

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

CHAIRMAN'S SPEECH

TO THE MEMBERS OF THE COMPANY AT THE 52ND
ANNUAL GENERAL MEETING
ON THURSDAY, AUGUST 8, 2013

Ladies and Gentlemen,

Introduction:

It is my pleasure to extend a very warm welcome to all of you to your company's 52nd Annual General Meeting. I thank you all for having spared your valuable time to attend this meeting.

I also have the pleasure of introducing to you Mr. Vimal Bhandari, who joined the Board as Non-Executive Independent Director with effect from February 8, 2013. Mr. Vimal Bhandari is currently the CEO and Managing Director of Indostar Capital Finance, a wholesale credit institution sponsored by private equity houses like Everstone, Goldman Sachs, Ashmore and others. Earlier, Mr Bhandari has successfully completed stints as Country Head of AEGON N.V. and Executive Director of ILFS. He brings a wealth of valuable experience and is a highly respected professional. On behalf of the Shareholders, I extend a warm welcome to Mr. Vimal Bhandari.

The Annual Report containing the Directors' Report and the audited accounts for the year ended March 31, 2013 has been with you for some time and, I am sure, you have had the opportunity to peruse the same.

Dividend:

Keeping in view the performance of your company, your Directors have recommended a final dividend of 120% on paid up equity share capital i.e. Rs. 2.40 per equity share of Rs. 2/- each, in addition to Interim Dividend of 50% i.e. Re. 1/- per equity share declared and paid during March 2013, thus, making the total Dividend to 170% i.e. Rs. 3.40 per share for the year.

Business Environment:

FY 2012-13 has been one of the most challenging years both for the global and the Indian economies. The manufacturing sector has been particularly affected which is reflected by slowdown in investments and employment.

Government's recognition of the criticality of the manufacturing sector is through the National Manufacturing Policy whose objective is to increase the share of manufacturing in countries GDP from 15%-25% by 2022 and create 100 million new jobs. However, with India's growth rate having dipped to a low of 5% last year, the manufacturing sector grew slower than the rest of the economy. Clearly there is an urgent need for steps to revive Indian manufacturing.

Industry is largely concerned with increasing cost pressures due to rising interest rates, declining domestic demand, foreign exchange volatility and political uncertainty. In spite of these headwinds, we still continue to be cautiously optimistic of future growth prospects. Our strategies are not merely focused on cost reduction and improving operational efficiencies but are aimed at building competitive advantage beyond costs. We are placing considerable emphasis on developing new products and technologies, research and development optimizing capacities and most importantly understanding changing customer preferences and demands and in fostering long term profitable relationships with customers. We are confident that these initiatives will lead to long term benefit for your Company.

As a Company we have weathered many storms in the past. Frequent ups and downs in economic growth cycles now appear to have become a norm. Members will recall that we have emerged stronger after every downturn. I am confident that this time will be no different. As the global and domestic economies revive, as they inevitably must, your company will be well positioned to capture new growth opportunities. Our strategies have been structured with a long term perspective and we are reasonably sure that the Indian growth story will soon be revived and placed back on track.

In recent months government has shown intent in reviving the economy. Every effort needs to be made to improve the investment environment to enable manufacturing and infrastructure projects to be implemented in the shortest possible time. Competitiveness of industry has to be at the core of policy so that we can supply the domestic market and export to the world.

External Environment:

We are living in interesting times, where global economies continue to witness either fragile recovery or persistent downturns. 2012-13 raised expectations at the beginning, but did not offer many reasons to cheer about in the end. Europe continues to grapple with unpredictable headwinds while the Chinese economy grew at its slowest pace since 1999. On the other hand, the US economy has shown marginal improvement in key macroeconomic indicators.

Over the past few months, two of the biggest threats to global recovery have been temporarily averted, a euro area breakup and a sharp fiscal contraction in the United States from the “fiscal cliff.” Overall global growth for the year came in at 3.2% in 2012 as against 4.0% in CY 2011.

India faced its own share of problems driven by protracted weakness in industrial activity and slowdown in the services sector. India's quarterly GDP growth declined for the seven consecutive quarters in October – December 2012, hitting a nine-year low of 4.7%. (Source: RBI). GDP % for the January – March 2013 quarter registered 4.8% and for the year GDP% came in at 5.0% as against 6.2% in the previous fiscal.

