

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

**CHAIRMAN'S SPEECH**

**CHAIRMAN'S SPEECH TO THE MEMBERS OF THE COMPANY**  
**AT THE 48<sup>th</sup> ANNUAL GENERAL MEETING**  
**ON FRIDAY, 24<sup>th</sup> JULY 2009**

Ladies and Gentlemen,

**Introduction:**

It is my pleasure to extend a very warm welcome to all of you to your company's 48th Annual General Meeting. I thank you for having spared your valuable time and made it convenient to attend.

The Annual Report containing the Directors' Report and the audited accounts for the year ended 31<sup>st</sup> March 2009 has been with you for some time and, I am sure, you have had the opportunity to peruse them.

**Dividend:**

Keeping in view the performance of your company, your Directors have recommended a dividend of 50% on equity share capital i.e. Re 1/- per equity share of Rs 2/-each.

**Global Economic Situation:**

2008-09 was the most difficult year for the global economy in the last 75 years. It began with global inflation and ended with the sharpest decline in global trade and GDP since the great depression of the

1930s. Every economy in the world was affected, markets went into turmoil and several well known companies became bankrupt leading to millions of job losses. The global crisis assumed unprecedented proportions at an astonishing pace. The most striking feature has been its adverse effect in almost every part of the world and concurrent effect on almost every industrial sector. The situation appears to have carried forward into the current year.

- The US has had four consecutive quarters of falling GDP. Estimated growth in 2009 is (-) 2.8%.
- The situation in the Euro zone is even worse with GDP estimated to grow by (-) 4.2% in 2009.
- The UK is reeling under depression with the GDP forecast for this year being (-) 4.1%.
- Japan is in crisis with a GDP growth estimate of (-) 6.5 to 7%.
- China's days of double digit GDP growth have given way to a more subdued forecast of 6.5% for this year.
- And India's 9% (+) growth has declined to 6.7% in 2008-09 which is expected to remain flat this year.

Developed economies have been the hardest hit however the contagion has left no country unaffected. With 6.7% growth India may appear to be in a more comfortable position than most other countries but this cannot be reason for satisfaction. We need to continuously monitor developments in the global economy and develop appropriate strategies and responses to safeguard our economy in this challenging situation.

There is however some good news from the IMF. Latest data suggests that global economic recovery is gradually gathering steam. From the earlier forecast of 1.9% growth for the global economy in 2009, the IMF has revised its growth estimate for the world economy to 2.5%. Clearly the worst appears to be over for the global economy and we can look at the future with a little more optimism.

## **The Indian Economy:**

The world is looking at China and India to spearhead global economic recovery. However, our macro economic numbers in 2008-09 were not very encouraging.

- Industrial growth has decelerated from 9% to 2.7%.
- Export growth has nosedived from over 25% to 6%.
- Foreign exchange reserves are down from a peak of \$ 315 bn. in May 2008 to \$ 250 bn.
- The Rupee had depreciated from Rs. 42 to about Rs. 52 to a dollar before recovering to about Rs.48 per dollar.
- Government expenditure has increased while revenues from tax collections have declined contributing to a fiscal deficit of 6.2%.
- Corporate performances have been adversely impacted with profitability of companies under pressure and several large investment projects being put on the back burner.

Our challenge therefore is to first reverse these trends and then bring back growth in the domestic economy before we can contribute towards global economic recovery.

I believe that at the height of the crisis, the government had reacted very proactively. The three stimulus packages between December 2008 and February 2009 were timely, solid in terms of content and initiated from the grass root levels. They not only contributed in stemming the economic downturn but have also triggered the partial revival in the economy that we are now witnessing. It normally takes about 6months for such stimulus to take impact and it is these effects that are now visible. There has been improvement in liquidity and softening of interest rates, agricultural production has increased and there has been an upturn in demand for several manufactured and consumer goods. Confidence appears to be gradually returning in the Indian economy.

