

BHARAT FORGE

May 22, 2019

To,

BSE Limited,
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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 Earnings Conference Call

We are enclosing herewith transcript of conference call with analysts, which took place on May 20, 2019, after announcement of Audited Financial Results for quarter and year ended March 31, 2019.

The said transcript will also be uploaded on website of the Company.

Please take note of the same.

Thanking you,

Yours faithfully,
For Bharat Forge Limited



Tejaswini Chaudhari
Company Secretary

Encl: As Above



KALYANI
GROUP COMPANY

BHARAT FORGE



“Bharat Forge Limited Q4 FY19 Earnings Conference Call”

May 20, 2019

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

Moderator: Good day, Ladies and Gentlemen and welcome to the Bharat Forge Q4 FY19 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing ‘*’ and then ‘0’ on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Amit Kalyani. Thank you and over to you, sir.

Amit Kalyani: Good afternoon, ladies and gentlemen and thank you for joining our Analyst Call post our Q4 and Annual Results. I have with me members of our Investor Relations, finance and strategic business unit head as well and I will be shortly joined by several other members of our management. As it’s a normal practice, I will quickly take you through some of the highlights and the numbers both qualitative and quantitative and then open up for Q&A. So, for Q4 we had a shipment tonnage of about 62,690 tons which was about 3% less than last year and slightly lower than Q3. This was impacted by the slowdown in CVs which took place suddenly during the last two months of the year.

Total revenues were 1,668 crores which is about 1% less than last quarter and about 13% higher than last year. EBITDA was almost the same as last quarter and about 11% higher than last year. PBT before exchange gain or loss was 421 crores which was about 2% less than last quarter and about 13% higher than last year. For the full year the shipment tonnage was 265,952 tons which is about 10% higher than last year. Domestic revenue was about 20% higher than last year, export is about 25% higher than last year, domestic revenue was about 2,794 crores, exports was about 3,725 crores, total revenue was about 22.5% higher than last year at 6,520 crores, EBITDA was 1,876 crores which is 19% higher than last year and the PBT was almost 1,593 crores with a PAT of 1071 crores about a 51% growth over last year.

Some of the highlights of the quarter of the business in Q4 was driven primarily by strong demand across most sectors in the export market while the domestic sales was adversely impacted by sudden deceleration in the Indian automotive market which created huge inventory across the entire value chain. Part of this is linked to pre-election sentiment part of it is due the NBFC financial tightness and many other factors. EBITDA margin continue to remain stable within the guided range in spite of inflationary cost pressures and raw materials and energy. For the full year the company recorded it’s highest ever revenue, EBITDA and PAT. In addition, the revenue recorded in many segments also are at the highest levels ever. We crossed half a billion in exports for the first time. We continue to maintain a strong balance sheet and improve our return ratios from 2018 levels. We are still being quite cautious on use of free cash. We are investing in capacities where needed and, in some places, strategically both in forging and machining and our ROC has improved net of cash to about 24.7%. In spite of the CAPEX at Nellore and Baramati we continue to remain net debt free on a long-term basis and improve our return ratios. We have had order wins of over 50 million in this fiscal and we are quite hopeful that coupled with the wins we have had last year which will start ramping up from 2019-20 we should start seeing significant growth once the softness in the domestic market and slight softness in the US pass-car sector is over.

In terms of our long-term debt equity ratio on a net basis we have almost no debts. In our overseas manufacturing, we saw fairly decent growth, we saw a growth of about close to 20% on revenue about 21% on EBITDA and almost doubling of the PBT. On the console balance sheet, the long-term debt is about 1,935 crores and our total cash is 1,835 so we have less than 100 crores of debt. Long term debt equity net of cash is 0.02. We have a CAPEX program of 850 crores spread out over last year and this year which will encompass the Nellore facility, the Baramati forging facilities and machining facilities. This will result in significant headroom for growth in the next two, three years and we expect the CAPEX intensity to drop very significantly as we will cut down on all significant CAPEXs and only focus on sweating our assets.