Business Performance:

During the year, our focus on harnessing our internal strengths and resilience stood us in good stead. In FY13, consolidated Total income decreased by 8.7% to Rs 58,148 million due to slump in demand across segments and geographies in the latter part of the year. EBITDA declined to Rs 8,820 million in FY13 from Rs

10,880 million in FY12 while Net profit after Minority Interest for the year declined by 40.1% to Rs 2,476 million.

During the year under review, the total income of the Company on a standalone basis was Rs. 32,429 Million (previous year Rs. 37,535 Million), representing a decrease of 13.6%.

Strong demand across both automotive and industrial segments continued well into the first half of FY13. However, a sudden and sharp decline in demand due to unscheduled production cuts at the OEMs, led to simultaneous and significant inventory pile-up across sectors and geographies.

Although the full year financials were disappointing, it is encouraging to note the performance of the Indian and overseas operations in the quarter gone by. Profitability at Indian & European operations have improved despite only moderate improvement in sales, a result of focus on productivity & cost control.

Total income for the standalone entity in Q1 FY14 increased by 19% to Rs 8,270 million compared to Q4 FY13 while EBITDA increased by 42.6% to Rs 2,315 million and EBITDA margins expanded sequentially by 470 bps.

Business Strategy:

Your Company makes highly engineered products, and our USP is to use our expertise of engineering, design and technology to create 'partner to print' solutions for our global customers. Your Company will continue to invest in its fundamental strengths and drive a more diversified business model.

Your Company entered the markets of North America, Europe, Japan, Brazil and China, evolving a more de-risked business model. To reduce the impact of cyclicalities, we decided on three business segments, i.e. Passenger vehicles, commercial vehicles and industrials, across three different continents, i.e. North America, Europe and Asia. Our presence across these segments helped to largely insulate us from the cyclicalities in the automotive sector.

Automotive Business:

During the financial year 2012-13, there has been demand contraction largely in the commercial vehicles' (CV) side of the automotive business globally. While India witnessed a 27% demand contraction, global contraction in CV demand was around 10-15%, led by China at 25-30%, Brazil at 32% and Europe at 15%. North American class 8 truck market was the only market which was in the green and grew by about 10%, but way below market expectations.

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 pursued new business development. The results are gradually becoming evident.

At Bharat Forge, the process of diversification never stops; one step paves the way for another. Your Company has now started producing components for the industrial sector and has entered into five high-growth verticals, which include oil & gas, construction

and mining equipment, railways, marine engines and aerospace. We are large suppliers to the oil & gas industry in North America, largely for offshore drilling and for shale gas. In the railways vertical, we focus on locomotives, supplying critical & safety performance components for locomotives around the world, including in India, US, Russia and Europe. The aerospace segment is a difficult sector to enter due to the criticality of the components. We have taken steps to develop the organisation's capabilities and the organization has now been AS9100-certified and is one of the very few companies in India to achieve National Aerospace and Defense Contractors Accreditation Program certification. We have also built relationships with material suppliers, for specialized raw materials.

Our facilities in Mundhwa and Baramati are capable of making almost all the products for all these five segments. In our Indian operations, 40% of our business comes from these non-automotive sectors, which were hardly 20% a few years ago. As we identify more sectors to enter and develop these five verticals further, we expect the share of non-automotive components to increase further.

➤ **Driving Innovation**

Innovation lies at the core of BFL's operations. Integrating technological innovation in its processes and products to improve them and perform new things through optimal utilisation of existing assets and capabilities sets BFL apart. BFL's integrated set up also helps it to cater to customers as a developmental partner.

BFL focuses on innovation through R&D activities across the year, developing new products and processes by utilizing the in-house technical capabilities developed and facilities setup over the past decade.

Level-next growth can only come through innovation. This is true for both businesses and economies. At Bharat Forge, our strategy is to consistently create new products and keep our capacities full. For industrial verticals, our products are the result of our home grown R&D expertise. Our focus on innovation lies at the core of our organisation culture, where an inspired workforce pushes the levers of change.

