

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 49th ANNUAL GENERAL MEETING
ON MONDAY, 26th JULY 2010

Ladies and Gentlemen,

Introduction:

It is my pleasure to extend a very warm welcome to all of you to your company's 49th 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 31st March 2010 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 paid up equity share capital i.e. Re 1/- per equity share of Rs 2/-each.

Global economic situation:

Members may recall that in my last year's speech I had said that "2009-10 was the most difficult year for the global economy in the last 75 years." At the same time I had mentioned that the worst appeared to be over for the global economy and we could look at the future with a little more optimism. My confidence, to an extent, appears justified.

- The US has had three consecutive quarters of positive GDP growth. Estimated growth in 2010 is 3%.
- The Euro Zone continues to be cause for concern particularly because of problems related to Greece, Spain and Portugal. In spite of this, growth estimates for Europe are in the range of 0.8-1%.

As compared to the developed economies, China and India have performed remarkably well.

- From a GDP growth of 8.7% in 2009, the Chinese economy grew at 11.9% in the first quarter of 2010. The growth forecast for this year is between 9.5% to 10%. The IMF has projected higher growth of 10.5% in 2010 for China.
- India recorded a growth of 7.4% in 2009-10. The economy had grown by more than 9% per annum between 2005-06 and 2007-09. After a two year blip, we are now returning to the 9% growth trajectory and we estimate real GDP to grow by 9.2% in 2010-11. Notably the industrial sector and especially

manufacturing are expected to contribute significantly to growth.

The IMF continues to be bullish on India and has forecast GDP growth of 9.5% in 2010. This is one of the rare instances when IMF's projections are higher than the growth estimates of the government. The Fund's latest update goes on to add that if lucky, India may grow at 10% in 2010.

Taken as a whole however, global recovery is still fragile and it would perhaps take another 6-8 quarters for the economy to regain the momentum of 2007-08. In view of this, our Prime Minister strongly recommended to world leaders who attended the G-20 Summit at Toronto last month that the economic stimulus packages that they had administered at the start of the slowdown should be exited in a calibrated manner. The PM's advice was highly appreciated and President Obama responded by saying and I quote:

“I can tell you that here at the G-20, when the PM speaks, people listen. Singh's deep knowledge of economic issues as well as the fact that he understands that as India rises as a world power, not just a regional power, it also has enormous responsibilities to work with the rest of the world community around issues of peace and prosperity.”

Unquote

Clearly India has arrived on the global stage and is being recognized as one of the key global economies of the 21st century. I expect our country will increasingly contribute in shaping global economic policies.

The Indian Economy:

The 7.4% growth achieved last year, particularly when the rest of the global economy was in turmoil, is a commendable performance against any yardstick. The government's astute management of the economy during this period needs to be appreciated. The three stimulus packages administered between December 2008 and February 2009 were timely, solid in content and were implemented from the grass roots. The economy responded well to these interventions and results are there to be seen. I would say that the crisis has made our economy stronger and more resilient against economic cycles. Most importantly confidence levels across the country have grown in the belief that we can combat adverse economic conditions and still emerge stronger. The India growth story therefore continues to be on course and this has perhaps encouraged the new UPA government to embark on the next phase of bold economic reforms. In this context there are three key measures that I would like to mention –

1. Fuel Sector Reforms:

Long considered to be politically contentious, government has deregulated price of petrol, indicated its willingness to deregulate diesel prices in future and increased prices of all other key petro products.

2. Direct Tax Code:

On June 15, 2010 government put to public debate a revised DTC paper that has included changes in the first draft based on discussions with various stakeholders over nine months. The revised paper is however silent on corporate tax rates and I am confident that these would be calibrated downwards while finalizing the legislation.

3. Goods and Services Tax:

The date for introduction of GST has been set as 1st April, 2011. I sincerely hope that government succeeds in introducing a full fledged GST that would improve competitiveness of Indian industry by eliminating the cascading effect of various Central and State taxes, duties and levies.

