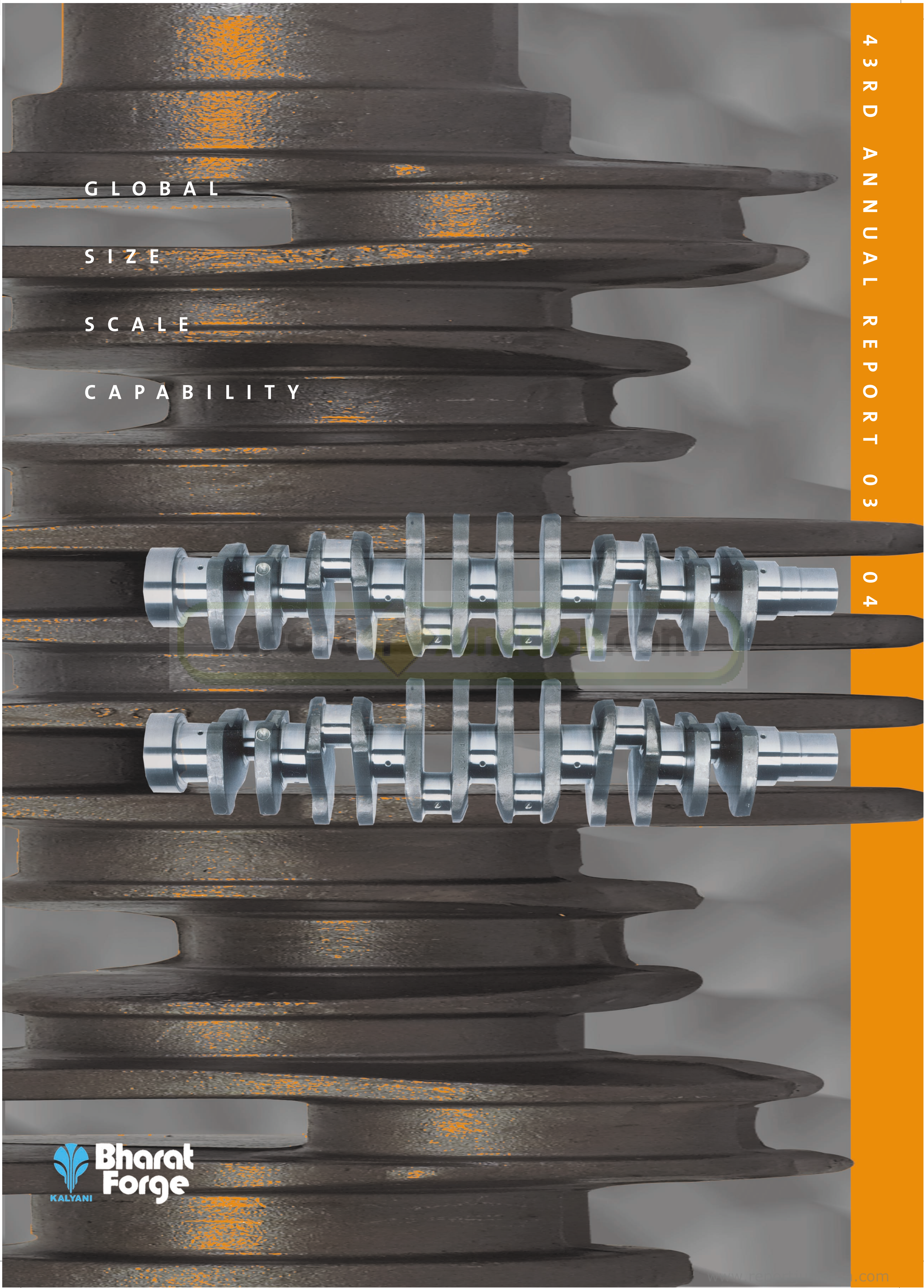

GLOBAL

SIZE

SCALE

CAPABILITY

43RD ANNUAL REPORT 03 04

Bharat Forge

KALYANI

43RD ANNUAL REPORT 03-04

Highlights 03-04

Total revenue	**Increased by 32 per cent** — from Rs.6,450 million in 2002-03 to **Rs.8,511 million** in 2003-04.
Exports	**Grew by 22.6 per cent** — from Rs.2,717 million in 2002-03 to **Rs.3,330 million** in 2003-04. Exports account for 39 per cent of BFL's total sales revenue.
Operating profit (PBDIT)	**Increased by 32.4 per cent** — from Rs.1,959 million in 2002-03 to **Rs.2,593 million** in 2003-04.
Profit after tax (PAT)	**has grown by 54 per cent** — from Rs.811 million in 2002-03 to **Rs.1,249 million** in 2003-04.
Return on capital employed (ROCE)	**has increased** from 27.2 per cent in 2002-03 to **35.7 per cent** in 2003-04.
Return on net worth (RONW)	**has risen** from 47.3 per cent in 2002-03 to **49.7 per cent** in 2003-04.
Earnings per share	**has grown** from Rs.20.71 in 2002-03 to **Rs.32.28** in 2003-04.

Chairman's Letter

Dear Shareholder,

It gives me great pleasure to present the results for the Financial year 2003-04. As you will notice, your company has exceeded the performance of FY 2002-03 on all counts. The revenues are up by 32% whereas the Profit After Tax (PAT) has crossed Rs. 1 billion mark at Rs. 1, 249 million, registering a growth of 54% over FY 2002-03. The export revenue has grown by 23% to Rs. 3,330 million. The Return on Capital Employed (ROCE) as well as Return on Net worth (RONW) have shown impressive growth.

I would like to take this opportunity to share with you some facts on how Bharat Forge is delivering on its promises. To do so, let me focus on some key areas.

Exports Over the last five years, your company has been steadily focusing on exports — not just as a de-risking strategy, but as a way of testing ourselves in competition with the best in the world. We have aggressively grown exports; widened our global footprint; secured new customers; and have become India's largest exporter of auto components. Today, your company has a strong export presence in the US, China and Europe. At Rs.3,330 million, exports account for 39 per cent of Bharat Forge's total income. This growth was achieved after fully meeting the significantly higher demand from the domestic customers, which surged on the back of robust growth in automotive industry.

