



(Incorporated on June 19, 1961 under the Companies Act, 1956)
 (The name of the company was changed from Bharat Forge Company Limited to present name on April 30, 1986)
 Registered Office : Mundhwa, Pune Cantonment, Pune 411 036, Maharashtra, India
 (The registered office was transferred from 13th Elphinstone Road, Khadke, Pune 411 003 to present registered office in 1964)
 Tel. No. +91-20-2687 1666 / 2687 0451; Fax No. +91-20-2687 0693 / 2687 6962
 Corporate Office : Mundhwa, Pune Cantonment, Pune 411 036, Maharashtra, India
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For private circulation to the Equity Shareholders of the Company only

LETTER OF OFFER

ISSUE OF 1,883,382 EQUITY SHARES OF RS.10/- EACH FOR CASH AT A PREMIUM OF RS. 550/- PER EQUITY SHARE ON RIGHTS BASIS TO THE EXISTING EQUITY SHAREHOLDERS OF BHARAT FORGE LIMITED IN THE RATIO OF 1 EQUITY SHARE FOR EVERY 20 EQUITY SHARES HELD ON JULY 27, 2004 (DATE OF THE BOOK CLOSURE). FOR EVERY TWO EQUITY SHARES BEING OFFERED ON RIGHTS BASIS UNDER THIS ISSUE, THE ALLOTTEES WILL RECEIVE ONE DETACHABLE WARRANT. TOTAL ISSUE INCLUDING CONVERSION OF WARRANTS INTO EQUITY SHARES DURING WARRANT CONVERSION PERIOD AT FLOOR PRICE WOULD AGGREGATE RS. 2,184.72 MILLION

GENERAL RISKS

Investments in equity and equity related securities involve a degree of risk and investors should not invest any funds in this Issue unless they can afford to take the risk of losing their investment. Investors are advised to read the Risk Factors carefully before taking an investment decision in this Issue. For taking an investment decision, investors must rely on their own examination of the Issuer and the Issue including the risks involved. The securities have not been recommended or approved by the Securities and Exchange Board of India (SEBI) nor does SEBI guarantee the accuracy or adequacy of this document. **Investors are advised to refer to "Risk Factors" on page ii before making an investment in this Issue.**

ISSUER'S ABSOLUTE RESPONSIBILITY

The Issuer, having made all reasonable inquiries, accepts responsibility for and confirms that this Letter of Offer contains all information with regard to the Issuer and the Issue, which is material in the context of this Issue, that the information contained in this Letter of Offer is true and correct in all material respects and is not misleading in any material respect, that the opinions and intentions expressed herein are honestly held and that there are no other facts, the omission of which makes this Letter of Offer as a whole or any such information or the expression of any such opinions or intentions misleading in any material respect.

LISTING

The existing equity shares of the Company are listed on the Pune Stock Exchange, The Stock Exchange, Mumbai ("Designated Stock Exchange") and The National Stock Exchange of India Limited. The Company has received in-principle approvals from the Pune Stock Exchange by letter dated April 05, 2004; The Stock Exchange, Mumbai by letter dated April 22, 2004; and the National Stock Exchange of India Limited by letter dated April 13, 2004 for listing the securities arising from this Issue.

LEADMANAGERTOTHE ISSUE	REGISTRARS TO THE ISSUE
 JM Morgan Stanley Private Limited 141, Maker Chambers III, Nariman Point, Mumbai 400 021, India Tel. : (91 22) 5630 3030 Fax. : (91 22) 2202 8224 Email: bharatforgerights@jmmorganstanley.com Contact Person : Mr. Chirag Agarwal	 Intime Spectrum Registry Limited Unit : Bharat Forge Limited- Rights Issue C-13, Pannalal Silk Mills Compound Bhandup (West), Mumbai – 400 078, India Phone: +91 22 5555 5454 Fax: +91 22 5555 5353 Email: isrl@vsnl.com Contact Person : Mr. Nikunj Daftary

ISSUE PROGRAMME

Issue opens on	Last date for receiving requests for split Application Forms	Issue closes on
August 12, 2004	August 26, 2004	September 10, 2004

