

BHARAT FORGE

Q3 INVESTOR UPDATE

JANUARY 19, 2004

FINANCIAL HIGHLIGHTS OF THE QUARTER

- **Total Income up by 26.94 % to Rs 2310 million**
- **Exports up by 13.59 % to Rs 848 million**
- **Domestic Sales surge by 37.79% to Rs 1459 million**
- **EBIDTA Margin moves up to 28.98%**
- **PBT up by 57.06 % to Rs 476 million**
- **PAT up by 54.54% to Rs 330 million**
- **EPS at Rs 8.54 v/s Rs 5.45**

Analysis over corresponding Quarter last year

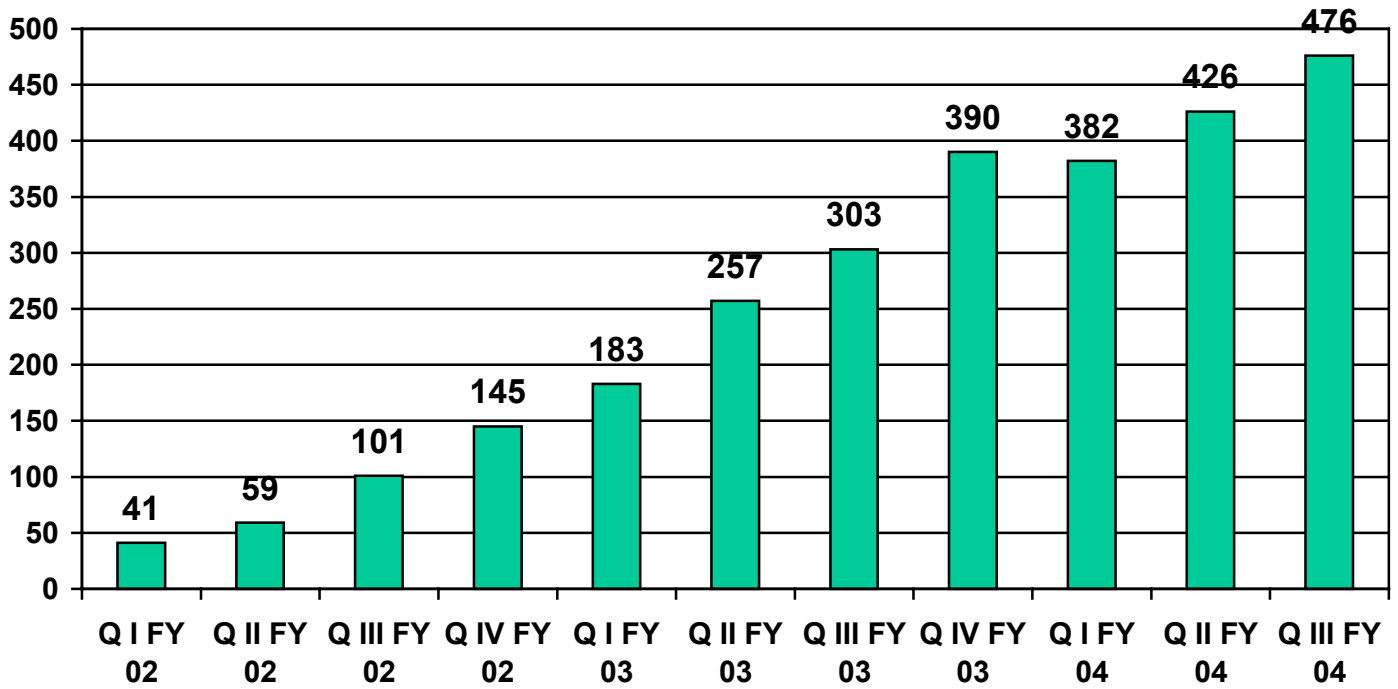
- Total Income up by 26.94 % to Rs 2310 million
- Exports up by 13.59 % to Rs 848 million
- Domestic Sales up by 37.79%
- EBIDTA Margin grows 141 bps
- PBT up by 57.06 % to Rs 476 million
- PAT up by 54.54 % to Rs 330 million
- EPS at Rs 8.54 v/s Rs 5.45

