

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

CHAIRMAN'S SPEECH

TO THE MEMBERS OF THE COMPANY AT THE 59th ANNUAL
GENERAL MEETING
ON SEPTEMBER 23, 2020

Introduction:

Ladies and Gentlemen,

It gives me immense pleasure to extend a very warm welcome to all of you to your company's 59th Annual General Meeting.

I believe you would have had the opportunity to go through the Company's Annual Report. Starting FY 2020, your Company has taken its first step towards Integrated Reporting. Through this report, we intend to provide information on how we are using the six capitals (financial, manufactured, human, intellectual, social & relationship and natural) to create value for our stakeholders.

Financial Performance:

The weak macro environment globally, affected demand in the Automotive and Industrial sectors that we cater to. As a result, our performance in both domestic and export segments were impacted. For our standalone operations, revenues fell by 30% to Rs. 45,639 Million in FY 2020, EBITDA declined by 45% to Rs. 10,399 Million and PAT declined by 56% to Rs. 4,735 Million.

Consolidated revenues declined by 21% to Rs. 80,558 Million and PAT declined by 66% to Rs. 3,492 Million.

Markets Segments:

Automotive

FY 2020 was a rather challenging year for the Heavy Commercial Vehicles export business due to weak demand in major end markets. After consecutive years of strong growth, demand for Heavy Commercial Vehicles in US and Europe plateaued amidst economic slowdown and inventory overhang.

The year also proved to be one of the toughest years for the Indian automobile industry. The much-anticipated pre-buying of BS IV vehicles, ahead of the BS VI norms implementation, did not materialize because of unavailability of financing due to the NBFC crisis, increased load carrying capacity due to change in axle loading norms and enhanced transport efficiency post-GST implementation. This resulted in excess BS-IV inventory, forcing OEMs to cut back on new production and instead focus on reducing the stock of BS-IV vehicles. These factors resulted in revenues from CV segment declining by more than 30% in FY20 compared to FY19.

In contrast to the CV segment performance, the Passenger vehicle segment again delivered stand out performance in a challenging demand environment across both domestic and export markets as we continued ramping up orders. The Passenger Vehicle segment now accounts for 17% of our overall revenues, a sharp increase from 8% five years back and in line with our strategy of diversifying revenues. The growth has been largely driven by exports, where we have been successful in increasing our market share and moving up the value chain. We expect the same to play out in the domestic market in the coming years.

Industrial

The Industrial business delivered a lackluster performance in FY 2020. The international market was impacted due to slowdown in the Oil & Gas market in North America and the construction & mining segments globally. Whereas, the domestic side of the business was also affected by the broad-based slowdown witnessed in the economic and industrial activity of the country.

While our current year's performance has not been as expected, it is important to understand that this is a broad-based trend across the industry. When I look at our ten-year journey, I believe we have made good progress and created value across cycles.

A Decade of Growth

We operate in a cyclical industry where upturns and downturns in various sectors and geographies are all part of the game. The key to succeed is to build a robust business model that thrives in the up cycle and remains resilient in a down cycle.

The global economy is now in a synchronized downturn, similar to the one witnessed during the global financial crisis more than a decade ago. At this juncture, we would like to highlight some key achievements over the past decade (FY 2010 – FY 2020) as the company navigated through various business cycles.

- Revenue CAGR growth : 9.4%
- EBITDA CAGR growth : 9.1%
- PBT (before exchange gain/loss and exceptional items)
CAGR growth: 13.4%
- PAT CAGR growth : 14.1%
- Net Debt / EBITDA : 1.31 in FY 2020 against 3.74 in FY 2010

The above growth rates were achieved in spite of witnessing a sharp decline in key parameters in FY 2020. The key factors driving growth was our steadfast focus on innovation and de-risking of business.

We set up and operationalized two significant enablers for our innovation charter, our world-class R&D centers at Pune - Kalyani Centre for Technology and Innovation (KCTI) and Kalyani Centre for Manufacturing Innovation (KCMI). These centers driven by a highly qualified team of engineers and M. Tech / Ph.D. degree holders, enable the Company to augment in-house knowledge and skills through innovation and extensive R&D activities that help us meet the evolving needs of our customers and address new opportunities.

Our transformation from being just an auto-component supplier, to one with presence across key verticals such as Aerospace, Defence, Railways is another key cornerstone of the decade gone by. These segments are small today but provide huge addressable market and the aim is to make them the additional pillars of growth for your Company in the coming decade.

