



BHARAT FORGE LIMITED

INVESTOR UPDATE

October 21, 2003

QUARTER ENDED – 30TH SEPTEMBER, 2003

Analysis over corresponding Quarter last year

- Total Income up by 43.3 % to Rs 2244 million
- Exports up by 13.63 % to Rs 813 million
- Exports at 36.26 % of Total Income v/s 45.72 %
- Domestic Sales up by 63.7 %
- EBIDTA Margin stable 28%
- PBT up by 65.98 % to Rs 426 million
- PAT up by 69.16% to Rs 294 million
- EPS at Rs 7.55 v/s Rs 4.41

Analysis over corresponding half last year

- Total Income up by 42.77 % to Rs 4285 million
- Exports up by 38.74 % to Rs 1610 million
- Exports at 37.58 % of Total Income v/s 38.68 %
- Domestic sales up by 41.43 % to Rs 2599 million
- PBT up by 83.69 % to Rs 808 million
- PAT up by 87.28 % to Rs 557 million
- EPS at Rs. 14.34 v/s Rs. 7.54

KEY Business Highlights

1. Bags 2 export orders for passenger cars

BFL has been chosen by Ford Motor Company and Daimler Chrysler as a supplier of components for their global passenger car programs

2. Order for supply of steering knuckle forgings to Dana, USA

The company has bagged a new multi-year order to supply steering knuckle forgings to Dana, USA.

3. Order for control arms forgings

BFL has won an order to supply control arm forgings to a global passenger car company in Australia.

4. 2nd 6000 ton installation complete by end October, 2003

The installation of the 2nd 6000-ton press line for the passenger car crankshaft market is complete. The line is ready for production.

5. Setting up new Machining capacity

In anticipation of increased demand for machined heavy-duty diesel engine crankshafts, the company is expanding its machining capacity. Construction work is in full swing, and the state-of-the-art plant is expected to be operational in phases from fourth quarter of FY05

6. Moving up the value chain - Testing and Validation facility

BFL strategy is to complement its global customer program. Customer requirements are changing and they expect suppliers to partner with them and emerge as a full service supplier including testing and validation facilities. To achieve this, BFL is setting up a full-fledged state of the art product validation and testing facility, which will enable it to offer an end-to-end solution to its customer

Quarterly Review

BFL's strong performance continued during the second quarter. During the period, BFL bagged two prestigious orders from Global OEM's - Ford and Daimler Chrysler for passenger cars. Ford Motor, USA has initiated development of crankshaft forgings with Bharat Forge, as a part of multi-year sourcing initiative, the shipments are expected to initiate from mid-2004. Similarly, Daimler Chrysler has chosen BFL to supply crankshafts and camshafts forgings for their passenger car engines in Germany. BFL has also won an order to supply control arm forgings to a global passenger car company in Australia. In addition, the company has bagged a new multi-year order to supply steering knuckle forgings to Dana, USA. The entry into passenger car segment has further strengthened the derisking model pursued by the management as it opens a new geography, new segmentation and new customers thus diversifying the business portfolio.

Substantial growth in both domestic and export business of the company resulted in a quantum jump of 43.3 % in total income. Our objective of scaling up the operations with a blend of growth and a strict control on costs is paying off. Our efforts on cost control have resulted in EBITDA margin remaining stable during the Q2 inspite of rising cost and appreciating rupee. Employees cost to sales have further gone down to 6.19% as compared to 7.62%. The company is focussing extensively on efficiency at all levels of operations. Significant growth in volume coupled with prudent cost management has led to a huge jump in PBT, which increased by 65.98%, while PAT shot up by 69.16%.

Exports to the 2nd Chinese customer have begun during the quarter. Exports to Renault are scaling up as scheduled. In our efforts to target the passenger car segment we had expedited work on the installation of the 6000 ton press line and are happy to announce that this press line has been installed in a record time of 3 months and is now ready for production.

