KALYANI

BHARAT FORGE

Bharat Forge Limited

Q4 FY11 Earnings Update

24th May 2011

Key Highlights: Strategy Delivering Results

FY 2010-11 has been a strong year for the company with all round growth across sectors, geographies & operations. Strategies developed & implemented over the past 3- 4 years & restructuring measures undertaken have paid off. Key highlights for the year are

- Strong Topline growth of 59% on a YoY basis driven by both domestic & export markets.
- Export growth of 73% driven by new customer additions, strong performance of non auto, new product developments & entry into newer geographies.
- Non Auto business grew close to 90% in FY11 driven by strong ramp up of new facilities.
- New facilities contributed Rs 4,273 million to the topline of as against Rs 1,907 million in FY 2009 - 10.
- PBT growth of 148% on a YoY basis.
- Strong performance of the overseas operations with improvement in all major parameters. Chinese JV operations turnaround completed & profitable.

Bharat Forge Stand alone Financials – Q4 & FY 2011

Table 1 *Rs. Million*

Particulars	**Q4 FY11**	**Q4 FY10**	**Growth %**	**FY 2011**	**FY 2010**	**Growth %**
Shipment Tonnage	**51,267**	**39,023**	**31.4**	**188,166**	**127,539**	**47.5**
Domestic Revenue	4,635	3,448	34.4	17,279	11,499	50.3
Export Revenue	3,582	2,189	63.6	12,194	7,066	72.6
Total Revenue	8,217	5,637	45.8	29,473	18,565	58.8
EBIDTA Excl Other Inc.	1,989	1,418	40.3	7,160	4,370	63.8
EBIDTA %	*24.2*	*25.2*		*24.3*	*23.5*	
Other Income	149	108		462	324	
PBT before Exceptional item	1,366	822	66.2	4,476	2,021	121.5
PBT %	*16.6*	*14.6*		*15.2*	*10.9*	
Exceptional Item: Exchange Gain / (Loss)	-	(6)		-	(214)	
PBT	1,366	816	67.4	4,476	1,807	147.7
PAT	1,004	613	63.8	3,105	1,271	144.3
PAT + Depreciation	**1,482**	**1,062**	**39.5**	**5,078**	**3,129**	**62.3**

- Volume growth of 47.5% in FY11 on back of buoyant automotive market globally and strong off-take from new non automotive facilities. Realizations have improved driven by better product mix and value addition.
- Sales in FY11 increased by 58.8% driven by solid recovery in export revenues which grew by 72.6% and continued growth in domestic revenues which grew by 50.3%.
- EBITDA margins for the Year & quarter was 24.3 & 24.2% respectively. Slight improvement in EBITDA margins for the year on account of increase in capacity utilization and change in product mix.
- PBT for the quarter at Rs 1,366 million as against Rs 816 million in the corresponding quarter previous year, a growth of 67.4%. For the full year, PBT was Rs 4,476 million as against Rs 1,807 registering a growth of 147.7%
- Contribution from the new facilities in FY11 was Rs 4,273 million.

Today Bharat Forge operates in various domains across geographies. The financial performance of the company going forward will be classified as components business & capital goods business.

	Business Activity	Sector	Geography
BHARAT FORGE	Components	Auto & Non Auto	India & Overseas
	Capital Goods	Power Sector	India & Exports

A. Review of Business - Standalone operations – Components Business

Following table summarizes the geographical distribution of the company's revenue streams in Q4 & FY 2010 against that in the corresponding previous periods.

Table 2 *Rs. Million*

Particulars	Q4 FY 11	Q4 FY 10	Growth %	FY 2011	FY 2010	Growth %
India	4,636	3,448	*34.3*	17,278	11,498	*50.3*
USA	1,577	1,246	*26.6*	5,774	3,995	*44.5*
Europe	1,697	859	*97.6*	5,380	2,836	*89.7*
Asia Pacific	307	84	*266.7*	1,041	235	*343.0*
Total	8,217	5,637	*45.7*	29,473	18,565	*58.7*

Review of Indian Market

Table 3: Domestic Automotive Production Data

Particulars	FY 11	FY 10	FY 09	CAGR %
LCV	408,193	317,423	244,587	29.2
Medium & Heavy CV	344,542	250,133	192,283	33.9
Total CV Market (M&HCV +LCV)	**752,735**	**567,556**	**436,870**	**31.2**
Passenger Cars	2,987,296	2,357,411	1,838,593	27.5
Total Auto Market	**3,740,031**	**2,924,967**	**2,255,463**	**28.8**

Source: SIAM

The Indian Automotive industry (Passenger + Commercial Vehicle) has seen a strong rebound from the low levels post March 2009. The sector has recorded CAGR of 29% with volumes increasing from 2.26 million vehicles in FY2009 to 3.74 million in FY11. This is attributed to many factors including robust industrial activity, benign interest rates and also fiscal stimulus measures.

