KALYANI

BHARAT FORGE

Bharat Forge Limited

Q1 FY13 Earnings Update

10th August 2012

Key Highlights: Quarterly Performance impacted by Domestic Auto weakness

Q1 FY13 performance was affected by substantial weakness in demand in the Indian Automotive market but the impact was partially offset by continued robust performance of the export business. Key highlights of the quarter are as below.

- Domestic revenues declined YoY by 8.1% & sequentially by 15.7% on back of decline in domestic M&HCV volumes.

- Export growth of 30.8% driven by strong growth in CV markets in US, continuation growth on the non-auto front in both the geographies & benefit of rupee depreciation.

- Non Auto business grew by 16.4% in Q1 FY13 on a YoY basis with continued traction across sectors.

- EBITDA in the quarter grew 17.3% on a YoY basis to Rs 2,630 million. The EBITDA margins expanded by 1.6% from 25.7% in Q1 FY12 to 27.3% in Q1 FY13.

Bharat Forge Stand alone Financials – Q1 FY 2013

Table 1 *Rs. Million*

Particulars	Q1 FY13	Q1 FY12	Growth %	Q4 FY12	Growth %
Shipment Tonnage	**51,288**	**52,959**	**-3.2**	**57,242**	**-10.4**
Domestic Sales	4,381	4,766	-8.1	5,196	-15.7
Export Sales	4,983	3,811	30.8	4,576	8.9
Net Sales	**9,364**	**8,577**	**9.2**	**9,772**	**-4.2**
Other Income	279	161		144	
Total Income	**9,643**	**8,738**	**10.4**	**9,916**	**-2.8**
EBIDTA	2,630	2,242	17.3	2,654	-0.9
EBIDTA %	***27.3***	***25.7***		***26.8***	
PBT before exceptional item	1,518	1,414	7.4	1,775	-14.5
PBT %	***15.7***	***16.2***		***17.9***	
Exceptional Item: BFA Impairment	-	-		(704)	
PBT	1,518	1,414	7.4	1,071	41.7
PAT	1,052	974	8.0	551	90.9

PBT before exchange gain/(loss) & exceptional Item	**1,616**	**1,398**	**15.6**	**1,815**	**-11.0**

- Total income grew by 10.4% in Q1 FY13 on a YoY despite a 3.2% dip in volumes, on back of rupee depreciation resulting in better realization on export earnings and increase in supply of value added products.

- Domestic revenues declined by 8.1% on a YoY basis and 15.7% on a sequential basis due to drop in M&HCV volumes of 20.9% & 37.6% on a YoY & sequential basis respectively in India.

- Export revenues recorded a robust growth of 30.8% compared to Q1 FY12 on back of strong demand from US CV market & non-auto traction.

- EBITDA in the quarter at Rs 2,630 million witnessed a growth of 17.3% compared to the corresponding period previous year. EBITDA margins expanded from 25.7% in Q1 FY12 to 27.3% in Q1 FY13.

- PBT before exchange gain/ (loss) and exceptional item for the quarter grew by 15.6% to Rs 1,616 million as against Rs 1,398 million in the corresponding quarter previous year.

Review of Business - Standalone operations – Components Business

Following table summarizes the geographical distribution of the company's revenue streams in Q1 FY13 against that in the corresponding previous periods.

Table 2 *Rs. Million*

Particulars	Q1 FY13	Q1 FY12	Growth %	Q4 FY12	Growth %
India	4,381	4,766	***-8.1***	5,196	***-15.7***
USA	2,539	1,521	***66.9***	2,339	***8.6***
Europe	2,163	2,032	***6.4***	1,704	***26.9***
Asia Pacific	281	258	***8.9***	533	***-47.3***
Total	**9,364**	**8,577**	***9.2***	**9,772**	***-4.2***