Global presence We were always clear in our minds that to be an international player, Bharat Forge would have to proactively pursue international acquisition opportunities — and to complement our export thrust with inorganic growth. To this end, in January 2004, your company acquired the assets, intellectual property and the labour force of a reputed German forging company called Carl Dan Peddinghaus GmbH & Co. KG. The new entity — CDP-Bharat Forge — is a 100 per cent subsidiary of your company. With this acquisition, Bharat Forge has become the world's second largest forging conglomerate.

CDP-BF and Bharat Forge have complementary production capacities and excellent market synergies. Moreover, CDP is a key supplier to European auto majors such as BMW, Volkswagen, Daimler Chrysler and Audi, which should help your company build further bridge heads in Europe and enter the passenger car business.

CDP is the company's first significant overseas acquisition. As a part of its strategy to increase its global footprint, we are continuously examining other international acquisition opportunities.

Growing sales and profits This has been an excellent year for your company. Given below are a few indices, which speak for themselves.

- Total revenue increased by 32 per cent to Rs.8,511 million in 2003-04.
- Operating profit (PBDIT) increased by 32.4 per cent to Rs.2,593 million.
- Profit after tax grew by 54 per cent to Rs.1,249 million in 2003-04.
- Return on capital employed increased from 27.2 per cent in 2002-03 to 35.7 per cent in 2003-04.
- Return on net worth rose from 47.3 per cent to 49.7 per cent in 2003-04.
- Earnings per share grew from Rs.20.71 in 2002-03 to Rs.32.28 in 2003-04.

With the acquisition of CDP the provisional combined total revenue, PBIDT & PAT stand at Rs. 10,349 Million, Rs. 2,824 Million & Rs. 1,346 Million respectively.

Achieving global scales of operation In my letter to you last year, I had written "It is very likely... that we will reach full utilisation of our existing capacities by the third quarter of 2003-04." The huge upsurge in domestic demand, coupled with growing international order books has made this a reality. Your company, therefore, has earmarked Rs.3,500 million for augmenting capacity.

In the passenger car (small forgings) category, your company presently has one 6000 Ton and one 2500 ton pressline under installation. In addition to this, your company plans to expand its capacity further by setting up two new presslines in 5000 and 5500 Ton range including one fully automated transfer pressline. The presslines presently under implementation will be operational by June 2004. Out of the two additional lines planned, one is expected to be operational by October 2004; while the second is expected to go on-stream during the last quarter of 2004-05.

