

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

**CHAIRMAN'S SPEECH**

TO THE MEMBERS OF THE COMPANY AT THE 53RD  
ANNUAL GENERAL MEETING  
ON THURSDAY, SEPTEMBER 4, 2014

Ladies and Gentlemen,

**Introduction:**

It is my pleasure to extend a very warm welcome to all of you to your company's 53<sup>rd</sup> 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, 2014 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 125% on equity shares i.e. Rs. 2.50/- per equity share, in addition to Interim dividend of 100% i.e. Re. 2/- per equity share declared and paid during February 2014, thus, making the total Dividend to 225% i.e. Rs. 4.50 per share for the year as compared to Rs. 3.40 per share last year.

## **Economic & Political Environment:**

The year 2013-14 witnessed developed economies gaining traction, mainly due to fiscal stimulus, low interest rates and a positive reassurance by the central bankers. Improved macro-economic indicators showing encouraging employment numbers and increased spending summed up the US recovery story. The Eurozone dispelled recessionary fears on the back of eased up credit scenario and improved resilience while growth in China appears to have rebounded in the second half of the year, due to acceleration in investment.

The prevalent geo-political tensions in the different parts of the world might lead to some short term volatility but the growth momentum is expected to be carried forward during the year 2014.

The Indian Economy during 2013-14, amid slow growth and high inflation, had to contend with serious challenges to external stability emanating from a decline in investment, an unsustainably high current account deficit, capital outflows and consequent exchange rate pressures. While the growth continued to be slow with contraction in mining and manufacturing, services sector growth remained unchanged.

Inflation declined during latter months of 2013-14, but continues to remain above the level that could secure sustainable growth. The fiscal deficit of the Centre as a proportion of GDP also declined for the second year in a row. A sharp decline in imports and a moderate growth in exports in FY 2014 resulted in a lower current account deficit.

The year 2014-15 has begun on a promising note and is likely to be better than previous year. After more than three years of prolonged economic slowdown, the Indian economy has started to turn around both cyclically and structurally. It is also for the first time in 30 years that the Indian electorate has given a clear mandate for a single party. Under the leadership of Shri. Narendra Modi, we have a new government that has been voted to power on the plank of growth, development, transparency and good governance.

Expectations from the new government are high and the challenge will be to deliver. The government has made a good beginning. The Union Budget has announced several notable initiatives that would help reboot economic growth. Both, domestic and foreign investors have responded positively. What is particularly noteworthy is the emphasis the Prime Minister has placed on Manufacturing and Infrastructure sectors as key levers to revive the economic growth. This is perhaps one of the few times that the manufacturing sector has received much required special attention.

In the recently concluded summit level interactions between India and Japan, the elevation of the relationship between both the countries to a Special Strategic and Global Partnership is testimony of the high levels of confidence that countries and businesses are willing to place in the current government. The Prime Minister's resolve to enhance the Ease of Doing Business in India was palpable when he stated that there is no more Red Tape but only a Red Carpet being laid out to attract investment from various domestic and foreign investors. In the days to come, I expect the government to suitably amend various policies and procedures by removing outdated and irrelevant rules, regulations and laws that cause roadblocks and hindrances in doing business.

We particularly welcome initiatives like, the creation of 100 Smart Cities, Developing a High Speed Railway Network, Establishing Nation-wide Energy Grids, the Digital India and Skill India Programmes etc. which have been announced by the new government with the objective to develop the hard and soft infrastructure of the country. I am confident that your company, Bharat Forge Limited, will be immensely benefitted by these initiatives both directly and indirectly.

We also welcome governments move to enhance FDI in Defence upto 49% and with it significant other revisions in the policy that clearly encourage more investments in the sector. In its resolve to develop a strong indigenous defense manufacturing capability, the government is taking measures to encourage increased levels of participation of domestic companies in defence systems production. I believe, this is another area where your company will add tremendous value and derive benefits.

I also believe that we can expect many more new initiatives from this government which would revive the economy and place it on a high growth trajectory.

Index of Industrial Production (IIP) growth is beginning to look up; there has been a healthy accretion to foreign exchange reserves while inflation on an average is showing sign of moderation. The economy expanded 5.7 percent in the first quarter of FY15, the highest in nine quarters, against a growth of 4.7 percent in the year-ago period. The manufacturing sector grew at 3.5 percent, against a 1.2 percent contraction in the same period last year.

Signs of improvement in manufacturing activity, greater political stability, commitment to fiscal consolidation,

strengthening of the monetary policy framework, better policy implementation, expected pickup in investment, improved availability of financial resources to private sector, improved external demand and stabilizing global commodity prices are expected to support recovery and boost growth prospects for the Indian economy in 2014-15 and beyond.

## **Business Environment:**

### Indian Automotive Sector

The year 2013-14 saw demand contraction across all segments of the automotive industry in India. The demand for passenger vehicles declined by 4.9% in FY14, while that of commercial vehicles declined by 16.1% in FY14. The main addressable market of BFL in the automotive business which is the M&HCV segment witnessed a decline of 21% in demand for the second consecutive year.

