

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

CHAIRMAN'S SPEECH

TO THE MEMBERS OF THE COMPANY AT THE 57th ANNUAL
GENERAL MEETING
ON AUGUST 09, 2018

Introduction:

Ladies and Gentlemen,

It gives me immense pleasure to extend a very warm welcome to all of you to your company's 57th Annual General Meeting.

Business Environment:

The global economic growth was close to 3 % in 2017 as the global cyclical upswing approached its two-year mark and the pace of expansion is expected to continue in 2018.

The Indian economy is expected to rise from 6.7 % in 2017 to 7.3 % in 2018 and 7.5 % in 2019. The optimism is derived from the strong resilience shown by the economy in wake of the two major financial reforms witnessed in the form of Demonetization and GST that took place over the previous two years.

The current government has been providing a strong push in creating modern infrastructure through resolution of shelved projects and better contract management. In the past 5 years, highway construction has increased from 3-6 km/day to 26+ km/day. This push to speed up infrastructure building is having a positive impact on the economy especially on demand for MHCV and construction equipment.

With robust private consumption, strengthening investment, introduction of wide-ranging policies and implementation of several key structural

initiatives, the economy now appears to be on a strong footing to ensure long lasting and sustainable economic growth.

The Goods and Services Tax (GST), which was implemented by the government from July 1, 2017, is without doubt the most significant and path breaking economic reform in the country since Independence. It has seamlessly integrated the country into one single market, resulted in ushering in unprecedented efficiencies in our systems and reduced the cascading effect of multiple taxes, duties and levies on manufactured goods and services.

The long lines of trucks on state borders has given way to seamless movement of vehicles resulting in savings in fuel, vehicle utilization, costs etc. Journeys which at times took 10-12 days have now been reduced to 2-3 days. Significant improvement in transportation efficiencies will result in “Make in India” becoming a more compelling proposition for domestic and foreign investors.

Last year in June 2017, Department of Industrial Promotion & Policy (DIPP) had promulgated the Public Procurement Policy which is applicable to all ministries/departments/Central Public Sector Undertakings with the objective to promote manufacturing and production of goods & services in India. Encouraging “Make in India”, the policy mandates a minimum of 50% local content for several items and has a purchase preference provision to support domestic manufacturers. Over the last few months, we have witnessed increased traction across sectors like Railways, Defence & Aerospace and expect this to give a fillip to import substitution.

Financial Performance:

Your company witnessed strong revenue growth in FY 2018 and in the process recorded an all-time high revenue and profitability.

On a Standalone basis, on comparing with FY 2017, revenue grew by 37.5 % to Rs. 5,316 crores assisted by a healthy 53.0% growth in exports and 21.0 % growth in the domestic revenues. EBITDA margins grew from 28.5 % in FY 2017 to 29.7 % in FY 2018. Profit before exchange

gain/ (loss) and exceptional items grew by 56.2 % while Profit after tax grew by 20.9 %.

On a Consolidated basis, revenue for FY 2018 stood at Rs. 8,358 crore, a growth of 30.7%. PBT before exceptional item and exchange gain/ (loss) stood at Rs. 1,347 crore, a growth of 60.5% as compared to FY 2017.

We are happy that your company has become a net debt free company. We have come a long way, from a relatively high-debt company to the present cash-surplus company. As of March 31, 2018, our long-term debt/ equity (net of cash) stood at (0.06).

We will continue to focus on further improving our productivity, cost efficiencies and asset turnover. Healthy financial parameters coupled with strong free cash generations will further improve our return on capital.

Markets Segments:

Automotive

The Heavy Commercial vehicle segment witnessed a resurgence in demand in North America while demand in Europe remained steady as strong freight growth supported fleet expansion.

The India M&HCV industry faced a small blip in the initial months of the fiscal, on account of GST implementation and transition to the BS-IV emission norms that came into effect from 1st April 2017, but production volumes continued to rise in the remaining months to close the year marginally better than FY 2017.

Your company continued to outperform the industry due to a strong focus on new product development and by increasing content per vehicle. Revenues for the company in FY 2018 from the Commercial Vehicle business increased by 29% as compared to FY 2017.

Passenger vehicle demand continues to be robust globally across all our key markets. This segment is witnessing some dynamic changes in technology and breakthrough innovation in manufacturing (light-weighting, fuel efficiency, emission norms, etc.). We have set our focus on increasing presence & penetration in this segment as we continue to

grow by increasing our product portfolio, offering technologically advanced value added products and targeting new customers.

Revenues from the PV segment has grown by a CAGR of 20% for the last four years. We expect the growth to continue and are confident that the contribution of passenger vehicle business to total revenues keeps on increasing going forward.

Industrial

On the industrial side of the business, the company has achieved significant scale by diversifying over key sectors and expanding the customer base. We started this journey 10 years back, in 2007-2008 by setting up dedicated facilities for the Industrial sector at Mundhwa and Baramati. The revenues from this sector has grown from around Rs. 400 crores to Rs. 2,200 crores, CAGR of 19%.

