

BHARAT FORGE

March 03, 2022

To,

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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 Analyst / Investor Conference Call

Ref: Regulations 30 and 46(2) of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015

We are enclosing herewith transcript of conference call with analysts, which took place on February 24, 2022 to discuss the acquisition of JS Auto Cast Foundry India Private Limited.

The said transcript is also available on the website of the Company.

Please take note of the same.

Thanking you,

Yours faithfully,
For Bharat Forge Limited


Tejaswini Chaudhari
Company Secretary



Encl: As Above



BHARAT FORGE



“Bharat Forge Limited Conference Call to discuss the Acquisition of JS Autocast”

February 24, 2022

BHARAT FORGE



C H O R U S C A L L ®

MANAGEMENT: MR. AMIT KALYANI – DEPUTY MANAGING DIRECTOR

Moderator: Ladies and gentleman, good day and welcome to Bharat Forge Limited conference call to discuss acquisition of JS Autocast. 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: Thank you. Ladies and gentlemen, good evening. I am sorry for the extremely late hour in the day. Unfortunately, I happen to be in the U.S. So, it’s quite early over here. I’m happy to announce that Bharat Forge has entered into an agreement for the acquisition of JS Autocast, which has facilities located in Coimbatore. This is a privately owned Company, entrepreneur setup and run, which is primarily present in the industrial space of castings. They make critical and complex machine castings for a variety of industries, the largest being renewable energy industry meaning wind. They also cater to hydraulic sector, off-highway and some amount of specialty automotive segments. They manufacture castings from about 7 kilos to about half a ton. They have a very strong position in the market with marquee customers, many of whom are existing customers of Bharat Forge and the Kalyani group, and they are a preferred supplier to quite a few of our customers as well.

They have a strong operating team, very good operations, profitable and with a lot of headroom to grow in terms of capacity, as well as in terms of space. As you are aware, in the near past, we also acquired another industrial Company and we intend to grow our industrial vertical very substantially because we see tremendous opportunities in the industrial space, whether it is industrial off-highway, whether it is industrial renewable, or other specialty industrial. We believe this acquisition will allow us to broaden our product portfolio and grow our revenues, bring in new customers and make us a much more critical and strategic supplier to many of our customers and move up the value chain, as well as being EPS accretive from day one. This will also substantially increase our revenues from the clean tech sector, which is an area, which we are focusing on because it’s good for the environment, it’s also an area of high growth, and India becoming a strong player in that area.

So, this Company had a revenue of about Rs. 260 crores in 2021. This is in spite of the impact of COVID. It’s had a 10-year CAGR of about 20%, 5-year of about 18%. It has a healthy ROCE and RONW of greater than 20% and we expect to close this transaction in Q1 of FY23. I think what we are trying to say basically is that it is our entry into the casting sector as a process. As you already know, we are already present in the aluminum casting sector for light weighting. This is now our second presence in the casting sector, more from an industrial point of view, allow us to address a larger range of products, increase our supply content for customer, and increase our industrial revenue quite substantially.

So, that’s really all I wanted to say and I think we can now do a Q&A session.

- Moderator:** Thank you very much. The first question is from the line of Jinesh Gandhi from Motilal Oswal Financial Services. Please go ahead.
- Jinesh Gandhi:** Hi, congrats on entry into castings through this acquisition. I've a few questions. First with respect to, can you share what's the kind of valuation you've paid for this Company?
- Amit Kalyani:** So, I just want to say this right up front. We will not share the valuation as of this time. I don't want to answer any more questions on that, but all I'm saying is that it's a good valuation, it's a fair valuation for a good Company. What is your next question, Mr. Gandhi?
- Jinesh Gandhi:** Second question is with respect to the revenue breakup. So, you indicated it will increase our revenue from renewable space quite materially. Can you make a quote of revenues they get from renewable space and other segments?
- Amit Kalyani:** Our industrial revenue, as you know, is close to 40% and that is broken up into three primary areas. One is energy, which is largely oil and gas. The second is construction and mining, and the third is renewable Energy where we supply a lot of products into wind energy related components. So, our current revenues for renewable energy, I don't have exactly, but let's just put it this way that this will give us a roadmap for getting into a triple-digit million-dollar renewable energy business in the near future. This will not make that happen, but this will take us along that path because it'll allow us to expand our product portfolio and then grow this business as well.
- Jinesh Gandhi:** Okay, and in terms of synergies would be largely frontend with respect to common customer? On backend, do you see any material synergy and scope to improve margin for this Company?
- Amit Kalyani:** There are definitely going to be synergies on procurement because a lot of the stuff that they procure is foundry related, grades of pig iron, FRAP, etc., which we also procure for our steel plant. So, there will be synergies on those sides as well. And of course, the whole cost optimisation on financial costs, etc.
- Jinesh Gandhi:** Okay, and can you share what's the capacity and what utilization that they operate at?
- Amit Kalyani:** So, their installed capacity is about 45,000 tons. They are operating at about 25,000 to 26,000 tons. So, they are operating at about 50-55%
- Jinesh Gandhi:** Got it, I'll fall back in queue. Thanks.
- Moderator:** Thank you. The next question is from the line of Pramod Amte from Incred Capital. Please go ahead.
- Pramod Amte:** Hi, Amit. I think this is the second acquisition in the non-auto space. So, if you have to look at three years down the line, for you with both this and the earlier acquisition if you take into

account, what's the mix you are trying to look at, non- auto vs auto, and how do we see your action on the ground?

