



42nd Annual Report 02 | 03

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Highlights



Sales increased by 45 per cent – from Rs.4,718 million in 2001-02 to **Rs.6,860 million** in 2002-03.



Exports grew by 146 per cent – from Rs.1,104 million in 2001-02 to **Rs.2,714 million** in 2002-03. Exports now account for 39 per cent of total income.



Operating profit (PBDIT) rose by 64 per cent – from Rs.1,197 million in 2001-02 to **Rs.1,959 million** in 2002-03.

Interest outgo reduced from Rs.454 million in 2001-02 to Rs.408 million in 2002-03.



Profit before tax (PBT) increased by 227 per cent – Rs.346 million in 2001-02 to **Rs.1,133 million** in 2002-03.



Profit after Tax (PAT) shot up by 281 per cent – from Rs.213 million in 2001-02 to **Rs.811 million** in 2002-03.



Return on Net Worth (RONW) increased from 12.1 per cent in 2001-02 to **32.5 per cent** in 2002-03.



Return on Capital Employed (ROCE) grew from 14.3 per cent in 2001-02 to **27.2 per cent** in 2002-03.



Earnings per share (EPS) rose from Rs.5.31 in 2001-02 to **Rs.20.71** in 2002-03.





Chairman's Letter

Dear Shareholder,

2002-03 has been the best year in the history of your company. Fuelled by a 146 per cent growth in exports, Bharat Forge succeeded in overcoming a limited domestic market to post its highest sales, exports, operating profits, pre- and post-tax profits, earnings per share, and return on capital employed as well as on net worth.

The chapter on Management Discussion and Analysis gives details of our achievements in 2002-03. Even so, I would like to emphasise a few of these.

Exports This has been your company's source of pride. In the Annual Report for 2001-02, I had written "we are confident of notching at least a 50 per cent growth in exports in 2002-03." I am delighted to inform you that your company's exports grew by 146 per cent — from Rs.1,104 million in 2001-02 to Rs.2,714 million in 2002-03. Today, exports account for 40 per cent of sales. More significantly, we have diversified and de-risked our export basket in terms of products, customers and geographies. For instance, last year we were working on entering the Chinese market. In 2002-03, exports to China accounted for Rs.643 million, or almost 24 per cent of your company's total exports. Even more satisfying is the fact that over the last four years we have put systems and processes in place which should support further growth of exports.

Sales Thanks to your company's export achievements, sales grew by 45 per cent to Rs.6,860 million in 2002-03.

Profits Our focused cost cutting, productivity enhancing and re-engineering initiatives of the last few years are beginning to pay off. Your company's Profits before depreciation, interest and tax (PBDIT) increased by 64 per cent to Rs.1,959 million in 2002-03. Profits before tax (PBT) increased by 227 per cent to Rs.1,133 million. Profit after Tax (PAT) grew by 281 per cent to Rs.811 million in 2002-03. Consequently, your company's earnings per share (EPS) almost quadrupled from Rs.5.31 in 2001-02 to Rs.20.71 in 2002-03.

You may recollect that in my letter to you in the Annual Report for 2001-02, I emphasised three objectives for 2002-03. These were: (i) maintaining an aggressive export thrust, (ii) increasing the share of value added products, and (iii) continuing to reduce costs at all levels of operation. When you go through the results for 2002-03 and read the Management Discussion and Analysis, you will agree with me that we have achieved all these objectives.

However, our quest for excellence and growth is far from over. In fact, our journey has just begun. And I want to share with you four initiatives that we are focusing on during 2003-04 and thereafter.

1. Capital investment

I see continuing growth in exports and a stable domestic market for your company's products for the foreseeable future. It is very likely, therefore, that we will reach full utilisation of our existing capacities by the third quarter of 2003-04. Given the lead time taken to install plant and machinery, we have already begun planning and budgeting for capacity expansion. Consistent with our objectives of increas-

ing the share of value added products and de-risking our portfolio through product and segment diversification, we are focusing on two important areas. First, we will be increasing the capacity of our machined components division by creating world class machining facilities for our engine component business. Systematically adding such capacity over a three-year period will help your company to achieve its target of being one of the top global players in this area. Second, we are investing in smaller, state-of-the-art, forging presses to produce components for passenger cars — a market segment where your company expects significant growth in international as well as domestic demand. This year, our second 6,000 MT press is being installed. Based on long-term contracts from our customers, we may install two more such presses thereafter.