Analysis over corresponding Nine months last year

- Total Income up by 36.80 % to Rs 6595 million
- Exports up by 29.95 % to Rs 2478 million
- Domestic Sales up by 39.41%
- EBIDTA Margin grows 20 bps
- PBT up by 72.83% to Rs 1284 million
- PAT up by 73.59% to Rs 887 million
- EPS at Rs 22.88 v/s Rs 12.99

Bharat Forge PBT growth in perspective

(Rs. In million)



Operational Review for the quarter

During the quarter under review BFL continued to report robust performance with sales and profitability hitting an all time high. BFL's net profit for nine months ended December 31, 2003 at Rs.886.7 million have already surpassed last full years net profit of Rs.810.9 million. The company witnessed a dramatic rise in the domestic business, which, coupled with solid export business led to capacity being fully utilized. As a result of the higher than expected growth in the domestic market, BFL has ramped up production to ensure that domestic customer requirements are fully met, with most of whom it is a single source supplier. The company's domestic sales grew by a huge 37.79 % during the quarter to reach Rs 146 crore. Exports have shown a growth of 13.59% and BFL's leadership and technological capabilities have led to a strengthened position in the domestic market.

BFL has exhibited tight cost control which is reflected in the lower employee cost to sales at 5.66% as compared to 6.31% in the corresponding quarter of last year. Similarly, Interest cost at 3.21% of sales as compared to 5.12% has shown a marked decline during the same period. A strict control on costs and an efficient management coupled with economies of scale has resulted in the OPM moving up by 141 bps to 28.98 % during the third quarter inspite of a substantial steel price increase.

The company is closely working with several prospective customers and is confident of making further breakthroughs in the near future.

As a proactive strategy to cater to the increasing domestic demand and targeting global markets for Passenger cars and commercial vehicles, BFL has drawn up an ambitious expansion plan for the near future.

KEY HIGHLIGHTS OF THE QUARTER

- ***BFL completes major global acquisition***

BFL entered into an agreement to acquire 100% of the assets & business of, Carl Dan Peddinghaus GmbH & Co's German operations.

- ***BFL approaches full capacity utilization***

With a robust growth in domestic markets and export markets, production nears full capacity utilization.

- ***Finalises plans for ambitious capacity expansion***

To set-up additional facilities for Heavy forgings, small forgings for passenger cars and heavy duty diesel crankshaft machining to cater to growing global demand.

- ***Announces fund raising programme***

In order to fund the aggressive capex programme the company proposes to raise appropriate long term funds of upto Rs. 3500 Million

- ***Global growth model on track***

Globally de-risked model with diverse customers, market segments and geographies providing a solid foundation to emerge among the largest and most technologically advanced forging conglomerates in the world.

CDP Acquisition

Bharat Forge Limited has moved a step closer to its goal of emerging as a global leader in the area of forged and machined components. With the acquisition of CDP, BFL emerges as the 2nd largest forging conglomerate in the world. BFL has acquired 100% of CDP in an asset purchase deal. CDP will significantly enhance BFL's presence in the European market and especially the passenger car segment. BFL's long term aim to be a major player in the Passenger car segment with a broader product profile in the Global automotive segment is significantly enhanced by CDP.

About CDP :

- A blue chip highly respected Forging company – founded in 1839
- Best known for its extensive design and engineering capabilities
- Second largest forge shop in Germany
- Headquartered in Ennepetal near Dusseldorf, has a second facility in Daun
- Present employee strength – 790
- Major supplier of critical chassis components to marquee automakers like BMW, Audi, VW, Volvo, GM and others.
- Known for its deep customer relationships
- Provides end-to-end solutions based upon its extensive technology, product design and product development capabilities

BFL – CDP Integration Plan

BFL is very confident that the CDP acquisition will yield significant market, operational, and technological synergies. In order to best leverage these synergies to the combined advantage of both organizations it is absolutely essential to have a well structured integration program with a defined process. BFL has chalked out a comprehensive integration program spanning 100 days from January 2004. Both BFL & CDP have defined integration process teams with the following key focus areas identified :

- a) Integration at the strategic level
- b) Marketing & Customer Strategy
- c) Manufacturing, technology & Quality benchmarking
- d) Purchasing Strategy
- e) Communication and Organisation Plan
- f) Human Resources Strategy

The key objective is to achieve a strong level of team-working, which enables a smooth flow of information creating a world class organization that is highly responsive to customers need, provides the best *SPEED TO MARKET* capability, and the highest level of customer satisfaction and service. Both companies will benchmark each other across a wide range of areas including cost, productivity, quality, speed, technology, and other operational parameters. The end result should be a cohesive global organization that is lean, focused and efficient, with the highest level of technology, quality and product development capability. Such an organization will be well placed to take advantage of the emerging global supply opportunities.

