

# BHARAT FORGE

February 12, 2018

To,

**BSE Limited,**  
1st Floor, New Trading Ring,  
Rotunda Building, P.J. Towers,  
Dalal Street, Fort,  
Mumbai - 400 001  
**BSE SCRIP CODE – 500493**

**National Stock Exchange of India Ltd.,**  
'Exchange Plaza',  
Bandra-Kurla Complex, Bandra (East)  
Mumbai- 400 051  
Symbol: **BHARATFORG**  
Series: **EQ**

Dear Sir,

**Sub: Transcript of Analysts Conference Call**

We are enclosing herewith transcript of conference call with analysts, which took place on February 08, 2018 after announcement of Unaudited Financial Results for quarter and nine months ended on December 31, 2017. The said transcript is also uploaded on website of the company.

Please take note of the same.

Thanking you,

Yours faithfully,  
For Bharat Forge Limited

  
Tejaswini Chaudhari  
Deputy Company Secretary



Encl: As Above



**KALYANI**  
GROUP COMPANY



# “Bharat Forge Limited Q3 FY18 Earnings Conference Call”

**February 8, 2018**



**MANAGEMENT: MR. AMIT B. KALYANI – EXECUTIVE DIRECTOR,  
BHARAT FORGE LIMITED**

**Moderator:** Ladies and Gentlemen, Good Day and Welcome to Bharat Forge Limited Q3 FY18 Earnings Conference Call. As a reminder, all participant lines will be in listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing ‘\*’ and then ‘0’ on your touchtone phone. Please note this conference is being recorded. I now hand the conference over to Mr. Amit B. Kalyani – Executive Director, Bharat Forge Limited. Thank you and over to you, Sir.

**Amit B. Kalyani:** Good Afternoon, Ladies and Gentlemen and thank you for joining the Bharat Forge Results con call for the third quarter ‘18. I have with me senior team members from Finance, Operations, Business Development, and Investor relations. Just talk about the performance of the company for the quarter from the highlights and then I will open up for Q&A. In terms of overall revenue, we had total sales of about 1390 crores which is a growth of about 47% YOY, basically driven by 33% growth in domestic revenue and 61% growth in exports. In terms of business segment, the automotive, that is, commercial vehicle and passenger cars have grown fairly well across the World and industrials have shown extremely strong growth. Automotive revenue grew by 46% while industrial grew by 53%. Our EBITDA margin remain strong at about 29.6%, they have expanded by about 80 basis points as compared to the same quarter last year driven by product mix and productivity and this is in spite of a slightly dilutory impact of the steel price increases that we have had so far.

The profit before tax for the quarter was Rs. 3384 million, PAT was up by 77% to Rs. 2281 million and I am happy to report that the free cash flows have been very strong for the quarter, further improved our balance sheet and our long-term debt equity net of cash today is now negative at 0.05. Return on capital employed is at 21.7% and as we had mentioned earlier, we have continued to put a lot of effort on product development and new business development and move up the value chain in increasing our share of business with our customers. We have won orders worth 60 million across geographies and applications in the last three months. This is in addition to the previous business that we reported last year. All of this is outside of traditional CV business, so it is in passenger cars and industrials. Between the last call and this one, we also opened a R&D Centre at MIRA in the UK in Coventry, which is for development of e-mobility, power train, components and systems.

As a company, we have been working on developing products and technologies for e-mobility. Over the last two years, we have been building prototypes for variety of customers and we now set up this front end so that not only can we develop advanced products and solutions for our customers globally, but also co-develop them along with the ecosystem that is present in MIRA. To add to this, we have now signed an investment agreement with a EV startup in India called Tork Motorcycle, where we are investing Rs. 30 crore to take a 45% stake in the company and we believe the reason for doing this is e-mobility will take off in India and the two wheeler sector will be the first one to start switching and Tork has very good technology and people and capabilities and we want to use this to develop products and create value for





vehicle for this new emerging vehicle category and use it as a test case to develop and test our technologies which then can be expanded to global applications, so that is really all I have to say, maybe just a couple more thing. Our overseas subsidiaries have also done well. We have a total income of Rs. 7177 million with 9% EBITDA margin and a PBT of Rs. 205 million. There also we continue to see strong traction and strong growth. Our aluminum forging facility that we set up is doing exceedingly well and is also poised for additional growth. That is really all I want to say and I think we will now take your Q&A. Thank you.

