



**BHARAT FORGE**

## **Bharat Forge Limited**

### **Q4 FY12 Earnings Update**

**28<sup>th</sup> May 2012**

### ***Key Highlights: Growth Momentum Continued***

FY 2011-12 was a challenging year to operate in, with the Eurozone financial crisis exacerbating the uncertain economic growth outlook globally. Despite weak global macroeconomic fundamentals, strong underlying demand in the automotive industry continued in FY 2011-12 and BFL with its robust business model has been able to deliver credible performance.

**Some of the key highlights on a standalone basis of the year gone by are:**

- Strong Topline growth of 25.5% in FY12 driven by robust export growth.
- Export growth of 42.2% driven by healthy end market demand, market share gains and continued traction in non-auto.
- EBITDA for the year of Rs 9,828 million, growth of 29.0%.
- PBT before exceptional item for the year of Rs 6,174 million, a growth of 38.0% compared to previous year.
- Exceptional item of Rs 704 million on account of impairment in investments in Bharat Forge America. This has no impact on cash flow & consolidated results.
- **PAT adjusted for exceptional item** of Rs 4,324 million, a growth of 39.1% compared to previous year.
- Non-Automotive business grew by 32% in FY13 and its contribution to standalone operations has increased marginally to 38% in FY12.

**Some of the key highlights on a consolidated basis of the year gone by are:**

- Total income grew by 23.6% to Rs.63,684 million
- Profit before tax at Rs 5,995 million, growth of 34.9%
- PAT (after minority interest) of Rs 4,130 million, growth of 42.3%
- Alstom Bharat Forge has been awarded a contract worth Rs 1,570 crores from NTPC for supply of 2X660 MW Turbine Generator.

**Bharat Forge Standalone Financials - Q4 & FY 2012**
**Table 1**
*Rs. Million*

Particulars	Q4 FY12	Q4 FY11	Growth %	FY 2012	FY 2011	Growth %
Shipment Tonnage	57,242	51,267	11.7	219,353	188,166	16.6
Domestic Sales	5,196	4,635	12.1	19,513	17,278	12.9
Export Sales	4,576	3,582	27.7	17,347	12,195	42.2
<b>Net Sales</b>	<b>9,772</b>	<b>8,217</b>	<b>18.9</b>	<b>36,860</b>	<b>29,473</b>	<b>25.1</b>
Other Income	144	158		660	421	
<b>Total Income</b>	<b>9,916</b>	<b>8,375</b>	<b>18.4</b>	<b>37,520</b>	<b>29,894</b>	<b>25.5</b>
EBIDTA	2,654	2,135	24.3	9,828	7,619	29.0
<b>EBIDTA %</b>	<b>26.8</b>	<b>25.5</b>		<b>26.2</b>	<b>25.5</b>	
PBT before exceptional item	1,775	1,363	30.2	6,174	4,473	38.0
<b>PBT %</b>	<b>17.9</b>	<b>16.3</b>		<b>16.5</b>	<b>15.0</b>	
Exceptional Item: BFA Impairment	(704)	-		(704)	-	
PBT	1,071	1,363	-21.4	5,470	4,473	22.3
PAT	551	1,007	-45.3	3,620	3,108	16.5

PBT before exchange gain/(loss) & exceptional Item	1,815	1,312	38.3	6,319	4,423	42.9
<b>Adjusted PAT*</b>	<b>1,255</b>	<b>1,007</b>	<b>24.6</b>	<b>4,324</b>	<b>3,108</b>	<b>39.1</b>

\* PAT adjusted for BFA impairment cost.

- Volume growth of 16.6% in FY12 on back of robust demand from North American & European Heavy Truck market & strong off-take from new non automotive facilities. Realizations have improved driven by better product mix and increased value addition.
- Sales in FY12 increased by 25.1% to Rs 36,860 million driven by robust growth in export revenues of 42.2% & a moderate growth of 12.9% in domestic revenues.
- EBITDA margin for the Year has improved from 25.5% to 26.2% while for the quarter, EBITDA margin has expanded from 25.5% in Q4 FY11 to 26.8% in Q4 FY12.
- PBT before exceptional item for the quarter was at Rs 1,775 million as against Rs 1,363 million in the corresponding quarter previous year, a growth of 30.2%. For the full year, PBT before exceptional item was Rs 6,174 million as against Rs 4,473 registering a growth of 38.0%.
- Exceptional Item of Rs. 704 million towards diminution in the carrying cost of its investment in Bharat Forge America. This does not have any impact on cash flow & consolidated results since the losses of BFA have been accounted for in consolidated accounts already.
- PAT adjusted for BFA impairment for the quarter at Rs 1,255 million grew by 24.6% on a Y-o-Y basis while for the full year, PAT adjusted for BFA impairment at Rs 4,324 million registered a growth of 39.1% compared to FY 2011.

*Financial highlights - Overseas Subsidiaries - Component Business*

The financial statement for CY 2011 for the overseas subsidiaries is as follows. These incorporate the financial results of its wholly owned overseas subsidiaries and the Chinese Joint Venture operations.

