



KALYANI

BHARAT FORGE

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TURN YOUR FACE INTO THE SUN AND  
THE SHADOWS FALL BEHIND YOU

08-09

48TH ANNUAL REPORT



BHARAT FORGE

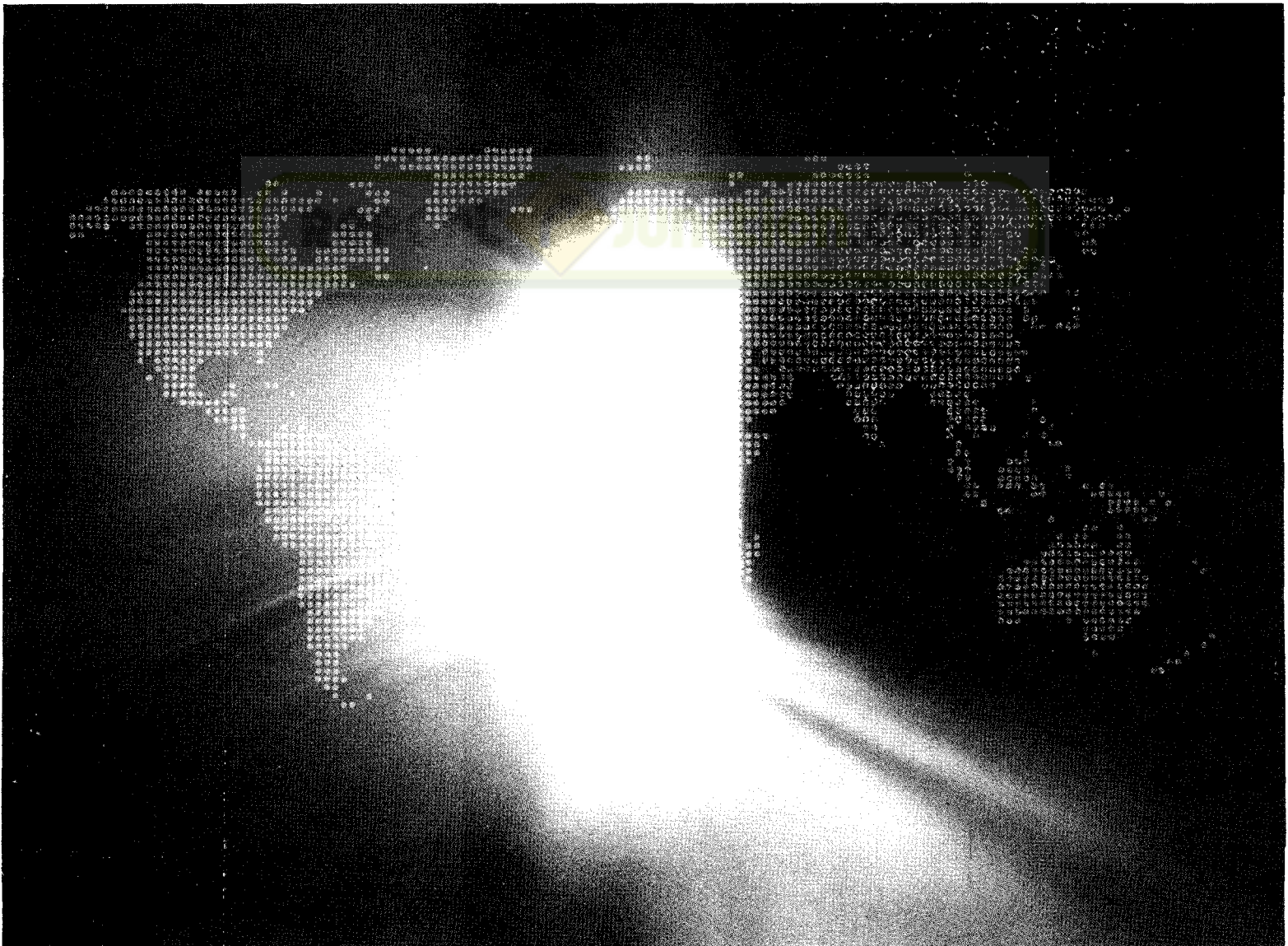