In addition, in order to augment the forging capacity for large forgings, your company is also investing in the third heavy forging pressline, which is expected to be commissioned in the first quarter of 2005-06.

Your company is also planning to expand its Crankshaft machining capacity by 200,000 numbers per year. For this purpose, BFL proposes to set up three state of the Art Crankshaft machining lines. This capacity will primarily address the Global market for Machined Heavy Duty Diesel Engine Crankshaft. Of the three lines, two are expected to be commissioned in 2004-05 and the third in 2005-06.

Through these expansions, your company's forging capacity would increase by over 100,000 MT. In addition, its machining facility would increase to over 600,000 crankshafts.

This letter to you would hardly be complete without referring to the dramatic increases in steel prices in 2003-04. Prices went up by a staggering 35 per cent in one year; and it has been difficult to cope with these price hikes in our industry where steel accounts for almost 60 per cent of input costs.

As a company, we adopted a policy to fully pass on the steel price increases to our customers. Thankfully, most of our customers have accepted this. As regards availability of steel, Bharat Forge has a considerable advantage, since we have group companies, which are producers of steel. We have leveraged this benefit to our advantage, and will continue to do so in future as well. Given that steel is the key input for your company, we are ensuring adequate availability to meet the customers' demands fully.

We will have to build our additional capacity very quickly and leverage our technologies, cost efficiencies, scale and market presence to take full advantage of this growth.

In an atmosphere where Chairmen and CEOs are advised not to say anything about the future, I have no hesitation in saying that my management team and I are optimistic about our future performance. Looking at the order books, and the de-risking of the business model that we have carried out, I see Bharat Forge continuing on its growth path.

Let me thank all our employees in India and in Germany, and our customers throughout the world, for making 2003-04 an excellent year.

I am happy to inform you that the Board of your company has recommended a final dividend of Rs.10 per share. It is a small token of thanks to you, the shareholders, for staying with your company through thick and thin. I hope, today, that the rewards are for all to see.