I think that is very all I had to say in terms of our introduction and we are happy to take your questions now.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Kapil Singh from Nomura. Please go ahead.

Kapil Singh: Firstly, I wanted to check regarding the new order wins, could you give some color how much of this is coming from a new segment in industrial and PVs out of the 50 million that we have reported?

Amit Kalyani: About between 60% will be from that sector.

Kapil Singh: And normally it takes how much time for it to fully ramp up?

Amit Kalyani: With existing products and existing customer similar product can take anywhere between roughly two quarters.

Kapil Singh: And the orders wins that we had last year out of that how much is already reflecting in FY19?

Amit Kalyani: Less than 20%.

Kapil Singh: Secondly just wanted to check on cash flow we see that while long term debt has come down the reported net debt has seen some increase, so could you help us understand what is happening there and also how much CAPEX we did.

Amit Kalyani: Because exports have gone up substantially so working capital related to that has gone up.

Kapil Singh: And how much is the CAPEX we did this year and how much is planned for next year?

Amit Kalyani: That 850 crores will be spread out over last year and this year for project CAPEX and then you have about 400 crores of maintenance CAPEX which is last year and this year combined.

Kapil Singh: Lastly sir if I may just check there were some news reports coming in that army is also facing shortage or quality issues as far as ammunition is concerned, so are these some of the areas that Bharat Forge would look at or is there capability and interest?

Amit Kalyani: I do not want to comment on anything about the army, but I will say that we have a strategic focus on defense especially on the artillery and land system side which includes both the weapons as well as the consumable for those weapons.

Kapil Singh: So, ammunition is included in that?

Amit Kalyani: Yes absolutely ammunition is a consumable.

Moderator: The next question is from the line of Hitesh Goel from Kotak Securities. Please go ahead.

Hitesh Goel: Sir, can you give us some sense on the oil and gas revenues in this quarter and for full year FY19 and how it is done on a YoY basis and what is the outlook for the same for the next year?

Amit Kalyani: We are going to stop getting into so much detail of every segment because it gets misused and it can be quite detrimental to our business especially with so much scrutiny going on in the end markets. We have had a stable revenue from these segments. There is some destocking taking place because of inventories being built up in the consuming markets, but we have a strategy by which we will maintain our business and grow it over the next two years with the new business wins and new customers that we are developing in that segments, but this year was the highest ever revenue from oil and gas that we have had, but I am going to leave it at that.

Hitesh Goel: And sir any outlook on the classic truck side how are you looking in for next year?

Amit Kalyani: So, this year is expected to be about 330,000 so plus minus 5%.

Moderator: The next question is from the line of Ameen Pirani from Deutsche Bank. Please go ahead.

Ameen Pirani: My question was on the India commercial vehicle revenue in this quarter it looks like the decline on a YoY basis was much more than the production decline in commercial vehicles, so was there a capacity issue?

Amit Kalyani: Yeah we had a capacity constraint.

Ameen Pirani: And is there any impact happening because of the axle load which is leading to lower tonnage vehicles doing better is that something that could be a reason?

Amit Kalyani: That has a minor impact, but more than that the front axle beam business has come down because of that because we had vehicles with three front axle beams, two front axle beams now the maximum is two front axle beams and that too lower share of business, but what is happening now is as you see the preparation for BS-6 the engines, the drivelines everything are getting stronger and more powerful and significantly more qualitatively stringent. So, that is where we expect to see positive traction going forward.

Ameen Pirani: So, in FY20 is it fair to expect that your revenue growth in this category should be higher than the production growth whatever that number?

