THE BEST WAY

TO PREDICT THE FUTURE

IS TO INVENT IT.

- Alan Kay

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44TH ANNUAL REPORT 04-05

Bharat Forge

KALYANI

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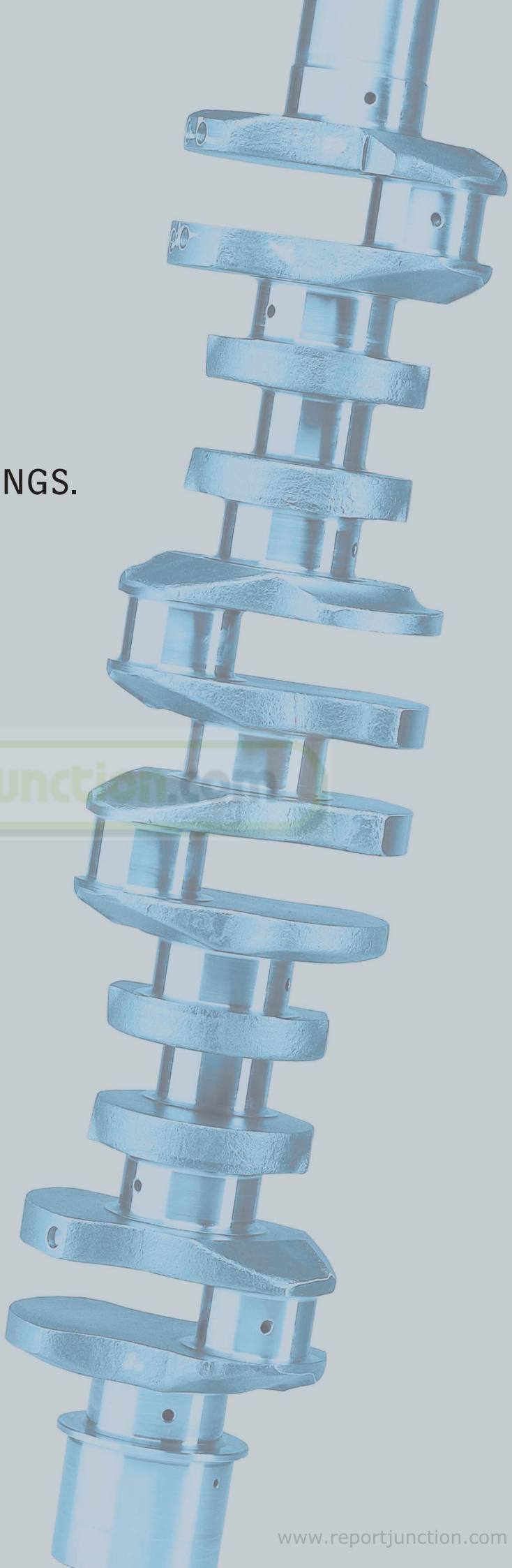
CREATIVITY IS

THINKING UP NEW THINGS.

INNOVATION IS

DOING NEW THINGS.

- Theodore Levitt



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HIGHLIGHTS 04-05

- **Revenue**

  Consolidated Revenue - Rs. 20,014 Million (US $ 460 Million)

  Revenue outside India - Rs. 12,854 Million (US $ 295 Million)

- **EPS**

  Consolidated Earning Per Share - Rs. 49.79

- **Strategic Initiatives**

  Acquired CDP Aluminiumtechnik (renamed as Bharat Forge Aluminiumtechnik) to broaden product offering and deepen customer relationship

  In April/May 2005 completed strategic fund raising of US $ 220 million for organic & global inorganic growth

- **Positioning with Customers**

  Moving toward establishing strategic partnership with global OEM & Tier I customers

  Now positioned as ' Full Service Supplier' of powertrain and chassis components

(1 US $ = Rs. 43.50)

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CHAIRMAN'S LETTER

Dear Shareholder,

2004-05 has been another good year for your company. Your company has not only posted strong financial performance, it has also taken strategic steps in the direction of becoming a global forging company with strong technology capabilities & excellent relationships with the global customers. In the following part of my letter, I would highlight the significant initiatives taken and the impact those initiatives are expected to have on the future of your company.

On the financial front, total revenue has grown by over 44 per cent to Rs.12,265 million. Exports grew even faster-by 53 per cent to reach Rs.5,105 million. Profit before depreciation, interest and taxes (PBDIT) rose by over 29 per cent to Rs.3,349 million; while profit after tax (PAT) increased by 29 per cent to Rs.1,616 million. Despite over 1.88 million shares being added during the year because of a successful Rights Issue, your company's earning per share (EPS) has increased from Rs.32.02 in 2003-04 to Rs.39.64 in 2004-05. On a consolidated basis also your company has performed well with revenue touching Rs. 20,014 million and Profit after Tax reaching Rs. 2,011 Million. The EPS on a consolidated basis works out to Rs. 49.79 which means the German operations have contributed to the EPS by over Rs. 10 per share. Operationally and financially, therefore, Bharat Forge has done well for its stakeholders.