While all the above initiatives are welcome, the immediate task before the government is to contain inflation, including food price inflation that threatens to upset many of our fiscal projections. I however believe that government is alive to the challenge and steps are already underway to bring down inflation to acceptable levels in the next few months.

Automobile & Auto Component Industries:

The automotive industry was perhaps one of the hardest hit by the global economic and financial crisis. As a key supplier to global OEMs and Tier 1 suppliers, BFL's performance was considerably affected by the impact the crisis had on its customers. To place matters in perspective:

- Automobile production in the US fell by 34% while production of class 8 vehicles that comprise a significant customer segment fell by 43% in 2009 as compared to the previous year.
- In the same period, sales of medium commercial vehicles in Europe declined by 41% and heavy commercial vehicles by 48%. With a large unsold inventory of vehicles lying at the manufacturers' end, off-take of components including forgings, were much lower.

- On the other hand, production of commercial vehicles in China increased by 31% and in India by 36%.

Your company's performance in 2009-10 must therefore be viewed in the backdrop of these difficult market conditions. We witnessed a sequential improvement in our domestic and overseas operations on the back of a strong demand in the Indian automotive market and stabilization in global markets. However the decline in our business in the US and Europe could not be compensated by the growth in India. We could however use this period to make certain important structural and strategic adjustments to our business. These included:

1. Initiating measures to improve efficiencies, throughput and cost structures at operational and financial levels. We could also restructure and right size our overseas operations.
2. Strengthening of the balance sheet through redemption of FCCBs and subsequent fund raising through QIP route including issue of warrants. These measures have enabled your company to have healthy consolidated debt: equity ratio (net of cash) of 0.76.
3. Aligning our business strategies with emerging market conditions in USA, Europe, China and India to ensure that we are well positioned to capture opportunities on the back of gradually resurging demand over the next two years.

Overseas Operations

During the year, your company undertook restructuring of the international business to realign its cost structure to the new demand levels visible post the global economic crisis. Let me detail out the steps taken:

Your company undertook manpower restructuring of various international operations and also transferred the business & assets of the Scottish operations to its Swedish facility, Bharat Forge Kilsta.

All these actions were aimed at lowering their break even levels and I am happy to state that we are starting to see the positive impact of these actions on the performance of our subsidiaries this year as visible from their quarterly result.

The JV in China has started improving on the back of improved market conditions coupled with innovative operational strategies. The operating management there has done a commendable job in implementing these strategies. With these new measures in place, your Company expects the venture to post encouraging results

Where your company's automotive business is concerned, I believe that we have the necessary infrastructure and capacities in place that would help us to further consolidate our position as a global leader in our business.

Non-automotive business:

A resurgent Indian economy appears set to scale up to double digit growth with infrastructure and industrial sectors underpinning the momentum. Members would be aware that the government is contemplating an infrastructure sector investment of about US \$1 trillion during 2012-2017 to propel the economy on a steeper growth trajectory. This would result in considerable demand for capital goods and components required in various infrastructure industries.

Let me talk about the progress on the non auto front in detail.

The new non auto facilities have come online in a phased manner and have started commercial production. During the Year, BFL won new contracts across sectors for supply of complex value added components for both domestic and export clients. These were from various sectors

- New orders focused on Shale & Offshore drilling related activities in the Oil & Gas space
- Orders for critical components for both thermal & Nuclear power
- Supply of components for Railways in India & abroad.

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. We are confident that our non-automotive business will contribute 40% towards your company's total revenues by 2012.

Our Annual Report contains details of our Joint Ventures with Alstom and NTPC to manufacture power plant and balance of plant

equipment respectively for the several super critical power generating facilities that are to come up in the country. We have also made a breakthrough in the EPC space with our maiden contract to set up a 450 MW power plant.