Table No 2

Rs Million

	<b>CY 2011</b>	<b>CY 2010</b>	<b>YoY%</b>
Total Income	28,915	21,632	33.7%
EBITDA	1,587	1,048	51.4%
<b>EBITDA %</b>	<b>5.5%</b>	<b>4.8%</b>	
PBT before Exceptional Item	397	111	257.7%
Exceptional Item	-	(77)	
PBT after Exceptional Item	397	34	
PAT after minority Interest	348	(87)	

The Overseas operations registered a strong performance in CY 2011 on back of continued momentum in the commercial vehicle segment globally. The key highlights of the performance of the overseas operations are

1. 33.7% increase in topline on back of improvement in utilization levels.
2. EBITDA of Rs 1,587 million compared to an EBITDA of Rs 1,040 in CY2010, growth of 51.4%.
3. PBT before exceptional item grew almost 3 times in CY11 to Rs 397 million from Rs 111 million in CY2010.
4. The operations have turned around and posted PAT after Minority Interest of Rs 348 million as against a loss of Rs 87 million in CY 2010.

The softness in the Chinese automotive market in 2<sup>nd</sup> half of CY2011 along with adjustment in production schedules in Europe by OEM during the October - December period in anticipation of lower off-take had a mildly negative impact of the performance of the subsidiaries.

### Bharat Forge America

As part of its strategy of expanding its global footprint & enhancing its dual shore manufacturing model, BFL in June 2005, acquired assets and business of Federal Forge Inc. out of bankruptcy proceedings through its wholly owned subsidiary in United States of America - Bharat Forge America Inc. (BFA). BFA manufactures and supplies forged auto components to light truck and passenger car segment in North America.

To improve the performance of BFA, BFL undertook various initiatives including but not limited to investments in new product development, processes at BFA and successful negotiation of Union Labor contract with substantial reduction in wage cost. However, due to prolonged recessionary conditions in US automotive markets for the products manufactured by BFA it might be difficult for BFA to achieve overall turnaround in immediate future.

As at March 31, 2012, the Company has an investment of Rs. 987 million in BFA. Based on uncertain future outlook and substantial erosion of net worth of BFA and the threat that the Company may not be able to recover its investments, the Management has, as a measure of prudent accounting practice, created a provision of Rs. 704 million towards diminution in the carrying cost of its investment and the charge for the same is included under 'exceptional items' in the above financial results. The said provision has no impact on consolidated financials of the Company.

### FY12 Consolidated Performance

Table no 3

	FY 2012			FY 2011			Growth%
	BFL	subs	Total	BFL	subs	Total	
Total Income	37,520	28,915	66,435	29,894	21,632	51,526	29%
EBITDA	9,828	1,587	11,415	7,619	1,048	8,667	32%
PBT	6,174	397	6,571	4,473	111	4,584	43%
Less: PBT loss at Capital goods division			(185)			(141)	
Less: consolidation adjustment			(392)			-	
<b>PBT for BFL consolidated</b>			<b>5,995</b>			<b>4,443</b>	<b>35%</b>

BFL has set up a subsidiary in UK to route its exports for better supply chain & logistic management. Majority of export sales will be routed thru this subsidiary. Consolidated adjustment includes intercompany sales elimination of Rs 2,776 million & EBITDA and PBT elimination of Rs 392 million.

### Financial highlights - Overseas Subsidiaries - Jan - Mar 12

The Key Financial Parameters for Overseas Subsidiaries including China is as below.

Table No 4

Rs Million

Particulars	Jan - Mar 12	Jan - Mar 11	YoY Change
Total Income	7,108	7,094	2.0%
EBITDA	421	396	6.3%
EBITDA %	5.9%	5.6%	
Depreciation	246	195	
Interest	108	76	
PBT	67	125	-46.4%

The performance of the international operations was primarily impacted by the slowdown in China where Commercial vehicle volumes dropped by 10% compared to the corresponding period previous year. This resulted in lower utilization at the Chinese Joint Venture.

### Review of Business - Standalone operations

Following table summarizes the geographical distribution of the company's revenue streams in Q4 & FY 2012 against that in the corresponding previous periods.

Table 5

Rs. Million

Particulars	Q4 FY 12	Q4 FY 11	Growth %	FY 2012	FY 2011	Growth %
India	5,196	4,635	12.1	19,513	17,278	12.9
USA	2,338	1,577	48.3	8,127	5,774	40.8
Europe	1,704	1,697	0.4	7,794	5,380	44.9
ROW	534	308	73.1	1,426	1,041	36.9
Total	9,772	8,217	18.9	36,860	29,473	25.1

### Review of Indian Market

Table 6: Domestic Automotive Production Data

Particulars	FY 12	FY 11	% Growth
LCV	528,297	414,917	27.3%
Medium & Heavy CV	383,277	345,818	10.8%
<b>Total CV Market (M&amp;HCV +LCV)</b>	<b>911,574</b>	<b>760,735</b>	<b>19.8%</b>
Passenger Cars	3,123,528	2,982,772	4.7%
<b>Total Auto Market</b>	<b>4,035,102</b>	<b>3,743,507</b>	<b>7.8%</b>

