

BHARAT FORGE

Date: February 14, 2017

To,

BSE Limited,
1st Floor, New Trading Ring,
Rotunda Building, P.J. Towers,
Dalal Street, Fort,
Mumbai - 400 001
BSE SCRIP CODE – 500493

National Stock Exchange of India Ltd.,
'Exchange Plaza',
Bandra-Kurla Complex, Bandra (East)
Mumbai- 400 051
Symbol: **BHARATFORG**
Series: **EQ**

Dear Sir,

Sub.: Transcript of Analysts Conference Call.

We are enclosing herewith transcript of conference call with analysts, which took place on February 08, 2017 after announcement of Unaudited Standalone Financial Results of the Company for the quarter and nine months ended December 31, 2016.

Kindly take the same on record.

Thanking you,

Yours faithfully,
For Bharat Forge Limited



Tejaswini Chaudhari
Dy. Company Secretary



KALYANI
GROUP COMPANY



“Bharat Forge Limited Q3 FY17 Analyst Conference Call”

February 08, 2017



MANAGEMENT: MR. AMIT KALYANI – BHARAT FORGE LIMITED

Moderator: Good day ladies and gentlemen and a very warm welcome to the Bharat Forge Limited Q3 FY17 Analyst 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 am now glad to hand the conference over to Mr. Amit Kalyani. Thank you and over to you sir.

Amit Kalyani: Good afternoon ladies and gentlemen, welcome to the Bharat Forge Q3 Analyst Call. I have with me our finance team. And I will take you through quick highlights and then open up for Q&A.

Basically, this quarter we are now beginning to see the turn of the trend moving towards a positive trajectory. I think the bottoming out is complete and we should start seeing growth from next quarter. Despite the weak domestic demand and the slow pace of recovery in global market I think it's been a fair quarter. Profitability has improved despite cost pressures. Some of the positive highlights are the oil and gas demand has come back very strong for us, it's up almost 4 times over last quarter and almost the same as peak of last year on a quarterly basis, about 80% of that on a quarterly basis so it's heading in the right direction. We have also secured new orders from existing customers as well as new customers both in automotive and non-automotive areas in India and abroad with short to medium term revenue visibility. We have also begun to see an acceleration in our business in the defense sector revenue items in India due to the 'Make in India' and overall focus on procurement in India. So we have seen almost doubling of revenue in that sector YOY from 25 crores to about 45 crores and these are good signs. These are signs that show that all the development that we have done is now beginning to pay fruit.

In addition to this we are hoping to win new business from the railways pretty soon. Similarly, from other parts of the Indian consumer industries and capital goods industries which will all start ramping up from '17-18. In addition, as we had mentioned earlier that by FY18 we were going to be net debt free, I believe that we should be in that position almost a year before. So that puts us on a strong financial wicket as well. Talking about Q4 we expect a strong quarter in India on the heavy commercial vehicle sector due to the BS4 pre-buy. And we are fully supporting all our customers with their increased demand.

Similarly, in the US we are starting to see resurgence in the heavy commercial vehicle sector, Class 8 sector. Hopefully if the new administration talk about infrastructure spending actually starts translating into action on the ground it should be a sustained situation going forward. So we are quite bullish on our Q4 and our next year prospects going forward. I think Q4 will solidly prove that we are back on a growth path and set up well for strong growth next year. In fact we have won very significant orders on the passenger car sector for new advanced products and I will talk about this in a little more detail that, lot of new opportunity has opened up for us due to our R&D and development work in getting prepared for the BS6 and Euro 6

implementation in India. And this requires a significant number of high technology products and Bharat Forge is very well prepared and ready to supply these products. We have already developed products, validated products which we have supplied to our global customers which we will supply to our domestic customers as well as we have developed new product which we will supply globally for these kind of requirements because these are a big technological leap going forward. I think that BS6 will be a big trigger for us where we expect all the technology, knowledge and capability that have been garnered by this company to be able to be harvested with the new requirements of higher technology and sophisticated products. Similarly, aerospace is chugging along quite well. We have several products in the development phase and very soon within the next 6 to 8 months we should start getting into production phase and production validation phase of these products because these are now highly value added products. We are moving from forging to fully machine products now so we are also moving up the value chain on that.