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ABBREVIATIONS

Articles	Articles of Association of the Company
AGM	Annual General Meeting
Bharat Forge or BFL or the Company or the Issuer	Bharat Forge Limited, a company incorporated on June 19, 1961, under the Companies Act, 1956
Board	Board of Directors of Bharat Forge Limited or a Committee(s) thereof
BSE or Designated Stock Exchange	The Stock Exchange, Mumbai
CAF	Composite Application Form
CAGR	Compounded Annual Growth Rate
Capital or Share Capital	Capital of the Company
CDSL	Central Depository Services (India) Limited
CRISIL	The Credit Rating Information Services of India Limited
CV/CE	Commercial Vehicle/Consumer Equipment
Draft Letter of Offer	Draft Letter of Offer as filed with SEBI for its comments
DP	Depository Participant
FEMA	Foreign Exchange Management Act, 1999
FII(s)	Foreign Institutional Investors registered with SEBI under applicable laws
Fiscal/FY	Financial Year ending March 31
GoI	Government of India
Issue Price	Rs. 10 plus a premium of Rs. 550 per Equity Share
IT Act	The Income-tax Act, 1961 and amendments thereto
Lead Managers	JM Morgan Stanley Private Limited DSP Merrill Lynch Limited, Enam Securities Private Limited, ICICI Securities Limited
LoO/Offer Document	Letter of Offer
Letter of Offer	Letter of Offer circulated to the Shareholders
Memorandum	Memorandum of Association of the Company
MoU	Memorandum of Understanding
NAV	Net Asset Value
NR	Non Resident
NRI(s)	Non Resident Indian(s)
NSE	National Stock Exchange of India Limited
NSDL	National Securities Depository Limited
OCB(s)	Overseas Corporate Body(ies)
PSE	Pune Stock Exchange
RBI	The Reserve Bank of India
Date of the Book Closure	July 27, 2004
Registrars or Intime Spectrum	Intime Spectrum Registry Limited
RoC	Registrar of Companies
Rights Entitlement	The number of securities that a shareholder is entitled to in proportion to his/her existing shareholding in the Company
Rights Issue	The issue of equity shares and detachable warrants in terms of this Letter of Offer
SEBI	Securities and Exchange Board of India
SEBI Guidelines	The Guidelines for Disclosure and Investor Protection issued by SEBI on January 19, 2000 read with amendments issued thereafter from time to time till the date of filing of this Letter of Offer with SEBI.
The Act	The Companies Act, 1956 and amendments thereto from time to time.
The Offer or The Issue	Issue of 1,883,382 Equity Shares of Rs.10/- each for cash at a premium of Rs. 550/- per equity share on rights basis to the existing equity shareholders of the Company in the ratio of 1 equity share for every 20 equity shares held on July 27, 2004 (date of the Book Closure). For every two equity shares being offered on rights basis under this issue, the allottees will receive one detachable Warrant. Total issue including conversion of warrants into Equity Shares at floor price would aggregate Rs. 2,184.72 million
Warrant Conversion Price	Price at which the warrants can be exercised for conversion into equity shares of the Company. For details please refer section "Terms of the Issue" on page 20 of this Letter of Offer

In this Letter of Offer, all references to "Rs." refer to Rupees, the lawful currency of India, "USD" or "US\$" refer to the United States Dollar, the lawful currency of the United States of America, "€" or "Euro" refer to the Euro, the lawful currency of the European Union, "GBP" refers to the Great Britain Pound, the lawful currency of the United Kingdom, references to the singular also refers to the plural and one gender also refer to any other gender, wherever applicable, and the words "Lakh" or "Lac" mean "one hundred thousand" and the word "million" means "ten lakh" and the word "crore" means "ten million" or "one hundred lakhs".

In this Letter of Offer unless the context otherwise requires, the terms 'we', 'us' and 'our' refer to Bharat Forge Limited.

In this Letter of Offer, any discrepancies in any table between total and the sums of the amount listed are due to rounding.

RISK FACTORS

The risks described below together with the other information contained in this Letter of Offer should be carefully considered before making an investment decision. If any of the following risks actually occur, our business, financial condition and results of operations could suffer, the trading price of our Equity Shares could decline and you may lose all or part of your investment.

This Letter of Offer also contains forward-looking statements that involve risks and uncertainties. Issuer's actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including the considerations described below and elsewhere in this Letter of Offer.

Internal Risk Factors

We focus primarily on the automobile and auto-components industry.

In fiscal 2004 we generated 69% of our total sales from the supply of forgings to automotive industry both in India and globally. Accordingly, our future success depends on continued demand for our products in the automobile industry. We believe that there have been substantial changes in the automobile industry in recent years, including continuing consolidation, decreasing profit margins in certain sectors, regulatory and technological changes and other trends. We believe these changes have led to increased outsourcing by automobile manufacturers. If the pace of these changes were to slow down, we could experience reduced demand for our products. In addition, the auto-component industry is sensitive to changes in economic conditions, cyclical and unforeseen events, including political instability, recession, inflation or other adverse occurrences. Any event that results in decreased demand in automobile industry, or increased pressure on automobile manufacturers to develop, implement and maintain in-house auto-component facilities, could have an adverse effect on our business, financial condition and results of operations.

Further our fortunes are linked particularly with the Medium/Heavy Commercial Vehicle segment of the automobile Industry, which is cyclical in nature. The off-take of medium and heavy commercial vehicle components which significantly contributes to our revenues can be adversely affected by factors like increase in fuel prices, macro economic performance and competition from alternate modes of transport such as railways, pipelines, etc.