2. Overseas acquisitions

Organic growth is important, but not enough. To be a truly global player, your company needs to acquire capacities overseas. This will enable Bharat Forge to supply a more complete package of automotive components, and bestow the maximum benefits of a blended pricing strategy. We are looking at some overseas acquisition opportunities. Unfortunately, we are not in a position to share further information right now. If and when such acquisitions are achieved, we shall let you know the details.

3. Focusing on the balance sheet

In 1998-99, 1999-2000 and 2000-01, your company focused on reducing costs and overheads, and increasing throughput and productivity. By 2001-02, we were well placed to focus on driving exports and top-line growth — an objective that will continue well into the future. From this year (2003-04) onwards, we will concentrate on further improving Bharat Forge's balance sheet. We want to further bring down current assets and inventories, reduce net working capital and, despite higher growth, cut down the proportion of money needed to run the business. We believe that it is important to focus on remaining trim in times of plenty. In fact, given that your company is planning to invest in new capacities and overseas acquisitions, it is vital to keep an ever vigilant eye on the size of the balance sheet.

4. R&D

In the past, we have done some work in the 'development' side of R&D. For instance, in 2002-03, we upgraded our computer aided design systems, and actively used a new three-dimensional software for simulating metal flows and validating product designs. Going forward, we are allocating clear-cut budgets to build a much more significant R&D platform for new product development. We see this as a critical tool in maintaining a competitive edge.

In today's day and age, it is hazardous for any Chairman to publicly comment on future revenues and profits. I, too, shall err on the side of caution. Even so, it would be fair to say that I see your company increasing sales, customers as well as exports in 2003-04. And, if our initiatives at controlling the balance sheet fructify as I expect it will, you ought to be seeing greater profits and shareholder value as well.

As always, I would like to take this opportunity to thank all the employees of Bharat Forge for the excellent results of 2002-03. I can see the DNA of each of us in the company changing. Several years of ordeal by fire tempered our steel; increased speed to market; and made us more hungry and competitive. Today, secure in their abilities, our employees see themselves as integral elements of a confident, export oriented, internationally competitive company called Bharat Forge. To me, that is the most rewarding aspect of our globalisation drive.

Finally, I want to thank all of you for the confidence you have reposed in us. Your faith encourages all of us at Bharat Forge to strive even harder.

Yours sincerely



B.N. Kalyani
Chairman and Managing Director

BOARD OF DIRECTORS

B N KALYANI
Chairman & Managing Director

P H RAVIKUMAR
ICICI Nominee

PRATAP BHOGILAL
S S MARATHE
ATUL C KIRLOSKAR
P R LATEY
ANIL REGE
S M THAKORE
S D KULKARNI

G K AGARWAL
Executive Director

P C BHALERAU
Executive Director

**BANKERS**

Bank of India
Bank of Maharashtra
Bank of Baroda
Canara Bank
State Bank of India
HDFC Bank Limited
ICICI Bank
Citibank NA
ABN AMRO Bank NV
Standard Chartered Bank

REGISTERED OFFICE

Bharat Forge Limited
Mundhwa, Pune Cantonment
Pune 411 036, Maharashtra, India
Phone: (020) 687 1666/ 687 0451
Fax: (020) 687 0693/ 687 6961
Cable: Forge, 411 036
Website: www.bharatforge.com

SOLICITORS & ADVOCATES

Bhaishanker Kanga & Girdharlal

AUDITORS

Dalal & Shah, Chartered Accountants



Management Discussion & Analysis

2002-03 has been a landmark year in the history of your company. Bharat Forge's carefully crafted strategy of transforming itself into an export-driven, internationally cost competitive company has yielded impressive gains. During the year under review, the company recorded its best ever financial results, and its revenues, profits, and profitability reached an all-time high.