Yours sincerely

B.N. Kalyani
Chairman and Managing Director

2003-04

BOARD OF DIRECTORS

B N KALYANI
Chairman & Managing Director

P H RAVIKUMAR
ICICI Nominee

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

G K AGARWAL
Executive Director

P C BHALERAO
Executive Director

AMIT B KALYANI
Executive Director

BANKERS

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

AUDITORS

Dalal & Shah, Chartered Accountants

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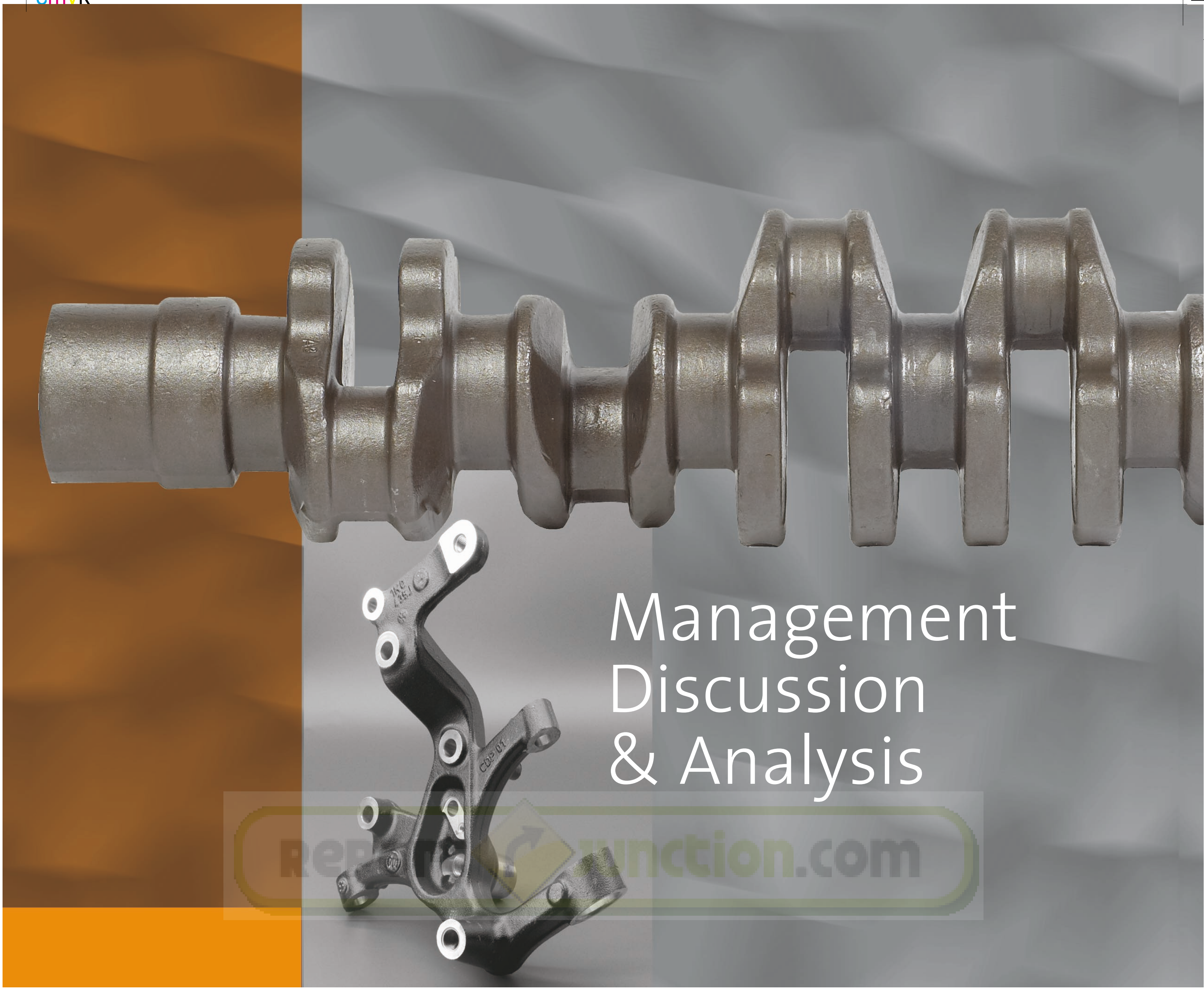
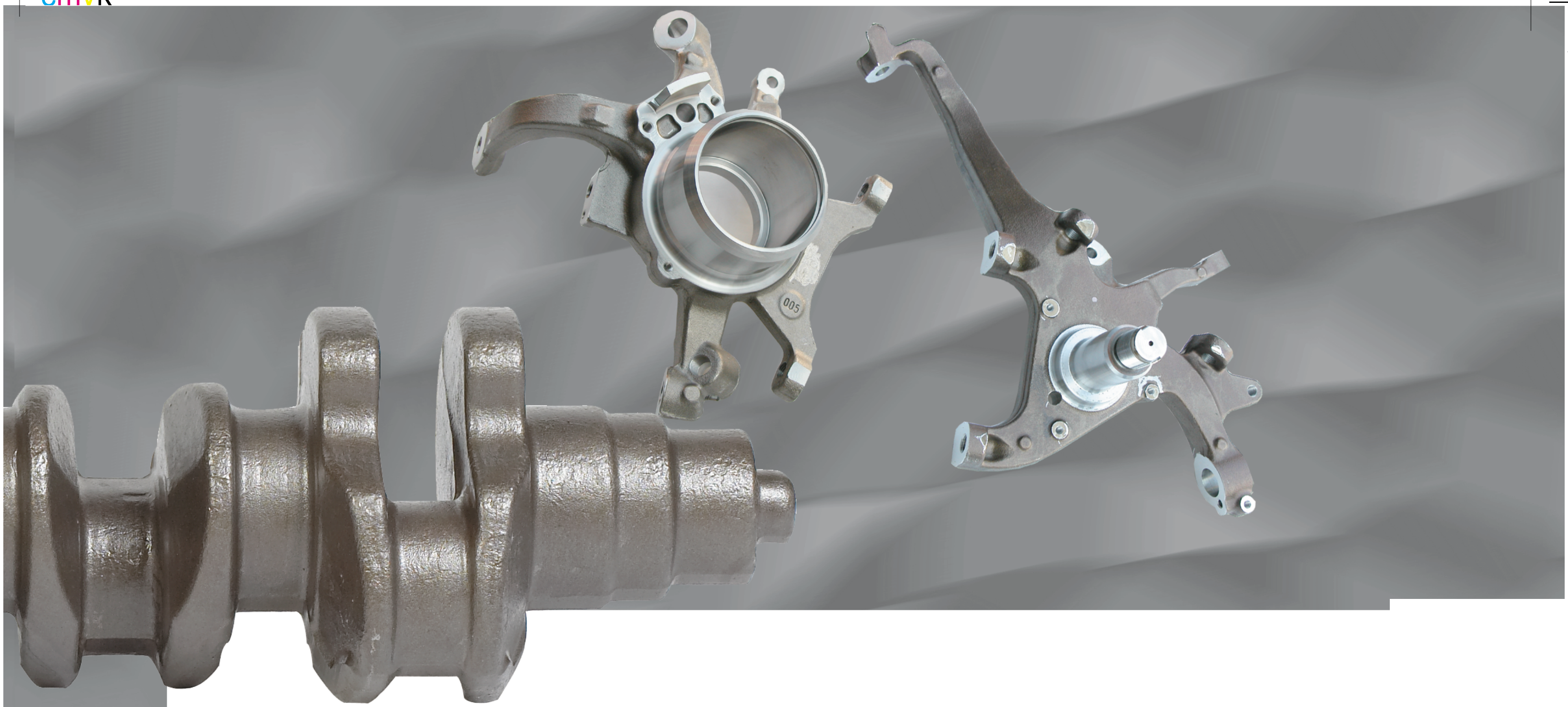
WEBSITE: www.bharatforge.com