The company is continuing its work to secure new business for itself in the area of engine components for commercial vehicles and passenger cars segment. The company has been working with several prospective customers and is quite confident of making further breakthroughs in the near future.

The company's pro-active strategy to convert its debt portfolio into foreign Currency has resulted in providing an effective hedge against the steady & continued appreciation of the Rupee.

BUSINESS REVIEW

Domestic Market

The domestic market has exhibited phenomenal growth in the first half of this financial year. BFL's focus on quality and technological leadership coupled with an emphasis to identify new business opportunities with domestic customers has enabled it to enhancing the market share in the domestic market. In order to meet the buoyant domestic market, the company has stepped up its production in order to meet its domestic customer's requirements. BFL's domestic sales grew by 41.4 % during the first half FY04. This is significantly higher than the industry growth of approximately 30% excluding tractors, reflecting the positive outcome of efforts.

Looking forward, the festive season and good monsoons raising rural demand should maintain the growth tempo for the remaining part of the year. For Bharat Forge, focus on domestic market continues with the existing clients besides foreign manufacturers, particularly car and utility vehicles exploring the possibility of greater localization in India. The company is increasingly working with domestic customers on their new product development initiatives. The company is gearing to capitalize on these opportunities.

Exports

The robust exports growth continued with the commencement of exports to Second Auto Works, China. Our efforts are on to deepen relationships with the existing OEM's including working together on future product development. We believe Bharat Forge has built critical mass in terms of product designing capabilities and product development together with our clients to ensure long term business continuity, besides moving up the value chain.

Exports were on track with a rise of 13.63 % over the previous corresponding period, at Rs 813 million representing 36.26 % of total sales for Q2FY04.

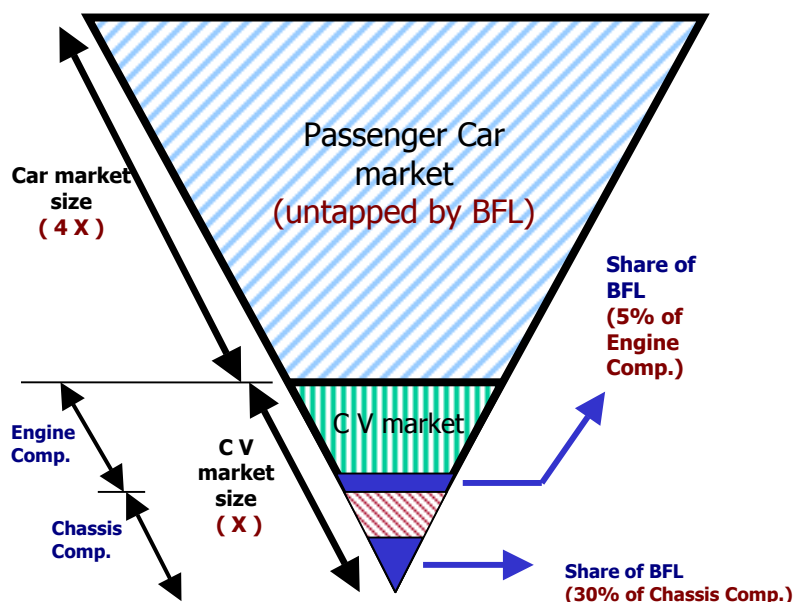
Of the total exports of Rs 1610 million for the first half FY04, traditional US customers accounted for 23 %, Dana & Oil & Gas for 24 %, Europe at 16 % and China contributed 37%. Heavy dependence on US markets from 59% in H1FY03 is significantly reduced with increased contribution from China and Europe during the second quarter. The company is confident of being able to maintain its export growth momentum going forward.

Global Business Opportunity for BFL

Bharat Forge primarily has two automotive market segments where its products find application. The first being the Global Commercial Vehicle Market for Chassis and Engine components. The passenger car engine and suspension components markets is the second.