- **Sales** grew by 45 per cent — from Rs.4,718 million in 2001-02 to Rs.6,860 million in 2002-03.
- **Exports** grew by 146 per cent — from Rs.1,104 million in 2001-02 to Rs.2,714 million in 2002-03. Exports now account for 39 per cent of total income.
- **Operating profit** (PBDIT) increased by 64 per cent — from Rs.1,197 million in 2001-02 to Rs.1,959 million in 2002-03.
- **Interest outgo** reduced from Rs.454 million in 2001-02 to Rs.408 million in 2002-03.
- **Profit before tax** (PBT) increased by 227 per cent — from Rs.346 million in 2001-02 to Rs.1,133 million in 2002-03.
- **Profit after tax** (PAT) shot up by 281 per cent — from Rs.213 million in 2001-02 to Rs.811 million in 2002-03.
- **Return on Net Worth** (RONW) increased from 12.1 per cent in 2001-02 to 32.5 per cent in 2002-03.
- **Return on Capital Employed** (ROCE) grew from 14.3 per cent in 2001-02 to 27.2 per cent in 2002-03.
- **Earnings per share** (EPS) rose from Rs.5.31 in 2001-02 to Rs.20.71 in 2002-03.

Thus, after two difficult years, improvements in Bharat Forge's performance during the year under review are visible across all important parameters: significant top line growth;

buoyant export income; higher domestic and overseas market penetration; greater operational efficiencies; reduced interest outgo; record profits; and higher return on equity as well as capital employed.

To a certain extent, your company's performance was assisted by a macro-environment that was more conducive to growth than the one that existed in the last two years. Even though advance estimates released by the Central Statistical Organisation (CSO) peg GDP growth for 2002-03 at 4.4 per cent — which is less than the 5.6 per cent GDP growth recorded in 2001-02 — the fact remains that the industrial and manufacturing sectors have witnessed a revival. According to these estimates, the industrial sector grew by more than 6 per cent during 2002-03, against 3.3 per cent in the previous year; and the manufacturing sector grew by almost 7 per cent, versus 2.7 per cent in the previous year. The latest data from the Society of Indian Automobile Manufacturers (SIAM) shows that production of heavy, medium and light commercial vehicles and utility vehicles in India — Bharat Forge's largest domestic customer segments — has witnessed a growth of around 17 per cent in 2002-03.

Bharat Forge Limited (BFL) has overcome domestic and global downturns due to its long term vision and strategic initiatives. Today, BFL is securing more and more global customers, and has a reach across market segments worldwide.

VISION

1997-2002

The planned transformation of an old economy company into a competitive global organisation took 5 years, and the vision is to be ■ among the top 3 global players ■ to aggressively grow the business by accessing global markets ■ to set global benchmarks in **cost, technology, speed-to-market parameters and customer service** ■ to create sustainable shareholder value through the successful implementation of these growth plans

GROWTH
STRATEGYCOMPETITIVE
STRATEGY

- ▶ **FOCUS ON COST** Efficiency through manpower rationalisation, energy utilisation, reduction of interest as a percentage of sales, improved vendor management and process optimisation through technology.
- ▶ **FOCUS ON QUALITY** Emphasis on quality processes through 5S, Wave Teams, Kaizen, and continuous improvement has resulted in recognition through QS 9000 and API-6A, and the conferring of preferred supplier status by customers.
- ▶ **FOCUS ON TECHNOLOGY** We have used a combination of fully automated press lines, CAD-CAM systems, virtual manufacturing ability and in-house tool making capacities to create a globally competitive and speedy manufacturing process, supported by state-of-the-art IT tools.
- ▶ **FOCUS ON SPEED** Our competitive advantage: BFL has the fastest "speed to market" product development time as compared to other manufacturers.
- ▶ **GLOBAL SCALE** BFL has invested in world class manufacturing facilities, with an installed capacity of 120,000 tpa of forgings and 400,000 nos. pa of finish machined crankshafts.
- ▶ **HUMAN RESOURCES** HR has been restructured to create a lean 3 level organisation structure with a reduced middle management and multi-functional and interdisciplinary jobs. We have over 400 engineers, who are trained and re-trained in house and overseas.
- ▶ **VALUE ADDITION** BFL has focussed on manufacturing high-volume, value-added products. Thus the percentage of machined components has gone up from 42% in 2000-01 to 49% in 2002-03.

