

BHARAT FORGE LTD

INVESTOR UPDATE

FY 2003

Business Highlights – FY03

- ◆ Highest Ever Sales of Rs. 6892 Million
- ◆ Exports grow to Rs 2714 million
- ◆ Domestic Sales up to Rs 4178 million
- ◆ EBITDA up to 28.17 %
- ◆ Net Profit touches Rs 811 million
- ◆ Machined Products touch 48.53 %
- ◆ Active clients in FY03 at 24

Financial Highlights for Q4 and FY03 Ended March 31st, 2003

Analysis over corresponding Quarter of last year

- Total Sales up by 64% to Rs. 2089 million
- Exports up by 139% to Rs. 806 million
- Exports at 39% of Sales vs 26%
- Domestic Sales up by 36% to Rs. 1283 million
- EVBIDTA margin up to 27.84%
- PBT up by 169% to Rs. 390 million
- PAT up by 257% to Rs. 300 million
- EPS at Rs. 7.72 vs Rs. 2.14

Analysis over corresponding Full year

- Total Sales up by 45% to Rs. 6892 million
- Exports up by 146% to Rs. 2714 million
- Exports at 39% of Sales vs 23%
- Domestic Sales up by 15% to Rs. 4178 million
- EVBIDTA margin up to 28.17%
- PBT up by 227% to Rs. 1133 million
- PAT up by 281% to Rs. 811 million
- EPS at Rs. 20.71 vs Rs. 5.31

Management discussion and Analysis for FY03

2002-03 has been a landmark year in the history of your company. Bharat Forge's carefully crafted strategy of transforming itself into an export-driven, internationally cost competitive company has yielded impressive gains. During the year under review, the company recorded its best ever-financial results, and its revenues, profits, and profitability reached an all-time high.

Improvements in Bharat Forge's performance during the year under review are visible across all important parameters: significant top line growth; buoyant export income; higher domestic and overseas market penetration; greater operational efficiencies; reduced interest outgo; record profits; and higher return on equity as well as capital employed.

The latest data from the Society of Indian Automobile Manufacturers (SIAM) shows that production of heavy, medium and light commercial vehicles and utility vehicles in India — Bharat Forge's largest domestic customer segments — has witnessed a growth of around 17 per cent in 2002-03.

While this recovery has contributed to your company's improved performance in the domestic market, this is not the major reason for Bharat Forge's success. The improved sales, operational and financial performance of Bharat Forge is largely the result of its export thrust. This will be explained in the section on 'Markets'.

For the last few years we have been consistently following and executing a carefully conceived strategy. The key components of this strategy are:

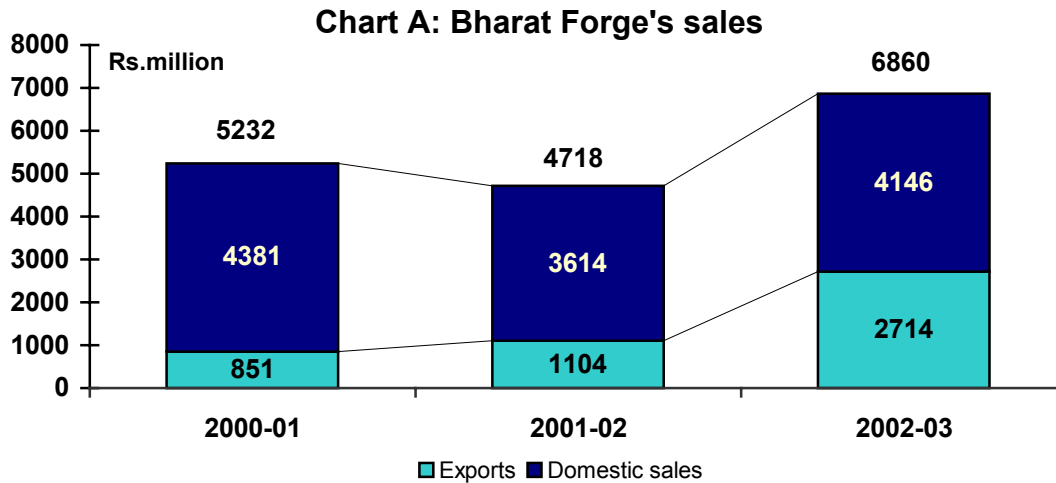
- Reducing cost of operations.
- De-risking the business model by intensifying export thrust with a wider geographical spread.
- Achieving global scale of operations.
- Manufacturing high volume, high value added products.
- Leveraging technology.
- Creating a knowledge driven, e-enabled company.

