BHARAT FORGE LTD

INVESTOR UPDATE

FY2004

- **Total Income up by 32% to Rs 8511 million**
- **Exports up by 22.5 % to Rs 3330 million**
- **Domestic Sales surge by 37% to Rs 4991 million**
- **PBDIT up 32.4% at Rs 2593 million**
- **PBT up by 59.9 % to Rs 1812 million**
- **PAT up by 54 % to Rs 1249 million**
- **EPS at Rs 32.28 v/s Rs 20.71**

Analysis over corresponding Quarter last year

- Total Income up by 21% to Rs 2409 million
- Exports up by 5.3 % to Rs 852 million
- Domestic Sales up by 29.9 % to Rs 1451 million
- PBT up by 35.4% to Rs 528 million
- PAT up by 20.7% to Rs 362 million
- EPS at Rs 9.40 v/s Rs 7.72

Analysis over corresponding 12 months last year

- Total Income up by 32% to Rs 8511 million
- Exports up by 22.5 % to Rs 3330 million
- Domestic Sales surge by 37% to Rs 4991 million
- PBDIT up 32.4% at Rs 2593 million
- PBT up by 59.9 % to Rs 1812 million
- PAT up by 54 % to Rs 1249 million
- EPS at Rs 32.28 v/s Rs 20.71

Highlights of FY04

- BFL records its best ever performance - Sales, Exports & Profits at an all time high

- BFL completes acquisition of Carl Dan Peddinghaus GmbH & Co's German operations. The company has been renamed CDP-Bharat Forge GmbH

- BFL achieves breakthrough in global passenger car market - Bags 3 export orders for passenger cars – i) Ford ii) Daimler Chrysler iii) An Order for control arms forgings to a global passenger car company in Australia

- BFL approaches full capacity utilization

- CAPEX program announced for Heavy forgings, small forgings for passenger cars and heavy duty diesel crankshaft machining to cater to growing global demand. Planned outlay of Rs 3500 million

- Moving towards becoming full service supplier by setting up State of the Art Testing and Validation facility for its customers

- BFL selected by Forbes magazine "Best under a billion" – October 2003. Selected among top 200 rising and successful companies for 2003 outside US

Management Review for FY04

The year in review was a landmark one for BFL. The company experienced strong demand for its products both in the domestic and global markets. BFL's total income increased by 32 % to Rs 8511 million. Of this, exports accounted for 39 per cent. BFL now has its footprints in three continents viz. North America, Asian and Europe. Of these North America accounts for 17.5 % of total revenue, Asia (excluding India) accounts for 12.3 %; and Europe accounts 9.4 %.

This past year saw the company making significant progress in entering new markets and product segments. BFL successfully made a breakthrough into the global passenger car industry by bagging 3 major global orders. Launching so many new programs in a short time frame for extremely discerning customers can put severe strains on the company's management resources. BFL was able to harness the capability of its people to achieve this task successfully. This involved critical project management in the areas of design, engineering and setting up manufacturing facilities in a record time.

The last two years have seen a rising trend in the prices of our key raw material namely, steel. This trend was accelerated in the current financial year where steel prices shot up by 35 per cent in one year. The company took a proactive approach to deal with the price hike in a two-pronged strategy with the intention of ensuring that supply of products to customers is not affected. The strategy was to reduce cost by engineering and productivity increase on one hand and passing on the steel price increase to our customers.

The other external factor, which affected us during the year, was about 9% appreciation in Indian Rupee against US Dollar and its consequent impact on US Dollar denominated export. However, since the company has converted significant portion of its debt into US Dollar, the same acted as a hedge for the Rupee appreciation. Similarly, exports in Euro also partially mitigated the effect by counterbalancing the deprecation of US Dollar.

PBDIT has grown by 32.4 per cent, from Rs.1,959 million in 2002-03 to Rs 2593 million in 2003-04. Inspite of cost pressures and its effect on margins, the PBDIT margin has remained stable at 30.5 per cent. The arithmetical effect (base effect) of the steel price rise is explained later in this document. PAT has risen by 54 per cent in 2003-04 to Rs 1249 million as compared to Rs 811 million in 2002-03.