The result of the 2009 general election is a mandate for stability, good governance, economic development and growth. It is also a vote of confidence for continuity in economic reforms and policies of the Congress party and the leadership of the government under Dr. Manmohan Singh. The challenge for the government is to deliver on very high expectations. The government has made a good beginning. This year's Union Budget is perhaps the first milestone in the government's five year economic roadmap.

The focus on infrastructure development, agriculture, exports and education are notable features of the Budget. In addition, the medium term objective to provide stimulus to the economy through institutional reform is welcome. However, the Budget does not contain any specific provisions that would benefit the auto component industry and our industry's exports that have been severely affected. The high fiscal deficit and the large spending envisaged on various social sector programs would require significant government borrowings. These would impact the private sector in accessing funds at reasonable cost for their various new, expansion and diversification projects. Apart from this however, the vision of the government to steer back the economy to 9% growth with emphasis on inclusivity and employment have been clearly spelt out in the Finance Minister's speech.

I am optimistic that the vision of the government would be realized. If the economic revival that has commenced continues over the next 2-3 quarters, the Indian economy will return to 8-9% growth in 2010-11. India's long term growth story may have suffered a hiccup but it is very much intact and we can look at the future with confidence.

### **Automobile & Auto Component Industries:**

The automobile industry has perhaps been the hardest hit by the global economic and financial crisis. Being a major supplier to the auto industry BFL bore the brunt of the crisis in the second half of last year.

Being part of a supply-chain, BFL relies primarily on its customers for demand estimates. Many of these customers also misread the market developments. They built up stocks in expectations of continued growth throughout the year. Consequently, BFL witnessed

demand in the first half increasing and had to operate in an environment where focus was on fulfilling demand of end customers. The situation became diametrically opposite in the second half. Within a few days, in line with the economic developments of severe liquidity crunch and indications of severe recession in the US and EU, demand for automobiles came to a standstill. The automotive industry was caught unaware and was saddled with huge inventories in pipeline which lasted for several quarters. This resulted in OEMs resorting to production cuts and block closures. As a result demand for components drastically reduced. The inventory pipeline has cleared up to a large extent in the last two quarters and we should start seeing improvement in demand going forward.

Members would note that the brunt of the impact was on the medium and heavy commercial vehicle sector, which is your company's major customer. Latest data released by the Society of Indian Automobile Manufacturers (SIAM) shows continuing weak demand environment for the Indian commercial vehicle industry. Medium & Heavy commercial vehicle production fell 42.6% in April - June 09 at 40,356 units against 70,336 units in the same period last year. Although Commercial vehicle volumes have picked up on a sequential basis, for the full year they are expected to be down compared to FY09 numbers. The delay in the monsoons may further act as an impediment in the recovery process.

On the global front, CV volumes in US & Europe are down by almost 50% on a YoY basis. There are signs of the market bottoming out but recovery in these markets is still some distance away.

There is no doubt that FY09 was a very tough year for your company, but I expect FY10 to be even more challenging and difficult.

### **Performance in 2008-09:**

2008-09 was perhaps the most difficult year ever for your Company. The challenging macro environment caused by the global economic and financial crisis has impacted us as it has companies across the world. Our performance must therefore be viewed in light of these unprecedented challenges. I believe that we have responded well.

The strategies that we had put in place and rigorously followed over the past 10 years have contributed in your company having been able to weather the present storm reasonably well. I would like to briefly recall Members' attention to some of these strategies about which I have been speaking to you in the past few years.

1. Extreme customer focus and responsiveness to customer expectations in India and globally.
2. Creating world class capacities based on state-of-the-art technologies.
3. Emphasis on manufacture of high value added products.
4. Partnering customers for their long term development programmes.
5. Acquiring businesses in USA, Europe and China for better access to technologies, markets and to gain proximity to customers.
6. Consistent search for opportunities in new markets and with new customers.
7. Strong emphasis on developing business in new economic sectors.
8. Cost reduction, optimization, right sizing and improving productivity and operational efficiencies across the organization.
9. Prudent financial management with focus on working capital management and aimed at optimum cash generation.
10. Human Resource Development with emphasis on enhancing skills and capabilities of people and the sharing of best practices through all our global operations. This has enabled us to build a 6,000 strong high quality global manpower base.