Our journey over the past decade was a step in the direction of revenue diversification, investing for the future and capability enhancement while simultaneously strengthening the balance sheet. I believe the Bharat Forge Limited of the future will have the same strain of DNA as today - focused on innovation and leveraging technology to offer products and solutions to the most discerning customers globally.

Geared for the Mega Opportunities

As we talked about the decade gone by, we believe the coming decade is also going to be very exciting because of all the emerging technologies. And we are in a comfortable position to be a part of several emerging opportunities.

E-mobility is a mega trend and the future of mobility. While we work organically to develop products for this space, we have simultaneously made investments in start-up companies like Tork, Tevva and REFU, who have years of knowledge, expertise and adequate technology in E-mobility. We are strategically targeting the 2 & 3 wheeler and commercial vehicles segments, given that very few players are operating in this space.

Defence is another mega opportunity where the Government is focused on increasing indigenization across all defence verticals. We have made significant strides in this segment by developing unique products in the areas of artillery, protected vehicles, composites and augmented reality (AR). The focus now is to advance our research and enhance our capabilities. For this, we have invested in creating defence technology/research ecosystem at KCTI/KCMI, two defence incubation centers and acquiring stake in defence start-ups

Light-weighting/Aerospace: These are two areas where we are making slow but steady progress. The success & growth of these sectors will add to BFL new dimension in terms of;

- Added material capabilities across Al & other alloys.
- More stable business which will complement the existing business.

Nurturing Technologies / Embracing Digital

The future of manufacturing is going to be radically different; the COVID pandemic is only fast-tracking this transformation. For manufacturing, implementation of Industrial IoT (Internet of Things) including sensing, data visualization, machine learning, remote collaboration tools and Artificial Intelligence (AI) will fundamentally change manufacturing operations.

At Your Company, we continue on our journey of creating a digital ecosystem for smart manufacturing by systematically digitizing our operations for improving operational efficiencies. With significant parts of our manufacturing operations already automated, our digitization journey will be easier. IoT solutions are being used to eliminate equipment downtime and improve Overall Equipment Effectiveness (OEE) of plant and machinery. In a capital-intensive industry like ours, OEE improvement and preventive maintenance results in significant cost reduction.

We have started collaborating on digital platforms to do more with less and launch new products / projects faster. Productivity and product quality are significantly enhanced due to collaboration on digital platforms. AI and Machine Learning are being deployed wherever relevant. We have started running machines unmanned in a limited way to ultimately move to a lights-out facility, wherever realistically feasible.

The current environment

India's April-June 2020 quarter GDP contracted by a massive 23.9 % year-on-year (YoY), the first GDP contraction in more than 40 years, as the country went into lockdown to curb the spread of the coronavirus.

India imposed one of the most stringent lockdowns worldwide in this quarter and domestic demand fell massively as all manufacturing activities came to a halt.

In Q1 FY2021, the Company was operational for only a month as things began opening up in June and operated at ~20% capacity utilization. Understandably, the financial performance of the company was impacted. We were able to reduce breakeven levels and delivered positive EBITDA through continued focus on cost reduction and productivity improvement.

The Government is cognizant of the prevailing situation and balancing the country's economic and health needs is its topmost priority. The announcement of a comprehensive stimulus package to the tune of 10% of GDP under the Self-Reliant India Movement (Aatmanirbhar Bharat Abhiyan) is expected to help different sectors of the economy and counter the economic decline.

As far as our COVID-19 response is concerned, I am glad to state that as a responsible organization we are ensuring utmost precautions for the safety and well-being of our employees, business associates and vendors and working within the guidelines set by local authorities. We have been disseminating relevant information and ensuring that best health and hygiene practices are followed at all our manufacturing locations. I am also extremely proud of the way our employees responded to this crisis and ensured uninterrupted supply of essential products and services to our valuable customers.

Looking Ahead

The coming year will be challenging both for our Indian operations as well as for our overseas subsidiaries. We will have to withstand the turbulence and uncertainty caused by COVID-19 and the consequent decline in end-market demand. This is likely to result in a significant impact on profitability. To counter this, we are undertaking a host of steps such as revisiting all capex plans, reducing costs across all units and increasing operational efficiencies at all our manufacturing locations.

Every crisis also presents an excellent opportunity as it helps us to introspect and reinvent ourselves. Using our DNA of innovation and

continuous transformation we will always strive to remain ahead of the curve and prepare for the future with a sharp focus on financial returns and sustainable growth. From an organizational standpoint, we are well-prepared for the coming decade and create significant value.

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.

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 their continued faith and confidence placed in us.

Thank you!