

"Bharat Forge Limited Q4 FY17 Earnings Conference Call"

May 24, 2017





MANAGEMENT: Mr. AMIT KALYANI – BHARAT FORGE LIMITED



Moderator:

Ladies and gentlemen good day and welcome to Bharat Forge Q4 FY17 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Amit Kalyani. Thank you and over to you sir.

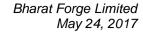
Amit Kalyani:

Thanks. Good afternoon ladies and gentlemen and thank you for joining our Earnings Call for the fourth quarter and Full Year 17.

Basically, I would like to highlight a few facts about the fourth quarter and that is we have had 20% sequential growth in top-line for the quarter driven both by domestic and exports. Domestic grew by about 16%, exports by 23%. We have achieved on a YOY basis a 10% and 12% growth in domestic and exports and 11% growth in revenue. On the EBITDA front we have seen a 19% growth in EBITDA on a QOQ basis and we have seen a return to positive growth on a YOY basis as well with PBT and PAT been higher than YOY last year and significantly higher than QOQ as well. We have been able to maintain margins in spite of some one-off increases in wage costs and manufacturing expenses because of power increase in Maharashtra and we are working hard to nullify that increase in power cost in some energy cost reduction initiatives.

We have achieved strong industrial revenue on the domestic basis about 190 crores which is our highest quarterly run rate. We have secured new business wins of approximately \$120 million across segments and geographies with most of the contribution--significant part of the contribution-- coming from products and technologies that we have developed in-house in the last two years. We have a strong demand environment both in North America and Europe, commercial vehicle & industrial and in India on an overall basis and coupled with the new products that we have developed and new businesses which will help us increase revenue per passenger car and per unit, we expect to continue growing at above industry level. We expect that the new business and products which form only about 5% of sale should grow to about 15% of sales in the next couple of years. We expect in FY18 our performance will be better than the underlying market demand led by improvements in North American markets across sectors, ramp-up of our passenger car business and increasing our share of revenue and business from new sectors.

I would also like to highlight that we are extremely happy with the new policy of the Government's making local sourcing mandatory for government projects to support the entire 'Make in India' initiative across railways, power, oil and gas, defense and steel. The company already caters to several government agencies and is one of the few companies with the capability and technology to respond to this and address this opportunity, which can become a large business going forward. That's all I really wanted to say. I'm happy to take your questions now. I have with me our team from finance and operations and I will be very happy to have you ask us all questions.





Moderator: Thank you very much. Ladies and gentlemen, we will now begin with the question and answer

session. We have the first question from the line of Ashish Nigam from Axis Capital. Please go

ahead.

Ashish Nigam: Just wanted to get a sense of what kind of growth are we building in for Class-8 trucks for next

year?

Amit Kalyani: About somewhere in the 15% to 18% range.

Ashish Nigam: And secondly even on India CVs, what are customers telling you in terms of expected growth

next year?

Amit Kalyani: Honestly because of this whole transition that happened so abruptly, our customers are

operating on a month by month basis right now. But we are not seeing a dramatic decline, in fact we are not seeing any much decline but we are not seeing any visibility on a longer-term

basis.

Ashish Nigam: Any content increase that has happened from BS3 to BS4 for you all, significant content

increase?

Amit Kalyani: There has been some content increase because the selling price per product of the kind of

product that we sell now for BS4 are significantly different than BS3. But we don't have a very

large increase in content yet.

Ashish Nigam: That comes with BS6 I guess for you all?

Amit Kalyani: It will come with BS6, yes.

Ashish Nigam: If you can just highlight what exactly changes so even BS6 and quantify something you had

mentioned.

Amit Kalyani: But it's very complicated to explain right now because it's not just in the engine, the entire

diaphragm changes.

Ashish Nigam: And our transmission products will get more...

Amit Kalyani: Absolutely transmission, axle the whole thing.

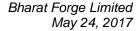
Ashish Nigam: And same in cars or only CVs?