By the fourth quarter the company was running near full capacity. In order to cater to growing business, both globally and domestically, the company is pursuing a capacity expansion to set-up additional facilities for heavy forgings, small forgings for passenger cars and heavy duty diesel engine crankshafts machining to cater to growing global demand.

Markets

Domestic :

Domestic sales grew by 37 % in 2003-04 from Rs.3641 million in 2002-03 to Rs 4991 million (net of excise) in 2003-04. The robust growth in the domestic segment is explained by the domestic automotive production.

Domestic Automotive Production :

	FY03	FY04	% Change
M & HCV's	1,11,671	1,63,038	46.0
LCV's	89,539	1,15,428	28.9
UV's	1,15,046	1,43,325	24.6
Tractors	1,63,665	1,78,027	8.8
Cars	6,31,859	8,54,452	35.2

(Source SIAM Data)

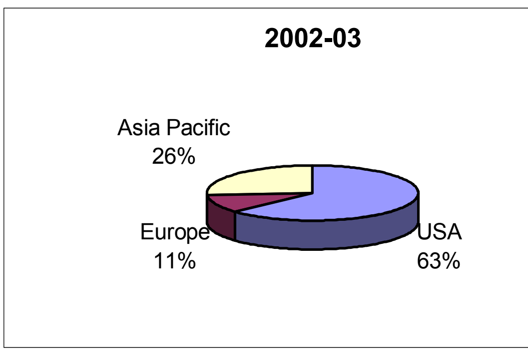
The buoyancy in the auto industry has a direct bearing on Bharat Forge's domestic growth. Infact the unprecedented rate of growth in domestic demand led to a larger portion of overall capacity being used up for domestic products. However the company ensured that the schedules given by all the customers were fully met.

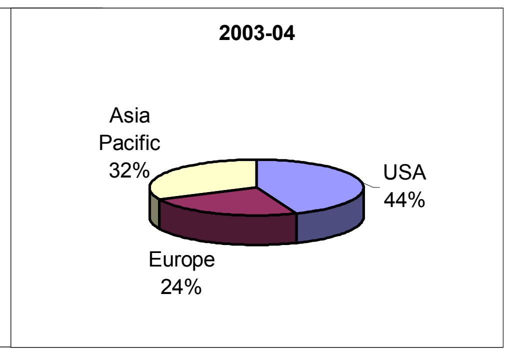
Exports :

During the year, BFL significantly strengthened its presence in Europe and China. The exports to Europe now accounts for 24% of total exports against 11% in FY03. Similarly, exports to Asia Pacific (Including China) grew from 26% in FY03 to 32% in FY04. In view of this while exports have grown by 22.5% it is now much more evenly spread compared to previous year.

During the year, BFL was successful in achieving a breakthrough in global passenger car market by bagging orders for engine components from Daimler Chrysler and Ford Motor Company.

Share of BFL's exports by region





Finance

Table below gives the abridged profit and loss account for Bharat Forge for 2003-04 and the previous year.

Abridged profit and loss account (Rs. million)

		2003-04	%	2002-03	%	Growth
1	Sales & Operating Income	9,021.0		6,863.0		31.44%
2	Excise payments	700.5		505.5		38.58%
3	Net Sales (1-2)	8,320.5		6,357.5		30.88%
4	Other income	190.9		92.0		107.50%
5	**Total Revenue (3+4)**	**8,511.4**	100.0%	**6,449.5**	100.0%	31.97%
6	Raw materials and components	3,181.4	37.4%	2,223.2	34.5%	43.10%
7	Manufacturing expenses	1,517.5	17.8%	1,243.8	19.3%	22.01%
8	Employee costs	536.7	6.3%	461.9	7.2%	16.19%
9	Other expenses	682.9	8.0%	562.1	8.7%	21.49%
10	Total expenses	5,918.5	69.5%	4,491.0	69.6%	31.79%
11	**PBDIT (5-10)**	**2,592.9**	30.5%	**1,958.5**	30.4%	32.39%
12	Depreciation and Amortisation	457.7	5.4%	417.6	6.5%	9.60%
13	**PBIT (11-12)**	**2,135.2**	25.1%	**1,540.9**	23.9%	38.57%
14	Interest	323.6	3.8%	408.3	6.3%	-20.74%
15	**PBT (13-14)**	**1,811.6**	21.3%	**1,132.6**	17.6%	59.95%
16	Current tax	536.6		281.8		90.42%
17	Deferred tax	26.0		39.9		-34.84%
18	**PAT (15-16-17)**	**1,249.0**	14.7%	**810.9**	12.6%	54.03%
19	Earnings per share (EPS) [in rupees]	32.3		20.7		56.04%

