Bharat Forge Limited

Q1 FY11 Earnings Update

26th July 2010

Financial Highlights Q1

Bharat Forge Stand alone Financials

Table 1 **Rs. Million**

Particulars	Q1 FY11	Q1 FY10	YoY %	Q4 FY10	QoQ %
Shipment Tonnage	**42,643**	**22,837**	**86.7**	**39,023**	**9.3**
Domestic Revenue	3,972	2,159	84.0	3,427	15.9
Export Revenue	2,329	1,427	63.2	2,197	6.0
Total Revenue	6,301	3,586	75.7	5,624	12.0
EBIDTA w/o other income & Exchange loss	1,587	749	111.9	1,406	12.9
EBIDTA %	***25.2***	***20.9***		***25.0***	
Other Income	101	52		120	
PBT w/o exchange gain /(loss)	921	163	465.0	822	12.0
PBT %	***14.6***	***4.5***		***14.6***	
Exchange Gain / (Loss)	(42)	(149)		(6)	
PBT after Exchange Gain / (Loss)	879	14		816	7.7
Profit After Tax	594	10		613	(3.1)

Revenue

- Domestic revenues grew by 84.0% & 15.9% on a YoY and QoQ basis despite a 12.3% QoQ drop in domestic M&HCV volumes.
- Exports continued to grow for the 5th straight quarter driven by recovery in both US & European markets. Export revenues grew by 63.2% & 6.0% on a YoY and QoQ basis.
- EBITDA margins have expanded both on a YoY & QoQ basis to 25.2% in Q1 FY11 driven by improved operating leverage.
- Utilization for Indian operations improved on the back of continued strong off-take from domestic OEM's coupled with improvement in utilization of new facilities and continuing recovery in export markets.

Combined financial statement

The combined financial statement for the Q1 FY 2011 for Bharat Forge & its Wholly Owned Global Subsidiaries is as follows:

Table 2 **Rs. Million**

Particulars	**Q1 FY 2011**	**Q1 FY 2010**	**Q4 FY 2010**
Total Revenue	10,126	6,089	9,239
EBITDA	1,846	587	1,614
EBITDA %	***18.2%***	***9.6%***	***17.5%***
PBT before Exceptional Item	906	(204)	732
Exchange gain/(Loss)	15	(88)	36
Redundancy Cost	-	(160)	-
Profit after Taxation	620	(461)	560

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

1. Improvement in capacity utilization across the subsidiaries from 25% in Q1 FY10 to 39% in Q1 FY11.
2. The restructuring actions carried out in CY09 with aim of lowering the break even levels are starting to positively impact the financial performance. EBITDA % for the overseas subsidiaries has improved to 4.2% in this quarter from 2.5% in Jan – Mar 2010.
3. China JV has turned the corner and has posted a profit for the first time since the commencement of operations in April 2006.

We are quite optimistic that the international operations will continue to show improvement in performance and be profitable this year and further gain momentum with recovery in automotive markets in Europe in CY 2011.

Geographical break up of Revenues

Following table will summarize the geographical distribution of the company's revenue streams in Q1 of FY11 against that in the corresponding previous periods.

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

Particulars	Q1 FY11	% of Total	Q1 FY10	% of Total	Y o Y %
India	3,972	63.0	2.159	60.2	83.9
USA	1,180	18.7	608	17.0	94.1
Europe	987	15.7	793	22.1	24.5
Others	162	2.6	26	0.07	
Total	**6,301**		**3,586**		**75.7**

Review of Business

India

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

Particulars	Q1 FY11	Q1 FY10	Q4 FY10	YoY %	QoQ%
LCV	85,750	63,434	101,773	35.2	(15.7)
Medium & Heavy CV	77,311	40,356	88,180	91.6	(12.3)
Total CV Market (M&HCV +LCV)	**163,061**	**103,790**	**189,953**	**57.1**	**(14.2)**
Passenger Cars	653,276	495,736	672,581	31.8	(2.9)
Total Auto Market	**816,337**	**599,526**	**862,534**	**36.2**	**(5.4)**

Source: SIAM

The Indian automotive markets have cooled off a bit post the year end & have witnessed a small volume reduction of 5.4% on a QoQ basis. The M&HCV segment, which is BFL main addressable segment saw volumes drop by 12.3% on a QoQ basis but jumped by 57.1% on a YoY basis. Inspite of the volume drop, BFL domestic sales surpassed previous highs and recorded growth of 84.0% & 15.9% on a YoY and QoQ basis respectively. BFL's sales for automotive applications have witnessed growth across both the commercial & passenger vehicles segments.