Amit Kalyani: Same in cars. People are focused only on emissions whereas it's not only to do with the

emission. It's got to do with the whole driveline which has to become significantly different

and more efficient and more optimized in order to make the transition to BS6.

Moderator: We have the next question from the line of Amyn Pirani from Deutsche Bank. Please go ahead.



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Amyn Pirani:

My question was on your global exports mainly on the non-auto side, so Class-8 trucks is something that we get some order data on it is quite feasible as to what is happening. But could you give us some color what is happening on the ordering front on other segments like oil & gas, mining, construction, what is the scene there, what are your customers telling you in terms of what orders they are getting and in turn what's your outlook for the segments for the next year?

Amit Kalyani:

Every other sector is also seeing a growth revival, right from construction, mining, oil & gas. When the down cycle happened all the companies had focused on de-stocking their pipeline and reducing inventory. Now that the demand is coming back we expect that this will lead to some restocking as well as growth in base demand. As far as the customers are concerned they are also seeing spurts in demand and trying to meet whatever growth they are seeing on immediate basis. I don't think anybody is considering a longer term forecast as of now. There are too much geopolitical and other instability right now for anyone to forecast anything long-term.

Amvn Pirani:

Would it be fair to say within the non-automotive segments, currently oil & gas is showing the best visibility compared to the other segments or is it everything is showing some spurts here and there?

Amit Kalyani:

No, we are seeing growth from all sectors but significantly the largest growth we are definitely seeing from oil & gas.

Amyn Pirani:

On the passenger vehicle side; could you help us understand what are the different things that you are doing for your customers in terms of new products. I think on the aluminum technique side there is something that you have started to do but from the parent company what are the kind of components that you are getting orders for all incrementally?

Amit Kalyani:

We have orders in three areas, one is on the engine components, we have got significant orders on engine components for global OEMs, very large orders which will start ramping up from this year. Then the second one is, we have developed a new portfolio of products for drivelines, for passenger cars and light commercial vehicles which will also start ramping up from this year. And the third is, we have now started manufacturing and supplying aluminum forging for Indian OEM. And some products where we have won business in the fuel injection space and the turbo charger space for the automotive industry.

Amyn Pirani:

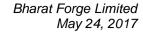
And this driveline for LCV that you mentioned, this is again a global export business or this is India as well?

Amit Kalyani:

This is both India and export.

Moderator:

We have the next question from the line of Hitesh Goel from Kotak Securities. Please go ahead.





Hitesh Goel: My question is when I was backward calculating the numbers that you have given for FY17 I

figured out I don't know whether my calculation is right, you can throw some color on that, in India business actually in passenger car side, there is a decline this year despite the industry

growing well, is there something to read on this? I'm getting the decline on a YOY basis.

Amit Kalyani: We've actually had...it's a small decline, it's about 10-15 crores less than what it was last

year, it's a small business. We were focused on two customers and some of the utility vehicle

customers saw some decline so we had a corresponding decline.

Hitesh Goel: How should we see this domestic pass-car business over next 2-3 years because you are

focusing on pass-cars now?

Amit Kalyani: We see growth over the next 2-3 years.

Hitesh Goel: So it will outpace the industry growth?

Amit Kalyani: Yes we hope to.

Hitesh Goel: So the order wins that you have given that is \$80 million in the abroad business and 270 crores

in domestic business, so first can you tell us what is the duration of these orders that you are

winning?

Amit Kalyani: These are all long-term orders, these are product lifecycle orders.

Hitesh Goel: So it's not like 2-3 years orders, it's a 5 to 7 years kind of orders?

Amit Kalyani: Passenger car is 3 to 5 years and commercial vehicle is longer.

Hitesh Goel: So this is not like 2 to 3 years you will get this kind of revenue, \$120 million is not for 2 to 3

years?

Amit Kalyani: No, obviously 120 million is a order book that we have an over a 3 to 4 year period but our

endeavor is to grow it from there and this is annual, over a multiple year period.

