

forging ahead

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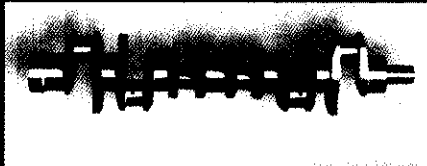
BHARAT FORGE LIMITED 39TH ANNUAL REPORT 2000



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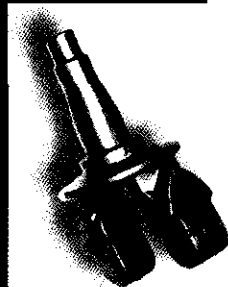
steering knuckle for small trucks and utility vehicles



fully machined crankshaft



axle beam for non-drive front axles of heavy trucks



steering knuckle for heavy trucks

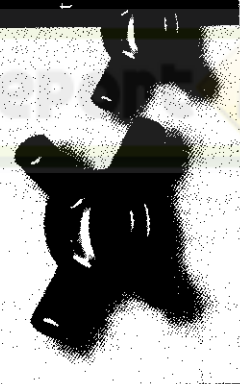


6-cylinder crankshaft

camshaft



trunnion for heavy truck rear axles



steering knuckles



connecting rod forging for heavy trucks



forged valve body (5000psi rating for oil and gas industry)



Manufacturing sales was Rs.5,677 million

- a 24 per cent increase over the previous year

Total income was Rs.5,853 million

- a 20 per cent increase over 1998-99

- Exports grew 49 per cent to touch Rs.1,108 million

Profits before depreciation, interest and taxes as a share of total income was 25.1 per cent

- much higher than the previous year and well above the industry average

Profit before tax was Rs.728 million

- a 74 per cent growth over 1998-99

Profit after tax was Rs.626 million

- up by 68 per cent compared to the previous year

Return on net worth stood at 15.6 per cent

- up from 9.1 per cent for 1998-99

Return on capital employed was 14.4 per cent

- against 10.5 per cent for the previous year

- Second 16000 MT Weingarten forging press line commissioned

- Bharat Forge is now the largest single location forging company in the world

HIGHLIGHT



Dear fellow Shareholders,

The financial year 1999-2000 has seen your company record its best ever results. Here are some highlights.

- Manufacturing sales was Rs.5,677 million
 - a 24 per cent increase over the previous year.
- Total income was Rs.5,853 million
 - a 20 per cent increase over 1998-99.
- Profit before tax was Rs.728 million
 - a 74 per cent growth over 1998-99.
- Profit after tax was Rs.626 million
 - up by 68 per cent compared to the previous year.
- Profits before depreciation, interest and taxes as a share of total income was 25.1 per cent
 - much higher than the previous year and well above the industry average.
- Return on net worth stood at 15.6 per cent
 - up from 9.1 per cent for 1998-99.
- Return on capital employed was 14.4 per cent
 - against 10.5 per cent for the previous year.

Today Bharat Forge Limited (BFL) is Asia's largest commercial forging company

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and among the three largest in the world. In axle and engine components, we are one of the largest in the world.

While your company's financials show excellent growth figures, I am much more satisfied with the quality of Bharat Forge's earnings last year and the initiatives we have put in place to drive BFL into the future — initiatives such as restructuring, cost efficiencies, technology and market development.

CHANGING SALES PROFILE First, the company's growth in exports. BFL's exports touched Rs.1,108 million in 1999-2000 – a growth of 49 per cent over the previous year. Our new customers include prestigious names like Daimler Chrysler, Volvo and Motoren and Turbinen-Union. BFL has created major bridgeheads in selected markets abroad, and enlarged its product range for foreign markets. More significantly, exports have fostered a very different manufacturing discipline within your company. Volumes per order are much larger; customers are more demanding; products have to incorporate the latest technology upgrades; and being a player in the international market requires constant process and technology improvements. Exports hone a company's competitive edge, and BFL has become a much stronger manufacturing entity because of this experience. Your company has set an export target of Rs.1,500 million for 2000-01.

Second, your company has been vigorously pushing the sale of value added machined components. This has helped BFL garner larger market shares and substantially increase the bottom line. This year, machined components represented 47 per cent of BFL's sales – up from 29 per cent in 1996-97. I see another advantage in this value push. It will transform your company from being a 'generic' supplier of forgings to the automotive industry, to that of a 'preferred' supplier and partner of choice to the best automotive and engineering companies in the world.

DRIVING WITH TECHNOLOGY In the coming years, your company will be focusing on six key areas:

- Be the best player in the world in technology
- Penetrate the small forgings market
- Increase value addition
- Achieve greater cost efficiencies
- Step up exports
- Become fully networked through information technology.

While these are detailed in the section on Management Discussion and Analysis, let me go into the vision behind some of these initiatives. A key driving force in attaining our goals is going to be technology. In fact, our recent breakthroughs in the international markets have been largely due to the tremendous progress we have made in this front in the last couple of years. But this is nothing compared to the current changes in technology that confront us. Internet is making the 'any-time – anywhere' paradigm a reality. A major component of the changes taking place around us is driven by the internet. We will like to be at the forefront of the technology revolution that is sweeping the world.

Towards this end, we are taking several steps to make BFL E-enabled. Your com-

pany is in the process of implementing SAP R/3 enterprise resource planning, and integrating it completely with the supply chain. When completed later this year, BFL will be ready to log into an E-commerce platform.