**Moderator:** Thank you very much, Sir. Ladies and Gentlemen, we will now begin the question and answer session. We have our first question from the line of Kapil Singh from Nomura Securities. Please go ahead.

**Kapil Singh:** Two broad areas I wanted to touch upon, firstly on the business, we are seeing very strong order inflows for US truck market as well as domestic business for CVs as we have seen strong traction, so what kind of growth do you expect in these two segments for next year and in particularly Q4, and we have also won orders worth \$100 million, so when do you expect to hit peak run rate of that \$100 million, that would be my first set of questions?

**Amit B. Kalyani:** The US CV market is pretty much at the extremely high level right now. As you saw, the last numbers came in at 44,000 which is a 100% growth over last year. From what we hear from our customers, it is expected that the CV market will remain strong for 2018 and 2019 could be slightly lower, but not particularly different, but I think let us focus on 2018 right now because 2019 is still far away. In terms of India, we are seeing very strong demand in fact from what our customers tell us inventory at the dealer level has come down to very low levels, there is a strong demand for the heavy haulage vehicles driven by GST and the infrastructure push, so it is expected that Q4 will remain very strong. Next year should also be fairly strong and including '19, which will remain strong as a precursor to the 2020 prebuy.

**Kapil Singh:** Sir, also the \$100 million that we have won, when do you plan to hit that run rate of \$100 million?

**Amit B. Kalyani:** That will ramp up over the next two years.

**Kapil Singh:** Secondly, wanted to touch a bit upon Tork if you can share some more details as to what is the expectation from Tork as a company also in terms of EV when we hear about them, we also hear that there is a lot of investment required in future, so is Bharat Forge committed to making those investments as well and then if you can share some more details right now or later?

**Amit B. Kalyani:** I think it is too early to share anything more, we have been looking out for someone who has EV capability in terms of technology, design engineering and especially the embedded systems etc. and this company has what we think is a competitive position and we want to work with them in creating solutions and product that go into vehicles, that is our interest and we are investing in them so that they in turn can then grow their objective.

- Kapil Singh:** We will look to maintain our stake...?
- Amit B. Kalyani:** Like I said, we signed this deal today, it is too early to talk about what we will do and what we will not to do, it is a journey, this is a start-up ecosystem, this is a new field so let us see where it goes.
- Kapil Singh:** Also could you share the Holding structure for Tork and whether the existing investors are selling out or this is fresh issue?
- Amit B. Kalyani:** We will own 45% and the investment is 30 crores. More than 80% of that is going into the company, some of it less than 20% is going to takeout certain existing investors who want to exit, some of the angel investors and the promoters continue.
- Kapil Singh:** What is the promoter holding in the company?
- Amit B. Kalyani:** Let us not get into all that.
- Moderator:** Thank you, Sir. We have next question from the line of Puneet from HSBC. Please go ahead.
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- Puneet:** If you can comment a bit more on the overseas subsidiary side, you mentioned strong traction on the aluminum part, are other facilities also facing similar strong tailwinds?
- Amit B. Kalyani:** Overall, with the commercial vehicle market being strong and the passenger car vehicle market being strong, there is fair amount of tailwinds, so I think the facilities abroad are doing well and should continue to do well into '18 as well.
- Puneet:** But the bigger part is that aluminum forging which is doing better than the other, is that how one should read it?
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- Amit B. Kalyani:** Obviously, because that is why we made a fresh investment in that.
- Puneet:** Any update on the Andhra Pradesh facility?
- Amit B. Kalyani:** We will break ground this month, that is the plan, we are on track and by March of next year we should be starting to make prototypes and start heading towards commercial production.
- Moderator:** Thank you, Sir. We have the next question from the line of Mahesh Bendre from Karvy Institutional Equities. Please go ahead.
- Mahesh Bendre:** Sir, this quarter volume has been very strong, 65,000 tons; this could be the highest in probably our history in terms of quarterly numbers, so going forward what is the outlook on the volume growth in FY '19?

