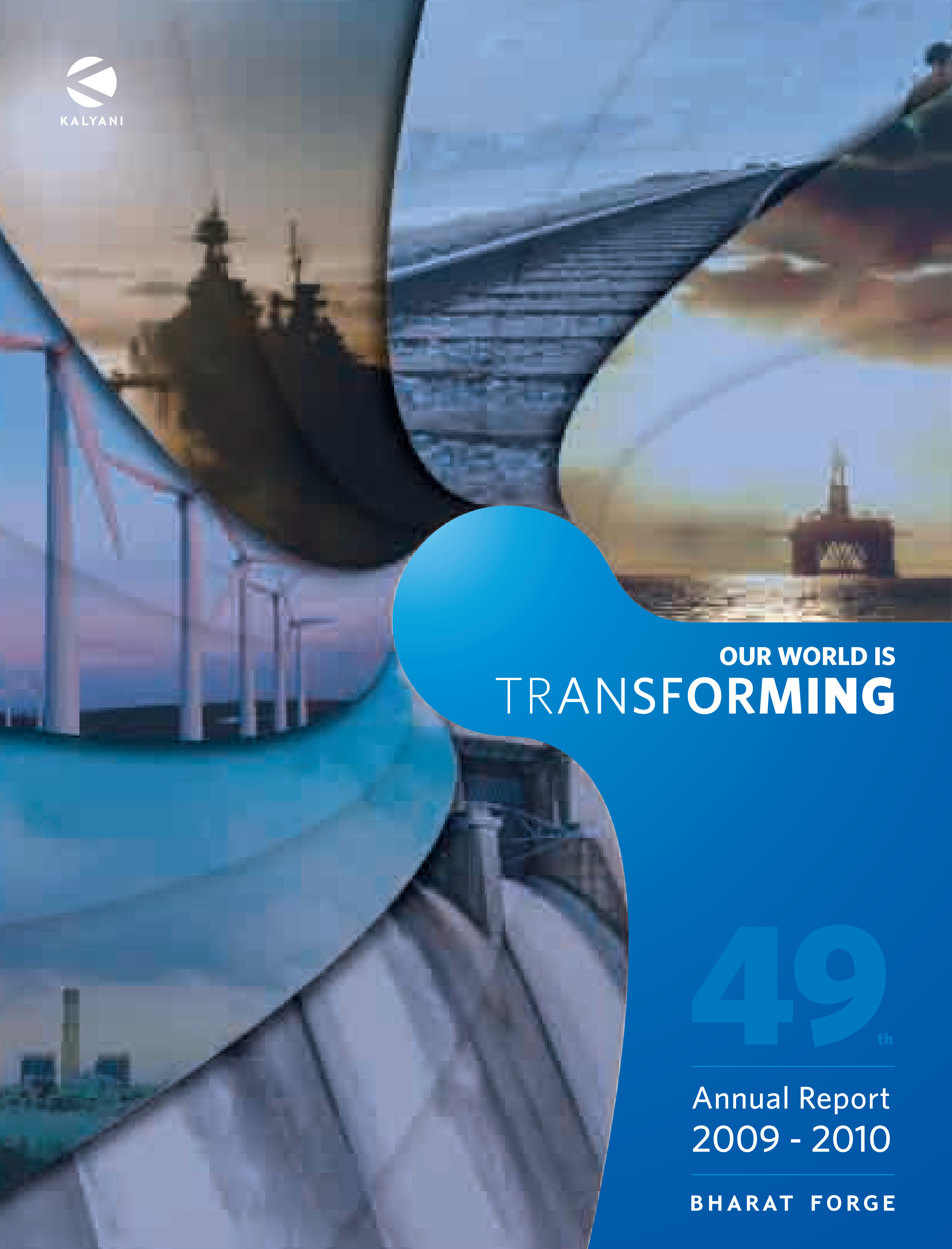

KALYANI

OUR WORLD IS
TRANSFORMING

49th

Annual Report
2009 - 2010

BHARAT FORGE

CONTENTS

OUR WORLD IS TRANSFORMING

INNOVATION

Innovation has been the driving force behind our company. It is applied across every aspect of our business, right from research and development to manufacturing, testing & validation. The R&D team with over 100 engineers has been working on various projects including developing technologies to minimize carbon footprint and reducing product weights which will translate into lower energy consumption.