USA

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

Particulars	Apr-Jun 10	Apr-Jun 09	YoY %
Passenger Cars	707,214	451,426	56.7
LCV	1,244,214	685,829	81.4
Medium & Heavy CV	34,067	29,060	17.2
Total Auto Market	**1,985,495**	**1,166,315**	**70.2**

Base *source: Wards Auto*

The US Automotive industry has witnessed moderate growth in CY10 YTD on the back of overall economic recovery & improvement in consumer sentiments.

BFL focuses mainly on the M&HCV segment with strong relations with both OEM's & Engine manufacturers. The segment is now clearly showing signs of growth after 3 continuous years of significant volume reduction.

The segment in CY10 has witnessed several significant news flows relating to new order bookings from fleet operators which were virtually non-existent in CY2007-CY2009 period, suggesting the beginning of replacement cycle.

Europe

Table:6 Europe Sales Data ***No.***

Particulars	Apr-Jun 10	Apr-Jun 09	YoY %
Passenger Cars	3,728,486	4,010,045	(7.0)
LCV	400,644	355,311	12.8
MCV	72,735	72,764	0.0
HCV	42,816	42,012	1.9
Total Auto Market	**4,244,681**	**4,480,132**	**(5.3)**

Base *source: ACEA*

The Automotive demand in Europe automotive industry has been sluggish reflecting the continuous challenging economic situation. Demand for new passenger cars in the EU has dropped by 7.0% on a YoY basis, clearly the effect of the end to government support schemes. The CV segment on a MoM basis cautiously points towards recovery but is still not out of the woods & at best industry experts point to a flat year for commercial vehicles, especially the Heavy Commercial vehicles.

Outlook

The automotive markets in both India & the export markets, especially USA are on a steady growth trajectory. The demand in India is being driven by strong economic activity led by infrastructure & capital goods. The entry of global OEM's into the Indian markets bode well for both the industry and BFL.

The recovery in the US automotive markets, visible from the half-yearly numbers is an encouraging sign. The strong performance of the US Class 8 heavy truck segment in CY10 on the back of economic revival in the US & improved freight demand is expect to gather momentum in to the 2nd half of CY10 and well in to CY11 in what could turn out to be a long and much awaited recovery cycle.

Non Automotive Business

BFL non auto business in Q1 FY11 contributed 33% of sales as against 28% in Q4 FY10. This has been on the back of increased utilization from the new non auto facilities.

The quarter witnessed continued improvement in utilization levels from the new facilities on the back of commencement of production for new production & ramp up of on going programs across sectors such as energy, transportation and Oil & Gas. The utilization levels should see a continued uptrend in the coming quarters on the back of commencement of production of new programs.

The non auto business continues to witness strong traction with order wins for products such as rings, blow out preventers, crankshaft & wind shafts from customers in Wind, Oil & Gas and other sectors.

The order pipeline on the non auto front is increasing and should lead to improvement in utilization of the new capacities and add to profitability of the company.

Conclusion

- The Domestic automotive business is on a strong footing and should be able to continue to grow inline with the growth expected in the Indian automotive market.
- Export markets are clearly on the recovery mode led the US Class 8 heavy trucks and the stability in volume in Europe.
- Improvement in performance of the Wholly Owned Subsidiaries (WOS) and the turnaround in China operation are expected to continue going forward.
- Utilization from new non auto facilities should continue to increase going forward driven by stable volumes, new orders wins & commencement of production on other programs.