Hitesh Goel: And my split is right, \$80 million is for exports and 270 crores domestic?

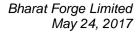
Amit Kalyani: Roughly, yes.

Moderator: We have the next question from the line of Kapil Singh from Nomura. Please go ahead.

Kapil Singh: I wanted to check what was the currency realization for the quarter.

Amit Kalyani: 68.50.

Kapil Singh: And how do you see it going ahead, where are the hedging rates for us?





Amit Kalyani: It's about 68.50 to 69, depending on where the open exports flows.

Kapil Singh: What percentage of revenues are hedged?

Amit Kalyani: About 60%.

Kapil Singh: 60% for FY 18?

Amit Kalyani: Yes about that much.

Kapil Singh: Secondly a small thing I wanted to check on the financials, when I look at the PBT ex of

exceptional items, the difference between the standalone and the consol is about 14 crores whereas our overseas subsidiaries are making approximately 30 crores kind of number. So are

there any other subsidiaries which are missing out there?

Amit Kalyani: We had some profit elimination also in our trading subsidiary, so it's not duplication of profit.

Kapil Singh: There was some one-time item you referred to for the employee cost.

Amit Kalyani: That was our wage settlement with our union which happened in this quarter.

Kapil Singh: How much is the amount and should we look at the employee cost on a full-year basis?

Amit Kalyani: No, one time is what is paid out on the time of the settlement then you have a gradual

settlement amount.

Kapil Singh: So how much is the one-time item?

Amit Kalyani: One-time item was approximately close to 10 crores and the total annualized impact is also

about 10 crores.

Kapil Singh: Is it possible to get a split of the revenues between auto and non-auto for domestic and

exports?

Amit Kalyani: It's given. Auto and non-auto for domestic and exports, so India non-auto was about 190 crores

and rest is auto and exports non-auto is about 280 crores.

Moderator: We have the next question is from the line of Jinesh Gandhi from Motilal Oswal Securities

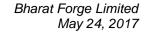
Ltd. Please go ahead.

Jinesh Gandhi: My question pertains to our overseas subsidiary performance, if I look at CY16, some revenues

have been more or less flat to marginal decline and this is despite BF-AT order execution or

we have seen some delay in BF-AT order execution?

Amit Kalyani: No, it is also a matter of the realization on the euro to rupee.





Jinesh Gandhi: On like-to-like basis any sense on constant currency basis how would that perform?

Amit Kalyani: We have seen a growth in EBITDA, so obviously we have had an improvement in overall

performance.

Jinesh Gandhi: And the BF-AT ramp-up has been satisfactory or we are seeing some delays there?

Amit Kalyani: Yes the ramp-up is absolutely satisfactory.

Jinesh Gandhi: Second question pertains to this new order which indicated of 120 million, this would be

largely across which all segments?

Amit Kalyani: This will be across segments; it will be commercial vehicle, passenger car and non-auto.

Jinesh Gandhi: And across domestic and export?

Amit Kalyani: Across. It is 2/3rd exports, 1/3rd domestic.

Jinesh Gandhi: In terms of the new businesses which we have indicated for our growth primarily aerospace,

power, railways and defense, especially on aerospace and rail can you throw light on how has

been the traction in FY17 and how do we expect traction over next two years?

Amit Kalyani: On aerospace, we have seen a pretty good growth; we have seen a very strong growth in fact

because we had a very low base. But the business is very small. The total business is about 35 crores odd...it's gone from 10 crores to about 35 crores overall aerospace business. Defense has grown a lot, defense has gone to somewhere in the region of close to 175 crores from about

100 crores and both of these are on track.

Jinesh Gandhi: So aerospace should we see a sizable ramp-up in FY18 as well because of the orders which we

have in our hand?

Amit Kalyani: 18-19.

Moderator: We have the next question from the line of Sonal Gupta from UBS Securities. Please go ahead.

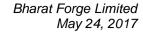
Sonal Gupta: Just to understand on oil & gas, could you tell us what sort of revenues you saw this quarter on

oil and gas side?