The initial reaction from all of CDP's customers has been extremely positive. They have welcome BFL's acquisition of CDP and have invited BFL's management to present its strategy for the combined entity. The move is being seen as being complementary to OEM's global sourcing initiatives, as it provides a known *Low Cost Country* source with an established strong supply relationship as its front end. BFL has already met most of CDP's largest customers and is exploring supply opportunities with them.

BFL - CDP Acquisition Synergies

“To be one of the largest and technologically advanced forging conglomerates in the world”

BFL’s acquisition of CDP is a giant leap towards stamping a global presence for itself. In addition to an established world class design and engineering capability, CDP offers a close proximity to a global customer base. It also provides BFL with a :

- ❖ Wider Market presence
- ❖ Larger Product offering
- ❖ Deeper Penetration into car market
- ❖ Developed Country location

The key areas where synergies are expected to further drive growth for the combined entity are listed below. These are

- a) Complementary Production Capacities*
- b) Market Segments*
- c) Geographical Presence – complementing derisking strategy, and*
- d) Leveraging Customers*

These will now be explained in more detail.

Leveraging Synergies – Accelerating Growth

a) Production Synergies :

BFL and CDP together offer wide range of complimentary forging facilities of any weight ranging from 2 kg to 350 kg and a combined capacity of over 200,000 tons/year prior to the envisaged expansion. There is no repetition in the major forging capacities. This will help both companies avoid repetitive cost, enable higher product focus and ensure product rationalization at both sites.

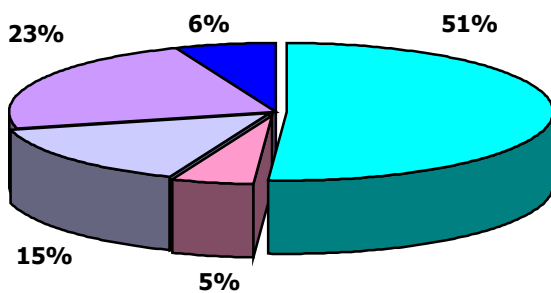
| | 16000 MT | 8000 MT | 6000 MT | 5000 MT | 4000 MT | 2500 MT |
|-----|-------------------|------------|------------------|------------|-------------------|------------------|
| BFL | 2 presses *+ 1 | - | 2 presses *+2 | --- | 1 presses *+ 1 | 3 presses *+1 |
| CDP | - | 2 presses | - | 1 press | 4 presses *+1 | 2 presses |

* denotes proposed expansion

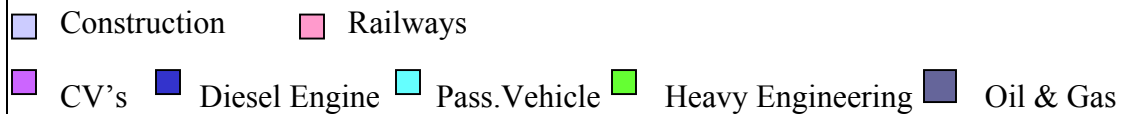
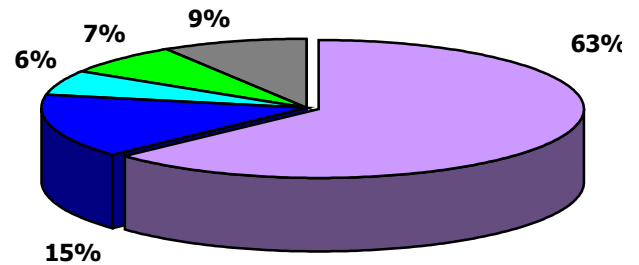
BFL has the advantage of being in a low cost country while CDP has technology intensive operations both of which are suitable for certain components respectively. This leads to complete possibility for inter plant product mix rationalization to achieve optimum synergy levels.