I was mentioning earlier that we have won significant business on the passenger car sector both internationally as well as in India for sophisticated new products and this is actually necessitating for us to set up two small Press Line, one is a 5000 ton fully automated Press Line and 2000 ton Press Line to make these kind of products, smaller products. So these will be ultramodern forging machining capability providing fully finished products to our customers. Our subsidiaries have done fairly well. We have got overall EBITDA of about 9.4% which is compared to 4.3% last year and 8.4% last quarter, so we continue to make progress and our acquisition of Walker Forge which is now called Bharat Forge PMT Technology in Tennessee is complete and will give us a solid presence in the US and ability to leverage any demand that arises on a short-term basis in North America. That's really all I wanted to say. I'm very happy to now take your questions. Thank you.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin with the question and answer session. We will take the first question from the line of Vasudev Banerjee from Antique Finance. Please go ahead.

Vasudev Banerjee: If I see your gross profit per ton it's like at a four quarter high most probably led by the significant increase in oil and gas mix. But in the P&L your other expenses dampen this opportunity increasing 16% sequentially. So any reason why the significant in other expense which is another four quarter high number?

Amit Kalyani: Exchange loss.

Vasudev Banerjee: And quantum?

Amit Kalyani: Quantum is about 12 crores.

Vasudev Banerjee: And still it seems to be on the higher side despite that?

Amit Kalyani: That's mark to market.

- Vasudev Banerjee:** Basically, quarterly average of 250 crores odd, it's around 285 so even if I step aside at 12 crores still it's like on the higher side, second thing the non-auto revenue in the standalone and within the exports?
- Amit Kalyani:** Overall non-auto was about 370 crores, so about 40%.
- Vasudev Banerjee:** And within exports?
- Amit Kalyani:** About 200 crores exports and 170 domestic....
- Vasudev Banerjee:** And as you said for this PV the new presses, small presses you are putting, so what is the incremental CAPEX for that?
- Amit Kalyani:** I'm not going to share in that much detail. It's within our overall CAPEX of about 300 crores for the year.
- Vasudev Banerjee:** So it's part of that so it's not going to inflate because of this press?
- Amit Kalyani:** Press is almost installed. Yes its part of the completed capex.
- Moderator:** We will take the next question from the line of Binay Singh from Morgan Stanley. Please go ahead.
- Binay Singh:** My question is on the export side, firstly on the non-auto you have seen almost a 60 crores jump sequentially and you said that oil and gas revenue is now close to the peak of last year or close to the peak that you've previously seen and if you could also share the oil and gas number?
- Amit Kalyani:** The oil and gas number for the quarter was 85 crores and last year same quarter it was about 100 crores.
- Binay Singh:** And what was the peak number that you would have seen towards the sector?
- Amit Kalyani:** About 130 for us would have been.
- Binay Singh:** So in a way between the quarter bulk of the jump has basically come from oil and gas because if it's gone up 4x then 60 crores have come from there?
- Amit Kalyani:** Yes absolutely.
- Binay Singh:** If you could talk a little bit about your outlook in 2017 on both the businesses especially starting with the auto side like you also commented in your press release and some of these OEMs are also talking about another year of production decline while we started to see the net orders....