The financial and operational successes enjoyed by your company in 2002-03 vindicates and strengthens our belief that the strategy we have been pursuing is propelling Bharat Forge into a high growth trajectory and transforming it into a global player.

During the course of this discussion, we shall review the developments that took place during the year, and how the company has successfully leveraged its strengths and initiatives to deliver the best ever results. We shall begin with markets, move on to operations, and then discuss the financials.

Markets

Bharat Forge's sales have grown by 45 per cent, from Rs.4,718 million in 2001-02 to Rs.6,860 million in 2002-03. As Chart A shows that, while domestic sales have increased by 15 per cent, your company's exports have risen by 146 per cent respectively.



Export Market

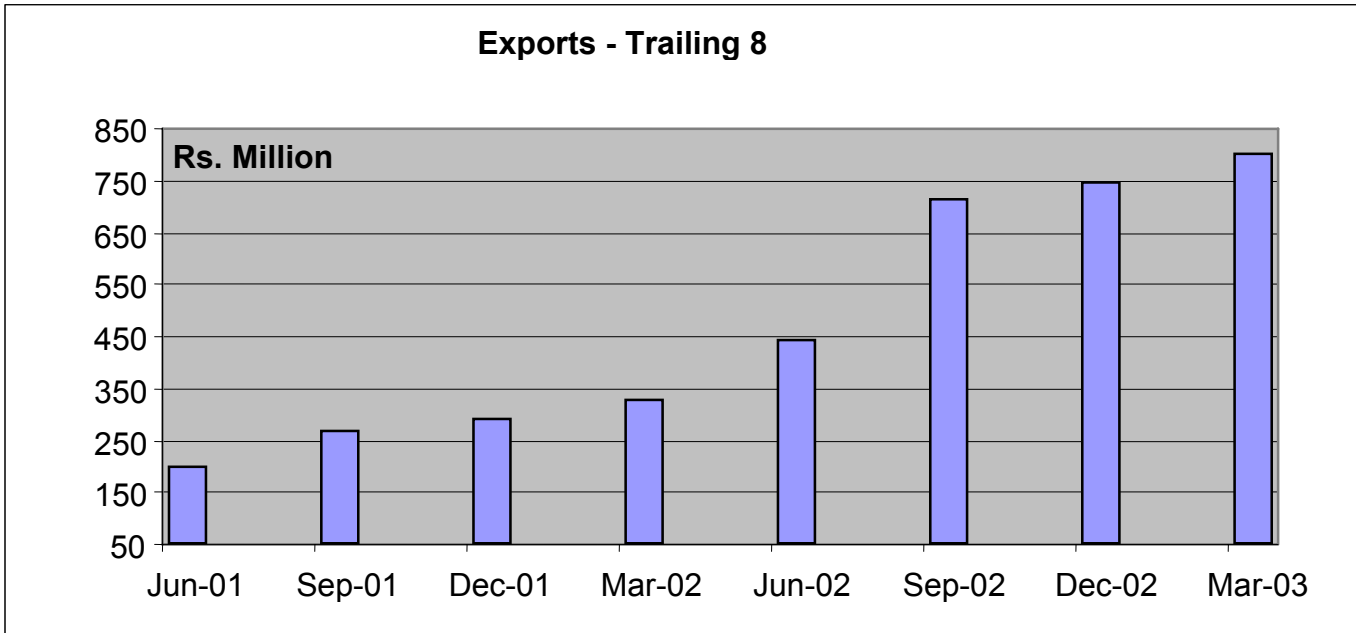
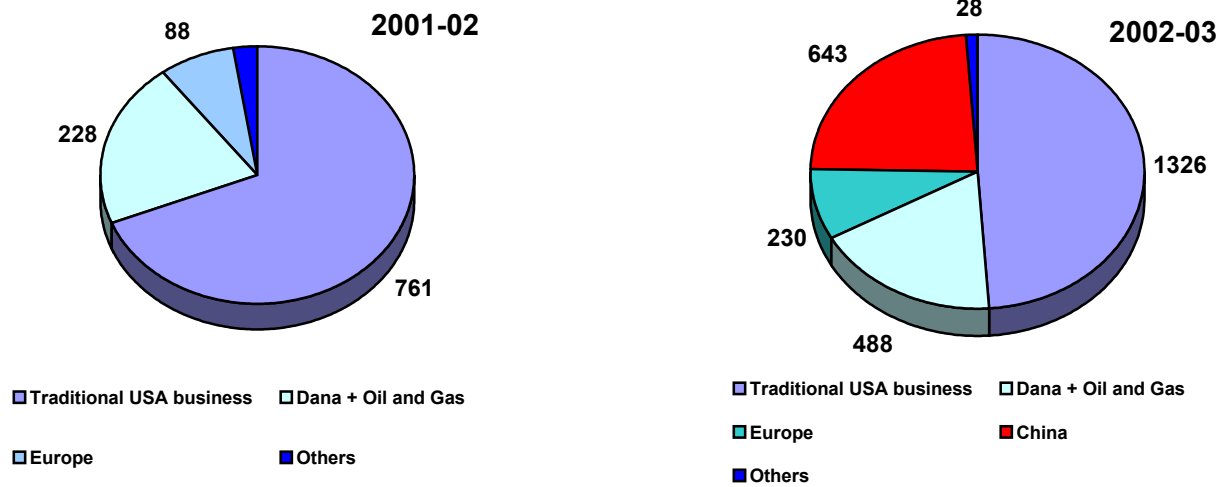
Exports increased from Rs.1,104 million in 2001-02 to Rs.2,714 million in 2002-03 — a growth of 146 per cent in the year. Exports now account for 40 % of sales, and 39 % of total income.

