

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

**CHAIRMAN'S SPEECH**

CHAIRMAN'S SPEECH TO THE MEMBERS OF THE COMPANY  
AT THE 50<sup>th</sup> ANNUAL GENERAL MEETING  
ON WEDNESDAY, 10<sup>th</sup> AUGUST 2011

Ladies and Gentlemen,

**Introduction:**

It is my pleasure to extend a very warm welcome to all of you to your company's 50<sup>th</sup> Annual General Meeting. I thank you for having spared your valuable time and made it convenient to attend.

The Annual Report containing the Directors' Report and the audited accounts for the year ended 31<sup>st</sup> March 2011 has been with you for some time and, I am sure, you have had the opportunity to peruse them.

**Dividend:**

Keeping in view the performance of your company, your Directors have recommended a dividend of 175% on paid up equity share capital i.e. Rs. 3.50/- per equity share of Rs 2/-each.

## **50 years of Bharat Forge:**

Your company was incorporated on 19<sup>th</sup> June 1961. This marks 50 years of our company's formation. Clearly we have reached an important milestone which we should justifiably be proud of. From modest beginnings we have grown to become the largest forging company in the world with manufacturing footprint in all major world geographies. In the past 50 years, Bharat Forge has gained wide respect for the way in which we conduct our business and the value that we provide to all our stakeholders. I would like to take this opportunity to thank all those who have contributed in making Bharat Forge to what it is today.

Our Founder, former Chairman and my father, Dr. Neelkanth Kalyani for his vision, entrepreneurship and leadership in steering the company through difficult times particularly during its initial years; the several eminent and outstanding individuals who have been members of our Board of Directors from time to time for their valuable guidance and advice; our past and present employees for their unstinted efforts and devotion to duty; our valued customers, collaborators, suppliers, bankers, financial institutions and business associates for the confidence they reposed in us; and finally our shareholders for being our partners both during times of difficulty and when the going was good.

## **External Environment:**

If 2009-10 was the most difficult year for the global economy in the last 75 years, 2010 -11 reaffirmed the strength of the global economic recovery. Many of the global economies have bounced back from the economic and financial crisis to post satisfactory performances which is reflected in US, European and Chinese Economy.

- The US economy grew by 2.8% in 2010 against (-) 2.6% in 2009.
- The Euro Zone grew by 1.7% in 2010 against (-) 4.1% in 2009. This is mainly on the back of the 3.5% growth recorded by Germany. However, a few economies like Greece, Italy and Spain are still going through difficult times.
- China recorded GDP growth of 10.3% in 2010 against 9.2% in 2009. Growth in the first two quarters of 2011 has slowed to 9.7% and 9.5% respectively primarily due to interventions by the government aimed to cool inflation which touched a 3 year high of 6.4% in June.

Just as it was appearing that the worst was behind us and the global economy was on the path of recovery, last week's development which plunged the US into an unprecedented debt crisis, has taken the world by surprise. As the US's credit rating was downgraded, markets all over the world have gone into turmoil. It is still too early to predict the full impact that the crisis would have on the World Economy. However, we believe that just as in 2008 the Indian Economy would be able to weather the storm relatively better than economies of other countries. It is therefore a time to wait and watch and tailor responses based on how the environment develops.

### **Indian Economy:**

The Indian economy has rebounded well from the low 6.8% growth recorded in 2008-09. Growth in 2009-10 was 8% and in 2010-11 it increased to 8.5%. This performance reflects astute management of the economy by the government both during the crisis and after.

In my last year's speech I had spoken about three key economic measures that we expected the government would take. These were pertained to reforms in the petroleum sector, introduction of provisions contained in the Direct Tax Code and implementation of the Goods and Services Tax. While government has still not been able to take the politically contentious decision to deregulate diesel prices, there is considerable uncertainty with regard to when DTC and GST would be implemented. These reforms are critical for the economy to return to the +9% growth experienced between 2005 and 2008.

Sporadic reforms of the past 20 years have resulted in India's growth rate increasing from 3.5% per annum to 7-9% per annum. Even if we maintain this rate of growth, our GDP would quadruple in 10 years to US\$ 4.5 trillion by 2020. However, if reforms are fast tracked and the economy grows at 10% per annum for the next 10 years, the results would be mindboggling. India could then leapfrog into the league of fully developed nations. Creating conditions to facilitate this high growth is the challenge for our policy makers. I sincerely hope that the government is able to negotiate a political consensus to fast track economic reforms so that we can rise to our full potential and capture the opportunities that are unfolding in global markets.

### **New Manufacturing Policy:**

I personally believe that if India is to achieve the kind of exponential growth that we have spoken about during this decade, it would have to be on the back of strong growth in manufacturing industry. I think government of India recognizes this and therefore a New Manufacturing Policy whose aim is to increase the share of the manufacturing sector in country's GDP from the present 15% to 25% in 10 years is to be announced shortly. As a company whose core strength is in manufacturing, we welcome this development.

