



BHARAT FORGE

Bharat Forge Limited

Q4 FY09 Earnings Update

20th May 2009

FY 2009 Market scenario and key performance highlights

The year gone by was a catastrophic one for the global automotive industry deeply impacted by an unprecedented global economic crisis with far reaching implications for the global automotive industry.

The Period panned out into two diametrically opposite phases characterized by strong growth in most major markets except USA in the 1st half upto September 2008. Then the industry came to a grinding halt on the back of the global financial meltdown & credit freeze resulting in the following:

- Demand contracted at an unparalleled pace catching the OEM's off guard.
- Vehicle sales fell heavily across the world starting October - every vehicle market in the world registered a slump in sales & orders. This level of synchronized decline across all markets has never been seen before.
- Production cuts & stoppages were initiated globally to liquidate inventory. The pileup of Finished Good, components & aggregates at the OEM enhanced the impact on the suppliers.

The extent of the market crash witnessed in FY 2009 is highlighted below

- M&HCV production in India fell by **60.7%** YoY Jan - Mar 09. However, for the full year, the drop was only 34.7% due a stable performance in the 1st half of the year.
- European Commercial Vehicle registration in Jan - Dec 08 declined by 9%, the sharpest drop since 1993 while Commercial Vehicle production fell **33%** in Oct - Dec 2008 and 5% in CY2008.
- The US Automotive markets continued its downward movement with M&HCV production declining by **19.3%**. **The M&HCV market size has shrunk by over 50% in the last 2 years.**

The above factors significantly affected BFL's Indian & overseas performance despite a de-risked business model. This was primarily a result of simultaneous slowdown across all geographies & industry segments.

- Consequently, Production at the Indian operations declined by 61.6% and 28.8% in Q4 FY2009 & FY 2009 YoY respectively. Production at the subsidiaries declined by 12.5% and 31.8% in CY2008 & Q4 CY2008 YoY respectively.
- Standalone revenues in FY2009 declined by 6.3% to Rs 20,576 million with Exports managing to grow by 4.2% YoY to cross Rs 10,000 million. The drop in sales is lower than the production drop due to price increases during the year on account of raw material pass thru. Production dropped by 28.8% in FY2009 to 133,755 from 187,937 in FY2008.
- The new Non Auto facilities have commenced production but the subsequent ramp up may be impacted due to slowdown prevailing in sectors such as stationary & marine diesel engines, construction, mining etc.

Bharat Forge Stand alone Financials - Q4 & FY 2009

Table 1

Rs. Million

Particulars	Q4 FY09	Q4 FY08	Growth %	FY 2009	FY 2008	Growth %
Shipment Tonnage	18,246	47,553	(61.6)	133,755	187,937	(28.8)
Domestic Sales	1,723	3,331	(48.3)	10,562	12,355	(14.5)
Export Sales	1,192	2,465	(51.6)	10,014	9,610	4.2
Total Sales	2,915	5,796	(49.7)	20,576	21,965	(6.3)
EBIDTA Excl Other Inc.	426	1,437	(70.4)	4,450	5,222	(14.8)
EBIDTA %	14.6	24.8		21.6	23.8	
Other Income	153	126		488	623	
PBT before Exceptional item & Exchange Gain / (Loss)	(24)	958	(102.5)	2,440	3,406	(28.4)
PBT %	(0.8)	16.5		11.9	15.5	
Exceptional Item	-	303		-	303	
Exchange Gain / (Loss)	987	(158)		(863)	261	
PBT	963	1,103	(12.7)	1,577	3,970	(60.3)
PAT	610	829	(26.4)	1,033	2,736	(62.2)

- BFL's sales dropped substantially by 49.7% in the quarter & 6.3% for the full year.
- However, Exports for the full year grew by 4.2% to Rs 10,014 million. Europe overtook USA as the largest Export market for BFL.
- The substantial drop in the top-line resulted in EBITDA margins shrinking by 10.2% in Q4. The drop in EBITDA margins is due to the fixed component of expenses, essentially Salary and overheads.
- After the slowdown began in Q3, BFL had initiated cost reduction measures with focus on manufacturing cost, manpower cost and overheads which has resulted in substantial savings in Q4.
- Healthy Cash generation (PAT + Depreciation + Exchange loss) for the full year of Rs 3,390 million despite two tough quarters.

Exchange Loss:

- The Accounting Standard (AS 11) " The effects of changes in Foreign Exchange Rates" prescribed by Companies (Accounting Standards) Amendment Rules , 2009 was amended on 31st March 2009, vide a notification dated 31st March 2009, by the Ministry of Corporate Affairs. The said amendment offered an option to Companies to recognize Foreign Exchange Gains and Loses arising on translation of all long term monetary assets and liabilities acquired upto 31st March 2009, retrospectively from accounting periods commencing after 7th December 2006 (i.e. from 1st April 2007 for the company) upto 31st March,2011 as capital cost of acquisition of assets where they relate to acquisition of assets or to a Translation Reserve viz. " Foreign Currency Monetary Item Translation Difference Account (FCMITDA) in other cases. The Company has chosen to exercise this option in preparation of its financial statements for the year ended 31st March 2009.
- The exceptional Item shown in Q4 results is reversal of exchange loss booked in earlier quarters. For the full year, the loss on account of depreciation of the rupee taken to the P&L was Rs 863 million and a gain of Rs 987 million for the quarter.

