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10TH ANNUAL REPORT  
2000-01

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**Bharat  
Forge**



RIGHT: Axle beams ready for shipment. Bharat Forge has over 50% share of North America's market for heavy truck axle beams

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CHAIRMAN'S  
LETTER

**Dear fellow Shareholders,**

In last year's chairman's letter, I had expressed optimism about the company's prospects for 2000-01. This was based on two reasons: first, we had posted our best results ever in 1999-2000 and, second, feedback from domestic and international customers indicated that the Indian and export markets would register healthy growth. The outlook for 2000-01 seemed positive, and we were confident that our journey up the growth path would continue.

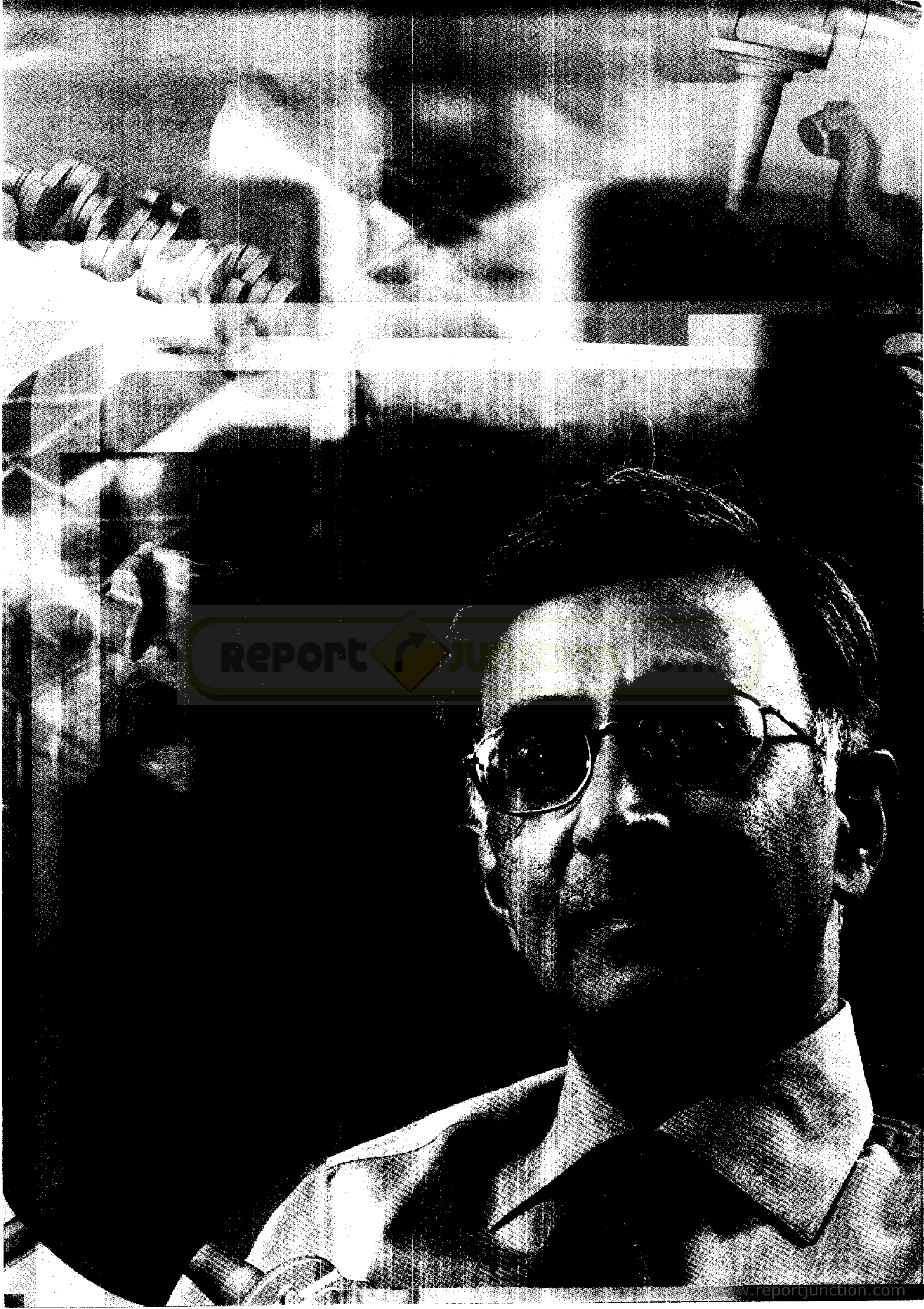
Unfortunately, facts have not borne out these predictions, and none of these have to do with your company's strategies or efficiency. The economic environment both in India and globally in the year under review has not been conducive for growth. This has been particularly true for our two main customer segments — the Indian automotive industry and the US heavy truck industry.