I believe it is these strategies and their efficient implementation that have provided your company required leverage to perform in a very challenging environment in which market conditions are extremely difficult.

Our Annual Report has been with Members for some time. With your permission, I will only highlight some of the key aspects of our consolidated performance in 2008-09 as compared to the previous year.

- Net sales grew by 2.5% to Rs.4,673 crores. Increase in sales also includes pass through on account of raw material price increases.
- Profit before depreciation, interest and taxes (PBDIT) fell by 35% to Rs. 521 crores.
- Profit before interest and taxes (PBIT) fell by 53% to Rs. 270 crores.
- Profit after tax (PAT), net of minority interests, fell by 81% to Rs. 58 crores.

As the global economy starts recovering, BFL should see a dramatic impact on the topline from both the existing auto business as well as new business in auto & non auto. BFL expects the recovery to start from the end of the year.

I would like to re-iterate to Members that your company has the inherent strength and capabilities to change with changing times. Our entrepreneurial drive to implement these changes at a rapid pace will enable us to come out of the present situation as a much stronger and better diversified global entity.

We are also perhaps the only company in the global forging industry with a wide manufacturing footprint that stretches across 6 countries with 12 manufacturing and product development facilities employing about 6,000 people. We have a presence in every geographical region that has a significant automotive industry. Virtually every global automobile manufacturer and several Tier 1 companies are Bharat Forge customers and we are proud that we have contributed in making

Bharat Forge a highly respected global brand in international markets. I can assure Members that these intangibles will be sources of tremendous sustainable advantage for your company in the years to come.

### **Non Auto Strategy**

In 2005-06, BFL embarked on a strategy to de-risk the business by moving aggressively into the non automotive forging space and reduce the dependence on the cyclical automotive markets. The focus is on addressing 5 high growth sectors driven by the huge infrastructure demand, both replacement & OEM, in India & globally.

The initial part of the strategy is through the setting up of dedicated facilities at Mundhwa & Baramati for non automotive components. This will be the building block for our non auto strategy which will further develop into capital goods foray.

### **New business development:**

Last year I had informed Members about Your Company embarking on building dedicated non-auto forging capacities in India, which included the 4,000 Ton open die press at Pune, a 80 Meter Ton Hammer and a Ring rolling facility at our Center for Advanced Manufacturing at Baramati. Installation of these facilities except the Ring rolling, were completed last year. The facility at Baramati went into commercial production in the last quarter of 2008-09 and full fledged production will begin this year.

In 2005-06, on a standalone basis, Non auto contribution was 19% which has increased to 28% in 2008-09. This has increased to 32% in Q1 FY10 and is most likely to contribute similar proportion for the full year.

Last year, non-automotive business contributed 21% towards your company's consolidated revenues. We have targeted to scale this up to 40% by 2011-12 and further increase thereafter. We propose to manufacture specialized products for aerospace, railways, marine, conventional and non conventional energy, oil & gas, construction equipment etc sectors where we see exciting opportunities for us.



We see tremendous opportunities emerging in infrastructure and the capital goods sector. To address these, we have entered into agreements for three proposed joint ventures.

1. With the National Thermal Power Corporation (NTPC) we will manufacture Balance of Plant (BOP) equipment for the power sector.
2. With Alstom Power Equipment we will manufacture turbines and generators for sub and super critical power plants.
3. With Areva we will manufacture heavy forgings for emerging power sector applications.

Through these projects your company would be contributing its over four decades long experience in metal forming, metallurgical and related technologies to fill much needed gaps in the country's critical sectors. Our vision is to actively participate in making our country energy self sufficient in the next 5-7 years.