The global economic pendulum in manufacturing is clearly swinging in the direction of China and India. It has been observed that manufacturing in China has lost some of its earlier sheen. India therefore has the potential to become a hot spot for global manufacturing by 2020. Presently there are about 25-30 Indian companies with annual revenues of more than US\$ 1 billion. By 2020 this number could double and some could even breach the US\$ 100 billion barrier.

India's manufacturing sector has been growing at about 7% per annum for the past 10 years which makes us the second fastest growing manufacturing economy in the world. In spite of this growth our dependence on imports particularly for major items of capital goods continues. I think the opportunity for India is evident. We need to develop capabilities in a few defined product segments and make game changing investments to make us self sufficient and facilitate our becoming a major global supplier.

Your company has the intrinsic capability to be a key player in manufacturing industry. The impetus for manufacturing through the new manufacturing policy could open several new opportunities for us which we would leverage to our advantage.

### **Automotive Business:**

The automotive industry was one of the hardest hit by the global economic and financial crisis. However the recovery in the past two years has also been quite robust.

- The Indian automobile industry continued to grow at a rapid pace in 2010-11. Your company's major customer segments include commercial vehicles, utility vehicles and passenger cars. These clocked growth of almost 28% over the previous year. Going forward increase in oil prices and higher interest rates could result in some moderation in this growth which has been factored into our business projections.
- The North American automobile market has also revived. Your company's exports are mainly to the medium and heavy commercial vehicle segment with specific focus on chassis and engine components in Class 8 commercial vehicles. Production of vehicles in this segment increased by 27% in 2010 over the previous year.
- Sales of commercial vehicles in Europe increased by 8% in 2010 over 2009.

By leveraging its strong existing customer relations and aggressively penetrating new markets, your company was able to register strong increase in sales to automotive customers both in the domestic and export markets. We expect this trend to continue.

### **Non automotive business:**

Over the past 5 years, your company has made a focused foray into the non automotive business. We have invested significantly in creating new capacities and promoted new business development. The results are gradually becoming evident.

Through our manufacturing facilities at Pune and Baramati, your company is now meeting customer requirements in diverse segments of the capital goods industry including oil & gas, railways, marine, power, Wind Power, construction and mining. Our customer base has doubled to 30 in five years and we have significantly increased size of the market for our products. Growth in 2010-11 was primarily driven by addition of new customers; increased value addition of critical components; and expansion of product portfolio with existing customers. We will now focus on further developing domestic and export markets for our products by locking into emerging opportunities in the infrastructure sector.

Your company has entered into a 50:50 joint venture with the David Brown group of the UK to manufacture gear boxes for various industries including power, mining, defence, wind energy, railways and steel. The JV will contribute in increased demand for forgings from our Heavy Forge Division at Pune and the Center for Advanced Manufacturing at Baramati.

The Company is in the process of setting up manufacturing facilities at Mundra and Solapur for its JVs with Alstom and NTPC respectively.

The Wholly Owned Subsidiary set up to carry EPC business has already secured business for three 150 MW power plants valued at Rs. 1,885 crore and is in the process of executing the said project.

## **Overseas Operations**

One of the most satisfying aspects of your company's performance in 2010-11 was the turnaround of your company's overseas subsidiaries. This was achieved on the back of increased market demand from the commercial vehicle sector; restructuring of operations which has resulted in lower break-even levels; continued cost reduction and cost rationalization initiatives; and increase in levels of capacity utilization in various facilities.

I would like to make special mention of the turnaround at FAW Bharat Forge (Changchun) Co. Ltd, our joint venture in China. Thanks to strict cost control, market penetration and significant productivity improvements, the company's top line grew by 82% and it returned a PBT of Rs. 16.8 crore as against a loss in the previous year. We are confident that the company's overseas subsidiary performance will continue to improve.

### **Performance in 2010-11:**

Your company's Annual Report has been with Members for quite some time. Rather than going through it in detail, I will only highlight some of the key aspects of our performance.

- On consolidated basis (that is Bharat Forge and its subsidiaries) total income increased by 52.6% to Rs. 5,154.44 crore. Increase in PBDIT was 118.7% and PBT before exceptional item increased from Rs. 14.18 crore in the previous year to Rs. 444.48 crore. From a loss situation in 2009-10, PAT after minority interest reached Rs. 289.91 crore, Return on Capital Employed (ROCE) increased from 3.7% to 14.5% and Return on Net Worth (RoNW) was 14.8%.



- In our standalone business in India (that is only Bharat Forge's Indian operations), revenues increased by 58.5% and PAT grew by 144.5%. Exports grew by 72.6%. Our non-automotive business grew by 89.2%. Our capital goods business also gained traction with both the JVs with Alstom and the EPC business making their first successful bid.