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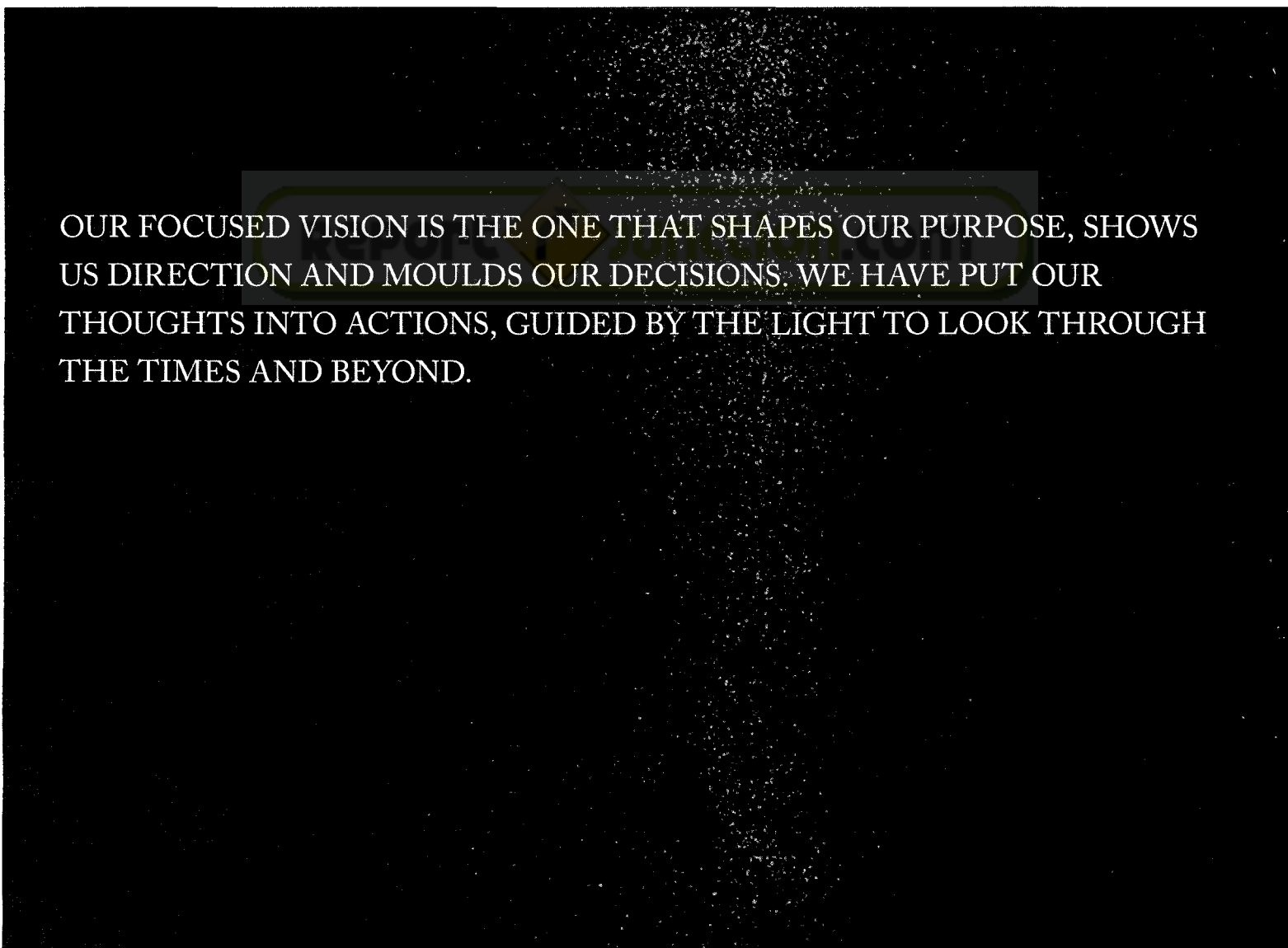
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TURN YOUR FACE INTO THE SUN AND THE SHADOWS FALL BEHIND YOU  
MAORI PROVERB