- Amit Kalyani:** Yes absolutely.
- Ameen Pirani:** Secondly on Nellore, can you give us some idea, is this \$50 million part of the aluminum work that you are going to do from there, what are the kind of products that you are looking at?
- Amit Kalyani:** No we have not included any of the aluminum business in this because that is a different business that is center for light weight technology that will have its own baskets. This is for the existing Bharat Forge forging and machining business.
- Ameen Pirani:** Any color you can give us to what products, what kinds of segments you will be targeting like passenger vehicles?
- Amit Kalyani:** We will be targeting complex high value and highly value-added components largely chassis components.
- Moderator:** The next question is from the line of Ronak Sarda from Systematix Group. Please go ahead.
- Ronak Sarda:** Sir quickly I mean if I just look at your last three years order wins it has been pretty impressive you know it is almost in the \$250 million range spread over FY17, 18, 19 so how much of this would start contributing or has already contributed till FY19?
- Amit Kalyani:** I would say that in two years most of our revenues are typically ramped up unless it is pass-car program which has a longer gestation period especially if we are getting on to a new platform.
- Ronak Sarda:** Secondly, I mean if I look at your realization it has continued to improve despite again related to the defense business which begin last year?
- Amit Kalyani:** So, it is a combination of factors you know we continue to move up the value chain in all our businesses, we continue to differentiate on the technology front and also focus on doing things which are first of its kind and that is what allows us to improve our realization. So, one part of it is in the defense business, but there are many other areas where we have done the same thing.
- Ronak Sarda:** So, sir related question to this should we now stop harping much on the tonnage?
- Amit Kalyani:** Because we are getting into certain products where the realization per ton is astronomically different than what it is for the typical products. So, I think tonnage is not a correct moniker anymore and I think it is also our fault partially that we have not created a better structure to monitor this and I think in the next three, four months we are going to come up with structure that would help you guys be able to analyze this better.
- Ronak Sarda:** Sir last question is on classic truck I mean if I just look at the total order backlog retail calculations and the production, do you think Bharat Forge revenue would see a significant decline in FY21 or the production would not be that weak for US trucks due to higher backlog I mean assuming the 15,000 - 20,000 range of new orders remains?

Amit Kalyani: It is very difficult to project going forward that long in a market which is in such a volatile state, but maybe I will allow Subodh to say something.

Subodh Tandale: One comment that we have is the overall market comes down obviously there will be impact on what we produce and sell and currently the reason the market is at a lower order level as well because as we went into January almost 80% of the production slots were already sold out for this year. Now assuming that this trend continues, next year would be slightly lower is the expectation, but what we are trying to do is to figure out ways and means of mitigating the potential drop. So, we are working on mitigation action rather than worrying about what happens to the market.

Moderator: The next question is from the line of Pramod Amte from CGS-CIMB. Please go ahead.

Pramod Amte: Two questions one if I look at your full year I mean CV growth it is hardly around 6% versus the industry growth of almost around 20% plus since we do not have the steel price realization if I look at on a like-to-like basis it looks like you have lost a substantial market share, would you clarify is that true how much is the extent and what are the actions you are taking to recover the same?

Amit Kalyani: So, there was a time when we did not have capacity and we have long term orders from our global customers which we have to supply. So, we had to curtail our production for domestic markets, but again as I mentioned we have already invested in a new press line which will come on stream in the next two and half, three months and that will give us additional, more than adequate capacity to cater to the entire market and we will regain this market share. So, part of that market share was loss to even imports because there was no one who could supply in a very short period of time and some of it is to local manufactures, but they are largely on the beam side selectively we choose to allow some of the beam business to go and we maintain all of the crank business.

Pramod Amte: And second one with regard to your electric vehicle investments how much has been the outlay for FY19 as a year and what are you planning to invest over next two years period in this space and second one is following any latest update on these ventures what type of work you have taken up there and what scope you see there playing out for Bharat Forge?

Amit Kalyani: Yeah I think the total investment we have made so far is £10 million in Tevva and about 30 crores in Tork. We may have to put in may be somewhere in the region of between £3 million and £5 million in Tevva going forward, but I do not think we need to do anything more than that. We are also looking at some other opportunities in the component space for electronics and embedded systems so that is also something we are working on, but to explain what all we are doing on electric vehicles over a concall like this is going to be impossible. Possibly we can have a analyst day or something and be able to explain it at that point in time.

Moderator: The next question is from Sonal Gupta from UBS Securities. Please go ahead.