Review of Indian Market

Table 3: Domestic Automotive Production Data

Particulars	Q1 FY 13	Q1 FY 12	YoY%	Q4 FY 11	QoQ %
LCV	124,866	114,150	9.4	137,470	-9.2
Medium & Heavy CV	69,920	88,384	-20.9	111,984	-37.6
Total CV Market (M&HCV +LCV)	**194,786**	**202,534**	**-3.8**	**249,454**	**-21.9**
Utility Vehicles	122,293	79,297	54.2	113,592	7.7
Passenger Cars	701,107	673,651	4.1	809,153	-13.4
Total Auto Market	**1,018,186**	**955,482**	**6.6**	**1,172,199**	**-13.1**

Source: SIAM

In the quarter gone by, relentless macro headwinds, mainly slowdown in economic activity and high fuel prices continued to hamper overall growth.

During the quarter, domestic M&HCV volumes declined by 20.9% YoY & by 37.6% sequentially due to continued slowdown in industrial activity while Passenger Vehicles volumes grew moderately by 4.1% YoY.

Total Industry Volume grew by 6.6% in the quarter on a YoY basis on the back of sustained growth in light commercial vehicle (LCV) and utility vehicle (UV) segments, which registered growth of ~9% and ~54% YoY, respectively.

Review of Export Markets

The North American heavy truck market witnessed 27% increase in production compared to the same period previous year while it remained flat compared to Jan – Mar period. However, the global economic uncertainty coupled with soft US data is starting to weigh on the confidence of fleet operators and has resulted in postponement of purchasing decision for new vehicles.

The European Automotive markets continue to remain subdued weighed down by weak macro-economic indicators & the Eurozone crisis. New Commercial Vehicle & Passenger Vehicle registrations declined by 12% & by 6% respectively in the April – June period.

Non-Automotive Business

The non-automotive business continues to be a major growth driver for the company even in uncertain times. The business recorded a growth of 16.4% to Rs 3,456 million driven by increase in off take from Oil & Gas and Construction & Mining sectors. **The business witnessed a drop in demand from the domestic market due to lack of new investments from capital intensive sectors.**

The Non-Auto business is not only witnessing increase in traction but also a significant increase in value addition. The company continues to witness strong traction from existing clients to enhance the product offering and at the same time, witnessing interest from newer OEM's for working with them on a long term basis.

Financial highlights – Overseas Subsidiaries – Component Business

The financial statement for April - June 2012 for the Subsidiaries is as below.

Table 4 ***Rs Million***

Particulars	**Apr - Jun 2012**			**Apr- Jun 2011**		
	WOS	**China**	**Total**	**WOS**	**China**	**Total**
Total Income	5,571	1,492	**7,063**	5,471	1,637	**7,108**
EBITDA	399	1	**400**	309	89	**398**
EBITDA %	**7.2%**	**0.1%**	**5.7%**	**5.7%**	**5.4%**	**5.6%**
PBT	121	(118)	**3**	76	35	**111**

Key Highlights of the Performance of the Wholly Owned Subsidiaries (WOS) are as below

- Total Income for the Wholly Owned Subsidiaries (WOS) remained flat compared to the corresponding quarter previous year to Rs 5,571 due to sluggish automotive demand in Europe.

- EBITDA increased 29.1% to Rs 399 million compared to Rs 309 million in the corresponding quarter previous year. EBITDA margins expanded to 7.2% in Q1 FY13 from 5.7% in Q1 FY12 due to improvement in performance of the Swedish operations.

The Chinese Joint Venture has seen deterioration in performance on back of slowdown in china & slump in Commercial vehicle demand. Total income dipped to Rs 1,492 million on back of lower capacity utilization.

Conclusion

- Q1 FY13 results were subdued due to de-growth in Indian automotive industry.
- Exports continued to grow on back of North American Heavy Truck demand & Non-Auto growth. The export business also benefitted from the rupee depreciation.
- The Eurozone uncertainty & slowdown in growth across major economies is starting to show on end consumer sentiment with new purchases being deferred and OEM's adjusting their production to the new demand environment.