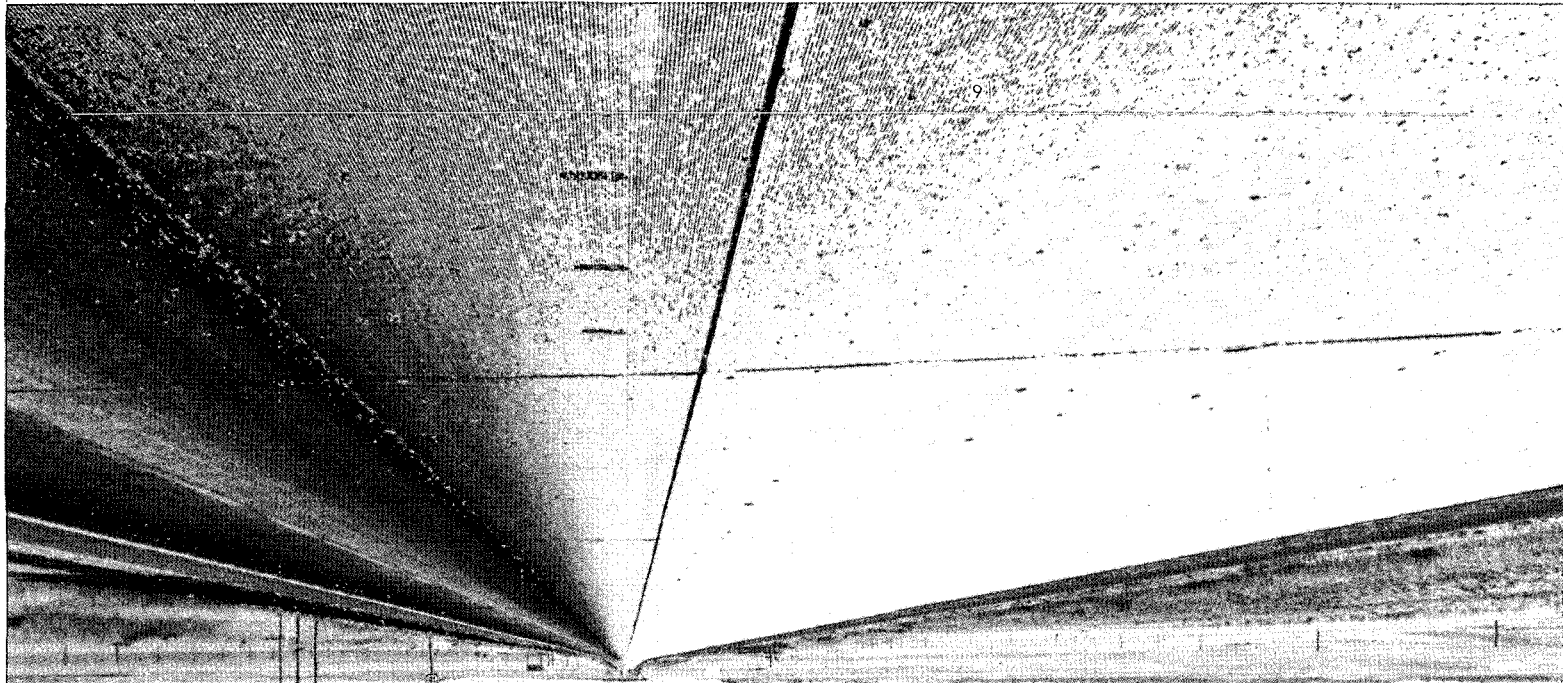




Bharat Forge has always been a company with a strong sense of clarity and vision. We had started seeing the early signs of slowdown towards the end of 2007-08 and therefore begun to take corrective actions quite early in the day.