These figures are a matter of satisfaction for us. They vindicate our strategy of making exports the driver of our growth, and expanding into new geographical markets. In a year graced with many highlights, 2002-03 will be remembered by us as the year when Bharat Forge's exports reached a critical mass.

It is useful to emphasise a few significant features that reflect your company's growing capabilities in international markets:

- The company now has 24 international customers. These include names such as Daimler Chrysler, Volvo, Renault Vehicle Industries, Honda, Cummins, Dana, Arvin Meritor and Toyota.
- Exports to Renault Vehicle Industries, the second largest truck manufacturer in the world, commenced in 2002-03. Bharat Forge will supply 11 parts to the European major.
- Even as Bharat Forge's exports to the US grew by 75 per cent, and it remains the single largest geographical market for the company, the share of US in the company's total export basket has come down from 90 per cent to 64 per cent. Thus, the company has been able to de-risk itself by reducing its over-dependence on one country.

- De-risking through expanding the geographical footprint was, in part, achieved in 2002-03 by a concerted foray into China. Bharat Forge secured a large export order from a Chinese automotive OEM, and finished the year with revenue of Rs.643 million from China. It has also bagged a second customer in China, and will commence supplies in the first half of 2003-04.
- Bharat Forge's sales to Dana as well as the emerging oil and gas business has increased from Rs.228 million in 2001-02 to Rs.488 million in 2002-03.



Domestic Market

Bharat Forge's main products are engine, transmission and suspension components, and medium and heavy commercial vehicles (MCVs and HCVs), light commercial Vehicles (LCVs), and utility vehicles (UVs) constitute your company's major customer segments. In FY 2003 these markets have grown by 17%.

Bharat Forge's domestic sales for FY 2003 have grown by 15% over the previous year. The domestic market is continuing to exhibit growth in most of the company's customer segments. Bharat Forge has entered into a supply contract with Toyota for becoming a sourcing base for its transmission components both in India and overseas..

In addition to the automobile segment, Bharat Forge is actively tapping new markets and customer segments such as the construction equipment sector and other general-purpose applications.

Operations

Much of Bharat Forge's success in the export market is the result of its efficient and cost competitive operations. The company's endeavours in creating global scale of operations, cutting costs, improving operational efficiency, manufacturing high value products, e-enablement, and improving labour productivity enabled it to competitively service the export market, and ensure that bottom line growth outpaced top line growth.