Amit Kalyani: Pramod, I wouldn't look at mix because we also will grow our auto business, especially on the e-mobility and lightweighting side. So, what I would rather say is, how will we look at the non-auto business growing. The non-auto, non-oil and gas business will grow like more than 2x in the next three years

Pramod Amte: Second one is in terms of client profile and all. How does this Company, are you able to leverage existing clients to build the capacity or do they bring in any additional clients for you whom you never tapped, how are you looking at this?

Amit Kalyani: No, it definitely brings in additional clients as well, but more than additional clients, what it allows us to do is to address a larger share of our customers' wallet and in the future, hopefully, also move up the value chain by doing more value added work for our customers and move towards being like a system supplier kind of thing.

Pramod Amte: Okay, so this is a step towards that system supplier in that having both the forging and casting together.

Amit Kalyani: Yes, and it will allow us to leverage our global customer relationships and grow our global business.

Pramod Amte: The last one is casting is relatively more, I would say, a craft than a mechanization. Has that changed or do you feel scalability coming through in the casting business with you entering or how do you scale that and why are you getting into casting in a full-fledged manner?

Amit Kalyani: No, I don't think that is true. That is true for the very large sand foundries where you are making one offs and things like that. Here, they have volume production and the volumes can range from few hundreds to few thousands, but obviously it's not a process such as forging where you have tremendous automation, but nonetheless, they do have some automation and there is scope for a lot more automation, which we will do going forward. And there are some very clear reasons why we are doing this. I think we are very confident that this will allow us to grow our customer base, grow our revenues, grow our exports. So, that's our focus for doing this. Renewable is a megatrend. Renewable is linked to the whole green and clean energy cycle and this is definitely a megatrend. We believe that we are well poised to take advantage of this from India.

Pramod Amte: Okay, Thanks Amit and all the best.

Moderator: Thank you. The next question is from the line of Nishit Jalan from Axis Capital. Please go ahead.

Nishit Jalan: Hi Amit, can you share some details in terms of the names of the key customers and what are the key products where JS Autocast is kind of focusing within these non-auto segments? Some more details on that.

- Amit Kalyani:** I don't see any need to share any names of customers in detail. I think this is a bad practice because it's competitive information as well. So, I think we need to stop doing that. All I will say is that we have a lot of similar customers and this will also bring a few new customers to us.
- Nishit Jalan:** Got it. Amit, is it possible to share some of the key specific products with these guys?
- Amit Kalyani:** As I mentioned, I will talk about the segments and the segments are renewable energy, hydraulics and off-highway.
- Nishit Jalan:** Okay. Thank you so much.
- Moderator:** Thank you. The next question is from the line of Rustum Tambe from Evalueserve. Please go ahead.
- Rustum Tambe:** Hi. My question has already been answered.
- Moderator:** Thank you. The next question is from the line of Basudeb Banerjee from ICICI Securities. Please go ahead.
- Basudeb Banerjee:** Thanks. A couple of questions. One, as you said, utilization levels are at 60 odd percentage, so scope to improve utilization. What's the export mix for this entity as of now or can you enhance exports?
- Amit Kalyani:** We can certainly enhance it. The current exports are somewhere in the region of about 45%.
- Basudeb Banerjee:** That's good enough, so it can further move up and second thing sir, what is the debt on it's books?
- Amit Kalyani:** Debt is very-very small and we have assumed that in our enterprise value.
- Basudeb Banerjee:** So nothing meaningful?
- Amit Kalyani:** No. Nothing meaningful.
- Basudeb Banerjee:** Okay. Thanks.
- Moderator:** Thank you. The next question is a follow-up from the line of Jinesh Gandhi from Motilal Oswal Financial Services. Please go ahead.
- Jinesh Gandhi:** Amit, my question is on the capacity you talked about, there is a scope to increase utilization and add capacity. So, any sense on what kind of capacity addition can we do from the current infrastructure there?

