

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

CHAIRMAN'S SPEECH

TO THE MEMBERS OF THE COMPANY AT THE 56th ANNUAL
GENERAL MEETING
ON AUGUST 10, 2017

Introduction:

Ladies and Gentlemen,

It gives me immense pleasure to extend a very warm welcome to all of you to your company's 56th Annual General Meeting.

Business Environment:

In the year gone by, FY2016-17, the global macroeconomic landscape continued to be uncertain, characterized by weak growth and global political uncertainties. This was largely in continuum with the trend of the past few years.

While developed economies of the US and European region witnessed tepid growth in 2016, we had, on the other end of the spectrum, the developing and emerging economies which displayed a better growth rate.

The Indian economy continued to be the best performer in the group of emerging economies. It has successfully navigated through the external global turbulence and emerged reasonably stable to register a growth of 7.1% in FY 2017.

The year witnessed five transformational policies: Aadhaar, the Insolvency & Bankruptcy code, goods and services tax (GST), codification of the new monetary policy framework and Demonetization, all aimed at enhancing robustness and efficiency of the Indian economy.

In the backdrop of the slew of reform measures and courageous policies initiated and implemented by the Hon'ble Prime Minister in the last 1 ½ years, the economy and the country is ready for major reforms to propel economic growth to the next trajectory, of long lasting & sustainable GDP growth which will fundamentally change India & the people for the better.

Financial Performance:

FY 2017 was another challenging year for the company across major geographies. Export demand was adversely affected by the decline in the North American Heavy Truck market and the commodity focused Industrial market while growth in the domestic Commercial Vehicle market was lower than anticipated.

As a result, the growth witnessed in the domestic markets was negated by the weakness in the international markets and we ended the year with total standalone revenues in FY 2017 declining by 10.2% to Rs. 40,661 million, and standalone Profit after Tax (PAT) down 16.1% at Rs. 5,851 million.

Despite these weaknesses, cash generation during the year was strong, enabling the company to further strengthen its balance sheet and helping us achieve our objective becoming a net debt-free company one year ahead of schedule. Long Term D/E (Net) at the end of FY 2017 stands at 0.03.

While the FY17 results were below expectations, I had stated in my previous communication in August 2016 that we are at the trough and would see recovery in topline & bottom line as the year progresses. The same was visible from Q1FY17 with sequential growth on a quarterly basis. This gives us confidence about the performance of the company in the coming years aided by the recovery in the underlying market demand and increasing share of business from new sectors.

Keeping in view the performance of your company, your Directors have recommended a final dividend of 250% on equity shares i.e. Rs. 5/- per equity share, in addition to Interim dividend of 125% i.e. Rs. 2.50/- per

equity share declared and paid during February 2017, thus, making the total Dividend to 375% i.e. Rs. 7.50 per share for the year.

The Board of Directors of the Company at its meeting held today, has, subject to approval of members of the Company through postal ballot, recommended issue of Bonus Shares to the members of the Company in the ratio of 1 (one) bonus equity share of Rs. 2/- each fully paid-up for every 1 (one) existing equity share of Rs. 2/- each fully paid-up.

Markets Segments:

Automotive

The international commercial vehicle business for the Company witnessed mixed fortunes in FY 2017. Steady growth in the European market was offset by a very weak demand from the North American market. To put in numbers as compared to the previous year, in CY 2016 the European heavy truck market grew by 10% while the North American Class 8 market declined by 29%.

The India M&HCV industry demand in FY 2017 was impacted by uncertainty related to GST and the transition to BS-IV emission norms. In totality, the volumes for FY 2017 remained relatively flat as compared to FY 2016.

Looking ahead, the commercial vehicle market in NA & EU looks encouraging while there are macro headwinds which could affect the development of CV demand in India.

BFL has continued to outperform the industry and gain market share, despite increased and new competition. We are focusing on further enhancing our product offerings and increase our presence in the segment going forward. We firmly believe that these new product development initiatives will further strengthen our foothold in the heavy truck market segment.

Our other important segment in the automotive space is passenger cars, which is performing well. The Company focused on growing this business for last 3-4 years due to the changing dynamics of the industry

(such as light-weighting and enhanced fuel efficiency to adhere to stringent emission norms).

In the span of 4 years, that we started supplying in the export markets, the revenues from Passenger Vehicles have grown at a CAGR of 79% and the contribution of this segment to the export revenues has increased from 2% to 12%. We expect the growth in the passenger car market to continue in the coming years also, led by an enhanced portfolio contributed by the introduction of new technologically advanced value added products. We are putting in serious efforts to get in to the supply chain for hybrid and Electric Vehicles as the industry develops.

Industrial

The industrial business of the company in the international market continued to be affected by the volatility in commodities and its allied spaces. The recovery seen in the shale gas drilling in the second half of FY 2017 was not enough to compensate the low levels of activity witnessed in first half of the year in the shale drilling and Mining & Construction sector. As a result, the export industrial business declined by 17% in FY 2017 as compared to the last year.

The domestic industrial business is focusing its efforts and activities to address the opportunities arising from import substitution under the 'Make in India' initiative. They have yielded good results and helped the Company report it's highest ever revenues from the India industrial business till date.

The company is trying to reduce its dependence on the cyclicity of the commodities sector and focusing on the long gestation transportation sector i.e. Aerospace and Railways. The company has been working across various industrial sectors in India also, namely Oil and Gas, Mining, Power, Aerospace, Railways and Defence.