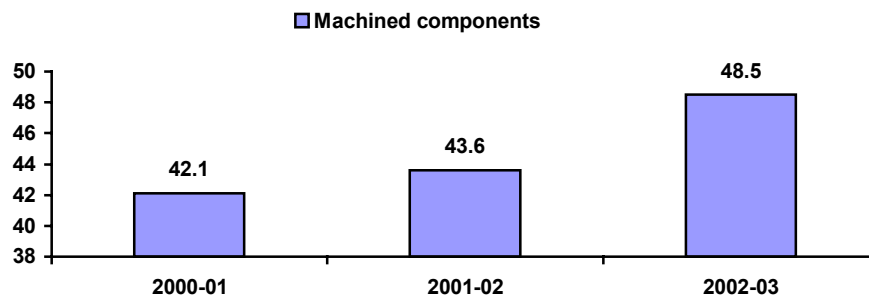
Scale of Manufacturing

Bharat Forge is one of the very few companies in the world to have two automatic 16,000 MT forging press lines. With a capacity of 120,000 MT per annum, it is the largest single location commercial facility in the world. The company's press lines are highly flexible, which allows it to meet different customer needs and optimise capacity utilisation.

The company's combined crankshaft machining capacity of 400,000 numbers per annum at Mundhwa and Chakan plants are one of the most technologically advanced in the world and of global scale.

Manufacture of Higher Value Added Products

The share of higher value machined components in the company's total sales has been rising. During 2002-03, machined components accounted for 47 per cent of the company's sales. Chart D shows the steady upward trend in the sales of machined components as a percentage of total sales.



Technology and Product Development

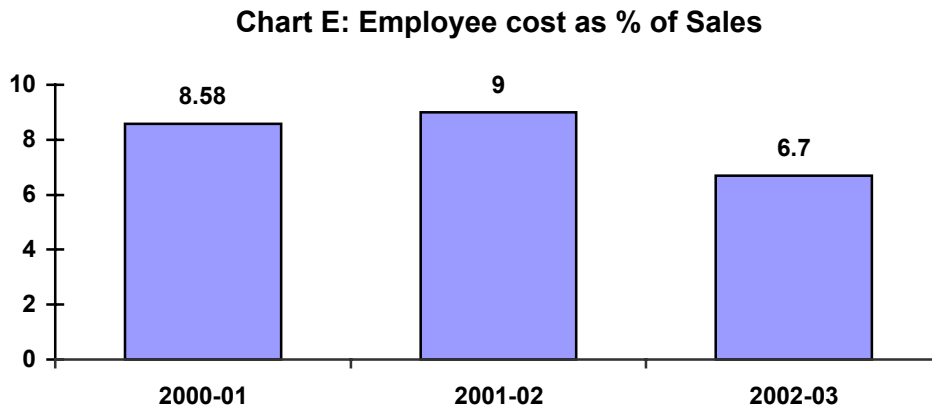
Bharat Forge has been leveraging technology in its endeavor to transform itself into a world class manufacturing company. It has, over the years, been investing in technology to enhance efficiencies, production quality and design capabilities. IT tools are being used extensively for product development, compressing production and product development time, and supply chain management.

Human Resources

It is only due to the effort of its employees and workers that Bharat Forge has been able to deliver its best ever results. We have always received full cooperation and support from our employees both in good as well difficult times.

Your company's emphasis on improving productivity and right-sizing its manpower has yielded results and the company has been able to substantially increase production and sales in 2002-03 with only a very nominal increase in employee strength from 2,521 employees in March 2002 to 2,581 employees in 2002-03.

As Chart E shows, we have been successful in reducing employee cost as a percentage of sales.



Financials

Table 3 gives the income, expenditure and profits for Bharat Forge for 2002-03 in comparison with the previous year.

Table 3: Abridged profit and loss account (Rs.million)

		2002-03	2001-02	Growth
1	Sales	6,860	4,718	45.4%
2	Excise duty	516	486	6.2%
3	Net sales 1 - 2	6,344	4,232	49.9%
4	Other income	95	113	-15.4%
5	Total Income 1 + 4	6,955	4,831	44.0%
	Expenses			
6	Raw materials and components	2,220	1,576	40.8%
7	Manufacturing expenses	1,244	788	57.8%
8	Employee Costs	462	427	8.1%
9	Other expenses (excl.depreciation and interest)	1,071	842	27.2%
10	Total expenses (excl.depreciation and interest)	4,996	3,634	37.5%
11	PBDIT (5 - 10)	1,959	1,197	63.7%
12	Depreciation and amortization	418	397	5.1%
13	PBIT (11 - 12)	1,541	799	92.8%
14	Interest	408	454	-10.0%
15	PBT (13 - 14)	1,133	346	227.7%
16	Current tax	282	28	892.3%
17	Deferred tax	40	104	-61.7%
18	Tax (16 + 17)	322	133	142.4%
19	PAT	811	213	280.9%
20	Earnings per share (EPS)	20.71	5.31	289.8%

Top line

As discussed earlier, 2002-03 has been a year of growth for Bharat Forge. Driven by a 146 per cent increase in exports and 15 per cent growth in domestic sales.