We are substantially dependent on family of crankshafts and family of front axle beam and component products for revenue in our closed die forgings Business.

A substantial portion of our revenues (excluding other income) are derived from sale of forged and/or machined crankshafts and front axle beams. During each of the fiscal 2002, 2003 and 2004 we derived a significant part of our total sales from the sale of crankshafts and front axle beams and components. The proportion of revenues derived from each of the above in last three fiscals is as follows:

	<u>2002</u>	<u>2003</u>	<u>2004</u>
Forged components	52%	45%	47%
Machined crankshaft	24%	21%	27%
Machined front axle beam and components	20%	27%	19%

We anticipate that crankshafts and front axle beams and components will continue to account for a substantial portion of our revenues. Consequently, our future success, to a large extent, will depend on continued demand for and market acceptance of our crankshafts and front axle beams and components, as well as our ability to introduce, enhance and add newer crankshafts and front axle beams and components that meet the evolving needs of the automobile industry in general and our customers in particular. Competition, technological changes or other factors could reduce demand for, or market acceptance of, these product and this could have an adverse effect on our business, financial condition and results of operations.

Increases in wages could reduce our profit margins.

Historically, wage costs in the Indian forging industry have been significantly lower than wage costs in the developed countries for comparable skilled technical personnel. In the long term, wage increases may make us less competitive unless we are able to continue increasing our efficiency and productivity, and the prices we can charge to our customers. Any significant increase in wage costs could have an adverse effect on our business, financial condition and results of operations.

The key technical and managerial personnel are crucial for sustenance of our success in future.

Our future success depends to a significant extent upon the continued contributions from our key technical and managerial personnel. The loss of one or more members of our senior management team could have an adverse effect on our business, financial condition and results of operations. For details of the key managerial personnel, please refer to “Our Management” Section on page no. 81 of this Letter of Offer.

Cordial relationship with the employees is crucial for smooth functioning of our operations.

Our operations rely heavily on employees and on the employees’ ability to provide high-quality services. In the event there is a shortage of skilled labour or stoppage caused by disagreements with employees in future, it could affect our ability to meet the quality standards and timely completion of orders, which could lead to reduced business or may potentially damage our reputation.

Mishaps or accidents at our facilities could lead to property damage, production loss and accident claims.

Any mishap or accident in our facilities could result in claims against us for damages by our employees. We could suffer loss of production, receive adverse publicity and experience diversion of management attention and resources in defending such claims. Any such significant event could have an adverse effect on our business, financial condition and results of operations.

Our operating results depend on our relationships with our key large customers.

Due to our focus to target large customers, our results of operations and our business depend on our relationships with our key large customers. During fiscal 2002, 2003 and 2004 we derived 50%, 54% and 47% of our total sales respectively, from our top 5 customers.

As a result of our reliance on relationships with a limited number of key large customers and the general trend in our industry, we may face significant pressure on the size of the orders that we receive and the price we would be able to realise. In addition, a customer that generates substantial revenues for us in one period may not be a substantial source of revenue for us in a subsequent period. Moreover, once an order is completed, there can be no assurance that a customer will place further orders. As a result there can be no assurance that we will be able to maintain our historical rate of growth or our current level of revenues derived from the above customers or any other customer in the future.

We derive majority of our sales from India market

Due to our continued focus on the domestic market and continued demand from Indian customers, we derive majority of our income from our sales to Indian automobile manufacturers. During fiscal 2002, 2003 and 2004 we derived 73%, 55% and 59% of our total sales respectively, from our sales in India. Any adverse developments in Indian automobile industry could result in reduced demand from our Indian customers. Any such event could have an adverse effect on our business, financial condition and results of operations.

Our customers may terminate supply contracts before completion or choose not to renew contracts, which may adversely affect our profitability.

Any failure to meet a customer’s expectations could result in the cancellation or non-renewal of contracts. Generally, our contracts with customers do not commit our customers to provide us with a specific volume of business and can be terminated by them with or without cause, with little advance notice and without penalty. Such cancellations could significantly reduce our revenues. Typically, we enter into a master/umbrella agreement with a customer and products are delivered under specific work orders. There is, however, no commitment on the part of our customer to pass on new work orders to us. There are also a number of factors other than our performance and that are outside our control that could cause the loss of a customer. Our customers may demand price reductions, change their outsourcing strategy by moving more work in-house, or replace their existing products with castings, any of which may have an adverse effect on our business, financial condition and results of operations.

High days of sales outstanding (i.e. the average period for which the sale invoice remains outstanding) may increase our collection risk, which could adversely affect our liquidity.

