



**BHARAT FORGE**

**Bharat Forge Limited**

**Q1 FY10 Earnings Update**

**24<sup>th</sup> July 2009**

## Financial Highlights Q1

### Bharat Forge Stand alone Financials

Table 1 Rs. Million

Particulars	Q1 FY10	Q1 FY09	YoY %	Q4 FY09	QoQ %
<b>Production Tonnage</b>	<b>22,145</b>	<b>46,049</b>	<b>(51.9)</b>	<b>18,246</b>	<b>21.4</b>
Domestic Revenue	2,160	3,399	(36.5)	1,724	25.3
Export Revenue	1,427	2,975	(52.0)	1,192	19.7
Total Revenue	3,587	6,374	(43.7)	2,916	23.0
EBIDTA w/o other income & Exchange loss	749	1,560	(52.0)	427	75.4
<b>EBIDTA %</b>	<b>20.9</b>	<b>24.5</b>		<b>14.6</b>	
Other Income	52	121		153	
PBT w/o exchange gain / (loss)	163	1,108	(85.3)	(24)	
<b>PBT %</b>	<b>4.6</b>	<b>17.4</b>		<b>(0.8)</b>	
Exchange Gain / (Loss)	(149)	(693)		987	
PBT after Exchange Gain / (Loss)	14	414	(96.6)	963	
Profit After Tax	10	266	(96.2)	611	

### Revenue

- Domestic revenues on a YoY basis have declined by 36.5% but have grown by 25.3% on a QoQ basis.
- Similarly the export revenues have also improved by 19.7% on a QoQ basis although it has declined by 52.0% on a YoY basis.
- The improvement in off-take coupled with better export realization and change in product mix has resulted in an expansion of EBITDA margin on a sequential basis from 14.6% to 20.9%.
- Non Auto strategy continues to gain traction & the share of Non Auto on a standalone basis in Q1 FY10 was 32% as against 28% in FY 2008-09.
- During the quarter, the realization on exports has improved substantially and reflects the current market exchange rates.
- The quarter has seen softening of raw material prices (Steel), the benefits which have been passed on to customers. This, however, does not impact our profits but has an optically positive impact on the EBITDA margins.

### Impact of Foreign Currency

Exchange loss has been reported as an exceptional item. The exchange loss is on account of revalorization of foreign currency assets amounting to Rs 149 million, which is directly flowing into the P&L as per amended AS 11. On the other hand, the exchange gain on revalorization of foreign currency liabilities of Rs 533 million has been taken to the Balance sheet (adjusted in Fixed Assets) in line with the amended AS-11.

**Combined financial statement**

The combined financial statement for the Q1 FY 2010 for Bharat Forge & its Wholly Owned Global Subsidiaries is as follows:

Table 2 Rs. Million

Particulars	Q1 FY 2010	Q1 FY 2009	Q4 FY 2009
Revenue Within India	2,160	3,399	1,724
Global Revenue	3,865	9,714	4,390
Other Income	65	125	159
Total Revenue	6,090	13,238	6,273
PBT before Exceptional Item	(203)	1,316	(547)
Exchange gain/(Loss)	(88)	(693)	1,010
Restructuring & Redundancy cost	(160)	0	0
Profit after Taxation	(461)	409	203

The subsidiaries' performance in the quarter is significantly influenced by the following factors:

1. Weak markets in US and Europe.
2. Subsidiaries have been able to maintain the EBITDA on a sequential basis despite an almost 25% drop in top line. This is the result of the restructuring actions taken in the last few quarters.
3. The Company is in process of restructuring and rightsizing the operations of its wholly owned global subsidiaries. The cost of such restructuring and redundancies will be charged over the full financial year and hence considered on pro-rata basis for above combined results.
4. CY09 will be a year of restructuring at the subsidiaries in order to realign the cost structure to operate profitably at lower volumes. Benefits of this will be visible in the next year.

The subsidiaries have operated at sub-optimal utilization levels during the quarter as a result of sluggishness primarily in the CV market. The restructuring process has been carried out smoothly and significant manpower has already been reduced. The full benefits of the same will be visible from next year. The restructuring at the subsidiaries will result in a flexible manpower structure to operate at around 50% utilization levels.

## Geographical break up of Revenues

Following table will summarize the geographical distribution of the company's revenue streams in Q1 of FY10 against that in the corresponding previous periods.