- ▶ **GEOGRAPHIC DIVERSITY** The company has been able to de-risk itself by reducing its over-dependence on one country. Thus, while maintaining a strong presence in the US, BFL has widened its footprint in Europe, and made successful forays into China.
- ▶ **MARKET DIVERSIFICATION** We have been developing customers in diverse segments of the automobile industry, such as passenger cars and utility vehicles. We have also sustained exports to the oil and gas and construction equipment industries, and focussed attention on small forgings.
- ▶ **WIDENING THE CUSTOMER BASE** The number of global customers has steadily gone up to 24.
- ▶ **INORGANIC GROWTH** BFL's UK acquisition has already yielded 10 new customers.

The
bottom lineGlobal
competitivenessWell-rounded
business modelFocussed
growth

Scalability

Setting the pace in
product development

While this recovery of the industrial and manufacturing sectors of the Indian economy has contributed to your company's improved performance in the domestic market, this is not the major reason for Bharat Forge's success. The improved sales, operational and financial performance of Bharat Forge are largely the result of its export thrust and internal cost management. This will be discussed in detail in later sections.

For the last few years we have been consistently following and executing a carefully conceived strategy. We have communicated this strategy to you on various occasions, and even in challenging times, our belief and conviction in our strategy have not wavered. The key components of this strategy are:

- Reducing cost of operations.
- De-risking the business model by intensifying export thrust with a wider geographical spread.
- Achieving global scale of operations.
- Manufacturing high volume, high value added products.
- Leveraging technology.
- Creating a knowledge driven, e-enabled company.

The financial and operational successes enjoyed by your company in 2002-03 vindicates and strengthens our belief that the strategy we have been pursuing is driving growth and transforming Bharat Forge into a global player.

During the course of this discussion, we shall review the developments that took place during the year, and how the company has successfully leveraged its strengths and initiatives to deliver the best ever results. We shall begin with markets, move on to operations, and then discuss the financials.

MARKETS

Bharat Forge's sales have grown by 45 per cent, from Rs.4,718 million in 2001-02 to Rs.6,860 million in 2002-03. As **Chart A** shows that, while domestic sales have increased by 15 per cent, your company's exports have risen by 146 per cent. It is gratifying to see domestic sales growing in 2002-03, after suffering a decline for two consecutive previous years. Nevertheless, it is evident that exports have contributed to top line growth. Without our success in international markets, we could not have posted a 45 per cent increase in sales.

Given the rapid growth in exports, and the

fact that it accounted for almost 40 per cent of your company's sales in 2002-03, it is appropriate that we first focus on Bharat Forge's export drive, before moving on to analyse the state of the domestic market.

Export Market

As stated earlier, exports increased from Rs.1,104 million in 2001-02 to Rs.2,714 million in 2002-03 — a growth of 146 per cent in the year. Exports now account for 40 per cent of sales, and 39 per cent of total income.

These figures are a matter of satisfaction for us, as they vindicate our strategy of making exports the driver of our growth, and of expanding into new geographical markets. In a year graced with many highlights, 2002-03 will, above all, be remembered by us as the year when Bharat Forge's exports reached a critical mass.

It is useful to emphasise a few significant features that reflect your company's growing capabilities in international markets:

- The company now has 24 international customers. These include names such as Daimler Chrysler, Volvo, Renault Vehicle Industries, Honda, Cummins, Dana, Arvin Meritor and Toyota.
- Exports to Renault Vehicle Industries, the second largest truck manufacturer in the world, commenced in 2002-03. Bharat Forge will supply 11 parts to the European major.
- Even as Bharat Forge's exports to the US grew by 75 per cent, and it remains the single largest geographical market for the company, the share of US in the company's total export basket has come down from 90 per cent to 67 per cent in 2002-03. Thus, the company has been able to de-risk itself by reducing its over-dependence on one country.
- De-risking through expanding the geographical footprint was, in part, achieved in 2002-03 by widening our presence in Europe as well as a concerted foray into China. Bharat Forge secured a large export order from a Chinese automotive OEM, and finished the year with revenue of Rs.643 million from China. It has also bagged a second customer in China, and will commence supplies in the first half of 2003-04.

Let us now focus on Bharat Forge's traditional overseas user segment — the US heavy truck market. As **Table 1** (overleaf) shows, for the third successive year this segment suffered a decline in sales.