Management Discussion & Analysis

Bharat Forge Limited's (BFL's) journey towards becoming an international player began in 1997. Three factors determined our need to go global. First, we appreciated what globalisation could do to improving quality, delivery, costs, supply chain, R&D, productivity and business processes. We, therefore, wanted to venture out and learn best practices. Second, while we had sufficient faith in domestic demand, we wanted to grow beyond the Indian market. Third, we recognised that different geographies often follow separate business cycles. We wanted to not only reduce our over-dependence on single market but also take advantage of differential growth opportunities across varying geographies.

As this chapter will show, the international strategy has paid off. Bharat Forge Limited is India's only forging company supplying globally and the country's largest exporter of auto components.



In 2003-04, BFL's total revenue increased by 32 per cent to Rs.8,511 million. Of this, exports accounted for 39 per cent. USA accounts for 17.1 per cent of the company's total income; Europe comprises 9.3 per cent; and Asia Pacific (Excluding India) 12.7 per cent. BFL has its footprints in three continents — North America, Europe and Asia. Thus, Bharat Forge is well positioned to take advantage of the global growth that is expected in 2004-05 and in the medium-term.

Economic indicators suggest that a global economic recovery is in the offing. The US economy grew by 3.1 per cent in 2003, surpassing all the other major developed economies. Economists expect US growth in 2004 to be in the region of 4.5-5 per cent. The other good news is from Japan, which has registered 2.7 per cent GDP growth in 2003. This is impressive given that the country was on stagnation mode for the last six years. China continues on its blistering growth path: it recorded 9 per cent GDP growth in 2003. Notwithstanding fears of overheating, economists anticipate yet another high growth year for China in 2004. And India registered a GDP growth of 8.1 per cent for 2003-04 — its best since the advent of liberalisation.

As regards Europe, despite some nascent signs of a mild upswing in Q4 2003, Europe may be a low growth zone. However, that should not affect BFL's prospects. With slower growth and margin pressures, we expect an increasing number of European auto majors to source their components from more competitive vendors — and Bharat Forge, with its footprint in Europe, is well placed to reap further advantages. We shall shortly discuss our new acquisition in Europe, and how it is expected to play a role in widening our presence in the continent.

One thing clearly stands out in this overall international economic scenario —the increasing role of outsourcing in an integrated global economy. Contrary to popular perception, this is not limited to IT outsourcing. In fact, the potential for growth of global outsourcing in manufacturing could very well outstrip that in the IT & IT related services. In this, automobile components play an important role. Moreover, most automobile majors and OEMs have begun to understand the "India-advantage" in forgings and auto components, as well as other items that have relatively high engineering and design content. Given BFL's technological capabilities, operational strengths and global presence, we think that the company will be excellently positioned to leverage these outsourcing opportunities.

