

BHARAT FORGE LIMITED
Registered Office
Mundhwa, Pune Cantonment, Pune 411 036

CHAIRMAN'S SPEECH

TO THE MEMBERS OF THE COMPANY AT THE 55th ANNUAL
GENERAL MEETING
ON AUGUST 05, 2016

Introduction:

Ladies and Gentlemen,

It gives me immense pleasure to extend a very warm welcome to all of you to your company's 55th Annual General Meeting.

Global Environment:

The year gone by has been a particularly volatile one. The global economy grew at a sluggish pace and demand environment continued to remain fragile and global economic recovery was largely uneven.

While the advanced economies of the US and European region showed some signs of growth influenced by monetary policy decisions, the growth prospects of emerging markets were weighed down by low commodity prices and a sharper-than-expected slowdown in the Chinese economy. The outlook for global growth is not that great as major macroeconomic realignments and events such as Brexit continue to weigh on economic recovery.

Amidst such a challenging global scenario, India emerged as one of the most attractive economies of the world with a 7.6% growth, largely supported by policy initiatives of the Government of India. The Government is focusing on strengthening the economy with various reform measures and is setting up the framework for long-term sustainable economic growth. A low current account deficit, low inflation levels, adherence to fiscal prudence and increased infrastructure spending has supported economic recovery.

India is expected to remain as one of the fastest growing economies for the next three years. An enhanced infrastructure spending, pick-up in industrial activity, an improved investment climate and a rebound in rural economy on the back of an above average monsoon are expected to strengthen growth.

Financial Performance:

Being a B2B oriented company, our performance is prone to the vagaries of the end markets over which we have no influence. The volatility in the macro environment impacted three of our key exports verticals; North American Class 8 truck markets, Oil & Gas, Metal & Mining and allied commodity sector.

As a result, on a Standalone basis, the growth witnessed in the domestic markets was negated by the weakness in the international markets; the total revenue declined by 5.3% to Rs. 43,054 million from Rs. 45,481 million last year.

But the continued focus to rationalize costs has helped improve EBITDA margins by 110 bps from 29.8% in FY 2015 to 30.9% in FY 2016. Profit after tax declined marginally from Rs. 7,190 million to Rs. 7,011 million.

We have generated strong free cash and it has helped strengthen our balance sheet. We continue retiring our debt, as a result of which our interest costs have reduced by 23% as compared to last year and our Debt/Equity ratio (net) now stands at 0.19. We aim to be a net cash company in the next two years.

Markets Segments:

Automotive

The Medium & Heavy Commercial vehicle segment witnessed a strong demand environment in all the major geographies the company caters to. The company continues to strengthen its position in this segment as is evident from the 9% CAGR growth the company has witnessed over the last 10 years.

The Indian M&HCV segment recorded strong volume growth of 28% in FY 2016 driven by strong fleet replacement. This segment is expected to register another year of growth in FY 2017, driven mainly by the pre-buying ahead of the complete roll-out of BS-IV norms and the increased investment in infrastructure projects.

The European Commercial Vehicle segment is also expected to grow moderately as the fleet replacement demand continues on the back of gradual economic recovery in the Euro region.

While India and Europe continue to show growth, the North American market for heavy trucks started showing some weakness in demand from the closing months of CY 2015. The demand scenario continues to remain soft and volumes are expected to settle at a more normalized level during 2016 as OEM's adjust production in line with the lower demand environment.

Our other important segment in the automotive space of passenger car market also showed volume growth across most major geographies driven largely by low interest rates & benign gasoline prices and positive consumer sentiment.

The passenger vehicle segment that has been one of our key focus areas over the last couple of years performed extremely well in FY 2016. Export revenues from this segment registered a growth of 87% and also the contribution of this segment as a whole to overall revenues increased to 10% from 8% last year.

The growth trajectory in the passenger car market is expected to continue in the Indian markets as well as in North America and the Euro region. The steady ramp-up of existing orders will contribute to another year of growth for your company in this segment.

Industrial

The industrial business during the year was affected by a slowdown in the global economy and its resultant impact on commodity prices and infrastructure activity. The industrial segment saw a 23% decline in revenues as compared to the last year largely due to depressed capex and

a low underlying demand within the Oil & Gas and the Construction & Mining sectors. These sectors will likely witness soft demand outlook going forward.

BFL had focused heavily on the Oil & Gas space and displayed tremendous results with revenues from O&G increasing rapidly from US\$ 10 million to over US\$ 100 million within a span of 4 years driven by successful development of highly value added critical components for shale.

Unfortunately, the convergence of anemic global growth over the past year causing weak consumption and lower cost of drilling due to emergence of new technology like fracking has led to excess supply in the market. This has led to crude prices declining by 80% and forcing companies to cut cost and put capital investment on hold in the sector. We have been impacted by this and our business in FY16 has declined by about 50% with more pain to come in FY17.

We have started focusing on redeploying the assets, both human and capital which are fully fungible to address demand in sectors such as Aerospace, renewable, nuclear and thermal. This strategy will allow the company to further diversify the industrial business and over the time fill up the void left by the Oil & gas sector.

We continue to leverage our in-house R&D capabilities to develop new technologically advanced and efficient products and we are confident to make inroads with new customers and grow our industrial business in the coming quarters.

Key focus areas:

- Increase product portfolio in commercial vehicle segment -

We have developed a range of new products in the commercial vehicle segment and secured orders for the same from our existing customers. Though the initial order wins are small in size, we believe that these products will aid in contributing to the top-line in the next couple of years.

