

Bharat Forge Limited

Analyst/Investor Update

July 20, 2002

Financial Highlights

Corresponding Quarter Analysis (April - June 2002 v/s April- June 2001)

- Total sales increased by **27% at Rs.1433.6** million. Domestic sales at Rs.989.1 million witnessed a growth of 7%. **Exports up 120% to Rs.444.5 million.**
- Expenditure increased by only 18% to Rs.1041.7 million, indicating improved cost efficiency. As a result, **EBITDA** margin went up by **414 bps to 27.4%.**
- Overall, **EBITDA** went **up sharply by 60% to Rs.393.2** million during the current quarter.
- **Interest** cost went **down by 13%** to Rs.108.4 million.
- Consequently, **profit before tax** at **Rs.182.9** million was **354% higher** than **Rs.40.3** million recorded in Q1FY02
- Net profit has gone up sharply by 207% to Rs.123.7 million. EPS for the quarter works out to Rs.3.13, as against Rs.0.99 in the corresponding quarter previous year (Q1FY02 figures did not include a provision for tax).

Sequential Quarter Analysis (April - June 2002 v/s Jan - Mar 2002)

- **Total sales grew by 12%.** While, the domestic sales recorded a moderate growth of 5%, **exports went up by 32%.**
- The increase in expenditure was 9%, much lower than sales growth.
- Interest cost was lower by more than 5%.
- **PBT** for the quarter went **up by over 20%**

Management Discussion & Analysis

The current quarter marked continuous improvement in financial and operational growth owing to increased exports and operational efficiency. On a corresponding quarter basis total export revenues were higher by 120% and the profits after tax soared up by 207% (last years figures did not include a provision for tax). On a sequential quarter basis also, BFL's exports have increased by over 32%.

BFL has laid increased emphasis on devising its future business strategy on aggressive topline growth, de-risked business model,

increased operational efficiency and Information technology for “time to market” reduction. The company has a three pronged topline growth strategy i.e. exports, entry into new industries, and acquisitions. Bharat Forge’s heightened focus on exports has resulted in contracts from auto industry majors like Caterpillar, Daimler Chrysler, Renault, and Cummins to name a few.

Moreover, BFL’s venture into the Europe market has also reaped benefits. China is another market where BFL has made an entry based on its superior forging technology. The entry into diverse geographic markets also ensures BFL an effective hedge from cyclical effect of regional economies.

BFL’s entry into new industries is another significant development. The Company’s increased focus on the oil and gas sector, construction and agriculture equipment business serves the dual purpose of topline growth and de-risking the business model from sectoral cyclicality. Consider that in India we see 200 new oil wells drilled every year, whereas in North America the number is 20,000 wells every year. This shows the magnitude of opportunity that exists in this sector for a high quality, reputed supplier like BFL.

Coupled with the topline growth, BFL has ensured operational efficiency to position itself as a low cost manufacturer. Significant cost reductions in interest outflow, inventory, manpower and energy have been achieved.

BFL has continued leveraging Information Technology to ensure process optimisation. With technology enabling improved value chain collaboration, the company has made significant reductions in “Time to Market” and cost which is proving to be a valuable competitive edge for the company.

