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BHARAT FORGE



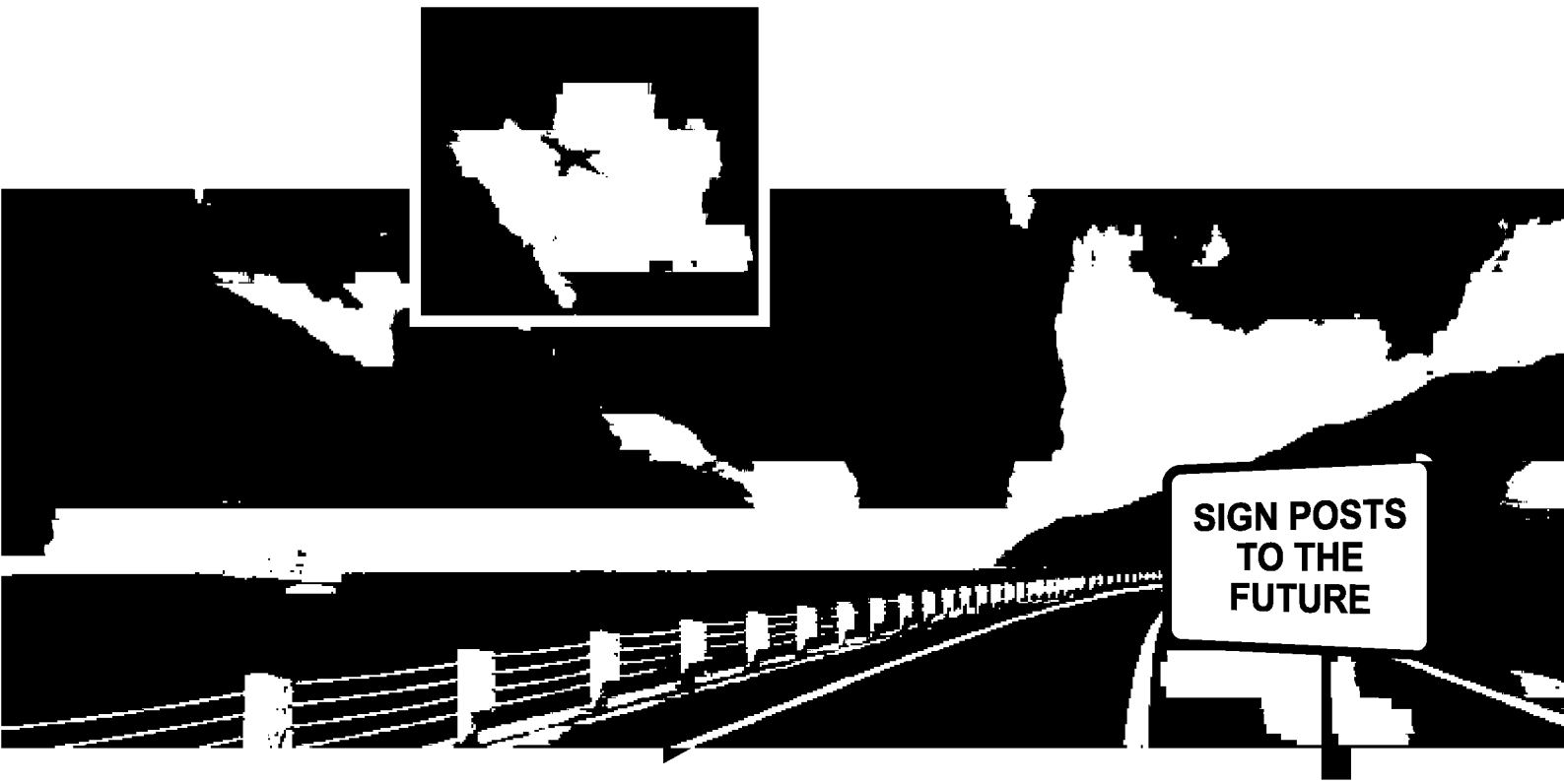
ANNUAL REPORT 2006-07

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While driving innovation and moving at a great velocity, we don't just reach our goals - we create new sign-posts.

Our company is an innovation zone. The more complex the challenges are, the more innovative we get. We chart new journeys.

We created full service offerings in response to the evolving needs of our customers. We invested in world class facilities.

Our quest to grow without limits has taken us to new markets. Our mergers and acquisition initiatives have further fueled innovation and growth.

In this exciting journey together, our people create new benchmarks, new sign-posts. We all share our learning, growth, and prosperity.

Follow these sign-posts to know more about us.

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HIGHLIGHTS

Consolidated Revenue surpassed USD 1 billion mark, one year ahead of the target of FY 2008.

