

## **FINANCIAL HIGHLIGHTS for Q3 Ended December 31, 2002**

### **Analysis over corresponding Quarter last year**

Total Sales up by 47 % to Rs.1820 million

Exports up by 155 % to Rs. 747 million

Exports at 41 % of Sales v/s 23.7 %

Domestic Sales up by 12.5 %

EBIDTA Margin up by 307 BP to 27.6 %

PBT up by 200 % to Rs.303 million

PAT up by 240 % to Rs.214 million

EPS at Rs. 5.45 v/s Rs.1.49

### **Analysis over corresponding Nine months last year**

Total Sales up by 37.5 % to Rs. 4821 million

Exports up by 149 % to Rs. 1908 million

Exports at 39.6 % of Sales v/s 21.85 %

Domestic sales up by 7.3 % to Rs.2895 million

EBIDTA Margin up by 464 BP to 28.31 %

PBT up by 270 % to Rs. 743 million

PAT up by 296 % to Rs.510.8 million

EPS at Rs. 12.99 v/s Rs. 3.17

## ***Business Highlights***

### ***1. Shipment of 50,000<sup>th</sup> Crankshaft To China***

This quarter saw the shipment of our 50,000<sup>th</sup> crankshaft to our first customer in China, FAW. Bharat Forge Limited has secured a five year contract for the supply of engine components.

### ***2. Renault Business Ramping Up***

Exports to Renault Vehicle Industries (RVI) began ramping up in this quarter. Bharat Forge Limited now has a portfolio of 11 parts that it will be supplying to the European OEM. RVI is the second largest truck manufacturer in the world.

### ***3. Bharat Forge Secures 2<sup>nd</sup> Chinese Customer***

Bharat Forge Limited is happy to announce that it has secured a second large customer in China. Guangxi Yuchai Machinery Co., a part of the Second Auto Works is amongst the largest auto companies in China. BFL has signed a long term contract with the company for the supply of engine components. This business will begin ramping up in the second quarter of FY2004.

### ***4. Domestic Business Looking Up***

The business in the domestic market has been strong in the current quarter due to the pickup in demand of domestic OEM's, especially in the Commercial Vehicle segment. The outlook for the remainder of the year remains strong.

## ***Business Review***

### ***Domestic Market***

The domestic automobile segment reflected initial signs of a healthy recovery. Volume growth in HCV and LCV segments showed a healthy double digit growth in the third quarter. Despite an overall recovery in the automotive segment, the volumes in the tractor segment continued to shrink.

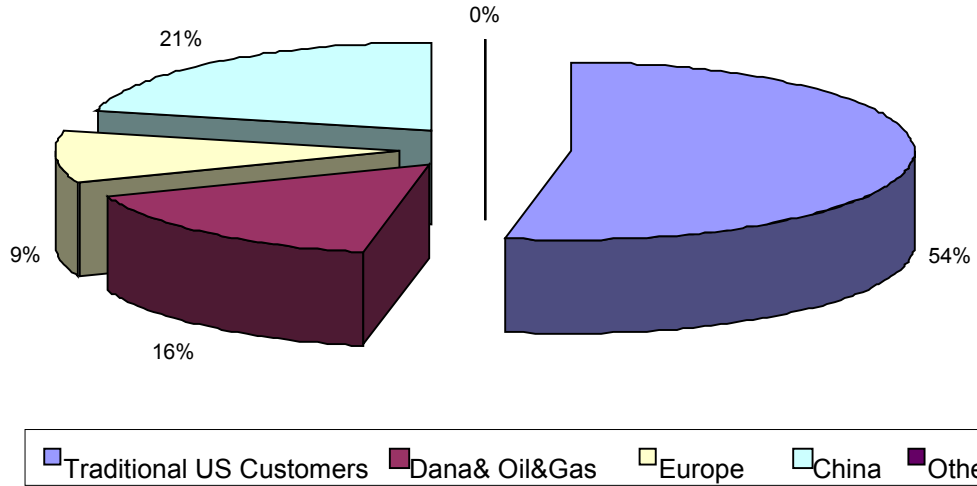
Domestic sales of Bharat Forge have improved significantly by 12.5 % to Rs 1059 million during the third quarter and 7.3 % for the nine months FY03 to Rs 2895 million.