5 years from now, Your Company should not be identified as an auto component supplier alone but rather as an engineering conglomerate which supplies high technology critical products to various sectors across the full value chain both into India & abroad.

### **Human Resource Development:**

I am proud of the capability and dedication of my colleagues at Bharat Forge and our various subsidiaries. This year has made me even more proud because despite severely adverse conditions, our employees have stuck to their task and performed. Perhaps the financial results do not reflect the efforts that they have made. I am sure that the continued efforts of all our employees will help in building a strong platform on which we would be able to consolidate and further strengthen your company's business. I therefore, urge my colleagues to continue the good work with great purpose and dedication.

Our efforts at strengthening the skills and capabilities of our people are continuing. Members are aware about the on campus 3 year part time Engineering programme leading to a BE in Mechanical Engineering by BITS, Pilani; and the M.Sc. programme in Manufacturing Engineering Management by the University of

Warwick, UK. This year a new course is being started with IIT, Mumbai offering M. Tech (Materials, Manufacturing and Modeling) through which we would like to create an intellectual pool in Metallurgy within our company. After a rigorous selection process 25 employees have been identified for this programme which would be conducted on the IIT campus. Our focus is to utilize this period of slow down to develop the potential of our employees. We see this as an investment for the future which will yield rich dividends when market conditions improve as they inevitably must.

### **Corporate Social Responsibility:**

Your company has always been a responsible corporate citizen. At every Annual meeting I have shared some of our major initiatives in this area with Members. Our initiatives are focused on employees, the community around our facilities and the environment. Some of these include:

- This year in view of the reduced business activity, BFL employees had spare time which they invested in various CSR initiatives. Every department participated in this initiative by associating themselves with various NGOs /Educational institutions which they visited regularly. The company has supported all these initiatives by providing them the necessary infrastructure. During the process the employees have developed a special bonding with the institution and its inmates. Therefore, even when the business picks up, their involvement with the institutions will continue.
- Running of three community centers that employ wives of our employees. These are essentially vocational courses whose aim is to make the beneficiaries self sufficient.
- Your company continues to support the efforts of Pratham Pune Education Foundation which imparts primary education to children from economically weaker sections of society. I am personally proud of our association with Pratham Pune, an institution that I had founded and have nurtured for almost 10 years.

- On the environment front, we have conducted tree plantation drives in the city and some of our employees have been conducting training sessions in the community to increase awareness for a cleaner environment.
- Your company has taken measures to reduce consumption of fossil fuels including improving efficiencies of our furnaces and recuperation of waste heat. A significant portion of our power requirement is met through wind energy.

### **Corporate Governance:**

I would like to re-iterate your company's strong commitment to good corporate governance. We continuously strive to improve the quality of our disclosures by benchmarking against best practices. The contents of our Annual Report over the past few years have been exhaustive in terms of information about the company and its working.

Besides, I personally interact with groups of business analysts and the media. These interactions are useful in communicating with the external environment and in providing a better understanding about our company's goals, priorities and working. Information about our company is available on company's official website [www.bharatforge.com](http://www.bharatforge.com). I suggest that Members should access the website regularly in order to be fully apprised about developments at Bharat Forge.

### **Acknowledgements:**

I would like to take this opportunity to thank all our valued customers, domestic and international, for their unstinted support. They are a source of great encouragement and motivation for us and I am confident that we will benefit from their continued support.

I would like to express my sincere thanks to the Government of India, the Government of Maharashtra, Financial Institutions and Banks for their sustained encouragement and support to your company. I would also like to thank our collaborators for all their help and assistance.

I sincerely appreciate the contributions of all our employees to your company's performance in these difficult times. I request them to carry on the good work and help us realize the Company's goals and objectives.

**Conclusion:**

Finally, I convey my personal gratitude for the confidence that you have reposed in your company's Board of Directors. I sincerely hope that you will continue to extend your whole-hearted support to us so that we, along with the management team, and all employees will further accelerate the growth and progress of your company.

Thank you!  
24<sup>th</sup> July 2009