- Amit Kalyani:** Which OEMs, you are talking about domestic or abroad?
- Binay Singh:** Abroad like Daimler and Volvo have come out and said that they expect Class 8 trucks in US to be done....
- Amit Kalyani:** So Class 8 trucks in US are expected to be slightly soft as of now. What they are saying is could be anywhere between (-5%) to (-10%) but that is without any impact of what the new administration is trying to do. But what we are saying is because of the new product that we are developing and the new customer wins that we have had we will still see some amount of growth.
- Binay Singh:** Similarly, like now on the non-auto side we've seen a nice rebound in oil and gas. But what do you think will be the other key drivers in 2017 for the business, on the non-auto exports?
- Amit Kalyani:** On non-auto exports, we have developed a lot of new products for new sectors plus a lot of new products for the automotive sector. Our key driver for growth is going to be new product.
- Binay Singh:** Any number that you would like to share that how the ramp up will happen?
- Amit Kalyani:** I don't want to share a number at this point in time.
- Binay Singh:** You talked about Bharat Stage 6, could you give us some indication about content per vehicle on the truck side like what percentage jump does Bharat Stage 6...
- Amit Kalyani:** Today we are only supplying engine and chassis components that too only crank shaft and steering knuckles and front axle beams. In terms of content per vehicle the potential is for us to go 2-3X if we fill up all the pockets that we want to fill.
- Moderator:** We will take the next question from the line of Jinesh Gandhi from Motilal Oswal. Please go ahead.
- Jinesh Gandhi:** My question pertains to the aerospace segment, so can you share what would be contribution from aerospace now and by next year, how do we expect that to shape up?
- Amit Kalyani:** Right now, we are at about 15 crores revenue for the nine months because we have only two products that we are shipping right now. As this ramps up it will exponentially increase and as I mentioned today we are only shipping forged products. As you ship machine products, the value significantly increases. So it will be a combination of new products, higher volumes plus more value addition that will drive this going forward.
- Jinesh Gandhi:** And we are setting up of machining facility for aerospace products as well?
- Amit Kalyani:** Yes that's under set up right now.

- Jinesh Gandhi:** By when can we expect this move up the value chain on aerospace side?
- Amit Kalyani:** The machining facility will take about 6 months to be set up then after that about 6 months for validation, so you are looking at 12 months.
- Jinesh Gandhi:** Second question pertains to the PV, Passenger Vehicle order book, can you give some indication about how that ramp-up has been happening?
- Amit Kalyani:** We have got a very significant growth in the passenger car sector but the real growth in the PV sector will happen in FY 17-18, where we see new machine products coming on line, significantly large amount of machine products. These are all new product, so it is forging and machining.
- Jinesh Gandhi:** So we are on track to attain our target of almost 20% coming from PVs?
- Amit Kalyani:** Yes absolutely.
- Jinesh Gandhi:** Any comment on any potential impact of this border adjustment tax in US, does it impact us?
- Amit Kalyani:** We don't share a border with United States. As I understand a border tax today it is largely applicable only to Mexico.
- Moderator:** We will take the next question from the line of Pramod Amte from CIMB. Please go ahead.
- Pramod Amte:** How is the raw material cost pressure you are seeing and are you been able to completely pass it on?
- Amit Kalyani:** The raw material prices, the way at least we have taken a call is that we will pass on the raw material price increase only after we get the price increase from our customers. And in fact, we expect that this raw material price increase pressure will increase abroad as well now. Right now it's happening only in India but eventually it will happen abroad also. So there may be some lag but overall it will be fully passed on. But you know what happens when you pass it on it increases your top-line and your middle-line. But profit per ton or profit per piece remains unaffected.
- Pramod Amte:** Have you seen any traction with regards to metals and mining sector or when you the way the commodity prices are behaving?
- Amit Kalyani:** Yes, we are seeing actually a lot of traction on this sector in Make in India and because of the Make in India we have got connectivity with a lot of new customers who have also given us some opening into export business. So that also is a sector that we will grow next.
- Moderator:** We will take the next question from the line of Kapil Singh from Nomura. Please go ahead.