Let me share with you some examples of what information technology is already doing to your company. We have considerably reduced the development time for new products. Drawings and 3-D models are directly transferred on to our computers by our customers. Die designs are being tested using CAE based simulation models. Die manufacturing is done using cutter paths generated through computers thereby making jobs right the first time, reducing cost and improving quality. More of such services will make Bharat Forge a knowledge driven, E-enabled corporation - a partner that provides products as well as business solutions.

RATIONALISING BUSINESSES In last year's annual report, I had written to you that we would be rationalising our investments in group companies. I am now happy to inform you that we have divested our majority stake in Kalyani Lemmerz for Rs.680 million. We have recently concluded the merger of Kalyani Seamless Tubes with Indian Seamless Metal Tubes. Today, BFL's financial assets as a percentage of total assets is down to 31 per cent, from the high of 51 per cent in 1996-97. In 2000-01 we expect to further scale down our financial assets, if not eliminate them all together.

US GAAP ACCOUNTING As we become a global company, we shall strive to meet the best international practices, not just in manufacturing but in other areas of our business, including financial reporting. In 2000-01, we will reconcile our accounts with the US generally accepted accounting principles (GAAP). The following year we will start reporting our accounts with full US GAAP accounting.

CORPORATE GOVERNANCE In my letter to you last year, I had mentioned that we will meet the highest standards of corporate governance. SEBI has recently formulated a code for corporate governance which comes into force for BSE Group A companies like ours from 2000-01. However, we have decided to benchmark ourselves against this code from this year itself. I am happy to note that your company is already complying with most of the code. In this year's annual report, we have added a separate section on corporate governance where you can see where your company stands vis-à-vis the SEBI as well as the CII code.

EMPLOYEES An organisation is what its people are. At Bharat Forge, we are fortunate to have some of the best human resources in the country. These all time best results could not have been attained but for the hard work of our team. In future as we become more technology and knowledge driven, the only factor that can guarantee us good growth rates is human resources. I am very proud of the quality of human resources and confident in their abilities to take us to our goals. I invite all of you to join me in applauding this great performance.



B. N. Kalyani

BOARD OF DIRECTORS

B N KALYANI
Chairman & Managing Director

S MUKHERJI
ICICI Nominee

B RAI
UTI Nominee

PRATAP BHOGILAL
S S MARATHE
ATUL C KIRLOSKEAR
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
Citibank NA
ABN AMRO Bank NV
Banque Nationale de Paris
HDFC Bank Ltd

SOLICITORS & ADVOCATES

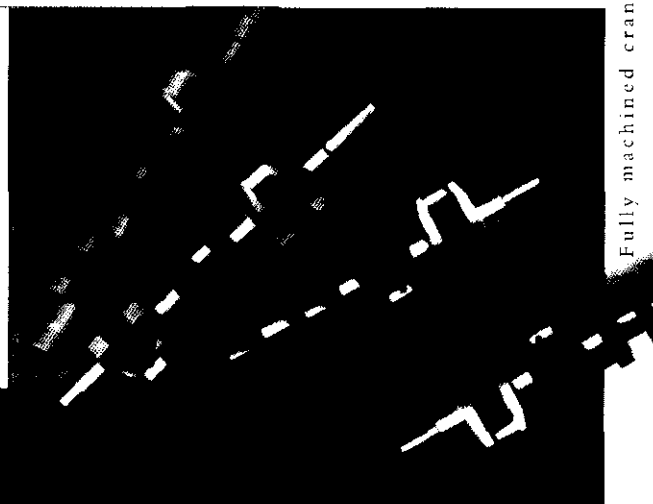
Bhaishanker Kanga & Girdharlal

AUDITORS

Dalal & Shah, Chartered Accountants

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Fully machined crankshaft

The performance of Bharat Forge Limited (BFL) for 1999-2000 has been significantly better than the previous year. At a time when most forging companies have been going through severe crises, BFL has succeeded in posting:

- A 20.2 per cent top line growth - Rs.5,852.7 million in 1999-2000 versus Rs.4,867.5 million in the previous year.
- A 67.8 per cent growth in profits after tax - Rs.626.2 million in 1999-2000 versus Rs.373.2 million for the previous year.

The improvements in BFL for 1999-2000 can be seen across all relevant parameters: greater sales, higher market penetration, change in product mix to high value items, across-the-board operational efficiencies through widespread use of state-of-the-art manufacturing and information technology, and a much stronger financial performance.



The top line consists of income from manufacturing, trading and other income. During the year under review, sales revenue arising out of manufacturing alone has increased by 23.6 per cent - from Rs.4,593.6 million in 1998-99 to Rs.5,677.2 million in 1999-2000. This sales growth has been due to two major external changes, which BFL anticipated and took advantage of. These were:

- Improved performance of the customer segment.
- Developments in the automobile and forging industries.

Both these changes require some elaboration, for these not only explain BFL's superior performance during 1999-2000, but also show how the company succeeded in doing significantly better than the industry as a whole.

IMPROVED PERFORMANCE OF BFL'S CUSTOMER SEGMENT

The company's main customer segment is the automotive industry. Between 1996-97 and 1998-99, the production of heavy and medium commercial vehicles fell by 48 per cent - from 156,000 per year to 81,000.