BFL started its export thrust by addressing the chassis component market for global CV's. BFL has been able to grow this business very substantially over the last decade and today is the world leader in this segment with a 30% global market share. Over the last few years we have been working to grow our business in the engine component market for CV's by leveraging our technology base and long standing global relationships. BFL has a small share of this segment and is working strategically to establish a leadership position in this segment over the next few years. The size of the engine component opportunity for BFL is far larger than the chassis component market it addresses. There is a huge demand for machined engine components in the heavy-duty diesel engines segment. BFL is setting up a new state-of-the-art facility for heavy-duty crankshaft machining to capture this opportunity.

The global passenger car market is larger than the CV market by several orders of magnitude. Due to overwhelming cost pressures this segment has recently begun outsourcing of components in a large way. Among the passenger cars segment - engine and chassis components are the target markets globally. The recent orders won by BFL for passenger car components are a major breakthrough for BFL. The company has had a significant breakthrough with two of the world's leading passenger car company's placing substantial multi-year orders on it. It is a matter of great pride for us that Bharat Forge products will now power Ford and Daimler-Chrysler cars globally. BFL will look to leverage these orders to further grow its business in this segment.



CAPEX Plans

BFL sees an immense potential in the passenger car component and heavy-duty machined crankshaft segment. The target is to scale up and garner a major share to be a market leader in both these segments globally. To address these opportunities and to become a Full Service Supplier, BFL will offer to its global customers, contemporary and state of the art design, engineering, manufacturing, testing and validation facilities.

To address the market opportunity, we are focusing our core energies on three key areas in the coming quarters :

- Expanding manufacturing facilities for crankshafts for passenger cars
- Increase the capacity for Heavy Duty machined crankshafts
- Create a testing and validation facility

- **Passenger car forging capacity**

The company plans to add additional state of the art press lines to manufacture passenger car crankshafts. These will be added in a phased manner to suit the timing of future demand.

- **Heavy duty crankshaft machining capacity**

In anticipation of increased demand for machined heavy-duty diesel engine crankshafts, the company is expanding its machining capacity. Construction work is in full swing, and the state-of-the-art plant is expected to be operational in phases from fourth quarter of FY05.

- **State-of-the-art Product Testing and Validation Facility**

Customers are expecting BFL to offer the broader spectrum of services including testing & validation of the products. BFL is taking steps to set up its own testing & validation facility at Pune, which is expected to be functional during the next financial year.

Moving up the relationship ladder From outsourcing to partnering

Our objective today is not merely addressing the opportunities of outsourcing of large OEM's worldwide but addressing opportunities beyond that. We intend to partner with large OEM's for forged and machined components to offer complete end-to-end solutions.

BFL has already crossed the stringent acceptability threshold of global OE customers. BFL will hereonwards focus on building collaborative relationships which will result into cost reduction to the global OE customers and global business leadership in chosen field of activity to BFL.

This is a key to a long- term win-win mutually beneficial relationship for both BFL and its customers.

Business Outlook

The business outlook for Bharat Forge on both the domestic and export front remains extremely strong. The company will use its entry into the new segment of passenger car components as one of the levers of its export growth strategy. The immense opportunity in the area of machined heavy duty crankshafts for the global markets is expected to boost the company's exports in the future. BFL is aiming for global leadership in both these segments in the coming years. The recent conclusion of two significant orders from Ford and Daimler-Chrysler are a step in the direction of achieving our goals. The recent opening up on several International Purchasing Offices by leading global majors in India is adding to our export market potential. BFL is working very closely with most of these IPO's in identifying opportunities for their global requirements.

The outlook remains buoyant domestically on the back of a demand revival across the automotive market segments and the beginning of outsourcing by Global OE manufacturers who have setting up manufacturing facilities in India. BFL is working closely with domestic customers in new product development initiatives that will further catalyze the company's leadership position in the domestic market and enable it to grow its market share further.

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