### ***Exports***

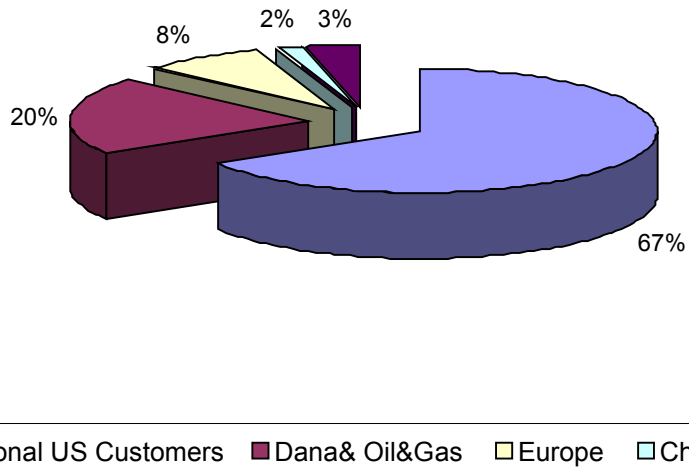
The surge in Exports business continued during the third quarter recording a healthy jump of 155 % over the previous corresponding period. Exports stood at Rs 747 million representing 41 % of total sales for Q3FY03 against 23.7 % for Q3FY02. The quantum jump in exports has partially been possible due to Chinese shipments, which rose to Rs 264 million during the Q3FY03 as compared to Rs 145 million in Q2FY03. The total exports of crankshafts to China crossed the landmark 50,000 crankshafts in the month of December 2002.

Of the total exports of Rs 1908 million for the nine months, traditional US customers accounted for 53 %, Dana & Oil & Gas for 16.27 %, Europe at 9.3 % and China contributed 21.4 %. The North American heavy commercial vehicle sales were lower due to the implementation of a new emission norm by the EPA during Oct-Dec 2002.

**Export Breakup 9 Months FY2003**



**Export Breakup 9 Months FY2002**



## ***New Business Initiatives***

Bharat Forge Limited is constantly striving to grow its business, both domestically as well as globally. In order to achieve this we have strategically targeted the Engine and Chassis components sector of the world market. Our efforts in these areas are threefold:

- Gradually enhancing the order size from the existing customers
- Adding new customers.
- Increase Value Addition

The results of some of these efforts are borne out by the business we have been able to secure in China as well as our growing business in Europe and the Oil&Gas sector.

During the quarter, exports to Renault, the 2<sup>nd</sup> largest truck manufacturer in Europe have begun. We believe this is a critical move to strengthen our foothold in Europe. Besides our exports to Dana Corporation and new Oil & Gas sector have done exceedingly well.

Currently, we have 24 active global customers as compared to 13 active customers during the corresponding period. The increasing number of global customers is a result of the international recognition of Bharat Forge and acceptance of the “Made in India” brand worldwide. We will continue our efforts to grow our business with existing customers and to add new marquee customers.

## ***De-risking Strategy***

The de-risking strategy is in full swing. Considerable progress has been made during the third quarter with dependence on US markets being further brought down to 53 % in nine months FY03, from 66 % in the same period previous year. Higher contribution from China and European countries has further accelerated the de-risking process.

The sales office opened in UK during September 2002 is fully operational.

A diversified customer base of 24 customers spread across various countries will ensure risk diversification. Thus, hedging adverse conditions in any of the markets is now becoming a reality for Bharat Forge by virtue of a diversified presence across countries and market segments.