- Amit Kalyani:** Just by debottlenecking and by some amount of minor investment, we could increase capacity by about 25% beyond our nameplate capacity and then of course you would have to make investments for additional capacity, but this has potential to grow quite substantially.
- Jinesh Gandhi:** Okay, but you indicated there is additional space, like we have scope at Sanghvi Forging to increase our capacity by 2-3x, is the similar scope present over here?
- Amit Kalyani:** Yes, right and especially on the value-added side, there is a lot of scope to add almost double the capacity.
- Jinesh Gandhi:** Okay. Primarily on the machine side?
- Amit Kalyani:** Yes.
- Jinesh Gandhi:** Okay. Got it. Thanks.
- Moderator:** Thank you. The next question is a follow-up from the line from Pramod Amte from InCred Capital. Please go ahead.
- Pramod Amte:** Yes Amit, considering that it's a pretty impressive Company, looks like on the ROCE and no debt, any reasons why the existing promoters are exiting?
- Amit Kalyani:** There was a succession issue. The owner wanted to hand it over when it was doing well and while it didn't have any issues immediately, but he wanted to find a good home for it. They have done a very good job of running the business.
- Pramod Amte:** Yes that's why I was curious, and second when you say you will be a system supplier, would you be able to give some examples in the sense how and what you will supply to wind energy components now?
- Amit Kalyani:** Not yet. That is what we will aim to do. I am not going to make the entire system, but everybody when they are expanding capacity, are not going to do everything in-house. So, there will be more outsourcing. They will move from buying components to buying small assemblies to buying machined assemblies and so on and so forth. So, there is opportunity to grow.
- Pramod Amte:** Okay, and that will be a much bigger value addition capture?
- Amit Kalyani:** That's a second horizon kind of opportunity. It's not something that is going to happen tomorrow. It's going to be complementary to our existing customers.
- Pramod Amte:** Okay, but the designing and all capabilities still lie with the customer in that sense?
- Amit Kalyani:** Today that may be the situation, but tomorrow the customers may expect us to do it for them, so that's doable.

Pramod Amte: Does the industry still work like parts suppliers and tier I and tier II, they are also in the industrial components?

Amit Kalyani: Yes.

Pramod Amte: So, with these type of systems, you will get closer and move up the tier line or how does it work?

Amit Kalyani: We are just buying this Company. I think we need six months to get our arms around it and decide what to prioritize and how to go about it, but we clearly see significant opportunities.

Pramod Amte: And it also has a small part, if I heard right, in terms of off-highway, does it also give you excitement to get into the automobile castings or it's completely mobile?

Amit Kalyani: They do make some specialty automotive castings, low to medium volume, but very critical parts.

Pramod Amte: Okay, and that is still EV protected in that sense and it gives you more opportunity going forward? Is it protected by the ICE versus EV combination and does it excite you to expand much bigger?

Amit Kalyani: It does allow us to expand obviously, but I think our focus is purely going to be on the bigger component and not the smaller components necessarily. Obviously, if we see more traction for supplying machine components on a smaller side, we will pursue that.

Pramod Amte: I was asking you guys have been very strong in forging. If this opens a door for casting and hence would you like to look for more automobile castings or anything of that sort?

Amit Kalyani: Our automotive casting focus is going to be more on the aluminum and lightweighting side. So, that's where the world is moving. This kind of casting, which is on the ferrous side is going to be more industrial.

Pramod Amte: Okay. Got it. Thanks and all the best.

Moderator: Thank you. The next question is a follow-up from the line of Jinesh Gandhi from Motilal Oswal Financial Services. Please go ahead.

Jinesh Gandhi: Sorry for another question. Just quickly wanted to understand in the last 12 months now we have done the second acquisition in the industrial space, does it give you enough additional capabilities to target the renewable segment and would we be done with the M&A on the industrial side or in general going forward?

Amit Kalyani: It would be very foolish of me to say give an answer for that because it's really about getting deeper into a field. From being a peripheral business, we are now making this one of our new mainstream businesses. So, as we grow our relationship with our customers, as we expand our

product portfolios and things like that, then we will get guided by one opportunity we see, what is the traction we get from our customers and what are the opportunities we see in the market. So, I don't want to say yes we are done or no we are not done because I don't think we know enough today about this to be able to answer that question.

Jinesh Gandhi: Okay. Got it. Thanks.

Moderator: As there are no further questions, I now hand the conference to Mr. Amit Kalyani for his closing comments. Over to you, sir.

Amit Kalyani: Thank you ladies and gentleman for your interest in our Company and for your questions. We look forward to being able to share more with you about this business once we complete the acquisition and start the integration process, and we will also have an opportunity for inviting some of you to visit the facility if you would like and continue our engagement in a close level in order to keep you updated with what we're doing and how that will impact our business going forward. So, thank you very much and have a lovely evening and we look forward to remaining in touch. Thank you, bye.

Moderator: Thank you. Ladies and gentleman, on behalf of Bharat Forge, that concludes this conference. We thank you all for joining us and you may now disconnect your lines.