Amit Kalyani: About 150 crores.

Sonal Gupta: Do you see that sustaining at this level in the next few quarters?

Amit Kalyani: As of now I think this is the kind of level that we are seeing demand at.





Sonal Gupta: Just looking through the numbers, it seems like the PV exports have been like growing that

single-digit in this second half of the year in Q4 as well, so what is the expectation in terms I mean I know you are talking about ramp-up of multiple products but what is the sort of

magnitude that we see?

Amit Kalyani: We will see a very significant ramp-up this year because last year all we did was product

development and sample submission and some pilot lots. We will see the ramp-up taking place

in this year.

Sonal Gupta: Just to understand better in terms of the new products and businesses that you said 5% of sales

this includes what all?

Amit Kalyani: These are products that go into railways, that go into aerospace, that go into some defense

equipment am not talking about the capital programs of defense. I'm talking about the defense

revenue items which are spares and consumables. So these are the three big headings.

Sonal Gupta: Again the new order wins that you have just to clarify; you said, is this annual or is this

overall?

Amit Kalyani: No, this is an annual amount.

Sonal Gupta: So \$120 million annually?

Amit Kalyani: Yes and it's not necessarily from day one. Please understand it will ramp-up to this level.

Sonal Gupta: But you would see these as like sustainable once they are....

Amit Kalyani: Absolutely these are in fact niche which we want to build on.

Sonal Gupta: Just in terms of the other thing was on EU trucks like we saw the number today was like down

10% year-on-year, on the European truck side what is your expectation and if you have any

thoughts there?

Amit Kalyani: We don't see a reduction, supposed to be flat right now and in fact if we go by what the French

Government is talking about, they are expecting to start investing in infrastructure, so there

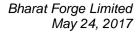
should be some positive momentum if at all.

Sonal Gupta: What's your Euro realization at?

Amit Kalyani: It's in the ballpark of about Rs.70.

Sonal Gupta: You are expecting a 15% to 20% in Class-8 volumes?

Amit Kalyani: In US yes.





Sonal Gupta: In FY18?

Amit Kalyani: Yes.

Moderator: We have the next question from the line of Shyam Sundar Sriram from JM Financial. Please

go ahead.

Shyam Sundar Sriram: On the PV exports front are we seeing the average quarterly run rate at close to 55 crores?

Amit Kalyani: About 60 crores.

Shyam Sundar Sriram: On the domestic industrial, you gave a very good number of 190 crores, which segments led to

this growth, any color on that?

Amit Kalyani: It across the sectors, its rail, its everything.

Shyam Sundar Sriram: And railways will be currently how much the run-rate approximately?

Amit Kalyani: It is very small right now, till right now it will be something like 50-60 crores business.

Shyam Sundar Sriram: 50-60 crores annually?

Amit Kalyani: That's only based on one product. Now we have 3-4 new products in that sector so obviously

we expect to grow that business quite substantially.

Shyam Sundar Sriram: This 50-60 crores in annual rate, right?

Amit Kalyani: Yes.

Moderator: We have the next question is from the line of Vinay Singh from Morgan Stanley. Please go

ahead.

Vinay Singh: The 35 crores in aviation that you gave, is that the annual number?

Amit Kalyani: Yes that's the annual number.

Vinay Singh: Oil & gas 150 crores is the quarterly number, right?

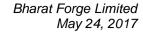
Amit Kalyani: That's the quarterly number.

Moderator: We have the next question is from the line of Pramod Amte from CIMB. Please go ahead.

Pramod Amte: With regard to the Alstom deal which you have encashed, what's the return you have made

there and in terms of outsourcing arrangement which you had does it still exists or what to look

forward?





Amit Kalyani: Yes. We are a large supplier to GE as it is and whatever we can make, that we can supply to

them we will continue and we weren't supplying a lot to them anyway but obviously, we will attempt to supply whatever we can. But we are supplying to many other divisions also of GE.