Medium & Heavy Commercial vehicle segment registered compounded volume growth of 34% in the corresponding period. BFL's sales to the domestic M&HCV segment recorded a compounded growth of 37.3%, in line with underlying market.

Given the correlation between IIP growth & M&HCV demand coupled with increase in fuel prices & interest rates, it is expected that the segment will see softness in growth in the coming year.

Review of Export Markets

Europe

Table 4: European Automobile Sales

Europe sales Data	**Jan - Dec 10**	**Jan - Dec 09**	**YoY %**
LCV	1,542,834	1,415,369	9.0
Medium & Heavy CV	468,244	444,928	5.2
Commercial Vehicles	1,835,845	1,697,793	8.1
Passenger Cars	13,785,698	14,499,059	(4.9)
Total Auto Market	**17,632,621**	**18,057,149**	**(2.4)**

Source: ACEA

CY 2010 was a year of recovery for the European Commercial vehicle (LCV + M&HCV) segment. After a 50% drop in volumes in CY 2009, the segment rebounded especially in the 2nd half of the year to post a growth of 8.1% in CY2010. Passenger vehicle segment was down 4.9% on account of phased removal of scrappage incentive.

The demand for new trucks continues to be buoyant with new Commercial Vehicle (LCV +M&HCV) registration increasing by almost 19% in Jan – Mar 2011.

BFL's Exports to CV market in Europe grew by 130% in FY2011 outstripping the overall market growth due to new product launches & customer additions.

North America

Table 5: North America Automotive Production Data

Production Data	**Jan - Dec 10**	**Jan - Dec 09**	**YoY %**
Cars	5,091,235	3,960,731	28.5
LCV	6,817,203	4,597,495	48.3
Total	**11,908,438**	**8,558,226**	**39.1**
M&HCV	242,251	202,739	19.5
Total Auto Market	**12,150,689**	**8,760,965**	**38.7**

Source: Wards Auto

The Heavy truck segment after witnessing a 2/3 drop in volumes in 2006-2009 rebounded in 2010 with volume growth of 30% primarily on back of growth in the US economy.

The North American truck market is driven primarily by the need to replace the increasingly older truck fleet with more modern and fuel-efficient trucks and by a positive trend in the US economy and corresponding higher freight volumes. It is expected that the segment should witness strong pick up in volumes in 2011.

BFL's Exports to CV market in USA grew by 43% in FY2011 better than the underlying market growth.

Based on outlook provided by customers, we expect the North American Heavy Truck market to register strong volume growth in CY 2011 compared to CY 2010.

Capacity Expansion

BFL is operating at fairly high utilization levels on both forging & machining front. Anticipating growth over the next few years, the company is expanding capacity by setting up a heavy press line which will increase capacity and simultaneously improve productivity by de-bottlenecking existing lines. This is expected to increase forging capacity by 15%.

On the machining front, we are witnessing tremendous demand from OEM's, both global & Domestic for supplying value added products for both auto & non auto applications. To cater to this requirement, BFL has initiated expansion of machining capacity for crankshafts.

The capacity expansion programme will require investment of around Rs 2,500 – 3,000 million over the period of 2 years.

Non Auto Update:

Components Business

FY11 was the 1st full year of commercial production at the dedicated manufacturing facilities at Mundhwa & Baramati. The facilities have seen a strong ramp up of production during the year and have contributed Rs 4,273 million to the topline in FY11 as against Rs 1,907 million in the previous year.

For the standalone business, Non Auto contribution has increased from 30% in FY10 to 37% in FY11. This increase has primarily been driven by BFL's concerted efforts as mentioned below.

- **Expansion of product portfolio with existing customers:** Leveraging existing customer relationship and credibility to supply solutions for newer platforms/applications.

- **Moving up the value chain:** Migration from supply of forged components to fully finished parts for sectors such as Oil & Gas

- **Addressing newer segments & Customers:** The new facilities has enabled BFL to address new segments such as Rail, Marine and thermal power to name a few.

The above strategy has played out very well for BFL with strong traction across sectors and increasing pipeline of order flows from both domestic and export customers.

In order to address the non automotive space in a meaningful manner, BFL has enhanced its capabilities and capacities to address the various verticals. The company has invested in technology & talent to cater to niche high value segments with high entry barriers like large crankshafts for Marine engines, rotor forgings for power sector etc.
With recovery of global markets & new order wins, we see a continuation of strong ramp of these facilities.

Financial highlights – BFL + Overseas Subsidiaries – Component Business

The financial statement for FY 2011 for Bharat Forge & its Subsidiaries is as follows. These incorporate the financial results of Bharat Forge Ltd. as a stand-alone entity and its overseas subsidiaries and do not include the new Indian Joint Venture operations.