Performance in 2009-10:

Your company's Annual Report has been with Members for quite some time. Rather than going through it in detail, I will only highlight some of the key aspects of our performance.

- On consolidated basis sales and total income decreased by 30% as compared to the previous year. This was entirely on account of adverse market conditions caused by the global economic and financial crisis about which I have already spoken.
- Our standalone business in India was however characterized by a top line growth 92% and PBT of Rs.82 crores in Q4 of fiscal 2010. This reflects the resurgent demand for your company's products particularly in the domestic commercial vehicle market coupled with green shoots of recovery in the US and Europe. If the trend persists, as we expect it will, we can look at our prospects in fiscal 2011 with cautious optimism.

Though fiscal 2010 was a challenging year for your company, structurally we are now better equipped for the future. We believe in the infrastructure led growth in India and are well positioned to leverage opportunities in the Indian market so that our domestic operations drive near term growth. Our capital goods business is fairly insulated from market vagaries and the commercial vehicle segment in India is expected to grow at about 15% this year. Globally we will

continue to look at opportunities to increase our market share and consolidate our global leadership position.

New Business:

Leveraging innovation as a means to improve our environment and reduce emissions is a key priority for our country and the world. Your company had for sometime been looking for an opportunity to engage in this exciting area.

Your company has now decided to form a Joint Venture with KPIT Cummins Infosystems Ltd., a leading product engineering and IT consulting partner to the automotive and manufacturing industries, to manufacture and market an indigenously developed hybrid technology solution for automobiles that will enable both existing and new vehicles to dramatically increase fuel efficiency and engine performance, while significantly decreasing green house gas emissions. The solution under the brand name 'REVOLO' is expected to be introduced in the market in the next 6-8 months.

Human Resource Development:

At Bharat Forge there has always been a focus on nurturing and developing human resource to create competitive advantages. In fiscal 2010, we emerged from a global economic slowdown. While in the overseas subsidiaries, there were concerted efforts towards manpower rationalization, the emphasis in the HR activities for the domestic business changed over the course of the year.

On the manpower rationalization front, efforts were undertaken to position the right kind of people for appropriate tasks and to create a more competent manpower team.

During the year, there was a shift towards renewed focus on learning and development across the Company. This was extended across all management and operational levels. To promote talent management your company launched an M.Tech programme for select employees in collaboration with IIT Mumbai with a strong R&D focus which is aimed at developing our own internal capabilities. The first batch of 25 students attended the course last year. The Company is in the process of sponsoring some of the PhD students at IIT Mumbai, subject to their taking up projects related to our business. Other learning initiatives with BITS, Pilani and Warwick University, UK continued during the year.

The ongoing 'talent pipeline development' programme for entry level employees in association with local institutions continued to progress.

The Company also continued initiatives for developing leadership talent through various leadership development programmes.

During the year, Bharat Forge won an award for best HR practices conducted by National Institute of Personnel Management (NIPM), Kolkata. The Company has also been working on promoting safety culture within the organization. In August 2009, we were conferred with the Golden Peacock Award for having best safety practices in the industry.

Corporate Social Responsibility:

Bharat Forge has always considered itself as a responsible corporate citizen. We care for the well-being of society. CSR represents an interesting culmination of philanthropy and ethics.

Initially, the approach toward CSR was philanthropic. Over time, this has shifted from the social responsibility to sustainability. We have articulated a CSR vision which reads as follows:

“At Bharat Forge, we believe that as a corporate citizen, we should reciprocate to the society that has given us so much. We are therefore, morally committed to address the issues related to Women, Children and Senior Citizens in the field of Education, Environment, Health and Hygiene for building a healthy society.”

In pursuance of this vision we are emphasizing on various educational and employee initiatives, community development and supporting Pratham Pune Education Foundation through which we have touched the lives of over 100,00 children in Pune belonging to disadvantaged, under privileged and needy sections of society.

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. 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!
26th July 2010