b) Product Synergies

CDP



BFL

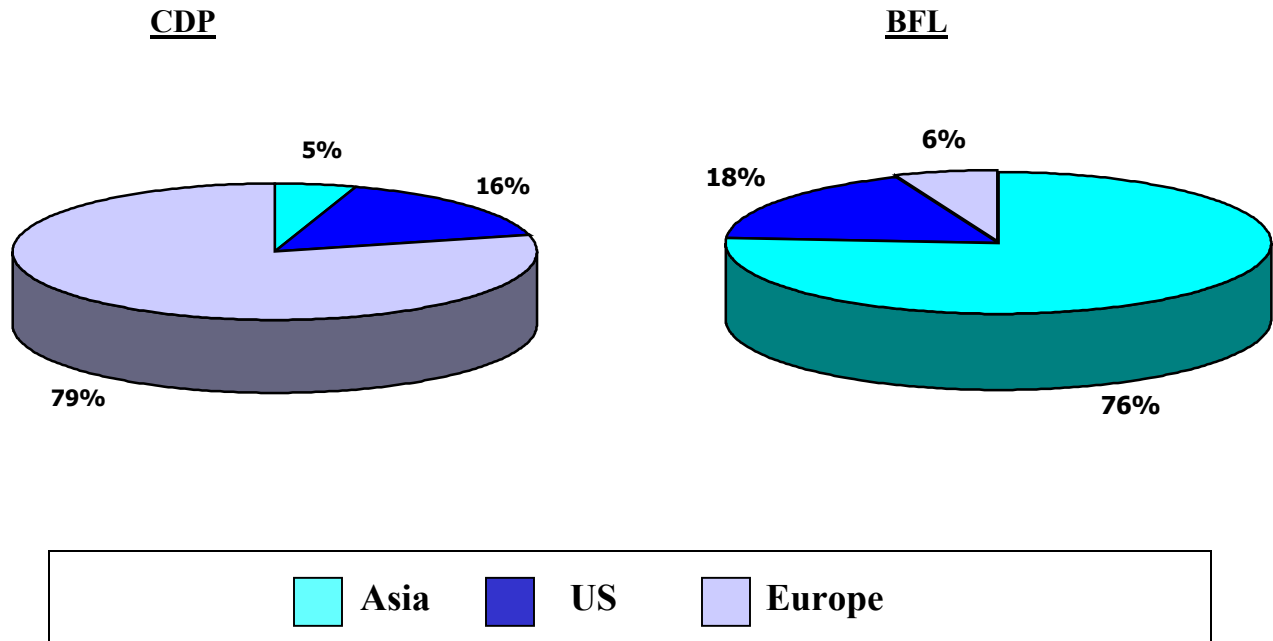


51% of CDP's revenue comes from the Passenger Car segment. In case of BFL, this segment contributes 6% of revenue whereas the CV market accounts for 63% of BFL's revenue. The combined entity will be well diversified with a strong presence in both CV and Passenger Car markets.

CDP is a major supplier of critical chassis components to leading automakers and specialize in passenger car and commercial vehicle components. BFL sees a huge potential in this sector and would capitalize on CDP's strength to generate business. The product and market synergies complement each other completely thus broadening the customer profile and geographic spread.

BFL's strength in engine components would be complementary to CDP's capabilities. BFL plans to leverage CDP's strong customer relationships with its customers for engine components business in Europe.

c) Geographical Synergies :



CDP is extremely strong in Europe. Almost 80% of its revenue comes from marquee European customers. BFL is looking to strengthen its presence in Europe. CDP's customers are a high potential target customer base that BFL has already started working with on identifying supply opportunities. CDP's presence will be the springboard for BFL's European growth strategy. Similarly, BFL is extremely strong in the US, India, and China, and has strong relationships with certain customers that CDP does not have. CDP will be able to leverage BFL's strength in these markets and with these customers to offer its products in the global markets, including India.

The combined entity will have strong presence in North America, Europe and Asia which are the largest automotive markets in the world.

d) Leveraging Customers

CDP's marquee customers such as BMW, AUDI, Volkswagen, Volvo, General Motors offers BFL a significant opportunity for engine component supply that leverages CDP's strong customer relationships.

BFL has been consciously pursuing a de-risking model. While market based de-risking has largely been achieved, the CDP acquisition, will ensure the supply risk is also eliminated.

BFL currently has over 24 active customers while CDP has 20-25 customers. BFL's will target CDP customers with BFL's product offerings thus creating deeper penetration in CDP's customer segments.