Table 6 *Rs Million*

Particulars	FY 2011			FY 2010		
	BFL	**Subsidiaries**	**Total**	**BFL**	**Subsidiaries**	**Total**
Total Income	29,894	21,632	51,526	18,888	14,899	33,787
EBITDA	7,623	1,040	8,663	4,694	(800)	3,894
EBITDA %	**25.5**	**4.8**	**16.8**	**24.9**	**-5.4**	**11.5**
PBT before Exceptional Item	4,476	111	4,587	2,021	(1,881)	140
Exceptional Item	-	(77)	(77)	(214)	(573)	(787)
PBT after Exceptional Item	4,476	34	4,510	1,807	(2,454)	(647)
PAT after minority Int	3,106	(88)	3,018	1,271	(1,905)	(634)

The strong performance in FY11 is a result of improvement in the performance of the overseas operations and continued strong growth of the Indian operations.

The Overseas operations witnessed a strong revival in performance in CY10 in correlation with the increase in automobile production globally and also have benefitted from the restructuring initiatives carried out in CY09 post the global meltdown. The key highlights of the performance of the overseas operations are

1. 45.2% increase in topline on back of improvement in utilization levels
2. EBITDA of Rs 1,040 million as against negative EBITDA of Rs 800 at the in CY2009
3. All major overseas operations including Chinese JV operations were profitable in CY 2010.

The Chinese Joint Venture has posted profits in CY2010. This has been possible because of efforts & initiatives implemented over the past 3 years as described below.

- Improvement in Productivity parameters such as OEE, cycle time reduction, reduction of scrap etc.
- Derisking of revenue stream through new product development & customer additions.
- Bench marking of best practices across functions

We expect the performance of the Chinese JV & other subsidiaries to continue to improve in CY 2011.

Financial highlights – BFL + Overseas Subsidiaries – Component Business – Jan – Mar 11

The Key Financial Parameters for Jan – Mar 2011 for Bharat Forge & Overseas Subsidiaries including China is as below.

Table 7 *Rs. Million*

Particulars	Jan - Mar 11	Jan - Mar 10	% Growth
Total Income	15,460	10,617	45.6
EBIDTA	2,534	1,727	46.7
EBIDTA %	*16.4%*	*16.3%*	
PBT	1,491	791	88.5
PBT %	*9.6%*	*7.5%*	

B. Capital Goods Business

BFL, as part of its strategy to stage an aggressive foray into capital goods sector, has embarked comprehensive partnerships across value chain in power sector. Two Joint Venture companies with Alstom and another Joint Venture with NTPC are focused to provide world-class competitive solutions across value chain.

The Joint Venture with Alstom for manufacture of supercritical Turbine Generators & related auxiliaries is coming up at Mundra, Gujarat & will have a capacity to manufacture 5 GW of power plant equipments. Commercial production is expected to begin from early 2013. The Joint Venture participated in the 11X660 MW tender placed by NTPC and was adjudged L1 in all 5 projects. Accordingly, an order for 5 turbines of 660 MW with an approximate value of Rs 4,455 crore is slated to be awarded soon by NTPC.

The Joint Venture with NTPC is for manufacture of critical Balance of Plant (Bop) mainly High Pressure Pumps, Valves, pipings & castings for power & other sectors. The facility is coming up in Solapur, Maharashtra. Commercial production is expected to begin in 2012.

As of March 31, 2011, BFL has invested Rs 115 crores in to the Joint Ventures.

The EPC division is currently executing an Rs 1,800 crore project, setting up a 3X150 MW power plant. The project will be executed over a span of two years starting from FY 2012.

The Indian subsidiaries / associates of the Company, namely - B F NTPC Limited, Alstom Bharat Forge Limited, Kalyani Alstom Power Limited, Impact Automotive Solutions Private Limited are in initial start up phase and commercial production for these projects has yet to start. During the year ended on March 31, 2011, all costs not directly attributable to projects have been charged off to Profit and Loss account as per applicable accounting standards resulting into net loss after minority interest of Rs. 118 million.

Joint Venture with David Brown

As a continuation of BFL's strategy to diversify into non auto business sectors and provide world class technology to the fast growing core infrastructure market in India, the company has entered in to a 50:50 Joint Venture with David Brown Group, UK based gear box manufacturer.

The Joint Venture will manufacture gear boxes for various industries, supplying both new build gearboxes and comprehensive aftermarket services to high growth, high demand sectors including power, mining, defense, wind, rail and steel.

This Joint venture will increase traction in the non auto business with the demand for forgings in gearboxes being catered to by Heavy Forge Division at Pune & Centre for Advanced Manufacturing, Baramati.

Conclusion

- Growth momentum on the domestic front might slowdown on account of macro headwinds but should be compensated by Buoyancy on the export front with strong growth forecasted for North American CV markets and continuation of demand pick-up in Europe.

- Acceleration of non auto ramp up from the new facilities with strong traction from domestic & global clients.

- Continuation of improvement in Performance of overseas subsidiaries with increase in capacity utilization on back of global auto recovery.