

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 51st ANNUAL GENERAL MEETING
ON FRIDAY, JULY 27, 2012**

Ladies and Gentlemen,

Introduction:

It is my pleasure to extend a very warm welcome to all of you to your company's 51st Annual General Meeting. I thank you all for having spared your valuable time to attend this meeting.

The Annual Report containing the Directors' Report and the audited accounts for the year ended March 31, 2012 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 final dividend of 125% on paid up equity share capital i.e. Rs. 2.50 per equity share of Rs. 2/- each, in addition to Interim Dividend of 75% i.e. Rs. 1.50 per equity share declared and paid during March 2012, thus, making the total Dividend Payout to 200% i.e. Rs. 4.00 per share for the year.

External Environment:

2011-12 was again a challenging year for the global economy. Global macro-economic indicators deteriorated with World output growth reducing from 5.3% in Calendar Year 2010 to 3.9% in Calendar Year 2011. The output growth slowed down across all of your company's primary international markets, namely: the USA, the European Union (EU) and the China.

Even in such an adverse business environment, your company has delivered strong results. This was achieved by the Company effectively positioning itself to leverage opportunities quickly to gain market share and to reach out to new markets in terms of products and customers.

Indian Economy:

After achieving consistently high growth over the past 8 years, the Indian economy has also run into turbulent weather. The crisis in the Euro zone has impacted our economic performance. The global economic uncertainty coupled with the lack of political consensus

in India for implementation of major economic reforms has contributed in compounding the problem. As a result, the GDP growth in 2011-12 moderated to 6.5%. What has come as an even greater surprise is the low 5.3% growth recorded in the last quarter of the fiscal. A sudden drop of 1.2% has prompted the Government to take some remedial measures.

I am confident that if the government is able to take the initiatives in certain key areas and kick-start economic reforms, the economy will turnaround in this fiscal to a growth rate of around 6.5-7%. This would provide a platform to return to 8-9% growth in the medium term. Implementation of reforms coupled with removal of bottlenecks that have stifled economic growth would restore the confidence of both Investors and the Industry and revive the momentum for sustained high economic growth.

Business Strategy:

Your company's business is now focused on two aspects. First, continuous improvements across business processes to operate in the most nimble and cost effective manner. Second, leverage the Companies' assets to foster higher growth with relatively low incremental capital intensity and a more intensive effort aimed at exports.

This two-pronged approach will be the cornerstone of your company's business model in the coming years to overcome the challenges of operating in an extremely difficult and volatile business environment and emerging as a stronger and more competitive entity.

While your company realigned its strategic objectives during this phase of market uncertainty, it remained steadfast on two fronts: customers and technology.

Your company's commitment to customers is not only reflected in terms of excellence in meeting delivery schedules with high quality products but also in becoming co-development partners with several global original equipment manufacturers (OEMs). Today, your company has a wide cross-section of customers across the globe, which includes strong marquee clientele.

Technology and innovation have played a critical role in the present phase of growth. Today, your company has well established innovation and development competencies in the components space.

I am convinced that an innovation led product and solutions development strategy will give your company even greater mileage not just in its automotive business but also in oil and gas, locomotives, marine, thermal power, balance of plant equipment and EPC solutions. This process will have a multiplier effect where each success will create the foundations for newer competencies.

Now, let me focus on four key themes that will determine the future course of Bharat Forge's growth.

Theme 1: The sowing is over. Now it is time for harvesting

Your Company has focused on building state-of-the-art forging and machining facilities; investing in new technologies and R&D;

opening up new growth sectors as key verticals; and developing new markets, geographies and customers for products as well as solutions.

Having been sown and nurtured, the initiatives are bearing fruit. Over the next few years, you will see Bharat Forge consistently leveraging these to create much higher levels of customer delight & cement BFL's leadership position.

Theme 2: We will be an innovation led enterprise

Over the years, Bharat Forge has invested in new technologies, R&D and solution-providing capabilities. These are coming together across your Company's facilities in India and the rest of the world. Combining such competencies with your Company's best-in-class, world-scale manufacturing capacities and skills will result in Bharat Forge being an innovation-led, end-to-end solutions provider and a dynamic partner of our customers.

Theme 3: Rich in people

Your Company is creating a world class global talent pipeline — by identifying the best people across all its facilities and imparting training in their areas of expertise. Transforming to becoming an end-to-end innovation-led solution provider will be run by people of high quality. And Bharat Forge is determined to be rich in such human talent and capabilities.

Theme 4: Lean in manufacturing

In today's increasingly competitive world, a central mantra for sustained profitability is to be lean in all aspects of manufacturing. That involves being lean in the use of capital per unit of output;

being lean in raw material and finished goods inventories; being lean in production cycles; and being lean in executing solutions. The company has been able to reduce inventory by more than 15 days over a period of time. I want it to reduce further.

Automotive Business:

Your company is a leading supplier of critical and safety components for the automotive market globally with a well-diversified customer base across all geographies. The focus of the automotive business has been limited to the Medium & Heavy Commercial Vehicles due to the Company focus on technologically advanced product requirement. However, your company, today, is starting to address the Light/Small Commercial Vehicle segment which is seeing a shift in product requirement on back of change in emission norms and shift from larger engine to smaller and powerful fuel efficient engines.

The performance of the automotive markets globally in the year gone by is as below:

India

- The Indian automobile industry witnessed a slowdown in growth – with total four-wheel automobile production, including passenger cars and CVs growing by 7.8%. The major slowdown was for passenger cars, which grew by only 4.7%.
- The CV segment, which is your company's primary market, recorded a healthy growth of 19.8%. This was driven primarily

by light CVs (LCVs), which grew by 27.3%, while medium and heavy CVs (M&HCVs) grew by 10.8%.