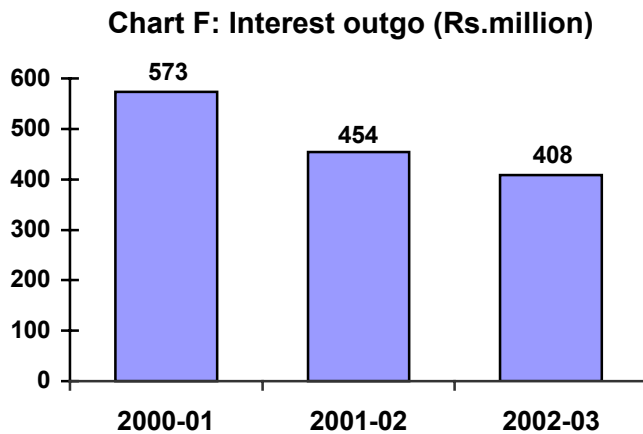
Operating costs

As against a 45 per cent growth in sales, operating expenditure during the year has grown by 37.5 per cent. Consequently, operating margin (PBDIT) has grown by almost 64 per cent — from Rs.1,197 million in 2001-02 to Rs.1.959 million in 2003-04.

Interest

The absolute interest outgo has reduced by 10 per cent in 2002-03 over 2001-02, while interest cost as percentage of sales has fallen from 9.6 per cent in 2001-02 to 6.0 per cent

in 2002-03. Chart F gives details about Bharat Forge's declining interest outgo over a three-year period. This decrease in finance costs has been achieved by bringing by reducing the overall debt burden of the company, and by better working capital management.



Profits

A combination of brisk top line growth, cost control, and reduction in financial costs have contributed to Bharat Forge achieving its highest ever profits. Your company's pre-tax profit (PBT) has increased by 228 per cent from Rs.346 million in 2001-02 to Rs.1,183 million in 2002-03. Post-tax profit (PAT) has shot up by 281 per cent from Rs.213 million in 2001-02 to Rs.811 million in 2002-03.

Key Ratios

All key profitability measures have improved this fiscal year compared to the last one. Table 4 gives details, and speaks for itself.

Table 4: Key profitability ratios

	2002-03	2001-02	2000-01*
PBDIT / Total Income	28.2%	24.8%	24.4%
PBIT / Total Income	22.2%	16.5%	17.1%
PBT / Total Income	16.3%	7.2%	6.6%
PAT / Total Income	11.7%	4.4%	6.0%
PAT (without deferred tax) / Total Income	12.2%	6.6%	6.0%
ROCE	27.2%	14.3%	**11.8%
RONW	32.5%	12.1%	18.0%
EPS (Rs.per share, after netting out deferred tax)	20.71	5.31	8.29

Note: * Figures for PAT in 2000-01 does not net out deferred tax. ** Bharat Forge's de-merger of non-core assets in 2000-01, occurred at the end of February 2001. In this case, capital employed for calculating the ROCE is a weighted average of pre-merger and post-merger figures, i.e. weighted by 11 months and one month respectively

Outlook

There is every reason to feel upbeat about the prospects of the company in 2003-04 as well as across a longer time horizon. Feedback from the domestic automotive industry indicates that the revival witnessed in our customer segments in 2002-03 is likely to be sustained in the new fiscal. Moreover, as domestic automobile companies upgrade themselves technologically, and commercial vehicles move towards complying with Euro 2 and Euro 3 norms, your company will become an even more preferred supplier of engine components. Further, the transmission components supply contract with Toyota is likely to commence in 2004-05.

On the export front, too, prospects appear promising. Our order book is healthy, various long-term supply contracts are in place, and new orders are in the pipeline. During 2003-04, we anticipate exports to continue increasing, and account for a larger share of total sales.

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