## ***Financial Performance***

### ***Revenue Analysis***

- Sales during the third quarter have gone up by 47 % to Rs 1820 million. Exports have grown by a healthy 155 % at Rs 747 million in the third quarter of the current fiscal and accounted for 41 % of the third quarter sales.
- Sales for the nine months ended December 2002 have shown a strong growth of 37.5 % at Rs 4821 million driven by export growth of 149 %. Exports at Rs 1908 million accounted for 39.6 % of sales during the nine months FY03 as compared to 21.85 % of sales in the nine months FY02.
- Domestic sales have shown a reasonable growth of 12.5 % during the third quarter over the corresponding period last year. This is in line with our expectations of 5-7 % overall growth in our domestic sales for the year.
- Quality of revenue has remained high with non-operational other income accounting for a miniscule 3.9 % of sales for nine months FY03.

## ***Profitability***

- The profitability during the third quarter has risen further. A mix of value-added products and increased volume of exports has reflected in the EBIDTA, which has risen by 307 basis points to 27.6 %. PBT also rose to Rs 303 million, witnessing a jump of 200 % as compared to third quarter FY02. PAT has risen to Rs 214 million from Rs 63 million.
- The expansion in margin is a result of stringent cost savings. Interest to Sales ratio has gone down to 5.15 % in third quarter from 8.40 % in the corresponding previous period. Economies of scale coupled with a volume growth have further aided the margins.
- As per AS-II, inventory valuation includes recovery of fixed cost like depreciation and manpower cost. In Q2FY03, there was an increase of inventory of Rs. 148 million, which has resulted in better recovery. Therefore EBIDTA margin was higher by 2 per cent.

## ***Cost Reduction Measures***

Bharat Forge Limited has a philosophy of consistent cost reduction. We have targeted our efforts on all the fronts, be it operational costs, manufacturing costs or financial expenses. In the past we have addressed manpower costs by rationalization of our workforce. The energies are now focussed on reducing operational costs, manufacturing costs and financial expenses.

Our efforts to enhance efficiency is reflected in the increased productivity of the company. Employee cost as a percentage of sales has come down sharply from 9.25% to 7.22% for the nine months ended December 2002. A consistent effort on reducing the financial expenses have seen the interest burden at Rs 93 million during the Q3FY03 as compared to Rs 104 million during the previous corresponding period. We have adopted a twin strategy. First, replacing the high cost debt with the low cost debt. Second, partially replacing the rupee term loans with dollar loans. Our dollar borrowings have a natural hedge against any fluctuations in the currency due to large export business. The first nine months of current year FY03 has seen a lower interest burden of Rs 312 million as compared to Rs 340 million in the nine months FY02. Our commitment to repay the debt is progressing as per schedule.

## ***Business Outlook***

The business outlook for Bharat Forge Limited remains strong for the next year in both export as well as domestic segments. Export business will be bolstered by the steady ramp up of China and RVI business coupled with increased volume from existing customers. Domestic business is expected to be buoyant due to the increase in sales of commercial vehicles and utility vehicles in the country.

## *Summary*

Bharat Forge Limited has demonstrated the results of its strategic initiatives begun by the management 5 years ago. Aggressive export growth built on the foundations of speed, cost, quality, and customer service has borne fruit.

The company has been successful in de-risking its business model by expanding share of exports, geographical spread, and market diversity. The company is now a supplier of highly critical components to prestigious OEM in various industry segments, all over the world. Bharat Forge Limited is confident of further growth in its export business in the future.

For further information please contact :

**Mr Amit Kalyani**

Bharat Forge Ltd.

Mundhwa, Pune.

Tel # 95-20-6818702

Fax # 95-20-6876961

Email : [abkalyani@bharatforge.com](mailto:abkalyani@bharatforge.com)

**Mr.Rajiv Naidu**

Adfactors PR

2, Nagin Mahal, Churchgate,

Mumbai – 20

Tel # 95-22-56349848

Fax # 95-22-22855887

Email : [rajiv@adfactorspr.com](mailto:rajiv@adfactorspr.com)