OUR FOCUSED VISION IS THE ONE THAT SHAPES OUR PURPOSE, SHOWS US DIRECTION AND MOULDS OUR DECISIONS. WE HAVE PUT OUR THOUGHTS INTO ACTIONS, GUIDED BY THE LIGHT TO LOOK THROUGH THE TIMES AND BEYOND.



Entered in to agreements for future JVs with Alstom & Areva for manufacture of power plant equipment & heavy forgings. Commencement of new non-auto facilities at Mundhwa and Baramati.

Performance severely affected in H2 2008-09 due to unprecedented global recession Consolidated Revenues grew by 1.9% while PAT after minority interest declined by 80.7%.

In 2008-09, exports crossed the Rs 1,000 crore mark.

## HIGHLIGHTS



BHARAT FORGE

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## BOARD OF DIRECTORS

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Mr. B.N. Kalyani  
Chairman & Managing Director

Mr. S.M. Thakore

Mr. S.D. Kulkarni

Mr. Pratap G. Pawar

Prof. Dr. Uwe Loos

Mr. P.C. Bhalerao

Mrs. Lalita D. Gupte

Mr. P.H. Ravikumar

Mr. Alan Spencer

Mr. G.K. Agarwal  
Deputy Managing Director

Mr. Amit B. Kalyani  
Executive Director

Mr. B.P. Kalyani  
Executive Director

Mr. S.E. Tandale  
Executive Director

Mr. P.K. Maheshwari  
Executive Director

Mr. Sunil K. Chaturvedi  
Executive Director

## BANKERS &amp; AUDITORS

## BANKERS

Bank Of India

Bank Of Baroda

Bank Of Maharashtra

Canara Bank

State Bank Of India

HDFC Bank Ltd.

ICICI Bank Ltd.

Citibank N A

Standard Chartered Bank

Axis Bank Ltd.

ABN Amro Bank N V

Calyon Bank

## AUDITORS

Dalal & Shah, Chartered Accountants

## REGISTERED OFFICE

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Pune - 411 036, Maharashtra, India.

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2008-09 HAS BEEN 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.

Dear Shareholder,

2008-09 has been 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 & GDP since the Great Depression of the 1930s.

April 2008 saw the world witnessing sharp and concerted growth of all major commodity prices, which included crude oil, gas, coal, steel, as well as other minerals and metals. Remember that in the first week of July 2008, the spot price of West Texas crude was being quoted at over US\$ 145 per barrel, with pundits expecting it to soon cross the US\$ 200 mark.

Then came the change - starting from August 2008, and accelerating with the bankruptcy of Lehman Brothers on 14 September 2008. The global financial crisis that followed sucked out all available liquidity from the system. This financial meltdown continued unabated through October, November and December of 2008. With it came a sharp fall in demand and GDP of all developed nations.

The financial crisis is showing signs of abating, thanks to unprecedented monetary and fiscal interventions by governments and central banks across the globe. But the economic slowdown continues - indeed deepening in the US, the Euro zone, the UK and Japan. Today, every economy is either suffering from shrinking GDP or rapidly reduced growth.

As I write this letter, the US economy has been hit by three successive quarters of negative GDP growth, and is looking at yet another quarter of falling GDP. Here are some estimates:

While some believe that the US economy will bottom out by the third quarter of 2009, the estimated GDP growth for the year will be -2.8%. Unemployment as of April 2009 was at 8.9%, and rising. The first four months of 2009 has seen 2.7 million net job losses, on the back of 1.7 million in the last quarter of 2008.



The Euro area is in a deep recession which, in many ways, is worse than that of the US. GDP growth of 2009 is estimated at -4.2%.

The UK is reeling under depression and its GDP growth for 2009 is forecasted at -4.1%.

Japan is in crisis, with a decline in industrial output in excess of 30%; and GDP growth for 2009 being estimated at -6.5% to -7%.

With an estimated 11% fall in the real value of world trade in 2009, China's growth may reduce to 6.5%.

India's growth is down from the 9% plus range of the last three years to 6.7% in 2008-09 and will probably be the same in 2009-10.

Being a global player with close to 80% of its revenues coming from the automotive industry, both within and outside India, your Company has been affected by this unprecedented downturn.

