November 09, 2023

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**

Sub: Transcript of the Analyst / Investor Conference Call on financial results for the quarter and half year ended September 30, 2023

Ref: Regulations 30 and 46(2) of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015

Dear Sir/Madam,

We are enclosing herewith transcript of the conference call with analysts, which took place on November 06, 2023, after announcement of the Unaudited Standalone and Consolidated Financial Results for the quarter and half year ended September 30, 2023.

The same is also available on the website of the Company at: https://www.bharatforge.com/investors/reports/analyst-conference-calls

We request you to kindly take the same on record.

Thanking you,

Yours faithfully,
For Bharat Forge Limited,

CHAUDHARI TEJASWINI RAMKRISHNA
Digitally signed by CHAUDHARI TEJASWINI RAMKRISHNA
Date: 2023.11.09 14:40:26 +05'30'

Tejaswini Chaudhari
Company Secretary and Compliance Officer

Encl.: As above

KALYANI

"Bharat Forge Limited
Q2 FY '24 Earnings Conference Call"

November 06, 2023

MANAGEMENT: **MR. AMIT KALYANI – JOINT MANAGING DIRECTOR – BHARAT FORGE LIMITED**
MR. KEDAR DIXIT – CHIEF FINANCIAL OFFICER – BHARAT FORGE LIMITED

Moderator: Ladies and gentlemen, good day, and welcome to Bharat Forge Limited Q2 FY '24 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 call, please signal an operator by pressing star, then zero on your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Amit Kalyani, Joint Managing Director, Bharat Forge Limited. Thank you, and over to you, sir.

Amit Kalyani: Good afternoon, ladies and gentlemen, and thank you for joining our investor call. Today, we're going to have a little change of format, and I'm going to request our CFO, Kedar Dixit, to take you through the call. I will be here in case any Q&A is needed. Thank you.

Kedar Dixit: Good afternoon, everyone, and welcome to the Bharat Forge conference call. I'll take you through the highlights of this quarter. So talking about the stand-alone business, Q2 was a strong quarter with robust performance across sectors and geographies. The company has registered record volumes, top line as well as profitability in this quarter. Sales grew by almost 21% on a Y-o-Y basis, which is primarily driven by 2 key sectors, passenger vehicle exports, which has shown a substantial growth of almost 39% and domestic industrial business, which grew by 50%. This is primarily by execution of defense orders, which have started since last 2 quarters.

As far as PV exports are concerned, it's now accounts for almost 1/4 of the total export business. It has been a phenomenal success story of market share gains, increasing value add and addition of new geographies. EBITDA has also grew by almost 36% to INR 616 crores. There has been a margin expansion of almost 300 basis points, now stands at 27.4% on a Y-o-Y basis, driven majorly by better product mix and cost reduction initiatives by the company, which are continuing.

PBT before exchange gain loss was at INR 473 crores, which is the highest so far in this quarter as against INR 358 crores for the same quarter last year and PAT for the quarter stands at INR 346 crores. During the quarter, the company has also won INR 500 crores worth of new business spread between the industrial as well as the CV market. This figure stands at around INR 740 crores for H1 of this year, and this includes business wins of almost INR 300 crores for e-mobility platforms.

Our balance sheet continues to remain strong with cash in excess of INR 2,200 crores. We have reduced our leverage by the long-term debt reducing by INR300 crores in the last 6 months and ROCE net of cash has reached up to 20% mark. Our capex during the first 6 months was about INR 170 crores for the stand-alone business. It is also worth highlighting that in first half of '24, we have surpassed what we have posted in -- as a full year of FY '20 in terms of top line EBITDA as well as PBT on almost 40% lower volumes.

This is basically because of the better product mix, cost reduction initiatives and move towards from components to products. Coming to overseas subsidiaries as compared to last year same quarter, we had a loss of almost INR 34 crores at EBITDA level, which is now a profit of INR 9 crores between U.S. and Europe. As far as European operations are concerned, we have posted EBITDA of INR 35 crores, which is slightly lower than last quarter, but this is mainly on account of the holiday season in Europe.