- Sonal Gupta:** Just continuing with some of the existing questions I mean on the order win you had around 800 crores of orders wins in FY17 and when you give these numbers these are maximum annual products revenue, so would you say that of the FY17 most of it has come here or what?
- Amit Kalyani:** No, I would say of the FY17 were at less than 40% because one of those large programs was a pass-car program which will only fully ramp up in 2021.
- Sonal Gupta:** I mean ideally then we should expect that most of these orders are spread over like three, four years of ramp up?
- Amit Kalyani:** No, the pass-car order as I mentioned earlier has a longer lead time because it was a completely new platform which the end customer was building and they had a postponement or a delay in their program by over a year.
- Sonal Gupta:** So, just in terms of could you share some light on BS-VI what sort of I mean you are adding I understand from the capacity side you will add one more press line which will help you overcome the capacity constraint, but from a BS-VI standpoint I mean what sort of value growth or content growth do we expect with BS-VI coming in?
- Amit Kalyani:** On the existing components we expect that there will be a slight increase in value, but if we look at the opportunities coming from the drive lines and the axle that could be another anywhere between Rs. 8,000 to Rs. 10,000 of added value per vehicle on the commercial vehicle side but that will take time. I think most of the Indian commercial vehicle companies are first focusing on engine and emission and then going to look at drive line and transmission in the second phase.
- Sonal Gupta:** Are you saying that I mean this would be by the time the OBD-II comes in by FY23, 24?
- Amit Kalyani:** The OBD-II has nothing to do with this that is only an onboard diagnostic tool. This is mainly because anywhere else in the world whether it is Europe or whether it is US the transition from Euro 4 to Euro 6 has been a 6 to 8-year journey because it is been one step wise and second step. Here we are going from zero to the second step in one shot so it is very complicated. So, even for the companies who are ready in bits and pieces to integrate the solution to really test it, validate it they have not had enough time.
- Sonal Gupta:** And just lastly to clarify on the shale business I mean just in terms of your commentary also which has been published at I mean some of the bottlenecks in whatever US market on the Shale seem to be impacting the production activity, so do you expect some slowdown in FY20 on the shale side or from your perspective or it will not?
- Amit Kalyani:** We see a small slowdown in demand because of largely the inventory correction, but as I mentioned earlier, we are working on some alternatives hopefully in the second half we should start seeing the results of that.
- Moderator:** The next question is from the line of Pratik Rangnekar from Credit Suisse. Please go ahead.

Pratik Rangnekar: Couple of questions one if you look at FY21 it seems both in the India CV business and the US CV business we could see a prospect where the industry declines, now what are the mitigating steps that you are taking to ensure that this gap is covered by some other sectors, what are the key sectors that one should focus on to kind of which the decline that we see in these two sectors?

Amit Kalyani: The answer in this is two parts. One is yes there will be some amount of decline, but most of the CV companies are now getting ready for electrification and because of this they are looking at outsourcing more. So, we have tapped several of our existing customers to get some of their in-house business outsourced. So, we are going to counter most of the anticipated losses in value or production because of decline in numbers with new business. Now if the drop is not as much as we forecast then I think we will have a better year than what is expected, but on the whole we have planned to neutralize most of the production reduction from new business wins which are existing products, existing customer, but a new variant or something like that so that we will increase our market share and increase our revenues.

Pratik Rangnekar: You said two things first is this and what is the second one?

Amit Kalyani: Second one is we are now offering new components to existing customers as well such as the transmission products such as the aluminum products. So, through product diversification also we are gaining revenues.

Pratik Rangnekar: And on the PV side what is the kind of scale up that you see because you mentioned one of your larger orders kind of fully scaling up only by FY21, so what kind of scale up do you see on the PV business over the next two years?

Amit Kalyani: So, on the PV side currently we have a business between India and exports which is largely export oriented about 60% of it is export, 40% of it is domestic and we have a plan where we are able to increase the current export business by about another 20% and almost able to increase the domestic business by close to 50% with new business that we have already tied up.

Pratik Rangnekar: So, these are confirmed orders that you already have?