Pramod Amte: And you're expecting the Asia to open up with GE taking over Alstom in terms of outsourcing

opportunity?

Amit Kalyani: We have got a lot of opportunities; we will continue to work on supplying them with whatever

we can. We are already supplying them on the railways side, on the high horsepower side so

we will continue to supply.

Moderator: We have the next question from the line of Basudeb Banerjee from Antique Finance. Please go

ahead.

Basudeb Banerjee: If I see your oil & gas revenue having improved to almost 40% sequentially, so mix wise oil &

gas seems to be a much better segment. But on a blended basis realization sequentially is up barley 2% where ideally, we were expecting metal inflation to come in through this quarter. So

have there been other segments which have been dilutive in terms of realization?

Amit Kalyani: No, the amount of the pass-car business which initially will not be value-adding which will be

just basic products and then the value addition will start that will correct itself.

Basudeb Banerjee: To assume relatively pass-car realization compared to the overall portfolio now?

Amit Kalyani: You can't just look at the realization; you also have to look capital output.

Basudeb Banerjee: Similarly, so the gross profit per kg has also declined sequentially despite such sharp increase

in oil and gas mix?

Amit Kalyani: Our realization has come down on the currency.

Basudeb Banerjee: What has been the metal inflation this quarter as you said in the presentation passing on metal

price?

Amit Kalyani: It's about 12 to 15 crores this quarter.

Moderator: We have the next question from the line of Jinesh Gandhi from Motilal Oswal Securities.

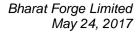
Please go ahead.

Jinesh Gandhi: Just clarification on the PV revenue front, can you share full-year PV revenue breakup

between domestic and exports?

Amit Kalyani: Domestic is 150 crores, exports 228 crores.

Jinesh Gandhi: How would have domestic, you said it has declined by 10 crores in FY 17?





Amit Kalyani: Yes.

Moderator: We have the next question from the line of Raghu Nandan from Quant Capital. Please go

ahead.

Raghu Nandan: Any updates that you can share on the defense side, any progress on programs such as FICV?

Amit Kalyani: There is nothing that is we have any exceptional information as of now. The strategic partners

meeting happened just one Saturday but if you look at the direction how 'Make in India', defense, it's all getting coordinated with more and more local content, domestic preference, all this is indicating that the whole system is very serious about making this happen and it's heading in the right direction. FICV is a very big program; it's a \$15 (+) billion program which

will take 15 years, so these are long programs that will take some time to fructify.

Raghu Nandan: The company has one awards from two of the major OEMs.

Amit Kalyani: Yes I am sorry actually forgot to mention that. During this last quarter, we won two very

prestigious global awards, we won the Daimler Supplier of the Year Award for Daimler Trucks which was received by our Chairman in Stuttgart and then we also received GM Supplier of the Year Award which was received by myself and my colleague Subodh in

Orlando in March. So these were two awards that we received this year.

Raghu Nandan: Winning these awards would that lead to higher business, faster acceptance of products or any

other special privileges for the company?

Amit Kalyani: We don't get any special privileges; we only get some discount if we want to buy their cars. It

creates awareness about your company but also it raises the bar in terms of what is expected

from you.

Raghu Nandan: Can you share the current utilization levels and the machining levels?

Amit Kalyani: Between 60% and 65%.

Raghu Nandan: For the full-year FY 17 revenues of 2000 crores were registered both in export and domestic

segment, can you roughly breakdown them into industrial and auto?

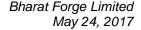
Amit Kalyani: About 720 crores was industrial export and similar 715 crores was domestic non-auto.

Raghu Nandan: Oil and gas 150 crores was for the quarter, what was the number for the full year?

Amit Kalyani: About 300.

Moderator: We have the next question from the line of Sangeeta Purushottam from Cogito Advisors.

Please go ahead.



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Sangeeta Purushottam:

How do you see the advent of the move towards electric vehicles impacting you going forward? Are any of these products or businesses exposed to that and how do you see it panning out over what kind of timeframe?