- Consolidated Earnings Per Share (EPS) reached Rs. 13.01 (Each share of the face value of Rs. 2).
- Completed the forging and machining capacity expansion program at Mundhwa, Pune.
- Established the global manufacturing footprint with commencement of Joint Venture operations in China.
- Further strengthened position with global customers with three large long term contracts, each in excess of USD 50 million annual value.
- Significantly de-risked the US business, the largest export market for the company.
- Launched strategic foray into non automotive component business. To address key sectors such as Aerospace, Oil & Gas, Conventional & Non Conventional Energy, Rail & Marine and Mining, Metals & Infrastructure with initial long-term contracts already secured.

(1 USD = Rs.41)

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BANKERS AND AUDITORS

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
UTI Bank Ltd.
ABN AMRO Bank N V

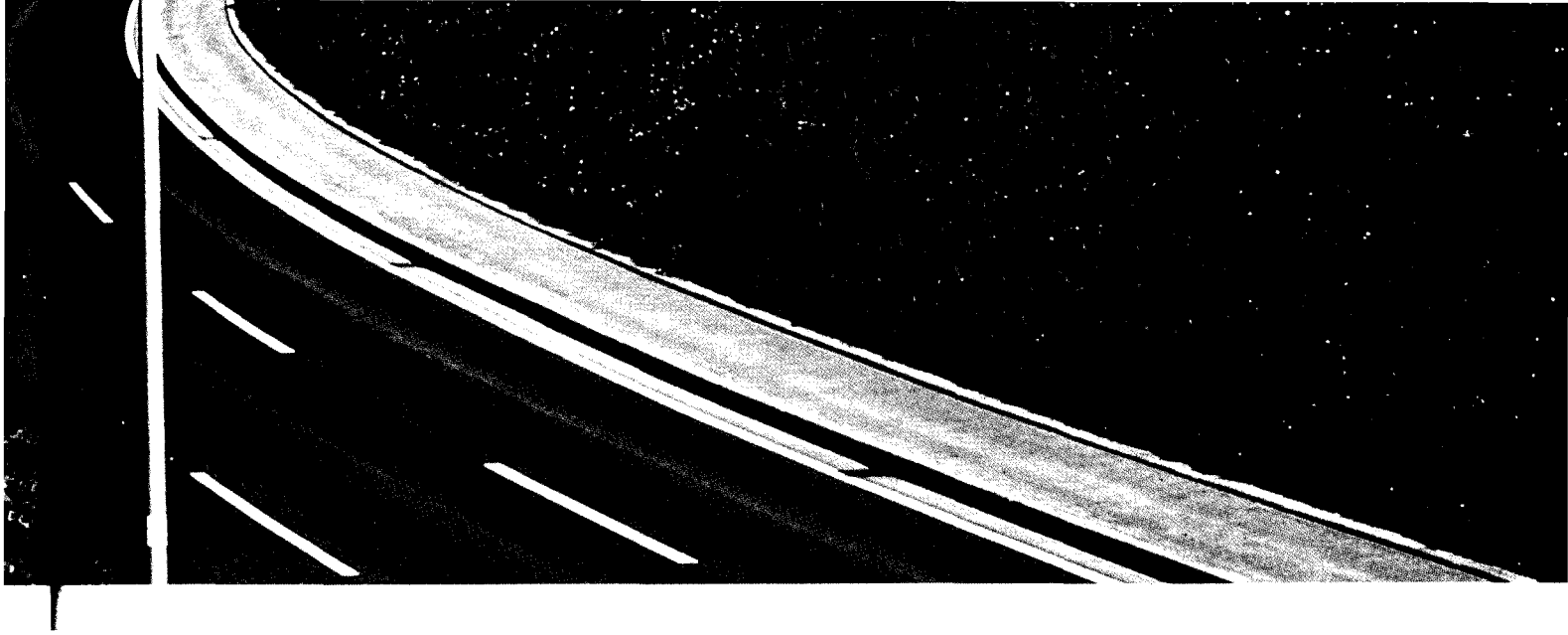
Auditors

Dalal & Shah, Chartered Accountants

Registered Office

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Mundhwa, Pune Cantonment
Pune - 411 036, Maharashtra, India
Phone : +91 - 20 - 26702777, 26702476, 26702440
Fax : +91 - 20 - 26822163
Email : bharatforge@bharatforge.com
Website: www.bharatforge.com

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BOARD OF DIRECTORS

Mr. B.N. KALYANI
Chairman & Managing Director

Mr. P.H. RAVIKUMAR
(Nominee of ICICI Bank Ltd.)

Mr. S. S. MARATHE

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. 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

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Chairman's Letter

Dear Shareholders,

2006-07 has been a good year for the global economy, for India, and for your Company. Notwithstanding rising energy costs and fears of a US slowdown, the global economy succeeded in achieving over 5% growth in 2006. Led by China, India, Russia, key emerging economies and a smart turn around in Western Europe, almost all global markets showed greater than expected buoyancy. Conservative global growth projection for the next five years is in the region of 4% to 4.5% per year — which, if it occurs, will be very good indeed.

