.37%	3.28%	
PAT (after minority Interest)	**583**	**496**	**17.42%**
(% to Total Income)	2.36%	2.13%	

The performance of the wholly-owned subsidiaries has been affected during the year as a result of the following:

- Sales of the subsidiaries combined have remained flat due to weakness in the US Automotive industry leading to drop in turnover of our US Subsidiary.
- Bharat Forge Kilsta had a good year with moderate improvement in top line.
- China operations have shown a substantial improvement in the top line – grew by 34%, on an annualized basis driven by better utilization and improved efficiencies.

Review of Business- Indian operations

Following table will summarize the geographical distribution of the company's revenue streams in Q4 & FY 2008 against that in the corresponding previous periods.

Table 5 *Rs. Million*

Particulars	Q4 FY 08	Q4 FY 07	Growth %	FY 2008	FY 2007	Growth %
India	3,332	3,154	*5.6*	12,355	11,131	*11.1*
USA	1,197	1,221	*(2.0)*	4,855	4,910	*(1.1)*
Europe	1,176	725	*62.2*	4,299	2,366	*81.7*
Asia Pacific	92	61	*50.8*	456	237	*92.4*
Total	5,797	5,161	*12.3*	21,965	18,644	*17.8*

Review of Indian Market

The Indian Automotive Industry had witnessed strong growth across the board for the past five years (FY2003-FY2007) with CAGR of over 22%. The Passenger & Commercial Vehicle segments registered a growth of 21% & 26% respectively over the same period.

The Markets in FY2008 took a breather and recorded a modest growth of 12% (see Table 6 below). The commercial vehicle market, the traditional mainstay of BFL in India, saw a sluggish growth of less than 5% in FY 2008. The LCV segment grew by 13% while the M&HCV segment declined by 1% over the previous year.

Table 6: Domestic Automotive Production Data

Particulars	FY 08	FY 07	YoY %
LCV	254,062	225,724	12.6
Medium & Heavy CV	291,114	294,258	(1.1)
Total CV Market (M&HCV +LCV)	**545,176**	**519,982**	**4.8**
Passenger Cars	1,762,129	1,545,223	14.0
Total Auto Market	**2,307,305**	**2,065,205**	**11.7**

Source: SIAM

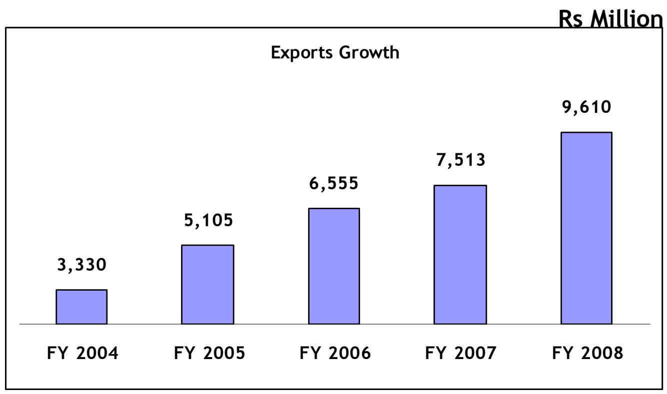
The growth in domestic turnover of 11% is in line with the market, despite a drop of 1% in the M&HCV segment. This growth has been achieved on the back of

- Increased traction with all major Commercial vehicle OEM's by becoming the preferred supplier for all the new platforms resulting in CV sector sales growing by 13.1% against CV segment growth of 4.8%
- Enhanced presence in the tractor & agri equipment business, which grew at 40% during the year FY2008.

BFL has started engaging with the Indian OEM's as a development partner for their global platforms with long term relationship & commitment.

Exports business – Growth & Diversification

BFL started expanding its Export market a few years back as part of its derisking strategy. For this BFL expanded its forging capacity and added dedicated machining lines. As seen from the charts below, exports have grown at a CAGR of 30% from Rs 333 crs to Rs 961 crs between FY 2004 and FY 2008. Along the way, we have also diversified into new segments & products. There has been a visible shift in the value addition with development of high value high value added products such as Heavy Duty Engine Parts (HDEP) and components for non-auto. In FY 2008 BFL's exports grew by 28% in Rupee terms and by 40% in foreign currency terms.



