

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

CHAIRMAN'S SPEECH

TO THE MEMBERS OF THE COMPANY AT THE 58th ANNUAL
GENERAL MEETING
ON AUGUST 13, 2019

Introduction:

Ladies and Gentlemen,

It gives me immense pleasure to extend a very warm welcome to all of you to your company's 58th Annual General Meeting.

Financial Performance:

FY 2019 proved to be another positive year for the Company, thanks to robust demand from the domestic and export markets across several sectors. We recorded the highest-ever turnover and profitability and in the process further strengthened our balance sheet and improved our market position.

On a standalone basis, revenues grew by 23% to Rs. 65,200 million. EBITDA increased by 19% to Rs. 18,761 Million and PAT increased by 52% to Rs. 10,713 Million. Consolidated revenues also witnessed a strong performance, with a top line growth of 21% to Rs. 101,457 Million and PAT growth of 37% to Rs. 10,326 Million

The company continues to make prudent use of its free cash flow for increasing capacities & capabilities focused on new products and simultaneously, maintaining a strong balance sheet with healthy levels of cash to tide over tough times/ address M&A opportunities . In spite of the capex at our Nellore and Baramati facilities this year, we continue to remain net debt free on long term basis and have improved our return ratios from 2018 levels.

Markets Segments:

Automotive

The global heavy Commercial vehicle segment witnessed a strong demand environment in the previous year on the back of solid freight demand. The company recorded its highest ever revenues from the heavy commercial vehicle business in FY 2019.

The India M&HCV segment witnessed good growth in the initial months of FY 2019 but demand environment started declining from October 2018 onwards, impacted by the tightening financing environment, surplus capacity created through revised axle load norms and weak freight rates.

Your Company though, will continue to focus on innovation and through new product development work on increasing content per vehicle and increasing share with customers.

The passenger vehicle segment that has been one of our key focus areas, has performed extremely well in FY 2019 with growth in both the domestic and export markets. Revenues from this segment have grown at a CAGR of 25% for the last 5 years and now contribute 12% of our total revenues. We have set our focus on increasing our presence in this segment across domestic and export markets by increasing our product portfolio and offering technologically advanced value added products.

Industrial

The growth of the industrial business of the company in the international market was supported by improved macro conditions in our key markets of Oil & Gas and Construction & Mining. The domestic side of the business also witnessed significant growth largely led by defence, agri related equipment's and general engineering. As a result, the company recorded its highest ever revenues from the Industrial business in FY 2019.

Thought the global industrial outlook looks a bit cautious in the near term amidst global trade tensions, the company will continue to nurture and grow the existing sectors. At the same time, put impetus on R&D and

innovation for new product development to tap global opportunities, explore new sectors and add new customers.

Engineering the Next Phase of Growth

E-mobility

The e-mobility space is steadily emerging as the future of mobility. The slew of incentives announced recently in the union budget strongly highlights the Government initiative on e-mobility and it augurs well for adoption of electric vehicles especially 2 wheelers, 3 wheelers and public transport in India, our key focus areas.

We are excited about the new opportunity that this space brings and hence our strategic investments in Tork Motors and Tevva Motors, along with R&D centers at MIRA and KCTI will help us develop solutions and components across the entire spectrum of E-vehicles.

Light-weighting

Light-weighting of vehicles is a key focus area for OEM's to comply with emission norms by reducing weight and improving fuel emission. As shared with you last year, we are working on a dual pronged approach towards capitalizing this opportunity both in India and overseas.

In the first phase, we have committed a capital investment of Rs. 2,000 Million for establishing a Center for Light-weighting Technology (CLWT) at Nellore, Andhra Pradesh. This facility will commence commercial production in a couple of months with a focus on manufacturing aluminum components for automotive & Industrial applications and carry out research on Light-weighting through new materials and technologies.

We are also addressing global light weighting opportunities through our European manufacturing operations by investing around Euro 50 million and increasing our aluminium forging capacity in Europe. Our target is to increase the revenue contribution from the Aluminium forging business in the European operations from the current levels of 20% to around 40% in the next 5-7 years.

Defence and Aerospace

FY 2019 had been an encouraging year for the defence business. During the year, we commenced execution of a Rs. 2,000 Million defence order that we had received in CY 2017 and our components business also saw good growth. Our ATAGS was recognized with “CII Pinnacle Awards for Excellence in Manufacturing” and “Golden Peacock innovative Product” Award.

We are working to create a steady revenue stream across domestic and export markets in the defence components business. But the strategic priority in the long term is to always use our innovation and engineering competencies to graduate from manufacturing critical components towards becoming a full supplier of indigenously developed systems for all defence verticals.

Innovation/ Research & Development/ Embracing Digital

Our world-class in house R&D centers – KCTI (Kalyani Center for Technical Innovation) and KCMI (Kalyani Center for Manufacturing Innovation) are two significant enablers for our innovation charter. With the primary aim to undertake new products and materials development, these Centers also work to augment knowledge and skills of our employees in advanced materials and technologies and also work closely with operations to identify new opportunities in process improvement.

We continue on our journey of creating a digital ecosystem for smart manufacturing and in the process have commissioned Industry 4.0 Center of Excellence at our factory in partnership with PTC. The Center aims to incubate ideas related to digital transformation, machine learning and artificial intelligence. This initiative helps us towards preventive maintenance, cost reduction, productivity improvement, product quality enhancement and faster time-to-market.

Our Industry 4.0 initiatives have helped us to increase productivity by more than 5% and we have saved approx. 9-10% in energy costs

Corporate Social Responsibility

CSR has always been an integral part of BFL and we believe that the stronger we grow, the greater is the responsibility we have on us to drive social development. The Company believes in providing support and assistance in improving the quality of life of people in the communities. We are happy to announce that in FY 2019 through our CSR initiatives, we have been able to positively impact the lives of more than 158,000 people.

Our focus areas in CSR include women empowerment; village development; environmental sustainability; cleanliness drives; education; skill development and promoting sports.

Village development project in Maharashtra has been our core initiative. We are developing 69 villages across 5 districts with focus on water availability (for drinking and agriculture), enhancing livelihood, constructing village roads, imparting education and improving health and hygiene of the villagers. The impact of our work has helped to develop these villages and also enabled the villagers to increase their income generation capability. Our aim is to scale these initiatives to 100 villages.

Going Ahead

The Indian economy is currently experiencing weak demand environment across various sectors which will eventually translate into a lower GDP growth for the Indian economy.

Given the prevailing weak & uncertain demand environment, and especially the situation across the automotive value chain, the government has taken the issue seriously and is putting in place measures to improve demand and sentiments. We expect these measures to result in better off-take from H2 FY20.

We operate in a cyclical business and therefore always consciously work on creating a resilient business by de-risking and increasing our addressable markets.

Using our technology and R&D prowess, we have in the past and will continue in the future, to engineer new products and technologies for our existing businesses and also for our future endeavors.

All our new initiatives and capital investments are with the same intention, to counter cyclical demand environment, generate strong free cash flows and maintain our path on the growth trajectory.

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. 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.

Thank you!

August 13, 2019