We have already started seeing the focus on innovation paying off. We have developed and are supplying value added engine components “first time right” for the Indian railways. With this breakthrough, BFL is the only indigenous supplier of components for the Indian Railways, which used to be imported till now. We have developed “demonstrator parts” for the aerospace sector for global players. These two significant breakthroughs have been driven by the team at Pune using in-house technical know-how and capabilities.

➤ **Looking Ahead**

We believe the India Growth Story will gather momentum over the next decade. In the automotive business, four wheelers are expected to grow three times from three million vehicles to almost nine million or more. The opportunity for players in the automotive space, therefore, is tremendous. In the medium term, the passenger car segment will drive growth. Globally, the segment

is expected to grow from 55 million cars to nearly 90 million cars annually.

I had stated in the previous annual report that BFL will focus on becoming lean on manufacturing and leveraging our past investments to take the Company to newer heights. We remain steadfast and on course to achieve these two objectives in the coming years.

Capital Goods & Infrastructure:

The Joint Venture with Alstom has been awarded two prestigious orders by NTPC Limited. The first one, a 2X660 MW supercritical Turbine Generator Islands is set to be installed at Solapur in Maharashtra, while a 3X660 MW supercritical turbine generator islands is going to be installed at Nabinagar in Bihar. Both of these projects together, constituting robust orders of Rs. 38,000 Million, are being implemented and all key design and engineering milestones for these have been met. We are proud of developing these products which will, in a small way, help solve the country's current power shortage.

Considering the industry landscape, we have optimized & trimmed our investments into the capital goods sector, without impacting our market position and our product offerings.

Global Subsidiaries:

BFL's global subsidiaries help contribute to the development of the entire Group. Following a good year in CY 2011, all the global subsidiaries of the company focused on cost reductions, right sizing of organization and new market development. However,

global markets have been extremely volatile in second half of CY 2012 resulting in lackluster performance of the subsidiaries.

BFL completed the restructuring of its North American Manufacturing operations, Bharat Forge America in Lansing, Michigan.

The performance of the European Operations so far this year has been encouraging. Despite sluggish market conditions, the operations have registered a topline growth of 10.6% and EBITDA margins of 9.0% in H1 CY13 vis-à-vis 7.8% in H1 CY12. I am quite confident that they will maintain this good performance going ahead.

The Chinese Joint Venture continues to register weak performance on back of slump in demand for commercial vehicles in China.

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 BFL to become an end-to-end innovation-led solution provider run by highly efficient employees.

Your company is continuing with its learning initiatives with BITS Pilani, Warwick University, UK and the M. Tech. project with IIT Mumbai. Your Company also sponsored three candidates for their PhD. programme – one each at the University of Pune, IIT Mumbai and Deakin University – Australia.

Corporate Social Responsibility:

Your Company goes beyond what is required to make a positive impact on society and the environment through its management, operations and through their engagement with stakeholders.

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 and training.

Your Company continues to contribute in the field of education by adopting Industrial Training Institute (ITI) at Khed, and two other ITIs, i.e. ITI-Bhor and ITI-Malegaon, (Taluka Baramati) to improve the standards of technical education.

In 2012-13, there was increased energy in the CSR activities with wider participation of BFL employees. Lakshya (Goal) is inter-departmental initiatives started at Bharat Forge with the aim of giving something back to the society – a unique initiative where in efforts were taken across departments to serve the needy, in a structured way.

Your Company actively supports the efforts of 'Pratham Pune Education Foundation' (PPEF), which imparts non formal education to the children of economically weaker sections of society.

Bharat Forge provides concerted support to all little Nanhi Kalis with the aim that the girl child, more often than not is sidelined to

an extent that she always has a disadvantaged access to quality education and material support.

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.

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. The procedure and systems are reviewed periodically to ensure their continued relevance, effectiveness and responsiveness to the needs of our Shareholders.

Information about our company is available on company's official website www.bharatforge.com.

Before I conclude, I would like you to note that two of our distinguished Independent Directors, namely Mr. S. D. Kulkarni and Dr. Uwe Loos have retired.

On behalf of the Shareholders, I would like to place on record our deep appreciation of the services rendered by Mr. S. D. Kulkarni and Dr. Uwe Loos over the past several years.

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 in improving 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!

August 8, 2013