Review of Business- Standalone operations

Following table summarizes the geographical distribution of the company's revenue streams in Q4 & FY 2009 against that in the corresponding previous periods.

Table 2

Rs. Million

Particulars	Q4 FY 09	Q4 FY 08	Growth %	FY 2009	FY 2008	Growth %
India	1,723	3,331	(48.3)	10,562	12,355	(14.5)
USA	530	1,197	(55.7)	4,359	4,855	(10.2)
Europe	621	1,176	(47.2)	4,933	4,299	14.8
Asia Pacific	41	92	(55.4)	722	456	58.3
Total	2,915	5,796	(49.7)	20,576	21,965	(6.3)

Review of Indian Market

The market had displayed robustness in the 1st half with passenger & CV production growing 11.9% & 4.3% YoY respectively.

The Indian market like the global market started dropping suddenly from Q3 FY09. The drop was so sharp and sudden that it did not give time to take corrective actions. This resulted in inventories piling up at OEMs as well as at the component manufacturers. This compounded the impact of the downturn with schedules falling much more than the drop in sales. **The bottom fell out of M&HCV sector in Q3 & Q4 FY2009 with production declining 62% & 60.7% YoY.** For the full year the M&HCV production was down 34.7%.

Table 3: Domestic Automotive Production Data

Particulars	FY 09	FY 08	YoY %
LCV	224,589	254,049	(11.6)
Medium & Heavy CV	192,537	294,957	(34.7)
Total CV Market (M&HCV +LCV)	417,126	549,006	(24.0)
Passenger Cars	1,838,697	1,777,583	3.4
Total Auto Market	2,255,823	2,326,589	(3.0)

Source: SIAM

BFL predominantly being a CV oriented player has been severely affected by the sudden slump. During the 2nd half, and especially in Q4, OEMs cut schedules heavily. As a result, BFL's domestic sales for Q4 FY09 & for full year FY09 were down by 48.3% and 14.5% respectively.

Review of Export Markets

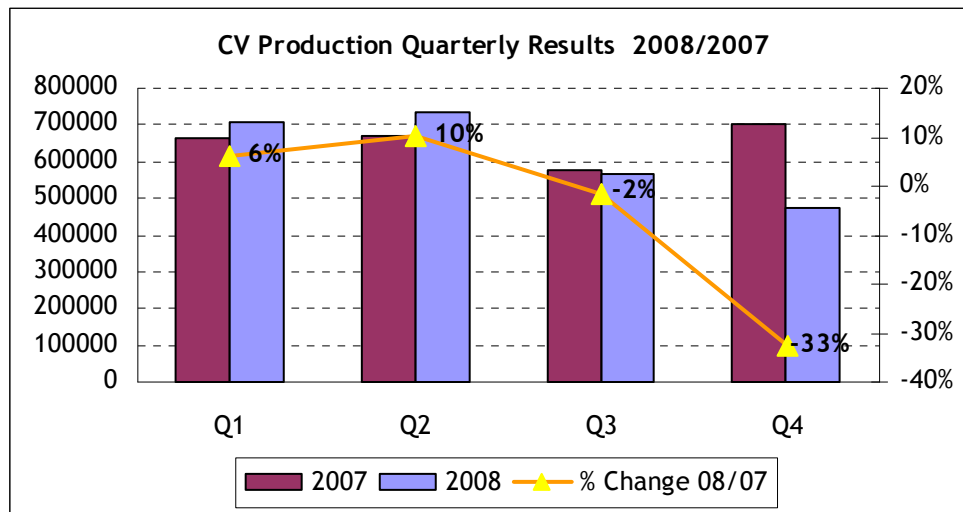
Europe

Table 4: European Automobile Production

Europe sales Data	Jan - Dec 08	Jan - Dec 07	YoY %
LCV	1,809,900	1,945,722	(7.0)
Medium & Heavy CV	672,166	667,276	0.7
Passenger Cars	15,942,428	17,103,687	(6.8)
Total Auto Market	18,424,494	19,716,685	(6.6)

Source: ACEA

Production & demand for vehicles in the European automotive industry, had witnessed steady growth over the past four years. But by the beginning of the fourth quarter the European economy slipped into reverse gear, and a steep decline began. This culminated in CV production declining by 33% in Q4.



The above graph shows that the OEM's were fully accelerating during the 1st half of CY 2008 & suddenly applied the brakes in Q4 CY 2008. All the OEM's undertook prolonged block closures to correct the excess inventory situation across the pipeline. Consequently BFL's sales to Europe dropped by 47.2%. However, for the full year it registered a growth of 14.8%.