Review of Export Markets

USA

BFL adopted the strategy of de-risking its business model with the objective of providing resilience to the revenue stream to withstand downturn in market cycles in the markets in which BFL operates.

US automotive markets witnessed a pre-buy in the last quarter of CY 2006 due to change in emission regulations starting Jan 2007. This led to expectations that the production numbers for the M&HCV segment would see a drop of 25% in CY 2007. However, the economic slowdown in the US coupled with various other factors, led to a sharp drop of 40% as seen below in Table 8

Table 7

US Production Data	Jan - Dec 07	Jan - Dec 06	YoY %
LCV	6,547,686	6,431,463	1.8
Medium & Heavy CV	278,924	461,818	(39.6)
Passenger Cars	3,924,539	4,366,996	(10.1)
Total Auto Market	**10,751,149**	**11,260,277**	**(4.50)**

Source: Wards Auto

Besides this, BFL's exports in to US was also adversely affected by the sharp appreciation of the rupee vis-à-vis the USD.

- Despite these adverse factors BFL has been able to maintain its revenue from the US market in rupee terms & grow by **11.9%** in dollar terms.
- This has been possible because of the diversification into segments like Passenger car and non-automotive.
- This clearly highlights the effectiveness of the de-risking of the US market revenue stream.

BFL put in place a de-risking strategy 5 years ago. This has helped the company to insulate itself from the downturn in its biggest Customer segment in the US.

Europe

European Automotive market is of strategic importance to BFL, wherein it operates thru Exports from India as well as through a large capacity within Europe.

Table 8

Europe sales Data	Jan - Dec 07	Jan - Dec 06	YoY %
LCV	2,245,062	2,095,382	7.1
Medium & Heavy CV	780,431	736,623	5.9
Passenger Cars	15,958,863	15,782,959	1.1
Total Auto Market	**18,984,356**	**18,614,964**	**2.0**

Source: ACEA

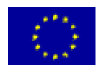
The European market continued to grow at a stable pace with all the segments showing a moderate growth.

- In FY08 BFL has successfully ramped up several programs for M&HCV and Passenger Vehicle Engine & Chassis components.
- As a result of this, Exports into Europe exhibited strong growth of 82% and now constitutes almost 45% of BFL's Exports against 31% of last year.
- The substantial growth seen in Europe has been the result of a well thought out strategy to reduce the dependence on the US market. Besides helping us grow our exports substantially it has acted as a cushion against the fall in the US market revenues.

Substantial part of the growth in Europe is due to BFL's strong presence & relationships with major OEM's through its operations in Europe.

Automotive Market Outlook

The table below explains the outlook for the different geographies / market segments that BFL operates in:

Segments					OUTLOOK FOR BFL
	• Market is flat. • Big Three are down while transplants are performing well.	• Flat outlook for passenger vehicles in 2008.	• Positive Outlook esp. for Small & Medium vehicles. • Less forging content per car	• China, South East Asia & South America are performing well.	• BFL has a small exposure and is gaining market share in this segment. • Growing demand for Aluminium products • **POSITIVE GROWTH EXPECTED.**
	• The overall CV market is subdued & production was down 40%. •Volatile environment & unclear forecast for the year.	• The outlook for Western Europe is stable with growth coming from Eastern Europe. • Manufacturing & Economic activity in Western Europe is buoyant.	• The forecast for the market is flat or subdued growth.	•The Chinese CV market is highly volatile. •South America is witnessing strong growth	**CHASSIS:** • Improved Penetration. • Increasing value addition • New customer additions • **STABLE BUSINESS EXPECTED.** **ENGINES:** • Relatively new segment for HDEP Exports. • Ramp up of new programs in progress. • Several Current & Next Gen Platforms. • **OVERALL POSITIVE OUTLOOK.**

Key Concerns & strategies going forward

Concerns	Strategy
Increasing Commodity Prices (Steel)	• Material pass thru contracts with customers.
Overall Cost Increase	• Productivity Improvement. • Cost reduction initiatives.
US Slowdown continues	• De-risked business model by way of initiatives In Passenger Car, HDEP & Non Auto segments. • Despite 40% drop in US CV market, BFL has been able to maintain its exports into USA.
India Auto slowdown	• Gaining market share with customers by becoming a development partner & developing products for next generation platforms • Capturing huge potential offered by Capital Goods & Non Auto segments

Non Automotive Business – Update

The non-automotive businesses are witnessing phenomenal growth driven by demand from both the emerging economies as well as the developed economies. To capture this huge opportunity, BFL is putting up state of the art capacities.