While these are the quantitative highlights of our performance in 2010-11, qualitatively the year was characterized by the following:

- Strong growth in both domestic and global operations.
- Increase in the contribution of non auto business which now accounts for 25% of our consolidated sales.
- An order book of around US\$ 1.40 billion in capital goods business in a very short time.
- A stronger balance sheet with an improved debt equity ratio.

Looking forward we believe in the infrastructure led growth in India and are well positioned to leverage opportunities that would arise from it. Our capital goods and non automotive businesses are on solid growth paths and with demand from the automotive sector expected to stabilize at reasonably high level, our component business is also on firm footing. Globally we will continue to look at opportunities to increase our market share and consolidate our overseas operations.

## **Human Resource Development:**

Nurturing and developing human resources has been a major source of creating competitive advantage in your company. Over the years we have maintained consistency in our efforts in training and developing our human resource with a view to face competition.

During 2010-11, various initiatives taken by the Company like M. Tech program with IIT, Mumbai, Talent Pipeline Development Programme and learning initiatives with BITS, Pilani and Warwick University, UK continued.

Your company has established its new R&D center, “The Kalyani Center for Technology and Innovation”. The center is fully functional and all activities relating to R & D are being conducted at that location.

## **Corporate Social Responsibility:**

Your company has taken several voluntary initiatives in the fields of education, health, green energy, community development and employee welfare.

Your company has also been contributing significantly in the field of technical education by starting an Industrial Training Institute (ITI) at Khed near Pune. We have also adopted two Industrial Training Institute's in Pune district to uplift the standard of education and infrastructure of these institutes.

By establishing ‘Pratham Pune Education Foundation’ your company undertook the challenging task of making primary education accessible to needy and less fortunate children in our city. Over the past 10 years since its inception, Pratham Pune has touched the lives of over 150,000 children and has become an important catalyst for women empowerment.

Your company is environmentally conscious and is committed to creating, maintaining and ensuring a safe and clean environment. We attempt to make our processes and businesses environment friendly by adopting energy conservation and recycling measures. Members would also be aware that this year’s Annual Report has been sent to those whose email addresses are registered with us in electronic format. This has contributed in saving of paper and reducing costs.

Your company supports increased use of energy from non conventional sources. Power generated from wind turbines now accounts for about 30% of consumption at our Mundhwa plant.

Your company runs three community development centers. The main beneficiaries of these centers are our employees’ wives and children. Vocational training and income generating activities for women include providing stitched uniforms and gloves for use by our employees, conducting personality development programmes for women and children etc.

All these activities are contributing in making your company an eco-friendly and socially responsible corporate citizen and an organization that cares for its employees and for the welfare of society.

In addition to above, Company has now started supporting and sponsoring the sports activities and sportsman. In pursuit of exploring the sports talent, the group has been supporting Lakshya since its inception. LAKSHYA (Looking at Knowledge in Sports and Help Youth Achieve) is a city based Non Profit Sports Organization which identifies and nurtures the talented sportspersons to help them achieve sporting glory. Lakshya is currently supporting over 30 budding sports champions in the six disciplines viz. Shooting, Chess, Tennis, Wrestling, Boxing & Cricket.

The Group is committed to support the Tennis endeavor, where we are sponsoring 5 Tennis players. Our sponsorship has helped the players to train abroad, and take part in events within the country and abroad. It is sponsorships such as these, that we believe go a long way in contributing to the development of these young sports talent and also encourage them on the demanding path to the top.

### **Corporate Governance:**

I would like to re-iterate your company's strong commitment to good corporate governance. We continuously strive to improve the quality of our disclosures by benchmarking against best practices. The contents of our Annual Report over the past few years have been exhaustive in terms of information about the company and its working.

Information about our company is available on company's official website [www.bharatforge.com](http://www.bharatforge.com).

### **Acknowledgements:**

I would like to take this opportunity to thank all our valued customers, domestic and international, for their unstinted support. They are a source of great encouragement and motivation for us and I am confident that we will benefit from their continued support.

I would like to express my sincere thanks to the Government of India, the Government of Maharashtra, Financial Institutions and Banks for their sustained encouragement and support to your company. I would also like to thank our collaborators for all their help and assistance.

I sincerely appreciate the contributions of all our employees to your company's performance. I request them to carry on the good work and help us realize the Company's goals and objectives.

**Conclusion:**

Finally, I convey my personal gratitude for the confidence that you have reposed in your company's Board of Directors. I sincerely hope that you will continue to extend your whole-hearted support to us so that we, along with the management team, and all employees will further accelerate the growth and progress of your company.

Thank you!

10<sup>th</sup> August 2011