U.S. operations have posted an EBITDA loss of INR26 crores in this quarter. But as we go in the subsequent quarters, the losses will come down, and the first target is to have a breakeven at EBITDA followed by breakeven at PBT. We continue to narrow the losses as the utilization level keeps increasing gradually. The capex for Phase 2 is on track in the U.S. And the current capacity utilization as far as aluminum business is concerned is about 50% for U.S. and 70% for Europe.

We are seeing month-on-month improvement in operating performance and the numbers in the September quarter are not the true reflection of the improvement, what we have able to achieve. This will obviously will improve over the next quarters. Talking about the India manufacturing for our subsidiaries, which is our industrial business, was the first quarter of consolidation of ISML acquisition, which has a positive EPS starting from first quarter itself. JS Auto, our casting venture, has won new business of INR55 crores during the quarter.

And in this quarter, we have seen about 28% growth in sales for casting business and 38% increase in EBITDA. This is this includes about INR 4 cores of acquisition expenses towards ISML which has been charged off to P&L, and their ability to accelerate is being impended by structural challenges in the wind industry and softness in construction mining, which are the 2 bigger sectors for JSA.

I'll hand over to Mr. Amit Kalyani for the comments on the business.

Amit Kalyani: So our CV exports were at an all-time high of about INR 550 crores, despite key markets still down 10% to 15% from their highs. Industrial exports were also at a high, despite the oil and gas business being down, almost 60% from their peaks that we witnessed in Q2 FY '19. This has been possible because of our focus on continuing to address new segments such as construction and mining, aerospace and others. Not only does this further reduce cyclicality, but also improves profitability of the industrial pie. On e-mobility, we will continue to make progress.

The 2-wheeler side of the business has been affected by the reduction in same subsidy. But we have taken that in our stride, and we are rejigging our platform there to take advantage of what challenges come in place. On the repowering side, we get good traction. Our test trucks have now covered 200,000 kilometers in test runs and 20,000 kilometers in actual loaded customer use case. So we see this also being a very positive development with a good future coming in the next few quarters.

On the defense holdco, we have won orders worth over INR 1,100 crores for multiple customers and product segments, which will be executed over the next 24 months. We continue to see a strong order pipeline across both capital and revenue products. Our defense order book is steadily increasing and becoming broad based, encompassing utility systems, unmanned vehicles, components and solutions for naval forces and unmanned systems.

I'm going to talk liitle bit about M&A. In the past 3 years, we have done three strategic deals with a cumulative outlay of about INR 500 crores focused on industrial and new technologies. We continue to focus on M&A transactions, largely domestic with strong manufacturing and management capabilities, addressing the India industrial opportunity, but also with the potential to export globally.

As a near-term outlook gets clouded by geopolitical crisis, we continue to focus on increasing our market share in the traditional business sectors, execute orders on our defense business, continue with growing our e-mobility part of the business across components, power electronics and repowering.

We will leverage our strong balance sheet to do opportunistic M&A in India. And last but not least, we will work to fix the overseas business profitability with a clear and concrete steps across both steel and aluminium. Thank you very much. I think our team will now be happy to take your questions.

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.

Kapil Singh: Congratulations on a strong performance for the quarter. My first question is on EV orders. This INR 300 crores orders, which you could talk about what is the profile of customers here? Are these leading 2-wheeler or 3-wheeler companies? And what is also the type of products mainly where these orders have come from?

Amit Kalyani: I will only say this, these are global companies, manufacturing, electric vehicles and electric vehicle products. And our orders are to supply them components and subsystems.

Kapil Singh: Sir, is it possible to share some details like which segments they are in this? Which...

Amit Kalyani: I can't share any more than that right now. It's not 2 and 3-wheeler, okay, It's definitely not 2 and 3-wheeler. That's all I'd say.