Exports into Europe were part of our strategy of targeting markets outside the US. Over the years, the exports to Europe have grown strongly. In the current year Europe has emerged as the largest export market, overtaking the US.

USA

The US M&HCV markets had been falling for the last two years, with volumes dropping from over 461,818 vehicles in CY 2006 to 225,156 vehicles in CY 2008 - a cumulative drop of over 50%. In the current year the M&HCV markets fell by 20%.

CY2008 was expected to be a good year on account of the anticipated pre-buy phenomena prior to the change in emission norms in 2010. However the global financial crisis coupled with the already weak US economy, meant that the pre-buy did not take off, instead the markets fell further. As a result BFL's sales to US fell by 55.7% in Q4 FY09 YoY. For the full year the sales fell by 10.2%.

Table 5: US Automotive Production Data

US Production Data	Jan - Dec 08	Jan - Dec 07	YoY %
LCV	4,679,925	6,548,925	(28.5)
Medium & Heavy CV	225,156	279,117	(19.3)
Passenger Cars	3,776,358	3,924,539	(3.8)
Total Auto Market	8,681,439	10,752,310	(19.3)

Source: Wards Auto

Non Auto Update

The new non auto facilities, HFD-II at Mundhwa and Centre for Advanced Manufacturing (CAM) Baramati, have started commercial production in FY09 as per schedule.

The start of production at the facilities has however coincided with the global economic recession & credit freeze that has also severely affected sectors in the non auto space such as Oil & Gas, Wind Energy, Mining and Marine.

The slump has affected the demand in the above sectors due to lack of credit availability for the end customer. In FY10 the facilities may not ramp up at a rate as expected previously. This is likely to result in lower than expected capacity utilization from these facilities. The company is now aggressively identifying additional customers & product segments for the new non auto facilities to speed up the ramp-up.

Consolidated Financial highlights.

The consolidated financial statement for FY 2009 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 6 **Rs. Million**

Particulars	FY2009	FY2008	% Growth
Revenue within India	11,050	12,978	(14.6)
Revenue Outside India	37,378	34,327	(2.8)
Total Revenue	48,428	47,305	2.4
EBIDTA	6,247	7,828	(20.2)
EBIDTA %	12.9	16.5	
PBT before Exceptional items & Exchange Gain / (Loss)	2,439	4,288	(43.1)
PBT %	5.0	9.1	
PAT + Depreciation	4,102	5,286	

The performance of the wholly-owned subsidiaries was severely impacted by the sudden & unprecedented drop in volumes in the automotive markets. It was extremely difficult to adjust the cost structure in line with falling volumes in such short time; as such performance was adversely affected because of the high level of fixed costs.

- Volumes at the subsidiaries for the full year dropped by 12.5% on a YoY basis.
- Performance of the subsidiaries were also affected due to extra-ordinary items such as
 - Customer claim & Manpower redundancy in BFSSL
 - Exchange loss on account of strong Euro against SEK & GBP.
- China operations continue to be under stress and made a loss after minority interest of Rs 127 million in CY 2008.
- The Wholly Owned subsidiaries have collectively made a Profit before exceptional item and tax of 264 million.
- Cash generation for the full year was Rs 712 million.
- Serious measures have been taken at all the subsidiaries to right-size the operations to match with the reduced levels of demand.

Actions taken to counter the downturn

Various actions have already been taken to counter the effects of the downturn. These have been summarized below:

- Right-sizing the operations globally to reflect lower demand levels. Actions taken include reduction of manpower, rationalization of production, salary cuts, and reducing the levels of administrative overheads.
- Sharp focus on Working capital reduction and conservation of cash.
- Capex holiday for 2009-10.
- Emphasis on improving operational efficiencies like Yield, Scrap reduction, energy cost, outsourcing reduction etc.
- Focus on training to build skill levels
- On the marketing side, BFL is following a multi-pronged strategy:
 - Continuous interaction with the customers to get increased share of business for existing and new parts
 - Acquiring new Customers
 - Diversifying the product portfolio in both auto and non-auto

Conclusion

- Global automotive market meltdown continues in 2009 with no clear visibility of volumes. Indian CV market has bottomed out & is showing some sign of stability.
- BFL & its subsidiaries continue to work on cost reduction programs with specific emphasis on manpower cost.
- Most of the subsidiaries have implementing redundancy measures in light of bleak market conditions and therefore will need to provide for redundancy cost.
- Since the volume is as low as about 50% of 2008 levels, profitability of BFL & its overseas operations will be adversely affected in 2009.
- In FY 2009 despite the rupee depreciation, BFL did not realize higher rupee per dollar of exports on account of hedges booked in Q1 FY09. There are no more such hedges going forward & BFL will realize exports at market rates. This will translate in to better realizations & better margins in FY2010.
- The global economic slowdown is likely to affect the ramp up of the new non auto facilities in the short term. However, we are focusing all efforts on increasing the customer & product portfolio.
- The distress across the automotive supply chain may result in opportunities for BFL to increase its market share.

With all the actions planned on the operations & marketing front, BFL is confident of tackling the severe downturn and would be ready to ride the upturn.