Amit Kalyani: So, that should mitigate the PV side.

Pratik Rangnekar: On your kind of numbers that you have given for this quarter on the wholly owned subsidiary you have given CY17 and CY18 not the Jan to March quarter numbers and when I look at the Q3 release that had the October to December?

Amit Kalyani: There is always the one quarter lag.

Pratik Rangnekar: Yeah which is what I assume but when I looked at the Q3 release and Q3 release had the October to December numbers so we did not have a one quarter lag at that point in time?

Amit Kalyani: Just a matter of consolidation from Q1 anyway you will have quarter consolidation you will see it.

- Moderator:** The next question is from the line of Girish Raj from Quest Investment. Please go ahead.
- Girish Raj:** Just question on this derivative investment, can you please explain the movement because if I see from FY18 to FY19 the short term has gone to long term?
- Amit Kalyani:** This is mainly a mark-to-market on the forward contracts which we have entered into because of the rupee movement there has been a change, but we do not do any exotic derivative structures it is a simple forward.
- Girish Raj:** Last FY18 if you see bunch of the derivative instrument outstanding was in the short term in the current asset side of it now if I look at FY19 the derivative bunch of it is part of long term, so is there any quarterly changing?
- Kedar Dixit:** So, it is more of a reflection of the outstanding position in terms of volumes. There is no difference or there is no change in the accounting between last year and current year. So, it is because of volume and rupee volatility.
- Moderator:** The next question is from Priya Ranjan from Antique Stock Broking. Please go ahead.
- Priya Ranjan:** My question relate to the industrial business, so can you just highlight which are the key drivers I mean India revenue has grown significantly in last say three, four quarter key growth driver in that segment?
- Amit Kalyani:** So, key growth driver on the industrial business has been oil and gas it has been rail, it has been the defense and aerospace business and actually it was also agriculture, but agriculture is now slowed down a little bit. Hopefully after the elections I think may be something should happen but that is really what has helped it grow because the aerospace and defense has more than doubled in one year.
- Priya Ranjan:** In terms of say international it is largely driven by US oil and gas?
- Amit Kalyani:** No it is a variety of sectors it is construction and mining, it is rail, it is marine. So, oil and gas is less than 40% of the overall business.
- Priya Ranjan:** Both India and domestic put together.
- Amit Kalyani:** It is only exports.
- Priya Ranjan:** And in terms of rupee realization where were we?
- Amit Kalyani:** It was about 10 paisa lower than last quarter.
- Moderator:** The next question is from the line of Suraj Chheda from IIFL. Please go ahead.

Suraj Chheda: My question was on the defense business how has it performed this year and could you give us a sense of how it looks going into FY20, FY21 especially given the fact that defense orders and revenue conversion etcetera tends to be a little lumpy?

Amit Kalyani: Actually, I would be very happy to tell you that our defense business is doing quite well. In spite of not having any of the big programs that we are working on converted into orders such as ATAGS or Bharat-52 or any of the lightweight guns or whatever. We have worked diligently to create a business for both revenue and for capital items which are in need both in India and some small exports and we have reached a meaningful level of business and I think hopefully by the next year we should see an order coming in and hopefully an year after that order should start begin to generate serious revenues.

Moderator: The next question is from the line of Kapil Singh from Nomura. Please go ahead.

Kapil Singh: Just one housekeeping question for Bharat Forge international was there a loss for last year and if so what was the reason?

Amit Kalyani: There was no loss, it is more of an intercompany profit elimination and because of the rupee movement there is no loss for the trading entity.

Kapil Singh: Because the EBITDA for the combined entity is lower than what it is for Bharat Forge?

Amit Kalyani: So, it is because of elimination and it is also because of the base effect of that increase in raw material prices vis-à-vis increase in sales prices.

Kapil Singh: There is elimination at EBITDA level also?

Amit Kalyani: For the base price increase there is no elimination, for the profit elimination there is an impact on EBITDA, but the EBITDA margin will be lower if there is a base price effect.