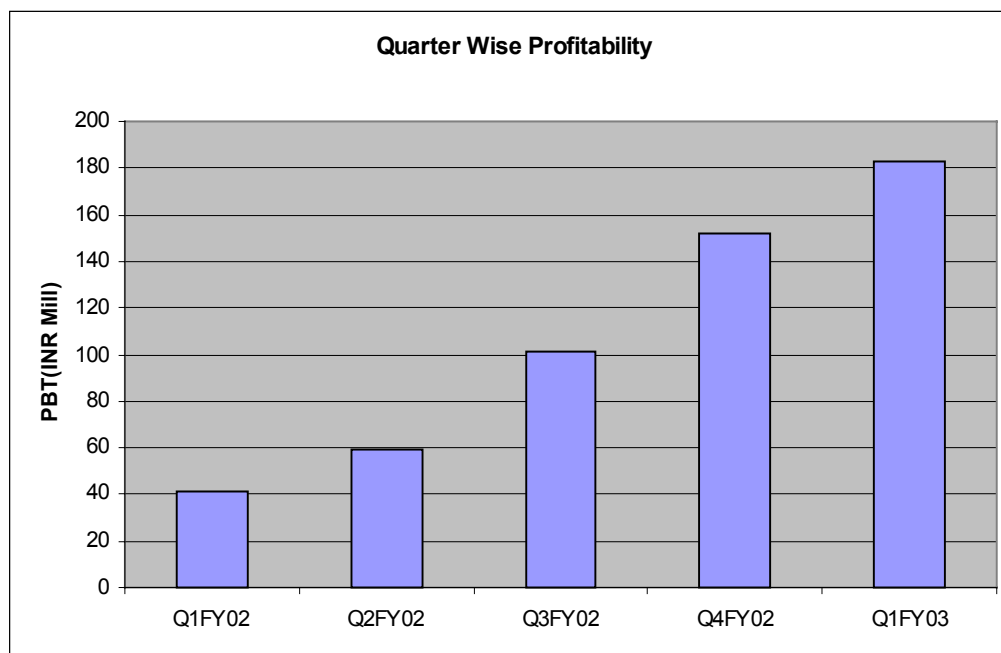
Financial Performance

Revenue Analysis

- Exports led growth - BFL's continued thrust on **export** market has resulted into a sharp year on year **growth of 120%** in exports during the current quarter. **Exports now account for 31%** of total sales, as compared to 23% during the full year 2001-02 and 17.7% in Q1FY02.
- Stable domestic sales - Domestic revenues increased by 7% in Q1FY03, over the corresponding period of the previous year.
- Quality of revenues - The Company's initiative to focus on its core competency has led to improvement in quality of revenues. During the current quarter, **other income** accounted for **just 0.09%** of total revenues as against 1.9% in the corresponding quarter.

Profitability

- Margin expansion - BFL has been implementing rigorous cost cutting measures. And, the same is reflected in the margin improvement. The operating margin has been rising consistently over the past few quarters. During the current quarter, **EBIDTA margin** has gone **up by 414 bps to 27.40%**, as against **23.26%** in Q1FY02. This is reflected by the corresponding growth in **PBT from Rs. 40.3 Million in Q1FY02 to Rs. 182.9 Million in Q1FY03**.



De-Risking Strategy

The company is continuing with its thrust on de-risking the business model. **Export** accounts **for 31% of total sales**, as compared to 17.7% in Q1FY02 and 23% in full year FY02. The company has diversified into oil and gas sector as one of its key markets. The company is consciously diversifying into non-US markets. The increased focus on exports, business in non-US markets - Europe & China, larger customer base, increasing contribution from oil & gas sector will make a highly de-risked model.

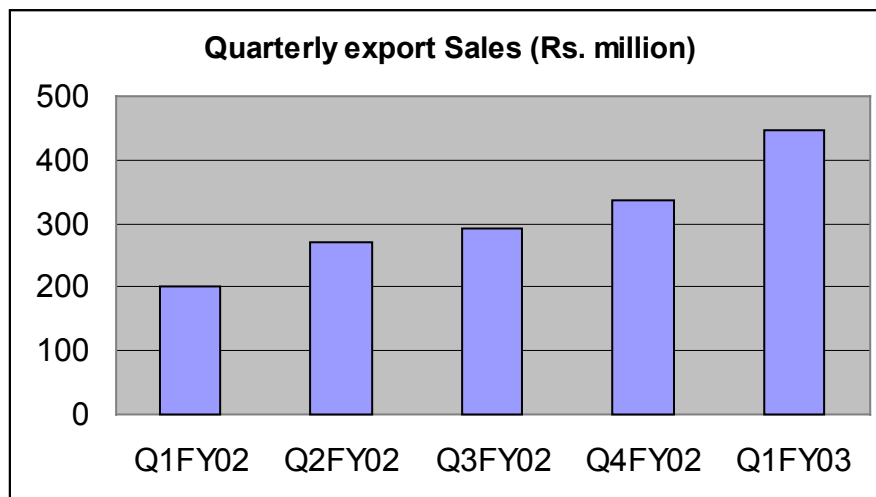
Sales & Marketing Update

The company's policy, of emphasising on the global markets for its growth, stems from its competitive advantages - cost, capacity, speed, and technology.

The company, which now has the largest single-location capacity worldwide, stands to benefit from scale of operations.

The testimony to Bharat Forge's global competence is revealed in rising exports and customer profile. Exports contributed 23% to sales in FY02 and the same has increased to 31% of sales during the first quarter of FY03. Top clients include Meritor Automotive, Renault, Daimler Chrysler, Dana Corporation, Caterpillar, and Cummins.

In an effort to lay special emphasis on the European market, BFL is opening a dedicated office in the UK. This office will be headed by a person having over 30 years experience in the European Forging Industry. Its purpose is to help BFL rapidly grow its business with customers in Europe and to provide them with a high level of customer service. This close interaction should help us grow our share of business with them. The office will be operational from September 1, 2002.



Infrastructure & Technological Upgradations

Technology-wise, the company facilities are top-class. All the modules of ERP have already been installed and are functional. The company makes extensive use of CAD/CAM/CAE in its design to production process. The company has also installed collaborative applications to integrate the value chain and increase speed-to-market.

The company's emphasis on technology is quite heartening. It has leveraged IT and made the results show in its deliverables (speed-to-market). The product cycle time at BFL is just three weeks, as compared to six months to one year taken by other manufacturers. Even the comparable industry average is four months. The target is to bring down this three weeks time down even further in the next few years.

