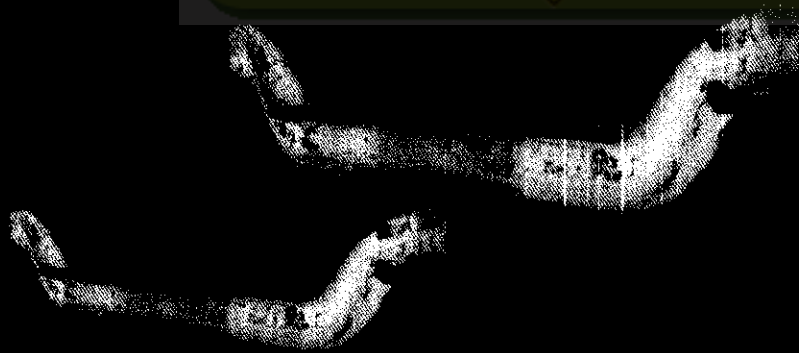




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BOARD OF DIRECTORS

B. N. Kalyani

(Chairman & Managing Director)

S. Mukherji

(ICICI Nominee)

B. Rai

(UTI Nominee)

Pratap Bhogilal

S. S. Marathe

Atul C. Kirloskar

P. R. Latey

Anil Rege

S. M. Thakore

G. K. Agarwal

(Executive Director)

P. C. Bhalerao

(Executive Director)

Registered Office

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Visit us at : <http://www.bharatforge.com>

Bankers

Bank of India

Bank of Maharashtra

Bank of Baroda

Canara Bank

State Bank of India

Citibank N. A.

ABN AMRO Bank N. V.

Banque Nationale De Paris

HDFC Bank Ltd.

Solicitors and Advocates

Bhaishanker Kanga & Girdharlal

Auditors

Dalal & Shah

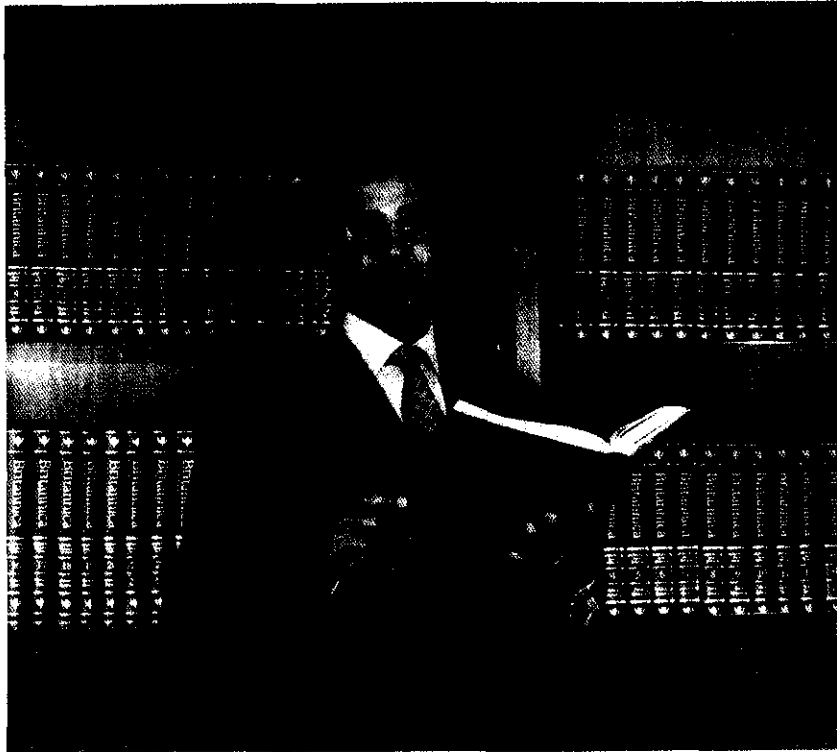
Chartered Accountants

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Cover : The crankshaft and front axle beam are two of the most critical forgings in a vehicle.
Bharat Forge is a major supplier of these components on a worldwide basis.

CHAIRMAN'S STATEMENT



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Dear Shareholders,

It gives me great pleasure to present your Company's 38th Annual Report for 1998-99. I would like to take this opportunity to inform you about some qualitative aspects of your Company's working during the year, which will provide you with a clearer insight of our current performance, as also vision, strategies and plans for the future.

The year 1998-99 was one of the most difficult years for your Company. Industrial growth during 1998-99 stood at 3.8 per cent. The manufacturing sector grew at 4.1 per cent, which was distinctly lower than 6.7 per cent in 1997-98.

According to the IMF's World Economic Outlook, India's relatively closed economy has shown resilience in the face of financial turbulence in the Asia-Pacific Region. Even so, the effects of the Asian melt down, the Japanese recession, the economic upheaval in Brazil and continued crisis in Russia have impacted the Indian economy. Coupled with a lack of domestic demand, the GDP growth stood at a little over 5 per cent in 1998-99.