- Kapil Singh:** Could you give us some idea of which are the new products in case of M&HCVs and PVs?
- Amit Kalyani:** We have developed a whole range of power train components. We have developed a whole range of emission treatment components. We have developed a whole range of fuel injection components, turbocharger components, axle components, so whole variety of products, family of products.
- Kapil Singh:** Now that growth is looking up, are you looking at any kind of revenue target overall for the company over the next 2-3 years.
- Amit Kalyani:** We will talk about all that at the year-end. The year-end we will do an analyst meet that time we will talk about all this.
- Kapil Singh:** What is the CAPEX target for this year?
- Amit Kalyani:** About 300 crores.
- Kapil Singh:** That is year ending March '17?
- Amit Kalyani:** That is year ending 17, yes.
- Kapil Singh:** And any outlook for next year?
- Amit Kalyani:** Similar.
- Kapil Singh:** Lastly, I want to check on Walker Forge, what is the revenue run rate and EBITDA and what is the outlook over there in terms of what you...?
- Amit Kalyani:** We will share that at an appropriate point in time. The company has assets of about 20 million odd and we bought it for about 14 million.
- Kapil Singh:** Is there any thought process on your side to have more local manufacturing in US?
- Amit Kalyani:** That's why we bought Walker Forge.
- Kapil Singh:** I mean given some of the concerns regarding import duties which US government is discussing.
- Amit Kalyani:** I think that's jumping the queue too much. First, we have bought this company which has fairly decent capacity, we will use it to complement what we do from here and start growing our business in the US.
- Moderator:** We will take the next question from the line of Sonal Gupta from UBS Securities. Please go ahead.

Sonal Gupta: Coming back to the aerospace I mean the press release mentioned you are also setting up a forging facility for aerospace, right?

Amit Kalyani: No, machining.

Sonal Gupta: The press release says state of the art forging and machining facilities so I was just trying to...

Amit Kalyani: No, probably a mistake. Today we are using our existing forging assets the Baramati and big presses in Pune to make our aerospace parts. That is not a Horizon 1 strategy for us to set up a large forging press. That will happen only in Horizon 2.

Sonal Gupta: That's what I was trying to clarify.

Amit Kalyani: No that's very clear, I am sorry about that.

Sonal Gupta: Just on the US truck side I mean we've added new customers, so have you already started seeing the ramp-up from these OEMs or are we going to see more of that in next year?

Management: We will see a ramp up over the next 2 to 3 quarters progressively starting next quarter.

Sonal Gupta: It will start in Q4?

Amit Kalyani: Yes start in Q4 and then ramp-up over the next 2-3 quarters.

Sonal Gupta: The pre-buying will help in Q4 but then you will have a lull in first half next year, so any thoughts around that and how are you looking at things from a slightly longer-term perspective for the domestic M&HCV?

Amit Kalyani: The domestic market will definitely see an impact in Q1, possibly also in Q2. But there is a clear realization within the system that just like abroad when such things happened when there was a emission norm changed, post that they also introduced some kind of a scrappage scheme so that it promotes buying new vehicles and reduces pollution etc. So there is a lot of activity chatter going on about that, so hopefully something like that will come in. If not then you will have one or two quarters of slowdown and then it will pick up again.

Sonal Gupta: Could you give us a number for PV exports I mean what sort of growth have we seen on the passenger vehicles export side?

Amit Kalyani: It's about 6%-7%. That will really start growing once our new programs our new products start which is around middle of next year, June-July.

Sonal Gupta: So basically, you are at around 55 crores sort of run rate right now?

Amit Kalyani: Yes correct. That potentially could significantly increase next year.