If you will recollect, I had written to all of you on 27 November 2000, giving Bharat Forge's half-yearly results and explaining why there was a need to take a more cautious outlook for what remained of 2000-01. On the demand side, I had elaborated on the fall in domestic and international demand and spoke of the beginning of a tougher macroeconomic climate. I had also outlined your company's strategy to counter these negative trends, which consisted of:

- reducing costs of operation
- shifting focus to the manufacture of high volume, high value added products
- intensifying our export thrust, in terms of new products, new markets and new geographies
- increasing focus on small forgings,
- hiving off all low-yielding financial assets, and
- transforming Bharat Forge to a focused, knowledge driven, e-enabled manufacturing company.

In final analysis the demand conditions continued to worsen. In India, industrial growth declined to 4.9 per cent in fiscal 2000-01 versus 6.7 per cent in 1999-2000. Food grain production is a good index of agricultural income which, as we know, plays a key role in driving domestic demand. Unfortunately, this, too, has declined from 208.9 million tonnes in 1999-2000, to 199 million tonnes in 2000-01. And economists believe that the final estimates of national income will show a GDP growth rate of less than 5.8 per cent — a far cry from the 6.5-7 per cent growth that we thought was our post-liberalisation norm.

Lower domestic growth has been exacerbated by an acute slowdown in the world economy. From the third quarter of the calendar year 2000 right up to this day, every indicator shows a serious downturn in almost all OECD countries. According to the World Bank, global GDP will grow by 2.2 per cent in 2001 — lower than its earlier estimate of 3.3 per cent and 45 per cent less than the actual growth of 4 per cent in 2000. GDP growth in the US, according to The Economist magazine, will slow down to 1.5 per cent in 2001 as against 5 per cent in 2000. Details of macroeconomic and sector-specific growth are discussed in the chapter on Management Discussion and Analysis.



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On the positive side, your company has done well in cutting costs and increasing efficiencies — more than what I had believed was possible when I wrote to you in November 2000. To my mind, Bharat Forge's achievement in these fronts has enabled your company to show profits despite a depressed scenario. In an industry that is awash with red, your company remains in black. More significantly, despite an 8 per cent fall in sales, your company has succeeded in maintaining its operating margin at 25 per cent of sales.

Cost savings in energy, scrap, stores, purchase and sub-contracting alone have saved Bharat Forge almost Rs.79 million in 2000-01, and there is more to be achieved next year. Our successfully concluded manpower rationalisation programme has reduced staff strength by 964, and is expected to save Rs.100 million. Shop floor efficiencies have cut costs across the line. Moreover, as promised, your company has successfully completed its financial restructuring exercise, which has helped hive off all non-core, low yielding financial assets, and made Bharat Forge focus on its core competencies.

These changes, and the motivation of your company's employees, have helped Bharat Forge to ride out the slump and post profits.

Even so, your company's performance for 2000-01 has not been in line with expectations. Bharat Forge's total income has declined from Rs.5852.7 million in 1999-00 to Rs.5447.9 million in 2000-01 — a fall of 6.9 per cent. And, as we all know, fixed costs count. Your company's profit after tax has decreased from Rs.626.1 million in 1999-00 to Rs.326.5 million for 2000-01. Over 75 per cent of this fall is due to an increase in interest as well as depreciation, the latter because of the new Rs.1450 million forging press line which was installed and operationalised in March 2000. Matters would have been worse had your company not launched its concerted cost cutting and efficiency enhancing programme.

While the outlook for 2001-02 remains subdued, we at Bharat Forge are viewing the slowdown as a temporary setback. Economies hit speed breakers, and then accelerate again. Today's downturn is tomorrow's opportunity. And that is exactly how we view this economic slump. It is a time to consolidate and to renew our commitment to accelerated growth and greater shareholder value.