Amit Kalyani:

I think as a company we have been conscious of this whole electrification move that is been around for the last 4-5 years. It got accelerated with the advent of the Tesla and I think that personally this whole transformation is going to get accelerated quite rapidly. As a company, we are quite well aware and quite present in the entire hybrid space as it is and a lot of the product that we make in our aluminum technique subsidiary, already going to hybrid and electric vehicles also. But as a company we are undertaken a very serious exercise to significantly increase our strategy content for vehicles by 2020 in the electric vehicle space across a variety of products, none of which we make today. So we definitely will have a very significant piece of offering available by 2022 through organic and inorganic means but that's all I will say right now. But we are well-entrenched in the development cycle with our customers and we are already developing significant number of products for both hybrid and electric vehicles.

Sangeeta Purushottam:

From the current product that we make, would it be possible to give a sense of what percentage let's say will move to electric vehicles?

Amit Kalyani:

Let me just explain, you have to look at electric vehicles in two baskets – one is China and one is rest of the world. Rest of the world is less than 300,000 electric vehicles. China has a very different catalogue currently, so when it comes to the rest of the world we have engagements with the leading European companies who we already service on electric and hybrid vehicles. On China, we don't have anything significant. We are working with certain companies which are also working in China. Our revenues from hybrid and electric will be about €6 million currently.

Sangeeta Purushottam:

From the product that we make because some of our products really go into the engine and engine is what is going to get completely...

Amit Kalyani:

Completely replaced or reduced, right?

Sangeeta Purushottam:

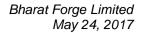
Right.

Amit Kalyani:

So what we believe is that in some markets like India, Europe, etc., hybrid will be there for quite a few years before you move to electric. Hybrid you will have a higher power density, smaller either gasoline or diesel engine, we have already developed products for these. Along with the products that we make for the hybridization will give us a higher content per vehicle. You know we do look at products for electrification but that's still some ways away.

Moderator:

We have the next question from the line of Chinmay Gandre from Future Generali. Please go ahead.





Chinmay Gandre: With respect to your guidance of 15% to 18% growth in Class-8 trucks revenue, so basically

that would be based on the current quarter kind of numbers?

Amit Kalyani: No, this is based on the kind of feedback and information we've got from our customer and the

projections they have made.

Chinmay Gandre: I mean the base would be the current quarter kind of numbers?

Amit Kalyani: Full year.

Chinmay Gandre: So tentatively what would be the number because during the current quarter we must have

done...

Amit Kalyani: The whole year was about 190 last year, so we are looking at somewhere between 220 and

230.

Chinmay Gandre: This is the annual number 230 crores?

Amit Kalyani: No, number of vehicles.

Chinmay Gandre: So this quarter more or less we would have done the 160 crores-170 crores kind of number

from the sales to Class-8 trucks?

Amit Kalyani: Our CV revenue was higher.

Chinmay Gandre: Basically I just wanted to understand the 15% to 18% growth is based on what base?

Amit Kalyani: I don't have that figure with me, I am sorry.

Moderator: Thank you. Ladies and gentlemen as there are no further questions from the participants I now

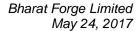
hand the conference over to Mr. Amit Kalyani for closing comments. Thank you and over to

you sir.

Amit Kalyani: Ladies and gentlemen thank you for your time and interest in attending our Earnings Call. We

are enthused with your support and encouragement and as a company we believe we are very well on track to continue growing our business solidly going forward. The company is financially very well-placed. We are almost at a zero net-debt level. As we had promised our current net debt is only about 100 crores and we have lot of growth levers in place both on the automotive, pass-car, industrial side, both in India and abroad. I hope that you will see the acceleration in our growth in this year and going forward in a variety of sectors and geographies leading to significant value creation. Thank you very much and look forward to

remaining engaged with all of you.





Moderator:

Thank you very much members of the management. Ladies and gentlemen on behalf of Bharat Forge that concludes this conference. Thank you for joining us and you may now disconnect your lines.