The following are the sectors BFL plans to address through these new facilities.

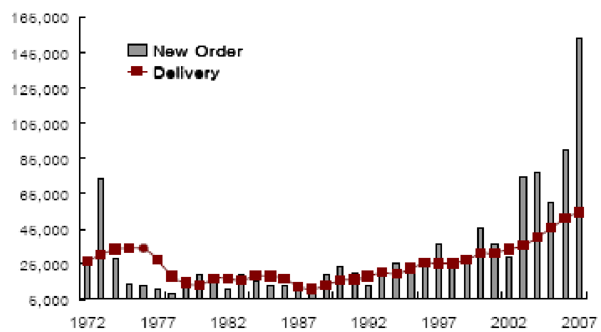
1. Marine
2. Wind Energy
3. Aerospace
4. Oil & Gas
5. Construction, Metals & Mining
6. Railways.

We give below an analysis of the opportunities offered by two of the above sectors.

Marine Sector

BFL will be supplying high value highly value added components such as crankshafts, connecting rods and propeller shafts for marine engines.
New shipbuilding orders are surging on the back of the growth of economies like China & India leading to increased seaborne trade. As of May 2008, there are orders for over 6,500 new vessels (Source: Bloomberg).

New order Trend

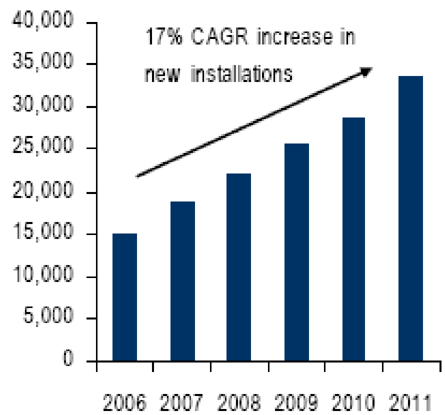


(Source : Clarkson Research Studies, Unit : Thou. of GT)

Demand for engine components used in tankers, bulk carriers and other ships remains extremely buoyant due to a strong flow of orders for ships from emerging economies. The Japanese, South Korean and Chinese shipbuilders are currently having a backlog of three to four years. While this reflects a strong demand for ships, it points to a sharp constraint in the supply of the components required.

Wind Energy Sector

The wind Energy sector is slated to grow at a CAGR of 17% up to 2011 with annual installed capacity increasing from 15,000MW to a projected installed capacity of 33,500MW (see chart below).



Severe constraints in the supply of key components such as shafts, bearings, gearboxes etc. has been an issue the industry has had to deal with and with this projected increase in installed capacity, supply constraints will become even more acute. One reason for the shortage is that the boom in the wind industry has coincided with a generally increased level of activity across all heavy industry, with increased demand for forged components.

Non-auto sector Outlook

Segments					**OUTLOOK FOR BFL**
	• One of the largest & fastest growing markets in the world • Legislation to generate 10 – 20% of electricity thru alternate sources including wind energy	• Largest market in the world. • Well developed industry • Low growth rate	• 4th largest market in the world •Good growth rate forecasted • Shift from 1 MW to 2 & 2.5 MW turbines.	• China – fast growing demand but low opportunity due to localization • Brazil will be a large market in the future	• Already supplier to small WTG • Opportunity to supply to global OEM's & Tier – I • Products include Main Shafts, Rings & Gear box components.
	• Mature Market • Markets expected to be flat	• Strong double digit growth forecast for east Europe & western Europe expected to be flat	• Strong growth forecast for Asia • Boom driven by infrastructure spending in India & China.		• Huge opportunity in India, China & Eastern Europe. • Resourcing opportunities in US & western Europe • Products include crankshafts, connecting rods, pistons, axles & camshafts.
	• Engine volumes have been strong for the past 4-5 years & are forecasted to be strong for the next 3-4 years. • Global OEM's are investing hugely in increasing capacities.				• New business segment • Dealing with all major engine manufacturers. • Products include Crankshafts, Connecting rods & Propeller shafts