Industry Scenario

The domestic market for forgings went through a severe recession. In the auto segment, since 1995-96 there has not been any cheer save motorcycles. But the company has remained consistently and healthily profitable whereas rivals have gone into the red and even shut down. Bharat Forge is the largest company in the domestic forgings sector today, with the total sales of Rs.4740 million in FY02.

Globally, forgings industry encourages a structure of many mid-size players operating with a grip on separate niches. The trend of outsourcing by OEMs is gaining ground. Again, the developing countries are figuring in the preferred sourcing markets in the wake of cost competitiveness. The global market has witnessed some sign of revival and is expected to improve further by 2003.

Growth Plan

- The company has focused on exports as its key growth driver. This would include tapping opportunities in global auto market, enhancement of exports to oil and gas sector, especially as value added fully machined products. The company is targeting substantially increased volumes from existing OEM and Tier 1 global majors. **By 2005**, it aims to receive **over 50%** of **its sales from exports**, as against around 23% in FY02.
- Domestic forging companies are doing very poorly. This industry is ripe for restructuring through closure and consolidation. The vacuum created by closure of capacities in the domestic market would provide added opportunity, which the company is well positioned to exploit.
- Inorganic growth through acquisitions in the global arena is an area that the company is looking at very seriously. This has the potential to provide a boost to the global business development efforts of the company, and give it increased visibility, and presence on the global stage.

Communication

Bharat Forge is committed to maintaining a constant dialogue with shareholders, investors, analysts and other interested parties, and keeping our stakeholders informed of important corporate, financial and sector developments. If you have any questions or require further information please do not hesitate to contact us, using the information listed below

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Bharat Forge Limited - A Brief Background

Established in early 1970's Bharat Forge Limited (BFL) today is a globally competitive organisation with world class engineering capabilities and state-of-the-art manufacturing facilities. It has the world's largest single location forging capacity. BFL is internationally respected for its cutting edge technology and established quality process and capabilities developed over the years.

The state-of-the-art forging facilities include two automated 16,000 MT & 6000 MT Muller Weingarten Press Lines, the most advanced lines in the forging industry worldwide. The installation of the highly automated forging lines has enabled BFL to manufacture precision forging and forgings form 15 kg to 250 kg, a capability unique in this part of the globe.

The installed key capacities of the company are as follows-

- Steel forgings - 120,000 MT per annum
- Crankshaft - 1,000,000 nos. per annum
- Machined crankshaft - 400,000 nos. per annum
- Machined Front axle assembly & components - 240,000 nos. per annum

Bharat Forge caters mainly to the heavy forgings used in trucks and other commercial vehicles and is growing its sales to the passenger car and two-wheeler segments. Bharat Forge enjoys over 80% market share in the heavy forging industry in the domestic market.

Competitive Edge of the company

The key differentiating factors are high product quality, international scale of operations, high level of vertical integration and focus on continuous improvement, total customer orientation and speed to delivery. The company enjoys a cutting technological edge over the other players globally. BFL's advanced design and manufacturing technology and processes have given it one of the highest rates of being first time right. Bharat Forge commands the preferred supplier status to high quality global customers especially in the area of value added finished machined components. The company has attained globally competitiveness on parameters such as cost, capacity, and technology and delivery parameters, forging it far ahead of competition.

BFL - Vibrant, Dynamic & Globally Focused

The success of BFL in the international market is the result of strategic shift towards being a Tier 1 partner. BFL has made conscious efforts over the last few years to increase its geographical spread in world markets. The company's policy, of emphasizing the global markets for its growth, stems from the company's competitive advantages - cost, capacity, speed, and technology. Complementing this geographic spread is product diversification through supplies to customer segments other than the automotive sector, such as Oil & Gas and construction equipment industry. Bharat Forge is applying a de-risked business model and focusing on higher revenues from exports to help the company grow its business at a rapid pace. BFL is bullish about increasing their international market presence by focusing on US, Europe, and the high potential Chinese market, which will offer a great opportunity for growth.

DISCLAIMER

Some of the statements in this document, except for the historical information, may be forward looking statements. These forward-looking statements include references to growth projections, plans, strategies, intentions and beliefs concerning our business and operating environment. There are risks, uncertainties and other factors that may cause actual results to differ materially from those projected by these forward-looking statements. These risks include, but are not limited to, the level of market demands for the company's products and services, competitive environment in the company's operating areas, market conditions, the company's ability to grow its existing business and to create, acquire and build new businesses, ability to attract, recruit and retain qualified and highly skilled employees, changes in technology, regulatory policy changes, currency fluctuation and market conditions in India and elsewhere around the world, and other risks not specifically mentioned herein but are common to the industry. These statements are based on information currently available to us, and we assume no obligation to update these statements to reflect changed circumstances in future.