In the export markets, improving global economic conditions and the stability in the global commodity markets continues to support demand in our key end markets and we expect them to remain stable at these levels.

With favorable regulatory developments, importance to indigenization, and an increasing thrust towards infrastructure projects, the Company is well-placed to cater to various industrial segments under the 'Make in India' initiative as well. The Defense & Aerospace business is starting to witness traction and we expect revenues from this space to increase in FY2019.

We have been successful in winning new orders and adding new customers in the industrial sector as we continue to expand our product offerings using our R&D and innovation to manufacture high-technology products.

We expect to continue to grow this business on the back of firm end markets and increasing share with existing customers. The diversified business activity spread across different sectors would enable continuity of growth

New Initiatives:

We are excited about the evolving changes in the automotive industry and the opportunity arising from the e-mobility space. To be a part of this transformation we have taken three major initiatives in the previous year -

- Opening a new research and development facility at MIRA Technology Park, a leading automotive technology park and enterprise zone in the UK.
- Strategic investment for eventual stake of 45% in an Electric Vehicle (EV) start-up, Tork Motorcycles whose in-house team has designed, developed and built a complete electric motorcycle.
- Strategic investment in Tevva Motors, a company operating from UK that provides electric powertrain solutions for Commercial Vehicles & buses in the 7.5 -14 T weight category.

All these initiatives, help position Bharat Forge at the forefront in the fast-growing EV market to identify technology trends and co-develop solutions for electric mobility in India and abroad. Bharat Forge is strategically aligning to develop solutions across the entire spectrum from low voltage powertrains in personal mobility to high voltage applications for commercial vehicles that complement the requirements of OEMs, thereby growing its revenue per vehicle.

Investing ahead of demand

Your company believes in investing ahead of demand and has been rewarded for this philosophy. We are now investing in expanding capacity as below.

Greenfield expansion in Nellore, Andhra Pradesh: Your Company is setting up Centre for Light Weighting technology (CLWT), a fully automated state of the art manufacturing facility that will design, engineer and manufacture components for Automotive & Industrial applications. This facility is expected to commence commercial production in CY 2019.

Brownfield expansion in Baramati, Maharashtra: Your Company is also undertaking an expansion of its forging & machining capacity at the existing facility in Baramati. This will cater to the requirements of the Automotive & Industrial markets globally.

The Greenfield facility at Nellore will enable the company to address the need for light weighting solutions driven by the shift from BS IV to BS VI in India and puts us on a strong organic growth trajectory.

International operations

Your company's international operations continue to register strong financial performance on back of strong end market. We are now putting greater focus & emphasis on Aluminum components for PV & Light Vehicles market. We are seeing lot of success and are planning to create capacities to address this opportunity.

Transformational Journey

Over the past decade, the company has undergone significant transformation creating a de-risked and a diversified business across products, sectors and customers. This has been supported by our in-house engineers and R&D center (KCTI & KCMI). Today the business stream is a well balanced portfolio across CV, PV, O&G, Construction & Mining, Aerospace and Defense.

The steps and initiatives we are implementing now will further transform the business with the following elements

- Addition of new products supplementing the current product portfolio.
- Supply of components & sub-systems to the EV segment.
- A reinforced India Industrial business with Defense sector playing a key role.
- Addition of material capabilities and technologies to our business.

The fructification of the above will create a business resilient enough to weather difficult external demand environment.

Adapting to the digital world

Innovation is a continuous ongoing process in the company and combining it with our practice of adapting latest state of the art technology has helped us explore new ideas and deliver transformative solutions. With an eye on the future, we are in the process of creating an ecosystem of a digital organization for which smart manufacturing or Industry 4.0 will be a key enabler.

We have selected PTC's ThingWorx which will equip the Company with Industrial Internet of Things (IIoT) capabilities. This initiative will be deployed across all manufacturing facilities in a measured way and the target in the coming year is that each and every machine should be connected to the IIoT platform. We have set up three in-house Industry 4.0 capability development centers, where we are re-training more than 2,500 employees on digital manufacturing, artificial intelligence, machine learning etc.

All these efforts will help in real-time monitoring of production data leading to reduced downtime of machines, enhanced operational productivity & efficiencies, and improving our manufacturing capabilities & competitiveness further.

Corporate Social Responsibility

CSR has been an integral part of BFL since 1970's when community centers were established for the empowerment of women. Today, CSR focuses on initiatives in specific areas of social development that includes village development; water harvesting; primary, secondary, and tertiary education; skill development; vocational training; environmental and ecological protection; health and hygiene; and character building through sports. All these initiatives would continue to contribute to the overall welfare of the communities and make a difference in the quality of living.

One major focus of CSR is the village development project. BFL has adopted 12 villages from six talukas in Maharashtra. The Company is working on five major indicators—water (for drinking and agriculture), livelihood, internal roads, health and hygiene, and education.

Improvement in the above indicators will eventually lead to enhancing the income generation capability of the villagers.

The vision of BFL will be developing 100 villages in the coming year and to include the economically weaker section of the society in the development process of our nation.

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. 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.

Thank you!

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