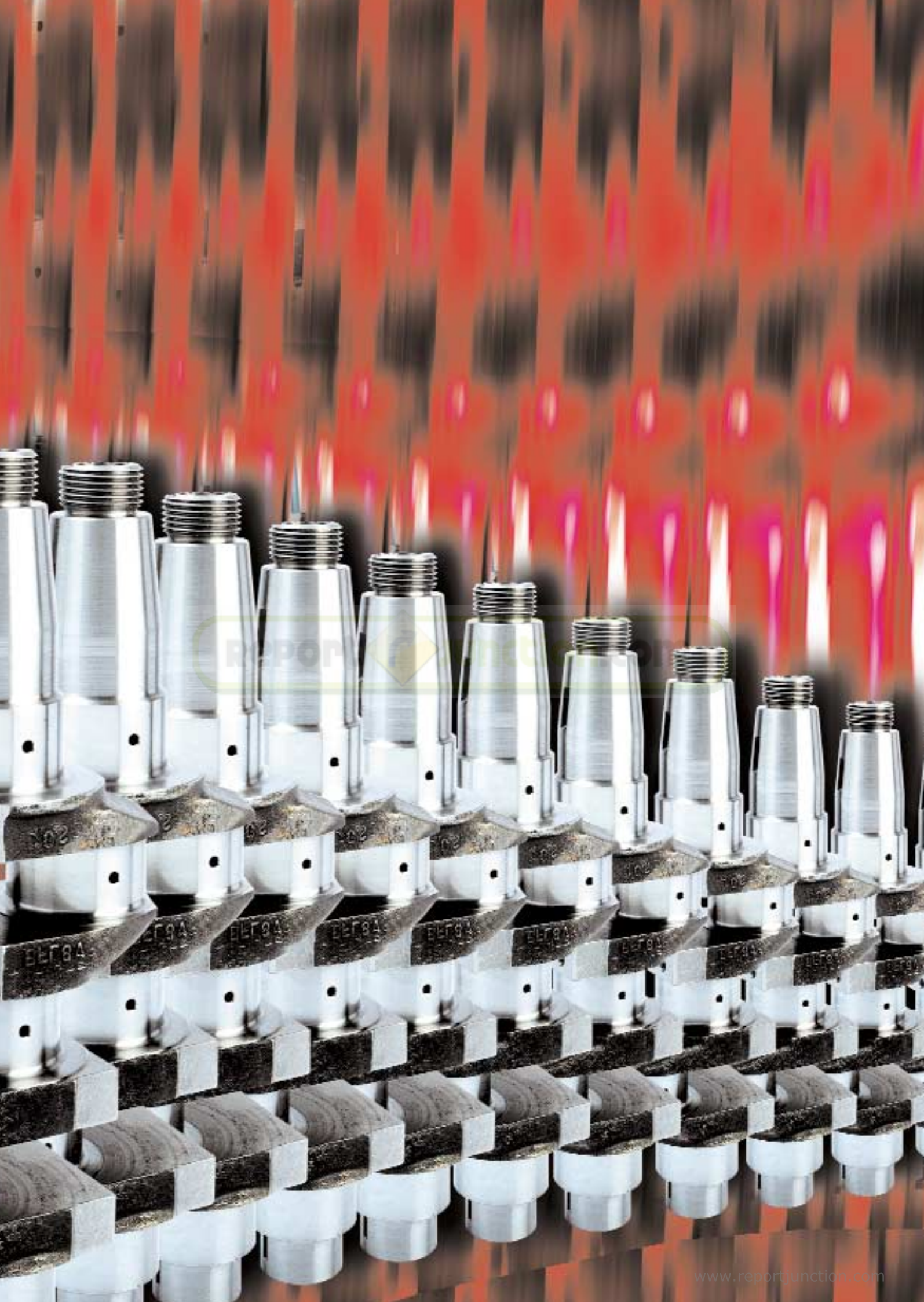


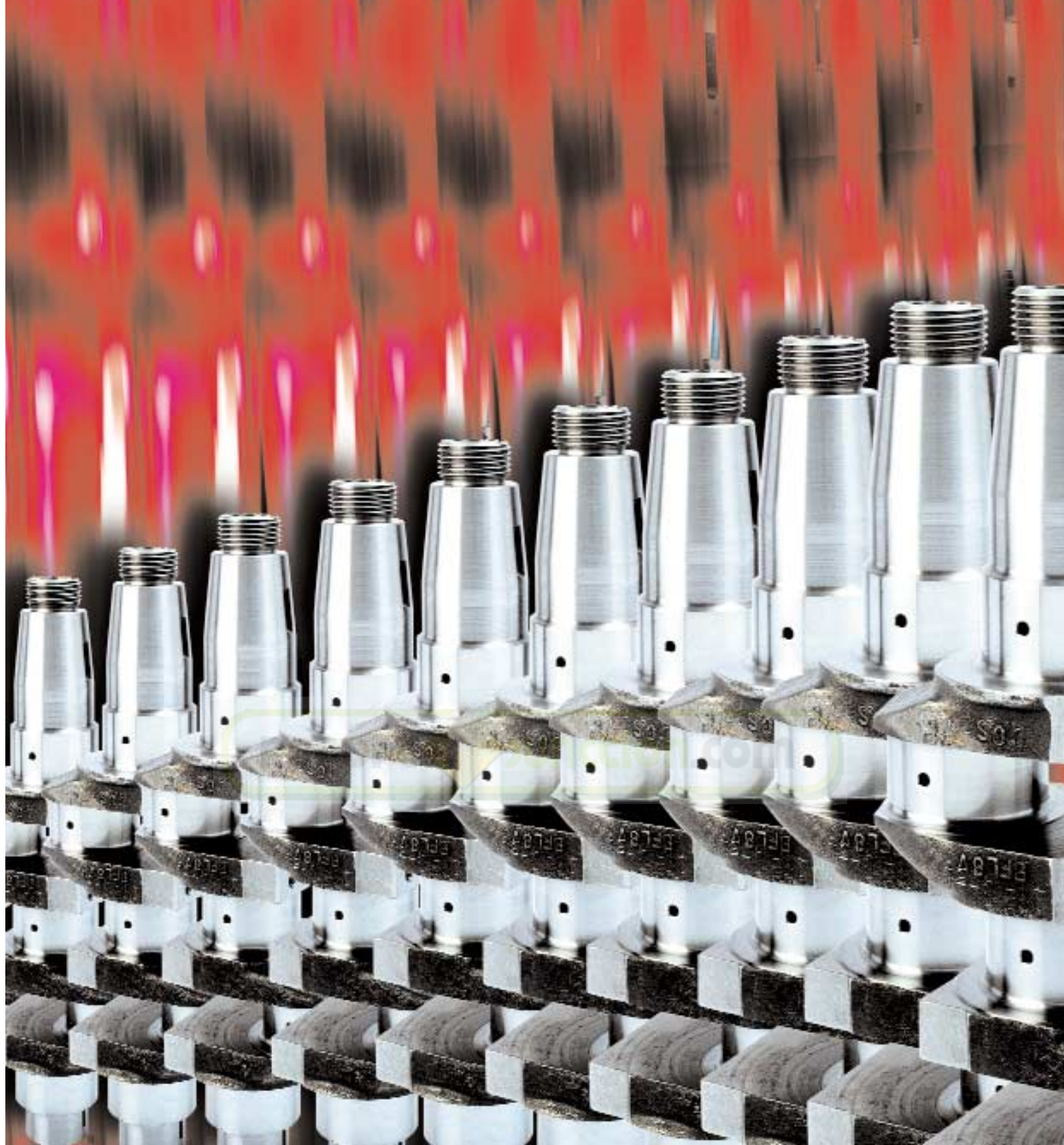
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## CHAIRMAN'S LETTER

DEAR SHAREHOLDER,

2001-02 is the second continuous year in which India's GDP growth has been far below expectations. A growth of 5.4 per cent coming in the wake of 4 per cent in the previous year is hardly adequate — and certainly falls far short of what is needed to make the country be an economic force in Asia. Indeed, Bharat Forge's 9 per cent decline in net sales and the concomitant fall in profits have much to do with the depressing performance of the economy, the manufacturing sector, and the domestic automotive industry.