- Amit B. Kalyani:** FY '19 as what we see from our customers both domestic and global is expected to be strong, so Q4 will remain stronger than Q3 and then it remains to be seen what happens with India and the monsoon and other things, but as of now all the signs are pointing towards a strong year.
- Mahesh Bendre:** Sir, given such a strong business outlook on export and domestic side, and the growth we are reporting, are we going to face any capacity constraint next year?
- Amit B. Kalyani:** No, we will not face any capacity constraints.
- Mahesh Bendre:** What could be current capacity utilization?
- Amit B. Kalyani:** Our current capacity utilization would be slightly above 75%, maybe in the region of 77% to 78%. We installed a new press line less than a year ago for pass car components, so we have expanded our capacity in that area.
- Moderator:** Thank you, Sir. We have the next question from the line of Anupam Goswami from Stewart & Mackertich. Please go ahead.
- Anupam Goswami:** Sir, I wanted to know if on a consolidated basis, how much your revenue segment that comes from automotive and industrial?
- Amit B. Kalyani:** On a consolidated basis, I think it would be 70% automotive and 30% industrial.
- Anupam Goswami:** Sir, in the industrial as again how much you are mostly getting the revenue and demand from, is it from oil and gas or defense or aerospace?
- Amit B. Kalyani:** No defense in this, largely it is construction, mining, large diesel engines, rail, and oil and gas.
- Anupam Goswami:** Sir, any CAPEX plan that is anticipated in the near future?
- Amit B. Kalyani:** We have CAPEX for this year of about 360 crores and we will be spending similar amount next year?
- Anupam Goswami:** That was what was told earlier, you are sticking to that or like you are adding up more?
- Amit B. Kalyani:** No, I think that is about it.
- Anupam Goswami:** Sir, one more question, there was some artillery that has gone for the winter test, any status on that?
- Amit B. Kalyani:** It is still under testing, but very shortly it should be complete, but it is going well.
- Moderator:** Thank you, Sir. We have the next question from the line of Puncet from HSBC. Please go ahead.



- Puneet:** Can you give some more color on what kind of revenue run rate are you doing for oil and gas sector now?
- Amit B. Kalyani:** Roughly about 170 to 180 crores a quarter.
- Puneet:** Your passenger car business has also grown quite sharply, is the margin profile largely similar or are you seeing some different numbers there?
- Amit B. Kalyani:** The margins as a company please look at, let us not look at margins in an individual sector, because one thing balances something else out and you have to also look at the return on capital employed, because the asset turns in certain sectors is much higher than certain other sectors.
- Puneet:** For this, is it fair to assume higher asset turns?
- Amit B. Kalyani:** Yes.
- Puneet:** Lastly, on CAPEX, this 300 crores what is it really aimed at?
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- Amit B. Kalyani:** 360 crores or so is mainly at passenger cars, value addition, machining, and certain debottlenecking.
- Puneet:** Possible to break up between machining and...?
- Amit B. Kalyani:** I am sorry, we cannot share that.
- Moderator:** Thank you, Sir. We have the next question from the line of Bharat Gianani from BNP Sharekhan. Please go ahead.
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- Bharat Gianani:** My question pertains to the overseas subsidiaries, CY '17 was a good year, we saw I think close to 400 to 500 basis points kind of an improvement in the EBITDA level, so would you like to comment on CY '18 margins?
- Amit B. Kalyani:** CY '17 was driven by a combination of the ramp up of our aluminum business and overall improvement in performance in the rest of the business as well. In CY '18 also we expect this to continue and we should see a slight improvement in margin and overall top line also going forward.
- Moderator:** Thank you. We have the next question from the line of Anupam Goswami from Stewart & Mackertich. Please go ahead.
- Anupam Goswami:** Sir, I just wanted to know what is your value of content that goes into one class 8 truck, what could be the value of it?