- Moderator:** We will take the next question from the line of Sham Sundar from JM Financial. Please go ahead.
- Sham Sundar:** In your press releases you've said the European truck market has been rather steady but in the current quarter we have seen both sequential and YOY decline, if you can throw some color on what factors led to this decline?
- Amit Kalyani:** Euro decline is not so much automotive decline; it's more a industrial decline. Please don't forget the whole holiday period of Christmas and everybody takes shut downs at that time. So essentially you are working for just little over 9 weeks instead of 12.
- Sham Sundar:** On the realization, we have seen some really sequential jump in realization, is it largely due to the product mix change?
- Amit Kalyani:** Yes product mix and value addition. This will be a recurrent theme next year as well.
- Sham Sundar:** In the domestic industrials, we have seen a very strong 35% growth; much of this is it because of the jump in the defense segment?
- Amit Kalyani:** Large part of it is from the defense and some amount from agriculture.
- Sham Sundar:** What would be our utilization levels in Baramati and overall?
- Amit Kalyani:** Same as last quarter, no difference aggregate basis.
- Moderator:** We will take the next question from the line of Mayur Milak from Anand Rathi. Please go ahead.
- Mayur Milak:** Just wanted to understand that what is happening with the North American truck, so are we seeing that the inventory correction is over and from here on we should again start seeing the strong numbers coming back to the industry and hence our gain also?
- Amit Kalyani:** Yes that is the feeling so far. One thing I must say is right now everybody is planning on a 4 to 6 weeks' cycle so as of now yes that is the sign. So we are hopeful that we should see some pretty good growth.
- Mayur Milak:** And in these two with the heavy press 12,500 ton press and higher, does this specifically be used only for the Class 8 so there were some reports which suggested we could use that for Class 6 and Class 5 as well?
- Amit Kalyani:** We can use it for Class 6, Class 7.
- Mayur Milak:** But predominantly it is done for Class 8, right?

- Amit Kalyani:** It depends on which product you are making. There are certain products which you can't even make with the 12,000 ton press, you need a 16,000 ton press.
- Moderator:** We will take the next question from the line of Kapil Singh from Nomura. Please go ahead.
- Kapil Singh:** Sir we have mentioned that we expect a very strong growth in Q4. Any outlook here that how much increase in production you are expecting in Q4?
- Amit Kalyani:** I don't want to give a number like that. But let's just say that it should be a double-digit number.
- Kapil Singh:** Could you also share the current gross and net debt position, both standalone as well as consol?
- Amit Kalyani:** Our gross debt is 1840 crores and our net debt is about 560-570 crores.
- Kapil Singh:** And consol?
- Amit Kalyani:** And consol would be about 550 crores.
- Moderator:** We will take the next question from the line of Raghu Nandan from Quant Capital. Please go ahead.
- Raghu Nandan:** Can you share the PV revenues domestic and export?
- Amit Kalyani:** PV total is about 90 crores.
- Raghu Nandan:** And exports?
- Amit Kalyani:** It's about 55 and 35.
- Raghu Nandan:** Can you share the machining mix in the USD rate for the quarter?
- Amit Kalyani:** Machining mix I don't have right now with me but the rate was about 68.5.
- Moderator:** The next question is from the line of Bobby Jairam from Falcon Investments. Please go ahead.
- Bobby Jairam:** Oil & gas rebound you talked about is that all Shale?
- Amit Kalyani:** Largely share, predominantly Shale.
- Bobby Jairam:** If the oil prices take a dip downwards that could also come back that's very short-term is it that?

Amit Kalyani: Please remember that these companies have invested billions of dollars in creating these assets and they are continuously working on reducing their breakeven point. Last year everybody said that below 65 you can't make shale viable, today it's quite a viable at 48-47-46 and now everybody is working to make it viable at 40. It's a moving target, nobody sits still. Yes, those are issues but there are other people dealing with those.

Moderator: Thank you. As there are no further questions from the participants I now hand the conference over to Mr. Amit Kalyani for closing comments.

Amit Kalyani: Ladies and gentlemen thank you very much for your time and interest in participating on our call. I think as we mentioned consistently over this year that there has been a definite downturn that we saw over the second half of last year. We believe that between last quarter and this quarter the downward trend has been arrested. And we are now starting to head back up and I think that the company has done a lot of work on improving its technology, capability, product range and is in a prime position to take advantage of all the changes that are taking place in the world whether its technological, cost wise, product wise and we are well-positioned to harvest these going forward. If you have any more questions, anything that you would like to know please contact us and we will be happy to share that with you. Thank you very much.

Moderator: Thank you. Ladies and gentlemen on behalf of Bharat Forge that concludes this conference call for today. Thank you for joining us and you may now disconnect your lines.