It is a matter of great satisfaction that Bharat Forge has produced good results.

Some sectors of the economy were more adversely affected than others. Automobile and auto-ancillary sectors, for instance, were among the worst affected by the recession. Several forging companies, dependent on the fortunes of the automotive sector were either forced to drastically curtail production or down shutters.

The commercial vehicle industry, which is the largest customer of our Company's products, has shown a decline of over 47 per cent in the last two years.

In this backdrop, it is a matter of great satisfaction that Bharat Forge has produced good results. This is attributable to the commitment and dedication of employees who have helped buckle up costs in the recent tough times. Having drawn valuable lessons from the testing period, your Company is well poised for future growth with :

- Increasing market share
- Capacities well in place
- Quality recognition
- Thrust on export markets
- Continuous cost reduction

I would like to elaborate upon some of the strategic and operational measures which have been taken up, mainly in the following areas :

1. Sales :

The segment-wise distribution of sales is aimed at better dispersal across the various market segments, with emphasis on Exports and Tractors and Agricultural Equipments. By spreading out the sales across various sectors, we expect to counter the ill-effects of cyclicalities.

Recent estimates and anecdotal evidence point towards the 12th normal monsoon, in succession. Coupled with the attention given to the agrarian segment in the Budget, rural disposable incomes are expected to go up. We expect the strong rural demand generated by improved agricultural performance to improve our sales in coming years.

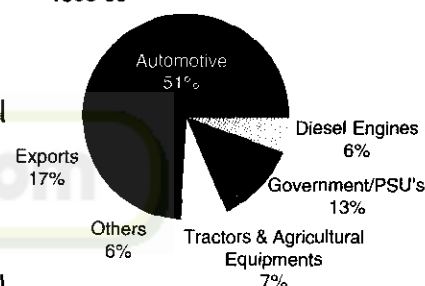
2. Exports :

In the current year, there was a drop in exports to the extent of 17 per cent i.e. from Rs. 895 million in 1997-98 to Rs. 743 million in 1998-99, basically due to global recessionary trends.

Your Company has garnered new connections in the export market for fully machined products and developed a new range of forgings for oil & gas sector applications.

Industrywise breakup of Turnover

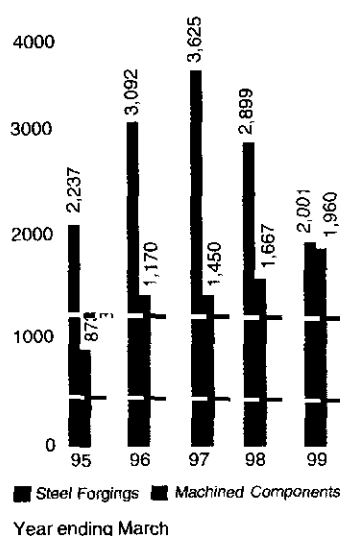
1998-99



Machined Front Axle Beams for export markets

Export of steel forgings & machined components

Rs. in million



Your Company has garnered new connections in the export market for fully machined products and developed a new range of forgings for oil and gas sector applications.

Some of the strategic advantages enjoyed by Bharat Forge which are expected to substantially improve our thrust in the export markets are:

- Comparable equipment, facilities and manpower with contemporary manufacturing skills to ensure world class product quality.
- Competitive pricing.
- Strong customer focus.

Some of the achievements include :

- BFL being identified by Volvo, Sweden, as a world class forge shop and future strategic alliance partner.
- "Preferred Supplier" status with Meritor, USA.

Since exports is central to our overall business strategy, we have decided to install a second 16,000 T Weingarten Forging Press line, by the third quarter of 1999-2000, to take care of growing demand and to provide a backup facility to customers who depend entirely on us for their requirements. With this, Bharat Forge will be one of the only two companies in the world to have two 16,000 T Forging Press lines.

3. Reduction in Inter-Group Investments :

Your Company understands the need to rationalise its investments and has, therefore, initiated the following measures :

- Substantial sale of holdings in Kalyani Lemmerz Limited.
- Proposed merger of Kalyani Seamless Tubes Limited with Indian Seamless Metal Tubes Ltd. to reduce inter-group investments.

4. Debt Portfolio :

Your Company's strategy of restructuring its capital to reduce financing costs has yielded highly satisfactory results. Total debt has been reduced from a level of Rs.4,621 million in 1997-98 to Rs.3,957 million, a decline of Rs.664 million. We expect to maintain this pace over the next two years and bring down the size of our debt portfolio to a region of about Rs.3000 million.

Bharat Forge will be one of the only two companies in the world to have two 16,000 T Forging Press lines.