India has performed exceptionally well. With a growth of 9.4% in 2006-07 coming after 9% growth in the previous year, India's compound annual growth rate over the last four years is now 8.5%. Even at the current rate of infrastructure development, most experts predict a CAGR in the neighbourhood of 8% to 8.5% right up to 2012, the terminal year of the Eleventh Five Year Plan. With an extra push on the infrastructure front, this growth rate can easily reach double digits five years from now, if not earlier.

Healthy global and Indian growth rates have steadily increased world demand for automobiles and trucks, and hence auto components such as forgings. It is not surprising, therefore, that your Company has significantly grown during the year. With its facilities in India, Germany, Sweden, the UK, the USA and China, the Bharat Forge group has further strengthened its position in the global forging industry. Let me share with you some of the key financial results.

- Your Company's consolidated revenue increased by about 39% to Rs.42,752 million in 2006-07.
- PBDIT grew by 26% to Rs.7,433 million.
- PAT after minority interest rose by 16% to Rs.2,906 million.

We have crossed the milestone of USD 1 billion revenue, a year ahead of our target of 2008. This has been possible because of the tireless efforts of our entire team spread across the World and the support and confidence of our customers.

The details of Bharat Forge's consolidated and stand alone performance are given in the Chapter on Management Discussion and Analysis. Here, it suffices for me to say that these are creditable results - especially in a scenario where your Company had to simultaneously deal with rising material and energy costs and focus on improving operational efficiencies of its newer acquisitions.

Equally however, as your chief fiduciary, I also need to say that these results can, and must be significantly improved. Let me, therefore, take up the rest of this letter in outlining to you what needs to be done - and what your Company is doing - to simultaneously grow revenues as well as profitability.

The first task is consolidation across all of Bharat Forge's entities. Basics of this process have been completed. All the units are now completely integrated, and production facilities have been strengthened with emphasis on dual shoring. We have made substantial efforts in improving operational efficiencies, especially in our newer acquisitions. And we have begun cross-fertilising all group companies through technology transfers and sharing of best practices.

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This process of consolidation needs to be widened and deepened. I expect every plant, every business, every function to adopt measurable best-in-class processes, and deliver stretched targets in whatever they do.

The second task is building world-class scale of operations. Your Company has already enhanced its forging capacities at Mundhwa to 240,000 metric tons per annum (MTPA). These have been progressively ramped up during 2006-07 and this process will gather further momentum in FY 2007-08. In China, we are installing an additional heavy duty press to augment the capacity for manufacturing safety and critical components — which will take the total capacity of the China plant to 135,000 MTPA. Bharat Forge is also in the process of installing new capacities for non-auto components, which I shall touch upon shortly. In other words, your Company is actively investing in state of the art capacities to be able to meet significantly higher & growing demand.

While impressive in itself, such capacity addition will not be enough. I anticipate your Company's entire incremental capacities to be fully used up within 12 to 18 months of their stabilising. Therefore, a big challenge for Bharat Forge will now be to prepare and execute a rolling plan for growing capacities, while simultaneously using operational excellence to achieve continuous improvements in plant productivity and throughput by using state of the art technology.

Execution is everything. Your Company's senior management team and I, have made excellence in execution, the primary focus. We are not going to let up an iota on this front and, I believe that you will see the major gains from this in the next few years. The third challenge is broadening client relationships. Thanks to your Company's marketing efforts and acquisition of global facilities, Bharat Forge has substantially widened its customer base. Today, the group has over 35 global OEMs and Tier 1 customers, which include the top five commercial vehicle and passenger car manufacturers. We need to deepen this relationship and graduate from being an efficient supplier of components to a highly valued development partner and full service provider of first choice.

For this, we have to be involved with our global OEM customers right from product design and development to validation and testing and then to delivery and servicing. Bharat Forge has begun this journey. To give you an example, your Company has secured three long-term design to delivery contracts with global OEMs, each of which has an annual value exceeding USD 50 million. It is an impressive beginning, but as I have been exhorting the management, more needs to be done. And we will.

The fourth challenge is the China business. Structured around the 52:48 joint venture between your Company and FAW Corporation of China, FAW Bharat Forge (Changchun) Company Limited will form the cornerstone of this strategy. Bharat Forge is reorienting this enterprise to becoming a profitable, quality driven, stand-alone manufacturing unit. China is transiting into becoming a market for higher quality automobiles which will require technologically more advanced forging products. Your Company is bringing about operational and strategic changes in its China business to be the supplier of choice to all the key OEMs that play a role in this huge market. This process will take sometime. But it will usher fundamental changes in the way in which our Company is positioned and perceived in the Chinese Market.

The fifth challenge is to strategise new business opportunities and rapidly implement them. Both as a growth opportunity and as a de-risking strategy, Bharat Forge has chosen to focus on building an entirely new non-automotive components business. We have identified five major segments that are expected to substantially drive up demand for non automotive forgings in India and globally.

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