As can be noted from the above table the raw material cost as a per centage of total revenue has gone up by nearly 3%. However, the company has been able to maintain its EBIDTA margins and the PBT margins have improved by 3.7%. Following are the significant reasons attributable to the same.

i) Control on manufacturing expenses which is a reflection of Operational efficiency
ii) Reduction in employee cost as a percentage of total revenue whichis a reflection of improvement in productivity
iii) Significant reduction in interest cost due to progressive conversion of Rupee loans to US Dollar backed loans and taking advantage of lower interest rate regime

Following are the key ratios which bring out the above factors in a nutshell :

Table : Key Ratios

	2003-04	**2002-03**
PBDIT/Total Revenue**	30.5%	30.4%
Raw material/Total Revenue	37.4%	34.5%
Manufacturing expenses/Total Revenue	17.8%	19.3%
PBIT/Total Revenue	25.1%	23.9%
PBT/Total Revenue	21.3%	17.6%
PAT/Total Revenue	14.7%	12.6%
ROCE	35.7%	27.2
RONW	49.7%	47.3%*

Note:
*In 2002-03, on advice of financial and legal experts, we had added on BFL's deferred tax liability to its net worth. Because of the higher denominator, the Company's RONW for 2002-03 was reported as 32.5 per cent. Thereafter, ICAI's interpretation on deferred tax assets and liabilities [Accounting Standards Interpretation 7] has stated that deferred tax liability should now be presented in the balance sheet after the head "unsecured loans". Therefore this can no longer be a part of net worth. Consequently, we have recalculated the RONW and the debt equity ratio for 2002-03 taking into account this ICAI interpretation.

** It had been our practice to report total revenue inclusive of excise duty upto 2002-03 and to show the excise duty paid as a separate head under expenses. Consequently, we were computing all the ratios based on the total income inclusive of excise duty. However. In terms of clarification issued by ICAI, we have presented sales net of excise duty. We have accordingly computed all ratios (including those for 2002-03) on the basis of total revenue net of excise duty.

The effect of the steel price hike on EBITDA margin — an example

	Before steel price hike	Input price hike pass through (35%)	Before steel price hike
Price	100.0	11.9	111.9
Steel	34.0	11.9	45.9
Other Costs	35.0		35.0
EBITDA	31.0		31.0
EBITDA margin	31.0%		27.7%

Arithmetical Effect :

As shown in the table above, 35 per cent increase in steel price (incremental Rs 11.9 from 34 to Rs 45.9 in 2003-04) is passed on to consumers which has resulted in absolute increase in Sales from Rs 100 to Rs 111.9 (net difference Rs 11.9). Other costs have remained at the same level, thus profitability in absolute terms is intact. However, EBITDA margins appears to be sliding by 330 bps in percentage terms which is not the true reflection of profitability. Therefore in real terms BFL's profitability is intact though EBITDA margin may appear to be squeezed due to rise in steel prices.