The auto world is moving to a greener fossil free technology. We are moving in the same direction and have tied up with like-minded companies to develop technology that our automotive clientele can capitalize on.

TECHNOLOGY

The company has always been at the fore-front of technology. It has adopted the latest technologies in all its processes, which has helped garner significant market share globally. For its non-automotive initiatives, the company has invested over US$ 100 million in setting up a modern state-of-the-art forging and complementary machining facility.

PRODUCTS

Innovative application of latest technologies has helped the company develop critical, high value, high value added products for the non-automotive sector.

BFL has developed several products such as rotor forgings for thermal power, headers for nuclear power and crankshafts & portal axles for locomotives, and parts like blow out preventers & fluid ends for the oil and gas sector. Today BFL is an indigenous supply source for some of these products which were largely imported.

PEOPLE

There is a renewed focus on learning and development across the Company. This philosophy has been extended across all management and operational levels. In addition, to the various initiatives to promote talent management, BFL has launched an M.Tech programme for employees in collaboration with IIT Mumbai. This has a strong R&D focus, and is geared to develop the Company's own capabilities. The company is also taking key initiatives to develop leadership talent that is required to support its ambitious growth objectives in the non-automotive space.

BHARAT FORGE AS A GLOBAL ORGANIZATION HAS BEEN FOCUSING SHARPLY ON INNOVATING IN THE AUTOMOTIVE SPACE WITH NEW TECHNOLOGY AND PRODUCTS WHILE CONTINUING TO EXPLORE OPPORTUNITIES IN THE NON AUTOMOTIVE SPACE. INNOVATION, TECHNOLOGY, PRODUCTS AND PEOPLE ARE THE KEY DRIVERS THAT WILL TRANSFORM THE COMPANY WITH HIGH LEVEL OF CAPABILITY IN THE AUTOMOTIVE, NON AUTOMOTIVE AND CAPITAL GOODS BUSINESS.

HIGHLIGHTS

Strong fundamental performance in the standalone business

Repayment of US$ 131.5 Million FCCB including redemption premium

Successful fund raising via QIP of US$ 140 million including warrants

Completion of restructuring of overseas operations

Expansion in product offering to power sector to now include EPC services

BOARD OF DIRECTORS

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. Naresh Narad

Dr. T. Mukherjee

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

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

Crédit Agricole
Corporate & Investment Bank

AUDITORS

Dalal & Shah,
Chartered Accountants

INTERNAL AUDITORS

Mahajan & Aibara,
Chartered Accountants

REGISTERED OFFICE

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CHAIRMAN'S LETTER

Dear Shareholder,

Let me begin by looking back at the global economic scenario over the past 2 years. In my last communication to you, I had mentioned "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". The scenario continued in 2009-10 with some signs of recovery in some of the markets in the latter part of the year and your company performance reflected events in the global economy.

The developed economies remained in disarray while Asia pulled out of the crisis relatively unscathed. Consider the US, the best of the developed economies, which is pulling out of the depression witnessed automobile production fall by 34% while class 8 truck production fell by 43% in CY2009 compared to a year earlier.

In CY 2009, Europe was even worse affected with sales of medium commercial vehicles lower by 41%; and heavy commercial vehicles by 48%. In fact, the story was worse for component suppliers. Europe already had large inventory in early 2009; and much of the existing market was catered to from these stocks. Thus, production levels were lower still, and the demand for automotive forgings reduced significantly.

The positive was the rapid economic turnaround in China and India, and the growth in automobile demand and production in both countries. In China, the market recovered substantially with the production of commercial vehicles growing by 31%. So too, India, where commercial vehicles production increased by 36%.

Our performance in 2009-10 reflected the happenings in the global markets & the subsequent recovery in the Asian markets. Your company witnessed a sequential improvement in both domestic & overseas operations on the back of strong recovery in the Indian Automotive market and stabilization of global markets.

However the decline in your Company's business in US and Europe could not be compensated by the growth in India. Thus, as a consolidated entity, Bharat Forge's net sales decreased by 30% to Rs 33,276 million in FY2010; profit before depreciation, interest and taxes fell by 38% to Rs 3,896 million; and profit before tax (before exceptional items) stood at Rs 141.9 million.