Source: SIAM

The Indian automotive industry in FY12 grew by 7.8% in FY12 driven by 27.3% growth in LCV's and 10.9% growth in M&HCV's. The passenger vehicle segment saw a muted performance in FY12 with growth coming in at 4.7% primarily due to industrial unrest at an OEM. The industry performance should be viewed taking in to perspective the numerous headwinds encountered ranging from slowing economic growth, lack of investment in infrastructure, hawkish interest rate regime & unacceptable levels of inflation.

The Commercial vehicle segment is witnessing a lot of interest with global OEM's setting up operations in India and introducing advanced fleets delivering better mileage, lower emissions and capable of hauling more payload per trip. BFL will look at leveraging its excellent relationships with the OEM & the ability to cater to the requirement of technology advanced components for these players.

### ***Review of Export Markets***

#### **Europe**

European automotive market in CY11 witnessed registration volumes remaining flat compared to CY 2010. Passenger Vehicle registration were down 2% with the major drop seen in volume of mass market passenger vehicle segment while the luxury car segment saw moderate growth. The Commercial vehicles registration grew by 10% with HCV (Heavy Commercial Vehicle) segment registering a 36% growth.

The automotive market is expected to be a soft with volumes expected to decrease 10 - 15% from CY 2011 levels.

#### **North America**

The North American heavy truck market continued to witness strong growth with volumes again increasing by more than 50%, fuelled by demand to replace old fleet whose average age is around 8 years or so. Despite the growth in volumes over the past two years, the market is still about 30% below the previous peak of 376,000 in CY 2006.

The market is expected to grow in the foreseeable future driven by replacement demand.

## Capacity Expansion

BFL is in the midst of a capacity expansion programme focused on increasing forging capacity & machining capacity for auto & non-auto products.

### Forging Capacity Expansion

The forging press being set up at Pune will be operational by the end of the calendar year catering to demand for automotive application more focused on medium duty trucks.

### Value Addition

On the value add front, we are witnessing tremendous demand from OEM's, both global & Domestic for supplying value added products for both auto & non auto applications. To cater to this requirement, BFL has initiated expansion of machining capacity for crankshafts for automotive & non- automotive application.

## ***Non Auto Update:***

### Components Business

For the standalone business, Non-Auto contribution has remained more or less constant at 38% in FY12 to 37% in FY11, albeit growing by 32% in absolute terms from Rs 9,770 million to Rs 12,135 million. This increase has primarily been driven by BFL's concerted efforts as mentioned below.

- **Expansion of product portfolio with existing customers:** Leveraging existing customer relationship and credibility to supply solutions for newer platforms/applications.
- **Moving up the value chain:** Migration from supply of forged components to fully finished parts for sectors such as Oil & Gas where we are witnessing strong traction for shale gas drilling as well as off-shore drilling.
- **Addressing newer segments & Customers:** The new facilities has enabled BFL to address new segments such as Rail, Marine and thermal power to name a few.

The above strategy has played out very well and is clearly visible in the increase in non-auto customers and strong ramp up of the non-automotive facilities at Baramati.



## ***Capital Goods Business***

Bharat Forge's foray into the capital good and infrastructure space is through investments into subsidiaries and JVs that are focused on specific aspects of this vast sector. BFL is developing its business by integrating two operations under one platform. On the one hand, it is developing manufacturing capabilities by leveraging BFL's core strength in the engineering of metal formation. On the other hand, it has recruited a specific team to develop EPC (engineering, procurement and construction) capabilities within the organization.

### **JV with Alstom**

The JV is setting up a state-of-the-art integrated plant set up over 120 acres at the SEZ in Mundra (Gujarat). It will be the largest integrated facility for turbine, generators and auxiliaries manufacturing in the country. The facility will have a total capacity of manufacturing 5,000 MW of Turbine Generators annually.

The joint-venture, namely, ALSTOM Bharat Forge Power Ltd. (ABFPL), has bagged a Rs. 15,700 million order from NTPC Ltd. for the engineering, manufacturing, supply, erection and commissioning of 2x660MW supercritical steam 'turbine generator islands' (TG Islands) for the power producer's upcoming project in Solapur in Maharashtra.

## ***Conclusion***

- BFL with its diversified business across sectors and strong alignment with marquee customers is cautiously optimistic about continuing on the growth path in both the domestic & exports market.
- Growth in the domestic market might be sluggish on account of macro headwinds. BFL expects to perform better than the underlying market.
- Automotive markets in Europe & China are seeing stress conditions due to European debt crisis while US remain strong. We expect exports in FY13 to grow on back of non-auto business, new product development and higher sales in to USA.
- We expect EBITDA % to improve in FY 13 on back of focus on cost control & increasing value addition.