Chart : BFL's interest costs

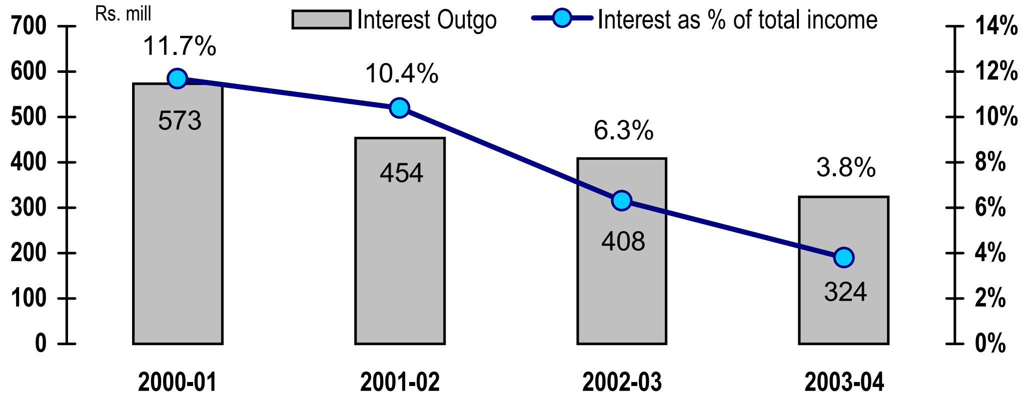
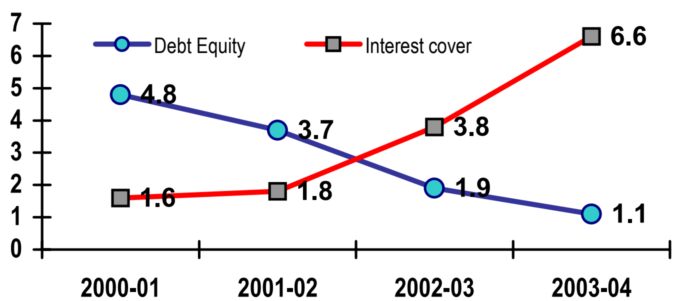


Chart : BFL's financial gearing



During the year, BFL repaid debt of Rs 380 million. This has been achieved after accommodating the investment of Rs 344 million in CDP Bharat Forge GmbH.

CAPEX Plans

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

BFL is significantly enhancing its small forging capacity by setting up two additional press lines, 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. This is in addition to one 6000 Ton and one 2500 Ton press line presently under installation.

BFL has targeted the Machined Heavy Duty crankshaft market as a very important one for future growth. 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 three State of the Art machining lines having a total capacity of 200,000 machined Crankshafts per annum.

Similarly, BFL is setting up a Testing and validation facility for testing the components developed for its customers. This is a step in becoming full service supply provider which will enable the company to deepen our relationship with our marquee customers.

Funding CAPEX plans :

BFL proposes to fund the expansion program through a combination of equity & debt as follows :

Rights equity shares	Between Rs 1036 million to Rs 1240 million
Conversion of Warrants into equity shares	About Rs 1130 million

(For details please refer Draft Offer Document)

The balance will be funded through the combination of Buyers/Suppliers credit, Internal accruals and Debt.

Human Resources

BFL recognizes human resource as its most valuable asset. It has been due to their capability, commitment and diligence that BFL has been able to consistently deliver on its promises. As BFL step's up its efforts to expand scales, develop new markets and benchmark with global standards. BFL is taking various initiatives with an objective of :

a) constant upgradation of the skill sets of existing manpower
b) attracting talent to meet the growing demand of technical and managerial personnel

With this focus, Bharat Forge has signed an agreement with BITS, Pilani, under which employees of Bharat Forge can pursue a part-time on campus manufacturing engineering course, and on successful completion be awarded a B.S. (Mfg. Eng.) program.

This will significantly enhance the capability index of our employees at all levels.

CDP-Bharat Forge – Salient Financial Indicators

During the year we acquired the German operations of Carl Dan Peddinghaus GMbH & Co. KG (CDP) through our wholly owned subsidiary CDP Bharat Forge GMbH (CDPBF) in an Asset Purchase Deal. As the financial statements of CDPBF, since becoming a subsidiary, will be drawn for a completed financial year only on 31 December 2004, no consolidated financial statements can be prepared for the year ended 31 March 2004. However, for the better understanding of our shareholders, we are presenting the provisional unaudited financial indicators of CDPBF for the quarter ended 31 March 2004 in table 7, which is the first operating quarter for CDPBF after becoming our subsidiary.

Table No. 7 Rs. Million

Particulars	CDP Bharat Forge Unaudited, Provisional Q1 Jan-Mar, 2004
Total Income	**1838**
PBIDT	**231**
Profit before Tax	**160**
Profit after Tax	**97**

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