Kapil Singh: Understood, sir. And sir, you also talked about repowering business for CVs. We also hear that the government is very keen to electrify buses. So in case of buses also, is there a opportunity for repowering the buses?

Amit Kalyani: Yes, we are already running POCs -- I mean we are already doing repowering for certain customers with whom we will run the POC. And this is a completely made in India solution, designed in India, engineered in India. So I think it is a good solution for a country like ours. And that is something that we are focusing on.

Kapil Singh: Sure sir. And on the revenue mix, if I look at it, the domestic CV revenue has been a little bit of a dip, whereas the export CV revenues have seen Q-o-Q increase. If you could just talk us through what's happening there, that would be helpful?

Amit Kalyani: No. But if you look at some of the manufacturers of CVs, there has been a destocking that they are doing because of inventory levels. So I think we're in line with that in India. And globally, we have lots of new programs that are coming on board, new market share that we have won and new products that we have developed. So that's allowing us to grow our overseas business.

Kapil Singh: Sure, sir. And lastly, if you could talk about the PV exports, we've seen a very good ramp up this quarter. So which geography are you mainly seeing this ramp-up? And through the year, should we expect further ramp-up in revenues from this level?

Amit Kalyani: So on the PV side, we will expect to see growth continuing because we have a lot of business that we have won, where some of it is already ramped up, some of it is yet to ramp up. Some of it got affected because of the current problems that are being faced in the US, in the vehicle market. But we expect to see the PV sector grow for us globally with a large part of the growth coming from exports and from pure Indian OEMs.

Moderator: Thank you. Next question is from Amyn Pirani from JPMorgan.

Amyn Pirani: Yes. My question was on the US aluminum business. Losses have been coming down quite sharply. But you also mentioned that you are already hitting 50% utilized levels. So what is the kind of utilization level, which we should consider for a breakeven for this kind of business?

Amit Kalyani: No. See, the breakeven year is a combination of not just utilization -- I mean not just capacity utilization. It also needs the pricing to come into effect, the repricing. So it's a combination of the two. But at 70% to 75%, we should be able to break even with our pricing having been adjusted.

Amyn Pirani: Okay. And over a period of time, is there an opportunity to bring down this breakeven level like over the next 2 to 3 years or...

Amit Kalyani: Once the second phase comes into place, yes, because your fixed costs will get amortized across a larger amount of products.

Amyn Pirani: Okay. That's helpful. And on the defense side, we had seen a very strong uptick in KSSL revenues last quarter. This quarter also, there has been an improvement. Given the order book, can we expect a very sharp quarter-on-quarter ramp-up going forward? Or is it like a step change and then it will stabilize and then grow from there?

Amit Kalyani: Going from INR 300 crores, INR400 crores of revenue to over INR1,000 crores is quite a large jump. And I would say that whatever we are doing now is quite a large jump. Please remember that these are sectors that are very -- let's say, they're not easy sectors to export into. And they have their own procedures in which they work -- processes and procedures in which they work. So I think we are set for a good medium to long-term growth strategy here. And you will see that as we develop new markets and new products, this will only continue growing.

Amyn Pirani: Okay. And lastly, any update from the government on the ATAGs ordering time line?