- Enhance presence in passenger vehicle segment –

The structural shift in PV segment globally is giving us tremendous opportunity to build out this vertical into a US\$100+ million over the next 2-3 years. This will be driven by new product development, increase in market share and a simultaneous product portfolio expansion.

- Increase presence in transportation sector –

With the focus on railways being a key cornerstone of our new business diversification, we expect revenues per locomotive to grow substantially in the coming years.

- Grow aerospace business –

The progress made in the past 3 years in terms of winning new customers and developing products “first time right” using the asset light model is a testament to our technological capabilities. Over the next few years, the aerospace business will evolve into one of the fastest growing vertical largely driven by customer traction, product expansion and enhanced value addition.

- Make in India –

Your Company, with its full scope of products supplied into the global markets is optimistic about the prospects of the industrial sector in India. This increasing product portfolio coupled with the Government initiative puts us in a sweet spot to capture this opportunity. Key focus sectors for the Company will be supply of components & sub-systems into mining, transportation, aerospace and the defence sector. We are targeting import substitution across all verticals and have built upon our extensive knowledge to deliver solutions across these different verticals. Your Company has started making initial breakthrough with development orders with existing as well as new customers in India. Our Make in India strategy is well on its way.

Industry 4.0:

After going through the annual report, I know many of our respected shareholders might be curious to know what “Towards Industry 4.0” means for Your Company. Now, let me take some time to explain how Industry 4.0 is going to be the next revolution in the manufacturing industry and the tremendous opportunities it presents for innovative manufacturers like Your Company.

Industry 4.0 can be defined as the 4th Industrial Revolution, a next phase in the digital transformation of the manufacturing sector where machines and IT systems along with other components in the value chain will be connected to create a fully integrated, automated and optimized manufacturing system. This will help to increase manufacturing productivity, improve efficiency and foster industrial growth.

Your Company is preparing to take advantage of this opportunity and trying to create an ecosystem of a digital organization. This journey has already begun in areas of connected enterprise, big data, mobility, augmented reality (human-machine interface) and additive manufacturing. Notable progress has been made and the aim is to apply this initiative across the entire value chain and create a cohesive manufacturing ecosystem. Industry 4.0 provides substantial potential in helping us improve efficiency and increase productivity. This will ultimately help in reducing costs and increasing our competitiveness in the global manufacturing environment.

Innovation/ Research & Development/ KCTI:

Our focus on R&D has helped in the development of a portfolio of new advanced products with application over different sectors in the automotive and industrial space, which not only meet but also exceed customer expectations.

The in-house R&D team also remains committed to work on various projects that include developing technologies and cost-effective manufacturing processes that help in improving the operational efficiency and increase productivity.

Your Company continues to make progress in additive manufacturing by absorbing & adopting new technologies like 3D printing, electron beam welding, laser welding, metal injection molding and nanotechnology.

A total of 12 patent applications were filed in FY 2015-16, bringing the number of patents filed till date to 22. Two patents have already been granted while the others have been submitted and awaiting examination. In the coming year also, BFL has a healthy pipeline of patents on which work is being carried out.

KCTI's role in developing new technologies and filing new patents has reinforced Bharat Forge's status as an innovation-driven company. Your company is strengthening its R&D capabilities to further sharpen its technological edge and lead the innovation cycle in its diverse areas of operations. The next leg of growth for your company will be driven by technology, innovation and R&D.

Corporate Social Responsibility:

Social responsibility has been ingrained in the Bharat Forge culture since our earliest days as a company. Our CSR journey started way back in 1970 and today our CSR activities have acquired wider and bigger dimensions as we are trying to align ourselves with the national agenda. I am proud to announce that during the year, Bharat Forge spent more than the prescribed amount on CSR projects.

Key CSR Highlights for the year –

- Under Swachh Bharat Abhiyan:
Implementation of SOS (Sanitation of schools) at 9 corporation schools
- Supporting the Skill India initiative:
Helping to enhance skills at adopted ITI's (Bhor and Malegaon) and setting up of a new state-of-the-art communications lab at ITI Khed
- Contributing to the Jalyukta Shivar Abhiyan - Drought Free Maharashtra:
Completing the Jalyukta Shivar Abhiyaan at three adopted villages of Kanhersar, Kalewadi and Pansarewadi has restored the water-storage capacity of these villages and benefited over 6,000 people.

- Promoting education:

The company reached out to 25 communities and 20,000 children of Pune through NGO 'Pratham' which imparts informal education to the children of economically weaker sections of society and helps in their holistic development. Also, a project called 'Life Lab' was launched under this initiative in our adopted school to introduce experiential learning related to science curriculum

- The company was recognized for its contributions to the society and was awarded the Greentech CSR Award for the year 2015.

Acknowledgements:

I would like to take this opportunity to thank all our valued customers and business partners for their continued support and contribution. More importantly I would like to thank our employees for their hard work and valuable contributions that have helped to keep Bharat Forge on the growth path.

I would like to express my sincere thanks to the Government of India, the Government of Maharashtra, Financial Institutions and Banks for their sustained encouragement and support to your company.

Finally, on behalf of the Board of Directors, I would like to extend my sincere appreciation to all our shareholders for the confidence placed in us.

We are entering our 50th year of commencing manufacturing and look back at how seamlessly the company has evolved leveraging its people strength. We now look towards the future, embracing new technological changes and working relentlessly to fulfill our goals. The road ahead is filled with challenges and opportunities, and we are fully geared to take your company to the next level. I sincerely hope that you will continue to extend your whole-hearted support and help our efforts to accelerate the growth and progress of your company.

Thank you!

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