Spurred by rapid growth in international demand — and even more impressive growth in domestic demand — Bharat Forge has achieved its best ever financial results in 2003-04. We have become a company that has earned post-tax profits of over Rs.1 billion.

Given overleaf are some key indicators.

- **Total revenue** increased by 32 per cent — from Rs.6,450 million in 2002-03 to Rs.8,511 million in 2003-04.
- **Exports** grew by 22.6 per cent — from Rs.2,717 million in 2002-03 to Rs.3,330 million in 2003-04. Exports account for 39 per cent of BFL's total sales revenue.
- **Operating profit (PBDIT)** increased by 32.4 per cent — from Rs.1,959 million in 2002-03 to Rs.2,593 million in 2003-04.
- **Profit after tax (PAT)** has grown by 54 per cent — from Rs.811 million in 2002-03 to Rs.1,249 million in 2003-04.
- **Return on Capital Employed (ROCE)** has increased from 27.2 per cent in 2002-03 to 35.7 per cent in 2003-04.
- **Return on Net Worth (RONW)** has risen from 47.3 per cent in 2002-03 to 49.7 per cent in 2003-04.
- **Earnings Per Share** has grown from Rs.20.71 in 2002-03 to Rs.32.28 in 2003-04.

An important element of Bharat Forge's global vision has been to become one of the largest forging players in the world. In this endeavour, the first step was to increase market size by exporting to international markets. The next stage required the company to have international manufacturing facilities, especially in Europe, where automobile companies prefer component manufacturers to be located closer to their factories. Given this need and after identifying a manufacturer with mutually beneficial synergies, Bharat Forge acquired the German forging company, Carl Dan Peddinghaus GmbH & Co. KG (CDP).

With this acquisition, which was completed in January 2004, BFL has become the world's second largest commercial forging conglomerate.

THE CARL DAN PEDDINGHAUS (CDP) ACQUISITION

Carl Dan Peddinghaus GmbH & Co. KG (CDP) is a reputed forging company established in 1839. It is headquartered in Ennepetal, near Düsseldorf, in Germany and has another facility in Daun. It is one of the largest forging Company in Germany and is reputed for its extensive design and engineering capability. Bharat Forge floated a 100 per cent subsidiary in Germany and acquired CDP's two plants, German employees, order books and intellectual properties. The subsidiary is called CDP Bharat Forge GmbH.

Through this 100 per cent asset purchase deal, BFL has established its first overseas manufacturing facility. The acquisition is the outcome of a well thought-out strategy and gives Bharat Forge a wider market presence, larger product offering, deeper penetration into the passenger car market and a developed country location. The key areas where the two companies complement each other are:

- **Production capacities:** CDP and BFL do not have any overlaps in their major forging capacities, and there are considerable complementarities in the size and type of presses in both the companies. Table 1 lists the different range of presses across the two companies. As a conglomerate, we can together offer a wide range of forging facilities of any weight ranging from 2 kg. to 350 kg. While BFL has the advantage of being in a low cost country, CDP has technology-intensive operations. This should enable greater product focus through rationalisation of the inter-plant product mix.

- **Product synergies:** Over 50 per cent of CDP's revenue comes from the passenger car segment, while over 60 per cent of Bharat Forge's revenue comes from commercial vehicles. CDP is a major supplier of critical passenger car chassis components to marquee automakers like BMW, Volkswagen, Audi and Daimler Chrysler in Europe. Bharat Forge's strength in engine components would be complementary to CDP's capabilities, and the two together can successfully leverage CDP's strong customer relationships.

- **Geographical synergies:** CDP's strength is in Europe which accounts for almost 80 per cent of its revenues. BFL will get an opportunity to strengthen its presence in Europe by tapping these customers with whom CDP already has strong relationships. Similarly CDP can leverage BFL's strength in areas like USA and India. Chart A shows the different geographical spreads of the two companies prior to the acquisition.

- **Leveraging customers:** CDP's strong brand presence in Europe can be successfully lever-

Table 1: Production facilities across BFL and CDP

	12000-16000 MT	8000 MT	6000 MT	5000 MT	4000 MT	2500 MT
BFL	2 presses (+1)	-	1press (+2)	(+1)	1 press	2 presses (+1)
CDP	-	2 presses	-	1 press	4 presses	2 presses

Note: brackets denote proposed expansion & equipment presently under installation