“Make in India” opportunity

India’s industrial sector has always been an ocean of opportunities and we always wanted to contribute to this sector in a more meaningful way to reduce dependence of the country on imports and grow national capabilities, but lack of policy support and sluggish demand prevented the envisioned growth.

However, the ‘Make in India’ campaign launched by our Honorable Prime Minister has added fillip to our endeavors. The new policy on preference to indigenous suppliers in sectors such as Oil & Gas, Railways, and Defence etc. will further strengthen our position in the industrial sector in India. The Company is poised to play a meaningful role in this campaign with indigenously developed cutting-edge technologies and innovations.

The company has developed a reputation for supplying high value and high technology components in the global industrial markets with applications in numerous critical sectors ranging from Oil & Gas to Aerospace. We aim to replicate our extensive knowledge to deliver solutions across different sectors in the Indian market as well.

Our focus on developing new processes, expanding the product portfolio and leveraging our innovation capabilities is opening up new growth avenues. The Company is starting to garner order wins from existing as well as new customers in the Indian industrial business. The Company’s strategy of supplying components & sub-systems to target import dependent sectors such as Oil & Gas, Defence, Mining, Power, Railways and Aerospace amongst others, is bearing fruit. We are excited about the prospects of the industrial sector in India and are leveraging our technological advantage and skilled human resources to develop more product offerings and thereby support the Government’s import substitution initiative. We remain committed to transform India into a global manufacturing hub.

As I stated in my previous communications, the company has put substantial efforts in the “Make in India” initiatives in the domestic market which has started yielding good results for the company. The defense components business is one of the success stories in this space,

with the company generating Rs 170 crores revenues in FY17. We also expect to see a strong ramp up of revenues from the export of Defence components in the coming years.

New Order Wins

In the last few years, BFL has significantly developed and added a wide range of new technologically advanced and efficient new products across various sectors by leveraging its innovation and in-house R&D expertise. This has helped to make significant progress in adding new customers and securing new orders. During the year, the Company has secured US\$ 120 million worth of new business wins spread across geographies and business verticals. A majority of these wins are from our new product development program.

Key focus areas:

- Getting future ready -

Over the next few years, your Company will leverage its expertise built on advance manufacturing, industry 4.0, Virtual Reality and augmented reality technologies to enhance our manufacturing competitiveness, efficiencies and capabilities, all through in house R&D and technology development. Simultaneously, we continue to sharpen our focus on core strengths of metallurgy, metal forming and precision machining

- Increasing share of new business segments -

Our advancements in new segments like Aerospace and Railways along with the Defence components business will drive future growth and reduce exposure to cyclical revenue streams. This growth will be driven by customer traction and product expansion including development with unconventional materials. Our aim of increasing content per equipment is also expected to witness robust growth driven by our focus on developing new value-added and high technology components and products.

In the medium term our aim is to increase revenues from the newer segments, which presently contribute to 5% of the total revenues.

- Creating resilience -

We have experienced before as to how the cyclical demand environment of our end markets affect the growth dynamics of the company. As a result by implementing an asset light model we made a conscious decision on two fronts. Firstly, de-risk the business and increase the end markets and secondly, improve free cash flow by strengthening the balance sheet.

We have made concerted efforts in this direction. Not only, did we enter new sectors and add new customers, but we have also been successful in increasing share with existing customers. The resultant new business has helped us strengthen the balance sheet by reducing the debt. We believe that our current standing will help us weather any future storms by maintaining our margins.

- KCTI & KCMII

Leveraging our innovation and in-house R&D expertise has helped the Company's sustained growth and development. The company is adding strength to its existing R&D capabilities to further sharpen its technological edge and lead the innovation cycle in its diverse areas of operations and manage the future technological changes. In FY2016-17, we have strengthened our R&D capabilities with the setting up of three new centers; Centre of excellence for Jet Propulsion (KCTI, Bangalore); R&D on Microwave & LIDAR's (KCTI, Hyderabad) and KCMII (Kalyani Centre for Manufacturing Innovation) which will act as an incubator for new technologies, prototype building capabilities and advanced manufacturing.

Awards:

Your company has constantly focused on transforming and improving its world class facilities and uses its in house R&D to provide high technologically advanced components to our prestigious customers.

An approval of our commitment to world class quality manufacturing was received during the year in the form of prestigious honors and awards.

- The Daimler Supplier Award 2016 – Global Procurement Trucks and Buses for the International supply of best quality crankshafts and front axle beams
- The General Motors Supplier of the Year Award 2016
- The “TIME Indian Global Manufacturer for the year 2017” awarded for our leadership in Indian manufacturing segment.

Acknowledgements:

I would like to take this opportunity to thank all our valued customers and business partners for their continued support and contribution. More importantly I would like to thank our employees for their hard work and valuable contributions that have helped to keep Bharat Forge on the growth path.

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. On behalf of the Board of Directors, I would like to extend my sincere appreciation to all our shareholders for the confidence placed in us.

Finally, I would like to assure you that we have a clear strategy on how to grow the business and improve the Company’s profitability. At the same time, we continue to invest in new technologies and future products that will help us lead change and cement our position as the torch bearer of manufacturing innovation.

Thank you!

August 10, 2017