Despite a prolonged slowdown in the domestic M&HCV Industry, your company's performance has been better than the underlying market performance due to increased share of business and more importantly, due to a diversified and a de-risked business model.

Within the domestic automotive sector, BFL's focus going forward is to **increase the content per vehicle** by developing new products for both, commercial vehicle and passenger vehicle sectors. This should result in the domestic sales growing faster than the underlying market growth.

## Global Automotive Sector

BFL has a strong presence in the commercial vehicle markets globally, across Americas, Europe & Asia Pacific and is well positioned in these markets.

The commercial vehicle segment in North America and Europe ended the year on a good note with improvements in demand conditions, which was largely led by economic recovery in North America and the pre-buying effect in Europe due to the implementation of Euro VI.

The improving economy and the replacement of aging trucks will continue to be the primary driver of new purchases in North America while the demand in Europe is expected to be slightly flattish with a cautiously optimistic view on the European recovery.

### **Renewed thrust on Global Passenger Vehicle segment**

The North American & European Passenger Vehicle market combined account for volumes of more than 27 million annually, 10 times the size of the Indian market. BFL's presence in these highly promising markets has been very limited so far.

About 2-3 years ago, we took it upon ourselves to change this situation and I am happy to inform of the significant progress made on that front. In the past year, we have won 4 new orders from marquee OEM's for supply of critical engine components on the back of our global manufacturing footprint and more importantly on our ability to use to technology & innovation to provide solutions.

This is just the beginning and we expect to grow this business multifold in the coming few years through increasing market share and new product development.

### Industrial sector

BFL supplies a range of diverse and technologically advanced forged and machined products to various industrial segments globally. The key target markets are oil & gas, construction & mining, transportation, power generation etc.

Industrial segment now contributes about 41% of the topline to the standalone operations and this diversification has been a key growth driver over the past two years, which has enabled us to weather the slowdown in the automotive space.

The success in the industrial sector has been quite impressive with the revenues from this sector doubling from around Rs 600 crores in FY 2009 to about Rs 1,300 crores in FY14.

We will continue to increase contribution from the industrial segment on the back of **new product development, enhance value addition, moving in to newer sectors and winning new customers** across all our verticals of industrial business.

### **Financial Performance:**

Although your company operated at sub-optimal utilization levels through FY2013-14 due to sluggish demand environment, it was one of the better years in terms of performance in the history of Bharat Forge. Standalone total income increased 8% from Rs 32,429 million in the last fiscal to Rs 35,140 million this year while Net profits increased 31% from Rs 3,056 million in FY 2013 to Rs 3,999 million in FY 2014. There is significant

headroom for growing the top line in the next two years by sweating of the existing assets.

Your company's consolidated total income increased 30% from 52,786 million in the last fiscal to reach Rs 68,410 million this year. Net profits more than doubled from Rs 2,476 million in FY2013 to Rs 4,985 million in FY2014. Your company continued to strengthen its balance sheet by reducing net financial debt, both at consolidated and standalone levels. Net Debt/ Equity as of 31 March 2014 stood at 0.37 and 0.51 on a standalone and consolidated basis respectively.

### **Subsidiaries performance:**

The Company's Global Subsidiaries recorded yet another strong performance which was clearly driven by concentrated focus on productivity, cost control and introduction of new and innovative products.

Total income recorded a growth of 31.7% while EBITDA grew by 84%. The EBITDA margins also witnessed growth over the previous year, clocking a rise of 190 bps over the previous year. PAT stood at Rs. 1,167 million as compared to the previous year when it recorded a loss of Rs. 370 million.

Bharat Forge Aluminumtechnik GmbH & Co KG (BFAT) won a prestigious multi-year contract worth EURO 250 million from a premium German OEM. This contract will enhance the Group's presence in the fast-growing business of aluminum components, which is finding increasing application in passenger vehicles.

I am happy to inform that our power equipment joint venture, Alstom Bharat Forge Power Limited has a robust order book



and the construction of the plant is currently underway in Sanand, Gujarat. The plant is set to be operational in a phased manner by the middle of next calendar year.

### **“Made in India” Brand**

BFL has always been an early mover in establishing world class manufacturing capabilities in India. Over the past decade, BFL through its activities in markets of the developed world, both in automotive and industrial sector, has been at the forefront in promoting the “Made in India” brand globally. From a small beginning with exports to a single customer in the North American market, today we have become one of the largest and world’s leading supplier of critical components for automotive applications globally.

**We command leadership position in all major markets.** Every 2<sup>nd</sup> truck plying in North America uses a BFL component etched with “Made in India” brand. Today, BFL is moving closer to achieve a leadership position in specific industrial segments with significant success in Oil & Gas, Railways and Construction sectors.

## **Leadership through Advanced Manufacturing:**

In 2008, BFL started on its journey of creating a strong & vibrant platform focused on advanced manufacturing. In this endeavor, we set up two state of the art facilities catering to the non-automotive sectors, one focused on heavy forgings in Mundhwa and the Center for Advanced Manufacturing (CAM) at Baramati. We used these facilities to move into 5 new verticals: Oil & Gas, Rail & Marine, Construction & mining, Power and Aerospace.