FUND FLOW STATEMENT

Rs. in million

No.	Particulars	1998-99	1997-98
I	Sources of Funds		
a	Internal Accruals :		
	Profit after tax	373	362
	Add : Depreciation and amortisation	301	246
		674	608
b	Sale of Investment / Reduction in Loans & Advances	277	17
c	Reduction in Working Capital	638	533
d	Increase in Loans	-	152
	Total	1589	1310
II	Application of Funds		
a	Fixed Assets	745	1069
b	Dividend	166	168
c	Repayment of Loans	664	-
d	Adjustments to Reserves / prior year adjustments	14	73
	Total	1589	1310

The result of on-going cost reduction measures is reflected in Gross Margins (PBDIT to Sales) increasing from 24.1% in 1997-98 to 24.71% in 1998-99.

As a result of the above and a pragmatic cash management policy, we have been able to substantially improve our fund flows as given :

One of the most visible impacts of this strategy to prune our debt has been on interest costs. In spite of larger investments in manufacturing facilities, interest costs were scaled down from Rs. 446.40 million in 1997-98 to Rs. 424.48 million in 1998-99. It may be pertinent to note that the 1998-99 interest cost is inclusive of the financing cost incurred at the new MCD facility at Chakan, amounting to Rs. 28.5 million.

5. Cost Reduction / Savings :

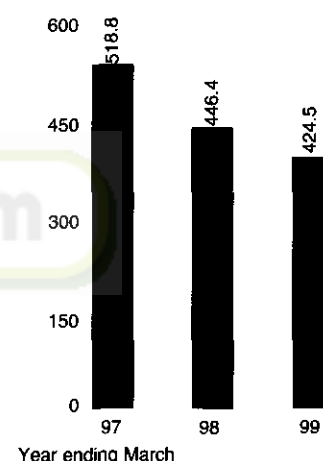
Some of the significant areas where cost savings aggregating to Rs. 79.10 million were achieved in 1998-99, are:

- Scrap - Rs. 35.30 million
- Interest cost - Rs. 21.90 million
- Raw Material - Rs. 6.30 million
- Energy - Rs. 8.80 million
- Overtime - Rs. 6.80 million

The result of on-going cost reduction measures is reflected in Gross Margins (PBDIT to Sales) increasing from 24.1% in 1997-98 to 24.71% in 1998-99. This is in spite of the difficult market conditions and price pressure under which your Company has been operating. Cost reduction is a continuous process. There can be no letting up in our efforts.

Interest Cost

Rs. in million



A Multi Wheel Grinder at Chakan



State-of-the-art CAD/CAM facility

6. Information Technology :

I must make special mention of the initiative that we took during the year to introduce extensive use of information technology in our Company's working. Not only is IT a necessity from the standpoint of a Company that is going global, but it is also a very powerful tool for radically improving organisational efficiencies.

We have now attained a base level for IT usage. Our internal as well as external communications are now largely IT based. Technical data and drawings/models are now electronically exchanged with many customers.

We are now progressing to a higher level of IT usage. We have already begun implementing SAP R/3, an ERP package. We expect to go online with high priority modules during the current year. Our IT objective is to improve organisational efficiencies and achieve cost reduction.

7. Year 2000 (Y2K) :

I am glad to report that all systems, equipments and procedures in Bharat Forge have been audited and steps are in place to be fully compliant by September, 1999.

8. Corporate Governance :

As Indian industry rapidly integrates with the global mainstream, we recognise that it is imperative for us to meet the highest standards on Corporate Governance. I would like to affirm that we at Bharat Forge are fully committed to this.

CII has recently formulated a desirable code for Corporate Governance. I am glad to say that in our Company, we are already conforming to most of the recommendations vis-a-vis Board of Directors with particular emphasis on role of non-executive directors, nature and content of disclosures, etc. I would like to assure the members that with the passage of time, our conformance with the recommended code will constantly improve.

9. Employees :

Our people are our strength. We are fortunate that we have a strong cadre of employees who are fully committed and dedicated to organisational goals.

Our IT objective is to improve organisational efficiencies and achieve cost reduction.

Our policy is to consistently motivate and empower our people. We do this by providing them with good working conditions. We also place tremendous emphasis on training as a means to improve skills and performance. This has paid rich dividends.

Our policy is to consistently motivate and empower our people.

10. Conclusion :

I hope that I have been able to impress upon you the strong fundamentals on which our Company rests. I have no doubt in my mind that the future is going to be extremely bright, though challenging for Bharat Forge. I would like to wish you all the very best and hope that your investment in Bharat Forge will grow and we will all be able to derive the benefits of greater progress and prosperity.



B. N. Kalyani
Chairman & Managing Director

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STOCK DATA