Globally, the Commercial Vehicles and Passenger Cars are significant markets for us. Your company enjoys strong position in these markets. Growth in these markets, coupled with strong outsourcing initiatives of the global OEM & tier I companies, saw the demand for your company's products go up substantially. Your company took this opportunity to further deepen its reach across the geographies as well as product segments. On a consolidated basis, 64% of the company's revenue comes from outside India-which includes revenue of our Subsidiaries as well as our own exports. The revenues are well diversified across product segments with strong presence in Commercial Vehicles, Passenger Car, Diesel Engine & several non automotive sectors such as Oil & Gas, Construction Equipment, Railways & Heavy Engineering Equipment.

In my letters to you in the last two annual reports, I had mentioned about the need for rapid capacity expansion. I am happy to report that your company's efforts in building additional capacity are well on track. By the last quarter of 2005-06, annual forging capacity at Mundhwa will have reached a level of 240,000 MT. We are also substantially increasing the number of our forging presses. Moreover, the capacity to manufacture finished crankshafts will rise from 413,000 units to 650,000 units; and we will have the capacity to produce a million front axle components. We are building this capacity by inducting state of the art, highly sophisticated, flexible & automated equipment capable of manufacturing wide range of parts.

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This expansion, along with the capacities available in our German plants, will allow your company to effectively cater to the expanded domestic and global demand. Therefore, I expect a quantum increase in sales as well as profits, which ought to start showing up as the production ramps up in line with the new capacities coming on line.

Your company has completed two rounds of capital infusion. First, involving issue of Rights Equity Shares with attached warrants and External Commercial Borrowing. These funds are being used towards the capital expenditure for ongoing capacity expansion program.

Subsequently, in order to further pursue its global initiatives of organic & inorganic growth and for establishing global technology front end to meet the design, development & engineering needs of our global customers, your company undertook a second round of capital infusion during April-May 2005. Under this program, your company issued GDRs of US $ 100 million and two tranches of foreign currency convertible bonds, each of US $ 60 million.

Last year, I had highlighted four key objectives: growing sales and profits, achieving global scales of operations, continuing our exports thrust and creating a global presence. I have already touched upon the first three. Sales and profits have shown strong improvement in 2004-05. More satisfying feature of this growth is that your company now competes on the strength of its technology and not just on the basis of lower cost. With the capacity expansion program well underway, we will undoubtedly have global scales of operations by the last quarter, if not the second half of 2005-06.

Let me now share with you BFL's strategy about global presence. Being a global auto component player does not only mean growing exports. It also requires having design, engineering, manufacturing, testing & validation capabilities to be carried out in different key geographies so that the company can be in close proximity to its major customers. It also requires a strategic vision that skilfully combines the comparative advantages of each location so that the whole is significantly greater than the sum of its parts. Our strategy is fine tuned to complement the long term strategic objectives of our customers.

With the acquisition of Carl Dan Peddinghaus in January 2004 (now named CDP-Bharat Forge) and CDP Aluminiumtechnik in December 2004 (renamed as Bharat Forge-AT), we have taken our first step towards executing the global strategy. CDP-Bharat Forge and Bharat Forge-AT not only give us the business of high value, marquee customers in Europe, but also allow us to have a more varied and comprehensive product mix. We can now make more flexible manufacturing choices depending on the comparative advantage of each manufacturing location. Moreover, we can leverage the designing, technical and engineering skills available at our German facilities to enhance customer penetration & outsource business to our Indian operations through Dual-shore manufacturing model.

I am happy to inform you that we have completed the process of integration between Bharat Forge and CDP-Bharat Forge as well as Bharat Forge-AT. This has given us a strong dual shore supply capability. However, this alone is not enough. Therefore, your company is actively looking out for new acquisition opportunities in important geographies where it believes it must have a significant manufacturing presence. I will, of course, inform you of such acquisitions when they are finalised.

In the next few years you ought to witness significant growth of your company's production, sales, breadth of product offerings and profits as Bharat Forge rapidly transforms itself to becoming a 'full service supplier' & development partner of power train and chassis components for the global auto market. This will involve participation in the development initiatives of the customers for their future vehicle platforms.

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This process of transformation will bring with it yet another challenge - that of building world class human resources. In deed, I believe that this will have to be one of the key priorities of your Company over the next few years. We have already embarked upon this journey. Learning from our German counterparts, we have started an Apprentice Training Programme at Mundhwa, where new recruits at the shop-floor level are being continuously mentored for 18 months by a senior engineer or executive. This not only quickly familiarises the recruits to the company's technologies and best practices, but also gives management the opportunity to identify high potential talent.

On an earlier occasion I had shared with you our arrangement with BITs Pilani where Bharat Forge employees could pursue a three-year part time engineering course. There have been 40 successful candidates in the first batch and another batch will join the course in the current year. Simultaneously, we are taking active initiatives to develop a talent pool of essential engineering skill sets through a well structured process of creating "Master Engineer".

2004-05 has been a good year for your company; and there is every indication that 2005-06 will be even better. However, we still have a long way to go. As far as I am concerned, we will truly become a significant global player when Bharat Forge as a consolidated entity becomes a US $ 1 billion company with plants and facilities in at least three major geographies abroad. I believe that we are on our way to attaining that target. And as we close in on this target, we will set the bar much higher.

On behalf of myself and my team at Bharat Forge, thank you very much for supporting us in our quest for excellence in the competitive global arena.

Yours sincerely



B N Kalyani
Chairman & Managing Director

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