Over the past 5 years, we have made tremendous progress in non-auto business using these platforms and technology derived from our own R&D setup. Today, BFL has established itself as the leader in the supply of critical highly value added components for the shale gas industry in North America, India's only indigenous supplier of fully machined crankshaft for the Indian Railways. **I am proud to inform you that BFL is one of the few Indian companies to have received NADCAP accreditation which is essential for working with the aerospace industry.**

In the past 5 years, Non-Auto contribution to the standalone business has more than doubled and we are quite confident of maintaining this momentum in the next five years.

## **Innovation and Research & Development: Driving Future Growth**

BFL's success over the past decade in entering new segments & markets, expanding the product offering and adding new marquee customers has largely been possible because of our focus on differentiating ourselves based on Innovation and R & D. In BFL, We have more than 150 personnel, many of whom

are masters & Doctoral degree holders, working full time on R&D projects and future initiatives.

The company has set up an R & D center in Pune, Kalyani Center for Technology & Innovation (KCTI) with the sole aim of delivering pioneering solutions using advanced technology & continuous innovation. The center is recognized by the Department of Science & Technology Govt. of India staffed with post graduates (Masters & Ph.D.) researchers. In the past 2-3 years, 10 patents have been filed with many more in the pipeline.

We are taking it a step further by developing capabilities in advanced materials & digital manufacturing. We are working on new areas like electronics used with mechanical components, Nano technology, 3D printing, laser welding & processing, Electron Beam welding & processing, We are also working with dissimilar and lighter materials to make variety of new generation products to use in existing businesses and to create new products in new businesses including space, nuclear and defense sectors, where the government is encouraging increased participation from the private sector.

We aim to combine our forte in basic metallurgical knowledge and a high level of computing knowledge. In five years we expect to have a factory with 30-40 of these machines producing components and systems for new industries.

This focused approach of developing a thriving ecosystem of Innovation and R&D within the company has enabled Bharat Forge Ltd. to establish itself as one of the very few Indian companies in the High-Technology space, on its own. The capability to develop new processes, technologies and products

by our own research groups has eliminated the need to source technology from outside.

Invest in People who drive Technology & Innovation is the *Mantra* behind our Success.

### **Towards the future:**

Although our existing capacity can support our growth for the next two to three years, we need to create new capabilities and capacities to sustain long-term growth. We aim to start the capex cycle in FY 2015-16 in new business areas across automotive & industrial sector.

As we restart our capex investment for the next phase of break-out growth, this time the investment process will be focused on an “asset light model”. We will concentrate on product development, strengthen the organizational framework, go through the product approval process and then start investing in a new facility. Such an approach will sustain growth and generate higher returns.

Your company is always driven by the capability to innovate and develop indigenous technologies. In pursuit of this endeavor, we will be increasing our expenses on R&D over the next few years to create value & provide innovative solutions to our customers. Going ahead, we plan to enhance the infrastructure & research personnel at the R&D center to focus on new & emerging technologies.

With the stated objective to develop new business lines for the company, we have identified a set of emerging technologies & products that have tremendous market potential and have embarked upon the journey to build suitable capabilities in-

house. We will keep you updated with the progress as we gain further momentum in these areas.

Your company's key factor for growth over the past decade was our innovation based product development driven by a highly competent work-force. Hence, we are focusing on and building a highly skilled & competitive talent pool to take care of our innovation & research needs through various education programmes for our employees from the graduate to the doctoral level with tie-ups with BITS (Pilani), IIT Bombay, Warwick & Deakin University.

Your company's objective is to reinforce and extend the brand and customer base in high-growth markets through research and technology build-up and strive to create long-term shareholder value. Bharat Forge's sustained market leadership will translate into higher revenues and profitability, greater capital momentum and stronger returns on invested capital.

I am confident that with our vision, strategy and prospects, we will continue to grow profitably and create value for all stakeholders.

### **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). The Company now has 3 ITIs at Khed, Bhore and Malegaon.

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.

#### Empowering women:

The Kalyani Group Community Development Center’s benefit the ladies of the communities. The center provides space for social emancipation, recreation and income generation. For 30 years, the Centre is engaged in providing women various opportunities to earn their livelihood. Various other programmes such as personality development camps, skill development programmes, medical check-ups, trips, entertainment, health and safety related programmes, extracurricular activities, camps for children, home management course for adolescents and so on are held.

## 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](http://www.bharatforge.com).

Before I conclude, I would like you to note that one of our distinguished Independent Directors, Mr. Alan Spencer resigned. Mr. Sunil Chaturvedi ceased to be an Executive Director during the year 2013-14, however, he continues to be on the Board in the capacity of non-executive director.

On behalf of the Shareholders, I would like to place on record our deep appreciation for the services rendered by Mr. Alan Spencer 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.

**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 wholehearted 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!

September 4, 2014