At times like these, it is easy to explain the less than satisfactory performance of the company as being an outcome of inadequate economic growth in the country. What is not so easy is to evolve and implement strategies during these bad times to create opportunities that subsequently translate into enhanced value for shareholders. Any management team can deliver superior results during booms. The test of a disciplined, proactive management is not only how it can weather slumps, but also use the period of adversity to re-engineer the company to widen its footprint, cut costs, and implement strategies that overcome adversity. This is what Bharat Forge has been doing over the last two years. And your company is now poised to reap the fruits of its labour.

*I want to emphasise three key themes that have been the cornerstone of your company's strategy to overcome domestic demand constraints and deliver superior top-line and bottom-line results.*

**1** Maintain aggressive export thrust. In 2000-01, Bharat Forge's exports amounted to Rs.851 million, and accounted for under 16 per cent of total sales. Despite a sharp recession in the US heavy truck market in 2001-02, your company grew exports by 30 per cent to Rs.1,104 million, or 23 per cent of total sales. We have, thus, recovered from the setback of 2000-01 and our export income has regained the peak level of 1999-2000.

Throughout 2001-02, your company was successful in widening its customer base — in terms of industries and geographies. Our international customer base has increased from 10 companies to 21. In addition to our traditional US automotive customers, we now supply to prestigious European OEMs such as Daimler Chrysler, Caterpillar-Perkins, and Renault Vehicle Industries.

In January 2002, your company concluded an agreement for supply of forgings to Dana Corporation's Spicer Europe Limited operation in Kirkstall, Leeds, UK (Kirkstall Forge Division in England and Wales) (Kirkstall).

Bharat Forge has assumed Kirkstall's responsibilities as a supplier to the Cameron Division of Cooper Cameron Corporation for gate valve body forgings and choke body, nut and bonnet forgings. Under supply agreements with Dana, Bharat Forge will supply Dana with certain forgings used by its Kirkstall axle operation and its commercial vehicle axle operations in North America. Supplies under the above contracts will be made from our manufacturing facilities at Mundhwa, Pune.

Signing of agreements with Dana provides significant boost to your company's exports to Europe and USA. It will also establish Bharat Forge as a major exporter and will help in further enlarging our customer base on a global basis. Under the arrangements between Bharat Forge and Dana, a long term relationship has been established. This has already started yielding results in the current year. Over the next seven years, Bharat Forge is expected to have additional export turnover.

A leading Chinese Auto OEM has awarded Bharat Forge a large contract for the supply of engine components. We expect to start shipment in financial year 2002-03. This contract is valid for a period of five years.

Thus, from an almost exclusive reliance on the US heavy truck market, Bharat Forge has widened its footprint to becoming a player in the European and Asian auto components markets.

We are also continuing to diversify our international product portfolio. In 1999-2000, Bharat Forge began, in a small way, to supply specialised components for drilling equipment used in the oil and gas sector. In two years time, the value of this business has increased to Rs.193 million, and now accounts for almost a fifth of the company's total exports.

This is just the beginning. We now have a very healthy export order book — already far greater than what it was in 2001-02 — and we are confident of notching at least a 50 per cent growth in exports in 2002-03.

**2** Increase the share of value added products. For the last five years, your company has been steadily going up the value chain — from raw forgings to greater manufacture of machined components. This is particularly true for exports. Today, machined components account for 44 per cent of Bharat Forge's sales; and this will continue to increase in the years to come. Your company also entered into a contract with Toyota to supply transmission components for its global operations. This marks a breakthrough in our attempt to penetrate the small forging segment.

**3** Continue reducing costs at all levels of operation. Despite severe pressures on margins, Bharat Forge succeeded in increasing its ratio of profit before tax to total income from 6.8 per cent in 2000-01 to 7.3 per cent in 2001-02. This was primarily due to your company's ability to slash interest expenditure by 21 per cent, from Rs.573 million in 2000-01 to Rs.454 million in 2001-02. We will continue retiring debt and reducing interest cost in the future. Moreover, we will strive to cut raw material, energy and employee costs — all of which have been reduced in 2001-02.

*Our objective is to be a lean organisation that drives revenue through greater exports and higher value added products, and profits through sustained cost reduction. We will increase revenue and decrease costs through even greater emphasis on IT, and by leveraging our strengths in design and technology to considerably compress development time and create the best 'Speed to Market' standard in the industry.*

In addition to these strategies, your company will continue to explore growth opportunities that could arise through domestic and international acquisitions, if these are in synergy with our vision and goals.