Amit Kalyani:	As I said earlier, it's going to happen sooner than later, the process is -- I mean it's WIP right now, the whole process so it's -- I can't say anything more than that.
Moderator:	Next question is from the line of Jinesh Gandhi from Motilal Oswal. Please go ahead.
Jinesh Gandhi:	My first question pertains to clarification on the EV orders which you have referred to. Given it's stand-alone, would it be largely for the forging components or there are any electrical components also there?
Amit Kalyani:	I have already shared information than I had to.
Jinesh Gandhi:	Okay. Secondly, when I look at the capex at consol level, it's almost INR 300 crores-plus higher than the stand-alone so can you give some flavor on where are we doing this capex at subsidiary level?
Amit Kalyani:	So we have capex going on in multiple places. We have capex going on in our defense business. We have capex going on in our aluminum casting business, aluminum forging business and our EV business.
Jinesh Gandhi:	Okay. And the US Phase 2 expansion is effectively -- are we doubling our capacity there? Or is it lower than that?
Amit Kalyani:	Yes, we are.
Jinesh Gandhi:	Okay. And by then, it will start operation?
Amit Kalyani:	As I said, operation in '25.
Jinesh Gandhi:	'25, okay. Got it. And lastly, if you can share where we are in today in terms of revenues from oil and gas, defense and aerospace. I believe all of these particularly defensive...
Amit Kalyani:	I would like to share that information only on an annual basis. But if you look at our overall industrial revenue, it's growing and it's growing. Thanks to our de-risking strategy and our new product development strategy.
Jinesh Gandhi:	Right. Surely, I mean, clearly, the defense and aerospace are now delivering quite rapidly. So no worries, will take data at the end of the year. Thanks and all the best.
Moderator:	Thank you. Next question is from the line of Arjun Khanna from Kotak Mutual Fund. Please go ahead.
Arjun Khanna:	Congratulations on a great set of numbers. Sir, my first question is on the European operations. We've stated in the opening commentary, we are at 70% utilization, and you look at EBITDA margins at 3.5%. So as we scale up, what is the peak utilization we could reach? And how do you envisage the EBITDA margins play out over a period of time?
Amit Kalyani:	Look, as I said earlier, our goal for our aluminum business is to take our EBITDA margin to the mid-teens, okay? The steel business is a 10%, 11% EBITDA business. But we are going to do

some restructuring there in terms of new products and more value addition, which will allow us to increase our EBITDA margins there as well. I don't think you have to look at capacity utilization only as the driver. It's going to be a combination of cost value addition and capacity utilization.

Arjun Khanna: So essentially, this is something that's probably two years out or probably something longer as we prototype only two products?

Amit Kalyani: No, no. This is something we have to achieve by '25.

Arjun Khanna: FY '25?

Amit Kalyani: Yes.

Arjun Khanna: Sure. Sir, the second question is on our PV export business. We have obviously scaled this up really well. And historically, at least the understanding on the Street was that this is a lower margin segment, but with higher growth here, we have seen margins also improve. So would it be a fair thing to say that this is not more than our overall margins on the PV business at this case?

Amit Kalyani: I think we have managed to balance our margins with productivity and with product mix and valuation. So we will always focus on doing things that are value accretive to us. Obviously, we don't look at, let's say, return only as EBITDA. You have to look at returns as return on capital employed and not purely EBITDA, but I think even the EBITDA side has been performing quite well right now.

Arjun Khanna: Sure. Just a final question. In terms of defense on the stand-alone side, would we be breaking out because in KSSL we've done roughly INR 300 crores, how much would have been the revenues from the stand-alone business in defense?

Amit Kalyani: I think about INR 200 crores.

Moderator: Thank you. Next question is from the line of Pramod from InCred Capital. Please go ahead.

Pramod: So the first question is with regard to the Asia exports. They seem to have spiked. Is it more a short-term phenomenon? We have won some new business

Amit Kalyani: Pramod, we don't understand you. Is that Asia exports?

Pramod: Sorry. I was saying that these are Asia exports we seems to have picked-up this quarter, so is it anything one-off which has happened or is it any new orders you have won and it's a more specifically…

Amit Kalyani: We have won some new orders.

Pramod: Okay. Or is it more to do with the China recovery and you have been able to participate?

Amit Kalyani: No. We have won some new orders.

Pramod: So it's more of a sustainable trend to go for?

Amit Kalyani: Yes.

Jinesh Gandhi: Sure. And the second one is with regard to Israel. If I am right, you have some joint venture, two entities in that area. So what is the short-term challenge or opportunity and also medium-term challenge or opportunity, considering the current…

Amit Kalyani: Right now, they are at war. So people who are running businesses are also being recruited to fight. They are all reservists. So right now is not the time to talk to them or bother them with this. But clearly, it's going to be more opportunity because they also see the risk of having all their production only in their country. So it's not a very large country.