**Table:3 Break up of Revenues** Rs. Million

Particulars	Q1 FY10	% of Total	Q1 FY09	% of Total	Y o Y %
India	2,160	60.2	3,399	53.3	(36.5)
USA	608	17.0	1,393	21.9	(56.4)
Europe	794	22.1	1,388	21.8	(42.8)
Others	25	0.7	194	3.0	(87.1)
<b>Total</b>	<b>3,587</b>		<b>6,374</b>		<b>(43.7)</b>

## Review of Business

### India

**Table:4 Indian Auto production** No.

Particulars	Q1 FY10	Q1 FY09	Q4 FY09	YoY %	QoQ%
LCV	63,387	58,034	54,634	9.2	16.0
Medium & Heavy CV	40,356	70,336	35,067	(42.6)	15.1
<b>Total CV Market (M&amp;HCV +LCV)</b>	<b>103,743</b>	<b>128,370</b>	<b>89,701</b>	<b>(19.2)</b>	<b>15.7</b>
Passenger Cars	495,697	466,773	512,454	6.2	(3.3)
<b>Total Auto Market</b>	<b>599,440</b>	<b>595,143</b>	<b>602,155</b>	<b>0.7</b>	<b>(0.5)</b>

Source: SIAM

The Indian CV market after falling sharply in the later part of FY09 has more or less bottomed out and has started recovering. The inventory pipeline has been cleared and the OEM's have started procurement of components.

After a lull in activity in Q3 & Q4 FY09, BFL is witnessing strong traction from all the major CV manufacturers. This has resulted in a QoQ growth of 25% in domestic sales, primarily boosted by the CV segment.

### USA

**Table: 5 US Auto Production Data** No.

Particulars	Apr-Jun 09	Apr-Jun 08	YoY %
Passenger Cars	465,262	962,081	(51.6)
LCV	683,197	1,351,835	(49.5)
Medium & Heavy CV	24,347	65,924	(63.1)
<b>Total Auto Market</b>	<b>1,172,806</b>	<b>2,379,840</b>	<b>(50.7)</b>

Base source: Wards Auto

**Europe**

Table:6 Europe Sales Data

Particulars	Apr-Jun 09	Apr-Jun 08	YoY %
Passenger Cars	3,986,042	4,192,050	(4.9)
MCV	73,102	131,423	(44.4)
LCV	359,062	575,630	(37.6)
HCV	43,723	89,353	(51.1)
<b>Total Auto Market</b>	<b>4,461,929</b>	<b>4,988,456</b>	<b>(10.6)</b>

Base source: ACEA

Both the European & US automotive markets continue to be weak with volumes down almost 50% from previous year. This has impacted our performance with sales to US & Europe dropping by 56% and 43% respectively.

**Outlook**

The export markets have started showing very early signs of recovery. Month on month volumes in certain segments like the Passenger Vehicle segment in Europe have picked up on the back of impetus provided by the scrappage schemes. There are signs of the market bottoming out but recovery in these markets is still some distance away.

With a slow but steady recovery in the Indian Economy, industrial production has started to pick up momentum resulting in increase in movement of goods. This coupled with the stimulus package provided by the government under the JNNURM has resulted in bottoming out and slight uptick in volumes in the M&HCV market. This recovery in the Indian M&HCV market should continue in the coming months; however the volumes for the full year are expected to be down compared to FY09 & delay in the monsoons could act as an impediment in the recovery process.

**Non Automotive Business**

The two new non automotive facilities at Baramati & Mundhwa have started to contribute to the top line. Capacity utilization at these facilities has been subdued primarily because of weak market conditions. As a result, the ramp up at these facilities will be slower than earlier projected. We are actively looking at adding customers and product to tie up the capacities, in addition to the businesses already tied up. The Ring rolling facility at Baramati will go into trial production in the coming weeks.

BFL is looking at tapping infrastructure led demand (**Replacement & OEM**) in the domestic non auto market in sectors such as power, Railways, Metals & Mining and General infrastructure. We have made some progress in terms of utilizing the auto capacity for non auto products & we hope to make further inroads on the same in the coming quarters.



## *Conclusion*

- Domestic business is seeing improved traction from all major players. The recovery in domestic CV market should gather momentum in the coming quarters.
- Export markets are showing signs of bottoming out and we hope to see recovery later on in the year.
- BFL is actively pursuing resourcing opportunities from other vendors at a global level given our technology & manufacturing capabilities.
- CY09 will be a year of restructuring for the subsidiaries on account of response to the adverse market conditions.
- BFL is hopeful of addressing new segments in the domestic non auto market which have not been addressed till date.