We are actively pursuing a de-risking model whereby our dependence on any one customer segment or geographical market will be reduced. Therefore, while one does not expect the domestic market to improve in 2002-03, your company proposes to overcome this through export growth. I feel confident that the next year will see a significant revival in the fortunes of your company.

I would like to take this opportunity to thank all of you for the confidence that you have reposed in us. I look forward to your continued support as we pursue our goal to make Bharat Forge one of the leading forging companies in the world.

**B. N. KALYANI**  
CHAIRMAN AND MANAGING DIRECTOR

## ***BOARD OF DIRECTORS***

**B N KALYANI**

*Chairman & Managing Director*

**P H RAVIKUMAR**

*ICICI Nominee*

**G A NAYAK**

*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

HDFC Bank Ltd

ICICI Bank

Citibank NA

ABN AMRO Bank NV

BNP- Paribas

## ***SOLICITORS & ADVOCATES***

Bhaishanker Kanga & Girdharlal

Report

## ***AUDITORS***

Dalal & Shah, Chartered Accountants

## ***REGISTERED OFFICE***

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BFL supplies to OEMs worldwide. We are major suppliers of axle beams to the world market.





# MANAGEMENT DISCUSSION and ANALYSIS

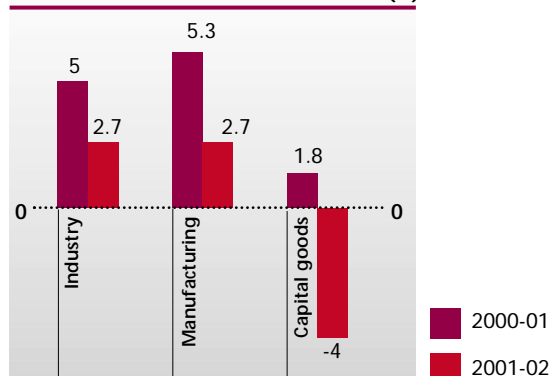
The Indian economy grew by an estimated 5.4 per cent in 2001-02 as against 4 per cent in 2000-01. The world economy in 2001-02 recorded an output growth of 2.4 per cent. Therefore, it is being said that India was one of the fastest growing economies in the world during the year.

These figures and this claim, while true, present an incomplete picture. As anyone who does business in India will confirm, 2001-02 has been one of the toughest years for domestic industry and manufacturing — perhaps the toughest since economic reforms began in 1991. Industrial growth has declined from 5 per cent in 2000-01 to 2.7 per cent in 2001-02. As a matter of fact, industrial growth during the first ten months of the year under review is the lowest recorded during the last decade.

This slowdown was reflected across all segments of industry with the manufacturing sector and capital goods being particularly hard hit. While the former has grown by just 2.7 per cent in April-January 2001-02 as against 5.3 per cent in 2000-01, the latter has witnessed a negative 4 per cent growth in April- January 2001-02 as compared to a 1.8 per cent growth in 2000-01. CHART A presents the depressing picture.

Quite clearly, the industrial and manufacturing slowdown, that began in 2000-01, has intensified and gathered momentum in 2001-02. It should also be remembered that the estimate of 5.4 per cent GDP growth is on a low growth base of 2000-01. And it has been driven by the agriculture sector, which is estimated to have grown by 5.7 per cent during the year. This agricultural growth, however, came after two very poor years, as yet, has not translated into an increase in demand.

A. KEY MACRO ECONOMIC INDICATORS (%)



The country's less-than-average economic performance has been accompanied and even accentuated by unforeseen developments in the wider environment. The events of 11 September, the terrorist attack on Parliament, escalation of tension across the border and the violence in Gujarat — all these have served to dampen consumer confidence.

It is in this milieu of depressed demand and lack of consumer confidence that Bharat Forge Limited had to compete during the year under review.

The Indian automotive industry is the company's largest domestic customer segment. Within this sector, medium and heavy commercial vehicles, light commercial vehicles, tractors and utility vehicles are the major users of its products. All these segments recorded subdued and even negative growth. Bharat Forge's largest overseas customer—the US heavy truck market—witnessed a 31 per cent fall in production.

Most of our competitors in the forging industry continued to be engulfed in red.

In these unfavourable market conditions, we were able to post a net profit and notch up some impor-



Well Head components for the Oil and Gas industry