North America

- The revival witnessed in the North American automobile market in Calendar Year 2010 continued in Calendar Year 2011. Total four-wheeler production grew by 10.8%, while LCVs grew by 9.4%.
- The largest growth was seen in the Medium & Heavy Commercial Vehicles segment that recorded 57.4% growth in Calendar Year 2011. Your company has strong relations in the US CV market and has significantly increased its auto exports to USA on the back of supplies to the Medium & Heavy Commercial Vehicles segment. It is important to note that USA now has an aging truck fleet which augurs well for the market.

Europe

- Europe remains a very volatile market driven by severe economic uncertainty and the worrisome fate of the Euro zone, with no long term trends and developments in the horizon. The total four-wheeler market grew by a meager 0.4% in Calendar Year 2011.
- Passenger cars, by far the largest segment of European markets, witnessed a 1.4% drop in sales – with the high end segment faring better than the middle and low end. Coincidentally, your Company largely supplies products for higher end passenger cars.

- Despite uncertainties, the sales of both MCVs and HCVs were robust – growing at 25.2% and 35.8%, respectively.

Non-automotive business:

The non-auto business has gained considerable traction. Sales increased rapidly, both in the domestic Indian market as well as exports. The share of non-auto in your company's standalone business portfolio has increased substantially over the last couple of years from 28% in 2009 to 38% in FY 2012.

Your company has developed and built strong relationships with customers in the non-automotive space, with the number of non-automotive customers more than doubling over the last five years. Today, the non-automotive business can be broadly divided into three verticals: (I) Energy (II) Transportation and (III) Mining and Construction.

(I) Energy:

Your company has a strong presence in the oil and gas sector with good visibility among the global OEMs. The Company is leveraging its technological prowess and strong relationship with customers to move up the value chain and develop high value-added products.

Within the Energy segment, your company also supplies components for standby power generators. Demand has softened in this business due to inventory correction and the increasing cost of fuel such as furnace oil.

(II) Transportation:

Here, your Company mainly caters to the demand in locomotive and marine sectors which remained strong throughout FY 2012. Your company is developing newer products to further penetrate this strong and stable market.

(III) Mining & Construction:

Macro indicators suggest that the construction and mining sector should be positive. In this space, your company is associated with some of the world's major companies. It is building a model of growth based on partnering with these majors.

The growth in non-automotive has primarily been driven by growth from North America and Europe. Due to lack of fresh investments in India, the domestic non-auto pie has trailed the growth in export market in FY 2012. The Company is confident that the domestic non-auto business will grow rapidly once the investment sentiment improves in India.

Capital Goods & Infrastructure:

The Joint Venture with Alstom has won an order worth Rs. 15,700 million for supply of 2x660 MW supercritical Turbine Generators for NTPC. The 2nd order for supply of 3x660 MW supercritical Turbine Generator for NTPC worth around Rs. 22,520 million is expected to be awarded soon.

Global Subsidiaries:

The global subsidiaries contribute to the development of the entire group by being core points of contact for several customer relations. They also support through various technology developments at their R&D centres.

After having turned around in Calendar Year 2010, the Chinese JV, FAW-BF, recorded an even better performance with greater capacity utilization in the first half of 2011. But the second half saw a dramatic fall in demand in China. For Calendar Year 2011, total four-wheeler production growth was only 1% in China. While passenger cars grew by 4.5%, CVs witnessed a 10% reduction in production.

In this environment, while the JV generated profits, the absolute levels were lower than what was recorded in Calendar Year 2010. On a positive note, the JV introduced some new products in the markets which were well accepted. It also managed to secure some new external customers.

The company is taking various measures to restructure its North American operations, Bharat Forge America.

Human Resources:

Your company is creating a world class global talent pipeline – by identifying the best people across all its facilities and imparting training in their areas of expertise. Transforming to become an end-to-end innovation-led solution provider will be run by people of high quality.

Your company is continuing with its engineering projects with BITS Pilani, Warwick University and the M. Tech. project with IIT Mumbai. In FY 2012, your company started sponsoring candidates for Ph.D. programmes with the University of Pune. The two sponsored candidates have to undertake specific technical research work as defined by your company.

Your company has secured the Golden Peacock Award for HR Excellence in 2011. This is given by the Institute of Directors with Justice P.N. Bhagwati as the chief of the jury.

Corporate Social Responsibility:

Educational initiatives:

Your company continues to hire young engineers in and around Pune as its ‘Talent Pipeline Initiative’ and work towards their skill enhancement by providing expertise, coaching and training.

It continues to contribute in the field of education by having started an Industrial Training Institute (ITI) at Khed, and by adopting two

other ITIs i.e. ITI – Bhor and ITI – Malegaon (Taluka Baramati) to improve the standards of technical education and training.

Pratham Pune Education Foundation (PPEF) is a non-governmental organization working to provide quality education to the underprivileged children in the age group of 3 to 14 years. Your company is a significant contributor to Pratham.

Sports:

Since 2010, your company has been supporting LAKSHYA, a non-profit sports organization, which identifies and nurtures talented sports-persons and is sponsoring five tennis players. The sponsorship has helped these players train abroad and participate in events within the country and elsewhere.

Corporate Governance:

I would like to reiterate your company's strong commitment to good corporate governance. Your company believes that it is imperative and non-negotiable for a world-class company to adopt transparent accounting policies, appropriate disclosure norms, best-in-class Board practices and consistently high standards of corporate conduct towards its stakeholders.

Information about our company is available on company's official website 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!

July 27, 2012