- Amit B. Kalyani:** It really varies from customer to customer, so it is very difficult to share and I personally do not feel comfortable sharing that level of detail.
- Anupam Goswami:** One more thing, Sir, in the USA have you gained market share basically?
- Amit B. Kalyani:** Yes, we have gained market share because we are growing higher than the underlying market.
- Anupam Goswami:** In the presentation also you mentioned that you have made new products and developed that also has a good demand in your customers?
- Amit B. Kalyani:** Yes, absolutely.
- Anupam Goswami:** One more thing, Sir, in India there is a lot of railway modernization is going on, are you getting any traction in that sector, railway?
- Amit B. Kalyani:** On the diesel locomotive side, we are getting a lot of business and other areas in the rail where we make components, we are seeing tremendous demand.
- Anupam Goswami:** Sir, any new geographies have you entered from the last few quarters, new markets that you have entered?
- Amit B. Kalyani:** We are present in most parts of the world, so I think more or less covering most of the geographies.
- Moderator:** Thank you, Sir. We have next question from the line of Mahesh Bendre from Karvy Institutional Equities. Please go ahead.
- Mahesh Bendre:** Sir, in domestic market most of the truck manufacturers are indicating that the demand was very strong last quarter, and in fact even the Ashok Leyland on their conference call also mentioned that they could not supply few products because of the vendor's, so is this what you are also witnessing that the demand from the commercial domestic, commercial industry has been showing...?
- Amit B. Kalyani:** Obviously, it has been very strong, customer itself is saying that, so it is a fact, but we have managed to supply whatever our customers have wanted. There are certain other suppliers who have not been able to meet certain proprietary product supply, so that has hampered certain customers as you mentioned.
- Mahesh Bendre:** Sir, we have been talking about defense for many years, but do you see when this segment will start contributing meaningfully for us?
- Amit B. Kalyani:** Please understand, we are one of the few companies which has actually developed products from scratch and tested them, now we are field testing them, so hopefully we are towards the end of the cycle.



- Moderator:** Thank you, Sir. We have the next question from the line of Kishan Gupta from CD Equisearch Private Limited. Please go ahead.
- Kishan Gupta:** Sir, how would you explain 46% rise in your Indian CV revenue last quarter, when the CV industry reported volume growth of 21%?
- Amit B. Kalyani:** Market share growth plus new products.
- Kishan Gupta:** Could you elaborate on the new products?
- Amit B. Kalyani:** As we mentioned earlier, traditionally we have been making front axle beams and cranks and now we have introduced other products which are used in drive line, power train etc. and there is a move towards multi-axle trucks, which has a higher number of products going into the same vehicle, per vehicle, so these two have increased our revenue.
- Kishan Gupta:** Sir, what will be the impact of US's inward looking policy on your business?
- Amit B. Kalyani:** I am not aware of any particularly inward-looking policy; I was in the US just last week.
- Kishan Gupta:** Sir, they are encouraging more of products being manufactured in US itself and that particular trade values?
- Amit B. Kalyani:** If you have something specific that pertains to our industry and our products, please share it with us.
- Kishan Gupta:** Sir, you mentioned in the press release that better product mix has led to expansion of margins last quarter, so could you elaborate on that?
- Amit B. Kalyani:** Yes, so basically we have higher percentage of value-added products and that is what has contributed to better margins, that is typical in our industry.
- Kishan Gupta:** What would be those value-added products be?
- Amit B. Kalyani:** Same products that we supply, but in a fully finished condition.
- Kishan Gupta:** Sir, how would you explain 14% rise in revenues from Europe, like which segment is looking up in Europe?
- Amit B. Kalyani:** It is commercial vehicles and passenger cars.
- Moderator:** Thank you. As there are no further questions, I now hand the conference over to Mr. Amit Kalyani for closing comments. Over to you, Sir.

**Amit B. Kalyani:** Ladies and Gentlemen, thank you very much for your time and interest in our con call and your support for our company. We are enthused with your support and we look forward to a good next quarter and good year going forward, I think the company has a strong strategy and execution capability and coupled with research and development in both India and outside, I think we should be able to deliver a superlative performance. Thank you very much.

**Moderator:** Thank you very much, Sir. Ladies and Gentlemen, on behalf of Bharat Forge Limited, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.