Moderator: The next question is from the line of Sonal Gupta from UBS Securities. Please go ahead.

Sonal Gupta: So, just on the overseas CAPEX, could you tell us what was the investment this year and what are you targeting for next year?

Amit Kalyani: Our only CAPEX that we are doing overseas is in aluminum. So, we set up one aluminum forging line in CDP which was about 30 odd millions of investments and we are setting up a brand-new aluminum forging plant in the eastern part of Germany which will be about 55 million.

Sonal Gupta: And the US Tennessee plant?

Amit Kalyani: And we are going to set up aluminum forging plant in the US also, location is yet to be finalized because we are looking at all the options where we can get the best overall deal, but that we will announce by October, November of this year.

- Sonal Gupta:** So, this 55 million should come over FY20, 21?
- Amit Kalyani:** Over Calendar year 18, 19 and 20?
- Sonal Gupta:** And this is €55 million right?
- Amit Kalyani:** Yes, and this will double our capacity in Europe. Both these investments put together will double our aluminum capacity. We setup aluminum forging line in our CDP plant to make large parts and we have set up a brand-new line in the BF-AT plant to make smaller parts
- Sonal Gupta:** So, the 30 million is including the large and the small?
- Amit Kalyani:** No, it is 30 plus 55. AT is still under implementation and 30 is already implemented and it is in product development phase
- Sonal Gupta:** And just lastly could you give some sense on what sort of revenues on a full year basis we have seen in aerospace and railways?
- Amit Kalyani:** So, defense and aerospace was roughly about 400 crores, rail was about 80 crores.
- Moderator:** The next question is from the line of Jinesh Gandhi from Motilal Oswal Securities. Please go ahead.
- Jinesh Gandhi:** Just to clarify defense and aerospace, if 400 crores is exports?
- Amit Kalyani:** Domestic and exports both.
- Jinesh Gandhi:** And would be broadly equally split?
- Amit Kalyani:** It is more domestic than exports.
- Jinesh Gandhi:** And secondly if I look at this quarter in terms of depreciation there has been a reasonable drop vis-à-vis previous two quarter is there anything one off there or this is the more sustainable run rate?
- Amit Kalyani:** It is a temporary provisioning because we have production of some of our new startup lines postponed so we are not depreciating that.
- Moderator:** The next question is from the line of Puneet Gulati from HSBC. Please go ahead.
- Puneet Gulati:** Can you give some sense on what kind of revenue this 30 million and 55 million CAPEX can generate for the European business?
- Amit Kalyani:** I think when fully ramped up these two will generate close to about a 100 million additional revenue.

- Puneet Gulati:** And when should we expect the first like to be ramped up?
- Amit Kalyani:** By 22 we will start production in the new facility and in 21 in the existing facility.
- Puneet Gulati:** So, even though it is completed it still take a year?
- Amit Kalyani:** Because of product testing and development and the new plant is not ready.
- Puneet Gulati:** Do you have to do both simultaneously or can you do one and keep the other whenever it needs to be started?
- Amit Kalyani:** No, they are completely different customers, different programs, and different platforms so they are not interconnected.
- Moderator:** We will take that as the last question. I would now like to hand the conference back to Mr. Amit Kalyani for closing comments.
- Amit Kalyani:** Thank you ladies and gentlemen for your participation and interest in our call. The company is quite satisfied with the performance we have had last year, but we look forward to improving this performance going ahead. Unfortunately, in the current kind of environment we are, we are facing lot of volatility and uncertainty. We see some amount of headwinds in quarter one especially on the domestic commercial side and little bit on the pass-car side globally and the destocking in the oil and gas sector. So, we see a slightly subdued quarter one, but we expect that from the middle of quarter two onwards and quarter three and quarter four should be very strong and we should have a good performance this year as well, but there are definitely some challenges in Q1 and we are working very hard to overcome those. So, thank you very much and look forward to your continued support.
- Moderator:** Thank you very much. On behalf of Bharat Forge that concludes this conference. Thank you for joining us ladies and gentlemen, you may now disconnect your lines.