LARGE OPPORTUNITIES IN ABOVE SECTORS GOING FORWARD

New business initiatives - An update

Long Term Contracts

BFL had announced in FY07, that it had won 3 long-term contracts, each having an annual value in excess of USD 50 million with global OEM's. These contracts covered a wide range of parts for non-automotive applications.

These contracts are part of the new non automotive capacity coming on line at Mundhwa & Baramati and include:

- Engine components for 2 customers for the stationary & marine engine sector which will be manufactured on the 80 Mtr Ton Hammer
- Shafts for the Wind energy sector which will be manufactured on the 4000T open forging press.

Some of these have been developed & are under trials while some will be developed once the plants come online. These products will start adding to the top line towards the end of FY09. These are multi product contracts which will ramp up over the next two years.

Capacity Expansion

BFL is nearing the completion of the Rs 350 crore Non Automotive capacity expansions at Mundhwa & Baramati plants which will produce open & closed die forgings respectively.

BFL is planning to further expand capacity to address new opportunities in the non – automotive & the automotive sectors.

BFL will invest an amount of approximately Rs. 2.00 billion (USD 50 Million) in setting up state of the art ring rolling facility to manufacture large ring forgings. Besides this a machining facility for automotive & non automotive applications is also planned.

Table 12

Equipment capability	Type of Products and industry addressed	Location	Capacity	Estimated Start of Production
Large Ring manufacturing facility	Large rings & gear blanks for various sector	Baramati	25,000 MT	Beginning 2009
Machining capacity	Supply of machined windmill shafts	Satara	1,400 Nos	Q2 FY2009
Crankshaft Machining Capacity	Supply of machined crankshafts for auto	Baramati	120,000 Nos	Q3 FY2009

Fund Raising

BFL had earlier planned a preferential issue of shares to the promoters to the tune of Rs 3.00 billion to fund the capacity expansion in the non-automotive sector & other initiatives.
Based on feedback received, the board recommended that a more equitable structure be considered instead of a preferential issue. Accordingly now a rights issue of Non Convertible Debentures with warrants upto Rs 4.00 billion is planned in place of preferential issue.

Capital Goods Foray-NTPC JV - Update

BFL had signed an MOU with NTPC, India's largest power utility, in March 2008 for the setting up a JV company which will foray into the power equipment manufacturing business. The JV Company which is in the process of being formed will have BFL holding the majority stake.

BFL has identified Balance of Plant (BOP) as a key focus area for the JV. BOP includes material handling, coal & ash handling etc. The JV will meet the requirements of various power plants, both in public & private sectors & investments in the JV will be made over a period of 2-3 years.

Conclusion

- FY 2008 was a year full of challenges like
    - The slowdown in the Indian CV market
    - The drop in the US market by almost 40%
    - The rupee appreciation

- In spite of these very adverse conditions BFL was able to post a moderate growth in domestic revenue and a strong growth in its export earnings

- In the Indian markets BFL has been able to maintain / grow its businesses by increasing the level of engagement with its customers & going forward will continue to grow inline with the markets.

- With Indian OEM's now beginning to develop global platforms, BFL sees itself deeply engaged with long term visibility & commitment.

- Strong growth in export earnings is attributable to the de risked business model built systematically by BFL over the years and expanding the business in Europe by using strong customer relationships of our European operations. Going forward the same strategy will continue.

- With the help of material pass thru contracts, BFL will be in a position to address the issue of substantial increase in raw material prices.

- With its two new facilities BFL is now ready to capture the opportunities offered by the booming non-automotive businesses. Going forward the non auto business will become a major growth driver and will also support the de-risking strategy followed by the company.