Your company's initiatives in the last few years — both strategic and in terms of operational efficiencies — have seen Bharat Forge emerge as one of the very few financially strong companies in the forging industry. Our long-term objectives of being an export driven company, of aggressively moving into high volume value added products, of increasing focus on small forgings, of cutting flab wherever they are, and of transforming ourselves into a knowledge driven e-enabled company remain intact. We are vigorously pursuing these strategies. Once the economy recovers, your company will be in position to take advantage of the growth opportunities. And, I am sure that you will see the outcome in better return on capital employed, return on net worth, earnings per share, and valuation.

Before concluding, I would like to reiterate the views expressed in my letter to you in November 2000. Economic downturns are not new to this industry. This is the third in the last decade. On every occasion, your company has emerged stronger in all aspects: it has gained market share, emerged stronger financially and strengthened its commitment and focus.

As your Chairman, I have chosen to remain cautious for the coming year. Even so, I am sure we are well on our way of achieving our long term goal of making BFL one of the top forging companies in the world in the next three to five years. Together, we shall make this happen.



B N KALYANI

**BOARD OF  
DIRECTORS**

**B N KALYANI**  
Chairman & Managing Director

**P H RAVIKUMAR**  
ICICI Nominee

**B RAI**  
UTI Nominee

**PRATAP BHOGILAL**  
**S S MARATHE**  
**ATUL C KIRLOSKAR**  
**P R LATEY**  
**ANIL REGE**  
**S M THAKORE**  
**S D KULKARNI**

**G K AGARWAL**  
Executive Director

**P C BHALERAO**  
Executive Director

**BANKERS**

Bank of India  
Bank of Maharashtra  
Bank of Baroda  
Canara Bank  
State Bank of India  
Citibank NA  
ABN AMRO Bank NV  
Banque Nationale de Paris  
HDFC Bank Ltd

**SOLICITORS &  
ADVOCATES**

Bhaishanker Kanga & Girdharlal

**AUDITORS**

Dalal & Shah, Chartered Accountants

**REGISTERED  
OFFICE**

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## MANAGEMENT DISCUSSION & ANALYSIS

2000-01 has been a tough year for Indian manufacturing, and especially so for the automotive and forging industries. Bharat Forge Limited has not been immune to the severe downturn that has characterized these sectors. Nevertheless, the company has demonstrated that the strategies it has adopted in the last few years have given it the resilience to remain competitive in extremely difficult times. Despite a gloomy year, Bharat Forge has continued to maintain its leadership position in the forging industry. More significantly, it has posted a net profit in a year when most forging companies are engulfed in an ocean of red.

The company's most important products are engine and axle components, and these account for four-fifths of total sales. During 2000-01, Bharat Forge has successfully achieved a healthy market share in these product categories. Exports accounted for 18 per cent of the company's manufacturing sales. The company has also embarked on a concerted cost reduction programme, whose impact will be fully realised in 2001-02. As we had committed in the previous year's annual report, Bharat Forge has completed the process of financial restructuring.

It is important to highlight some positive facts.

- **First**, in a difficult year, Bharat Forge has succeeded in increasing its market share across all major industry segments. The company's decline in value of sales has been significantly lower than the fall in sales of the user industries.
- **Second**, despite a fall in sales of 7.8 per cent – from Rs.5677.2 million in 1999-00 to Rs.5232.6 million in 2000-01, Bharat Forge has succeeded in maintaining its operating margin at 25 per cent of sales. This has a lot to do with the company's success in cutting costs and increasingly operating efficiencies, which are discussed later in this chapter.
- **Third**, with the successful completion of the financial restructuring programme, Bharat Forge has emerged as a highly focused manufacturing company.
- **Fourth**, this financial restructuring has reduced capital employed by Rs.3585 million. Consequently, the return on capital employed on the new capital structure is now 14.2 per cent – a highly creditable ratio in the industry.

Despite these positive aspects, the fact remains that the company's performance for 2000-01 has been not in line with expectations. Bharat Forge's total income has declined from Rs.5852.7 million in 1999-00 to Rs.5447.9 million in 2000-01 – a fall of 6.9 per cent. Its profit after tax has decreased by 47.9 per cent – from Rs.626.1 million in 1999-00 to Rs.326.5 million for 2000-01. Over 75 per cent of the fall in net profits is due to increase in interest as well as depreciation, the latter because of the new Rs.1450 million forging press line which was installed and operationalised in March 2000.



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