BFL's endeavor to be an end-to-end solutions provider will be further accelerated with critical technologies being absorbed from CDP to build a competitive edge in developed markets.

CDP will continue to focus on Passenger Car Chassis Components. BFL will focus on Passenger Car Engine Components and Heavy Duty Machined Crankshafts.

CAPEX – Creating World class capacity :

BFL envisages tremendous growth potential in the global arena. To meet the potential demand, BFL is planning to set up world class capacities in both forging and machining. BFL views the scaling up exercise as a proactive investment to cash in on the huge global sourcing opportunity. Currently, BFL is operating at a very high level of capacity utilization as such there is a distinct need to expand capacity in following areas :

- Small forgings for passenger cars
- Heavy forgings and
- Heavy duty Crank shaft machining

In the passenger car area BFL is quite confident of getting a significant share of the global engine component business. The CDP acquisition will only strengthen our position in this segment and accelerate growth. BFL currently has two 6000 MT press lines to cater to this segment. In order to meet this expected demand, BFL is significantly enhancing its small forging capacity by setting up two additional 6000 MT press line, including one fully automated transfer press line. These additions will more than double BFL's passenger car crankshaft forging capacity to approximately 3 million crankshafts per year. The company is aggressively targeting these areas within its existing customers and potential new customers, including CDP's customers, and is confident of bagging major orders in the near future.

BFL has targeted the Machined Heavy Duty crankshaft market as a very important one for future growth. The company is talking to several potential customers, and is hopeful of making a breakthrough in the near future. In order to meet this demand the company is going to have to increase both its forging and machining capacity. The company is planning to set up a third, large forging press line to increase forging capacity to meet this demand. BFL has also planned to set up a State of the Art machining capacity totaling to 200,000 machined Heavy Cranks.

Apart from expanding capacities for forgings and machining, BFL's aim to be an end-to-end solutions provider entails the setting up of a testing and validation facility. All new products supplied to global OEM's undergo validation and testing of components at their end. This entails a large cost and hurdle to switching suppliers at times. BFL's captive facility will enable us to fatigue test products for customers, using their protocols, at a fraction of the cost and time than it would normally take. This will lower switching costs for customers to switch to BFL and increase customer traction. BFL will be unique in this part of the world to offer this level of capability. This facility entails complete end-to-end solutions for our marquee customers, right from conceptualizing to designing, manufacturing, to a ready-to-fit product. For BFL, it entails deeper penetration into outsourcing with customers providing them upgraded services at Indian costs, thus a win-win situation with further reduction in time and costs. To move up the value chain and emerge as a full service supplier to partner global OEM programs, BFL is setting up a full-fledged product testing and validation facility expected to come up by mid FY05.

The capacity addition is structured in a manner that we are able to ensure that short term requirements of capacity in the next few quarters are met as well as long term capacity addition over the next year is also in place. The company will have adequate capacity coming on line in the near term, to ensure robust growth for the next financial year.

Funding pattern for expansion

To augment capacity and fund the ambitious expansion plans, the company envisages a capital investment of approximately Rs 3500 million in the next 12-15 months. To fund these expansion plans, BFL proposes a rights issue of upto Rs 1500 million with attached warrants of upto Rs. 1500 million to meet the Capital expenditure requirements.

The balance fund requirement will be met out of company's internal accrual supported by debt financing as and when needed.

Outlook

The outlook for the domestic and global markets of the company remain extremely promising. In the domestic market, the company's customers are expecting solid growth in the next year, on the back of a robust Indian economic growth.

The company's overseas outlook remains very promising. The company expects to be able to substantially grow its business with existing customers in the areas of passenger car forgings, and forged and machined crankshafts. BFL is also confident of adding new customers, which will enable further growth. The CDP acquisition will throw up additional opportunities with new customers and products. In all, the company expects to record a healthy growth in the next financial year aided by its timely capacity addition.

For Further details, please contact:

Mr Amit Kalyani
Bharat Forge Ltd
Mundhwa, Pune.
Tel : 95-20-26818702 Fax : 95-20-26876961

Mr Rajiv Naidu
Adfactors PR
2, Nagin Mahal
Mumbai – 20.
Tel: 95-22-56349848 Fax : 95-22-22855887
Email: rajiv@adfactorspr.com