We had started seeing the early signs of a slowdown towards the end of 2007-08, and had begun to take corrective action quite early in the day. Indeed, your company did reasonably well in the first half of 2008-09. But nothing could have helped in the short run with what happened to global automotive demand and production in the second half of 2008-09.

To put it simply, automotive demand fell off the cliff. In India, M&HCV production in H2 of FY 2009 was down by more than 60% YoY. European CV production after registering a growth of 5% in the first 9 months of CY 2008 declined by 33% YoY in October - December 2008. Similar sharp declines were witnessed in other major markets such as USA, Brazil & Japan. The situation was so bad that even strong companies have posted losses. With such a sharp fall in automotive demand in the US and Europe - your company's major geographies outside India - order books fell between 60% and 75%.

Not surprisingly, therefore, your company's profits have fallen in 2008-09. Here are the key consolidated financials:

Net sales grew by only 2.6% to Rs.4, 774 crore. The increase in sales also includes pass thru on account of raw material price increases.

Profit before depreciation, interest and taxes (PBDIT) fell by 35% to Rs.521 crore.

Profit before interest and taxes (PBIT) fell by 53% to Rs.270 crore.

Profit after tax (PAT), net of minority interests, fell by 81% to Rs.58 crore.

There is no doubt that 2008-09 has been an extremely difficult and stressful year for your company. Two questions arise. First, what have we done in the short run to deal with this crisis? Second, and more importantly, what are we going to do over the medium and long run? In the short run, we focused on determinedly cutting cost,

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reducing working capital and aligning capacities to demand. In India, we sharply reduced operations to meet current demand. We focused on reducing inventories, receivables and put a freeze on all capital expenditures. We focused in a single-minded way on cash flows and increased productivity. We identified wastages, however small, and eliminated them from the system.

In short, your company's management worked at double the speed to create a tight, cost-effective, lean organisation - one that is stronger than ever before and even better placed to leverage the upturn. Indeed, we are already seeing the beginnings of a gradual build-up, and expect the auto business to be on the growth track by Q3 2009-10. It will not be growth like what we saw in the earlier years. The environment will continue to be challenging.

Our longer term initiatives are even more significant. We have taken a conscious decision to move aggressively into the non-automotive forgings space.

If you will recall, your company embarked on building dedicated non-auto forging capacities in India, which included the 4,000T Open die press at Mundhwa, the 80 Mtr Ton Hammer at the Centre for Advanced Manufacturing (CAM) in Baramati, and the Ring rolling facility at Baramati.

Installation of these facilities, except the Ring rolling, was completed in 2008-09. The facilities at CAM went into commercial production in Q4 2008-09 and full-fledged production is expected to start in 2009-10. A lesson of 2008-09 is that we must move even more swiftly into the non-auto space.

Today, our non-auto business contributes 21% of the consolidated revenues. We want it to rise to at least 40% by 2011-12. We will be getting into supplying specialised forgings for the energy sector - wind, thermal, hydro, nuclear and for marine and railways.

As part of our strategy of moving into capital goods, your company has entered into agreements for proposed Joint Ventures with market leaders like NTPC, Alstom and Areva.

The JV with NTPC will manufacture Balance of Plant (BoP) for the power sector. The proposed JV with Alstom will manufacture Turbines and Generators for sub and super critical power plants while the proposed JV with Areva will manufacture heavy forgings for power sector applications.

I am confident of the future growth of your company's non-automotive business. And I intend to ensure that it accounts for 40% of revenue, by the end of 2011-12. Our move to non-auto is not a defensive move of de-risking the company from automotive business cycles. It is a proactive move to be a significant player in the high growth areas of the future.

Those who have observed Bharat Forge for the last decade will note that your company has made key strategic moves at the right time. The first move was made in the second half of 1990s - that of going global by rapidly increasing the share of exports, and reduce our dependence on Indian markets. The second move was to acquire facilities overseas in Europe, North America and China, and thus become a technologically advanced, multi-shored organisation operating in close proximity of