It can be easily targeted. So, when the dust settles from all this, then we will have a chance to talk to them and figure out, what to do. But it's terrible what's happening for both sides. And I just hope that this gets over soon.

Jinesh Gandhi: Understood. Thanks and all the best.

Moderator: Thank you. Next question is from the line of Arvind Sharma from Citi. Please go ahead.

Arvind Sharma: Hello, good afternoon, sir. And thank you for taking my question. Sir, if you could just shed some light on what your target or aspiration levels are for the broader subsidiaries, both Indian subsidiaries and the overseas subsidiaries?

Amit Kalyani: So we already covered the overseas subsidiaries. On the Indian subsidiaries, if you look at the defence and the industrial verticals, they will be close to 25% EBITDA margin. That's our goal.

Arvind Sharma: Okay. So from this current, obviously current quarter is not a representative. From this, you need to go to like almost 25%. That's the goal?

Amit Kalyani: That's our goal, yes.

Arvind Sharma: And by FY '25, is that?

Amit Kalyani: Yes, FY, yes, I would say close to FY '25. I think we should be close to that.

Arvind Sharma: Sure, sir. Thank you, sir. That's all from my side. Thank you so much.

Amit Kalyani: Thank you.

Moderator: Thank you. Next question is from the line of Kapil Singh from Nomura. Please go ahead.

Kapil Singh: Yes. Sir, if you could just talk about the, there is an improvement in gross margins as well. If you could just talk us through, is there any commodity benefit also visible there or is it just the product mix, which is driving this?

Amit Kalyani: So this is more of a product mix and better cost controls. There is a very less play of commodity.

Kapil Singh: Okay. And if you could also talk about the outlook for both the domestic and the global businesses across segments, that would be useful?

Amit Kalyani: It continues to remain strong. The only thing, the only back-up would be the geopolitical situation. But we have new products, new programs which are ramping up. So on a overall basis, we should be fairly, good on a quarter-to-quarter basis.

Kapil Singh: I was talking more about the US truck industry and domestic truck industry and also industrial. If you could just talk about the industry outlook for these two, the next one year?

Amit Kalyani: So look, the industrial outlook for the US is flat. For CVs also it is flat. It's at about 3,00,000 to 3,10,000. In India, the CV outlook should become positive next year. And the industrial outlook in India is positive. So one sector where we see a lot of concern is the renewable energy sector, especially wind energy. Because, it's a very capex heavy sector and it takes a lot of time to set up anywhere in the world. And because of this, , it's not a very -- that sector is under a bit of a cloud.

Kapil Singh: Sure, sir. And lastly, in terms of cost, if you could talk to what could be the impact of, much higher interest rates that we are seeing globally for the businesses. And also recently there have been some news reports that the labour unions, for example, in the US, are requesting much higher wage hikes. So just your views on these two topics?

Amit Kalyani: So, what you talked about the labour union, that's also what we read in the news. But this is largely to do with the OEMs and certain tier ones. We haven't read the fine print to understand this yet. Interest costs obviously are affecting everyone. In fact, the real GDP growth in large parts of the world is now negative because of inflation running at anywhere from 5% to 7%, 8%.

So, we just have to wait and watch. But clearly interest rates being high are going to have a damping effect on certain sectors. But the government in the US is hell-bent on, printing money and funding a lot of these sectors. So it remains to be seen, what happens in a run-up to the elections.

Kapil Singh: Thank you, sir. And wishing you all the best.

Amit Kalyani: Thank you.

Moderator: Thank you. Ladies and gentlemen, we will take that as the last question. I now hand the conference over to Mr. Amit Kalyani for closing comments.

Amit Kalyani: Ladies and gentlemen, thank you very much for your interest in our company. If you have any more questions, please contact our company directly. And I want to wish you and your family members a very happy Diwali and look forward to a happier and safer year going forward. Thank you very much. Have a nice day.

Moderator: Thank you very much. On behalf of Bharat Forge Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines. Thank you.