After 4 years of slump, the North American Heavy Truck market is expected to recover towards the end of the year and gain strength and post strong numbers for the next 2 years driven by replacement of legacy fleet, presently at an historical high of 7 years.

Yet there are many positives which will stand your Company in good stead as the global economy comes out of the downturn. Let me list the critical factors.

First, the slump forced your Company to take a very hard and focused look at efficiencies, throughput and cost structures — both operational and financial. Your company has spent most of the time in restructuring and rightsizing the overseas operations through the closure of Scottish facility and transfer of its assets and business to BFK and manpower redundancies. In the process, your Company incurred a one time net cost of Rs 742 million.

Balance sheet wise, your Company has become stronger on the back of redemption of Foreign Currency Convertible Bonds (FCCBs) of US$ 131.5 million on 20th April 2010 and the subsequent fundraising of US$ 140 million including warrants via the Qualified Institutional Placement (QIP) route on 28th April 2010. These actions have reduced Bharat Forge's consolidated debt-equity ratio net of cash to 0.76.

Coming to the markets, your Company is starting to see a sharp turnaround in most markets other than Europe. Your company is witnessing increased level of activity on the Indian automotive and non automotive front. In the US, economic & manufacturing activities have started reviving across all sectors. After 4 years of slump, the North American Heavy Truck market is expected to recover towards the end of the year and gain strength and post strong numbers for the next 2 years driven by replacement of legacy fleet, presently at an historical high of 7 years.

European automotive markets are still lagging behind the other geographies and are fighting the financial crisis as a result of the Greek turmoil. Your company expects the markets to start on the recovery path from next year. However, because of the restructuring exercise at the overseas operations, we expect them to be profitable this year and are poised to grow with recovery in markets.

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 significant improvement in performance.

This year, contribution from India & China to the consolidated revenues increased significantly from 32% in FY 2009 to 44% in FY 2010 & we expect this to further increase with ramp up of the new non-auto facilities, A resurgent Indian economy seems set to scale up to double digit growth with infrastructure and industrial sectors underpinning the momentum. You would be aware that the Government is contemplating an infrastructure sector investment estimated at US$ 1 trillion during 2012-2017 to propel the economy on a steeper growth trajectory.

commencement of capital goods business and improvement in China operations.
Coming to the Non Auto components business, I am happy to inform you that in January 2010, the first phase of capacity creation for the non-auto forgings business was completed with the commissioning of the ring rolling plant at Baramati. During the year, your Company has focussed sharply on the opportunities in the non- auto space and has seen increased traction with customers both in India & Globally.

There is no doubt that India will continue investing heavily in physical infrastructure over the next two decades. It will be primarily in power, transportation and construction & mining. All these sectors require specialised forgings and your Company is focusing to be a key player in these areas.

I reiterate our target for the non auto business to contribute 40% of revenues by 2012.

Now let me move on to capital goods.
A resurgent Indian economy seems set to scale up to double digit growth with infrastructure and industrial sectors underpinning the momentum. You would be aware that the Government is contemplating an infrastructure sector investment estimated at US$ 1 trillion during 2012-2017 to propel the economy on a steeper growth trajectory. This growth will, however, require support of a strong capital goods industry. I am happy that your company is trying to emerge as a key player in the capital goods space.

Let us consider power plants. Any power plant is made up of four key elements: the turbine generator, the boiler, the balance of plant (BOP), and engineering, procurement and construction (EPC) services. Given that India will be increasing its installed capacity in power generation from 155 GW today to an estimated 800 GW by 2030 at an average rate of 30,000 MW per annum; there will be a huge, long term demand for each of the four elements of a power plant.

Bharat Forge is determined to be a key Player in this space and we have already made significant progress on the ventures with Alstom & NTPC to prepare ourselves for this emerging opportunity.

Alstom: The venture with Alstom had been technically qualified for the NTPC Bulk procurement of 11X660 MW of turbines and generators. The land for this venture has been acquired in Mundra (Gujarat) in December 2009 and construction of the facility would commence soon. The Company is also engaged in dialogue with a range of power project developers and utilities.