For fiscal 2003 and 2004 our days of sales outstanding which is the ratio of sundry debtors (including the bills discounted in the normal course of business) to total sales in a particular period multiplied by the number of days in that period was

approximately 111 days and 108 days respectively, which reflects the average period for which the sales invoice remains outstanding. Lower the ratio in terms of number of days indicates shorter collection cycle, which improves our working capital management. Our day of sales outstanding is typically on the higher side primarily on account of significantly longer collection cycle for export sales as compared to domestic sales. A typical indicative collection cycle for domestic sales is between 30 to 60 days. However, the typical indicative collection cycle for export sales is much longer, averaging between 150 to 180 days, which comprises of the following : (From day zero i.e. shipment out of Bharat Forge)

Shipment	30 to 40 days
Internal transport in destination country	5-7 days
Stock held by customer	About 60 days
Credit Terms (from the time of actual withdrawal from stock so held)	45 to 60 days
Payment cycle	7-15 days
Total	147 to 182 days

With increasing trend in our export sales, the total average number of days for which the receivables will remain outstanding may increase. Aggregate of our bad debts written off and provisions for doubtful debts were Rs. 10.20 million, Rs. 18.31 million and Rs. 8.87 million, for fiscal 2002, fiscal 2003 and fiscal 2004, respectively. Our inability in future to further accelerate the realisation of our receivables could adversely impact our liquidity.

Increase in input cost could reduce our profitability

Our major input costs consist of steel, and power & fuel. For the year ended March 31, 2004, steel cost comprised approximately 54% of our total expenditure excluding interest and depreciation. Similarly power and fuel during the same period comprised approximately 11% of our total expenditure excluding interest and depreciation. Average steel prices have been increasing in the recent past. The Power and fuel cost comprised of electricity cost, fuel oil cost and LPG cost. The prices of Electricity are determined by the state electricity Board from time to time, which are beyond our control. The prices of Fuel Oil and LPG depend among other things on the international crude oil price movements, which are also beyond our control. We may not be able to pass on any or all increase in the cost of raw materials and other inputs, if any, to our customers. An increase, if any, in input costs could have an adverse effect on our business, financial condition and results of operations.

Dependence on few suppliers may adversely affect the availability of key input at reasonable prices thus affecting our margins and may have an adverse effect on our business, financial condition and results of operations

We procure our major raw material, viz. steel from our group companies Kalyani Steel Limited and Kalyani Carpenter Special Steels Limited. The steel procured from these two companies for fiscal 2004 aggregated approximately 80% of the steel procured by us. Steel is procured from these two companies on arm's length basis and we do not have any firm binding supply contracts with either of these companies. Discontinuation of production by these companies or a failure of these suppliers to adhere to the delivery schedule can hamper our production schedule and, therefore, also affect our revenues and hamper our business and results of operations. This dependence may also adversely affect the availability of key inputs at reasonable prices thus affecting our margins and may have an adverse effect on our business, financial condition and results of operations.

Fixed price contracts; - Increase in the cost of inputs or our inability to estimate accurately the resources, future rates of wage inflation and currency exchange rates could have an adverse impact on the profitability from such contracts

All our contracts are on a fixed-price basis. In the past we have derived our revenues from fixed-price contracts and we expect to continue to derive a significant proportion of our revenues from fixed-price contracts. Fixed-price contracts are those contracts where the price per unit is specified in the contract. Our inability to pass through partly or entirely the increase in the cost of inputs or our inability to estimate accurately the resources, future rates of wage inflation and currency exchange rates could have an adverse impact on the profitability from such contracts.

We operate in a globally competitive business environment

We operate in a globally competitive business environment. Increasing competition may force us to reduce the prices of our products, which may reduce our revenues and margins and/or decrease our market share, either of which could have an adverse effect on its business, financial condition and results of operations.

Our revenues may vary from quarter to quarter.

Our operating results may vary on a quarter to quarter basis depending upon a number of factors, including the size and timing of significant contracts and product sales; the mix of our product revenues; the mix of domestic and export sales; the ability to scale up our operation; unanticipated termination of a major order; loss of a major customer; reduction in customers demand; our success in expanding our geographical presence; currency exchange rate fluctuations and other general economic factors. As a result, our revenues and operating results in a particular period are difficult to predict, and may vary from period to period. If this were to occur, it may have an adverse effect on our business, financial condition and results of operations.

Any inability to manage our rapid growth could disrupt our business. Our inability to secure significant amounts of financing, to manage expansion process can have an adverse effect on our business, financial condition and results of operations.

We have experienced significant growth in recent periods. Our total revenues (net of excise duty) for fiscal 2004 were Rs. 8,511.39 million as compared to Rs. 6,449.55 million for fiscal 2003. The total revenues increased by 32% in fiscal 2004 compared to fiscal 2003. Our success will depend, among other things, on our ability to secure significant amounts of financing, to manage the expansion process, to assess potential markets, to make timely capital investments with the price cycle, to control input costs, to attract new customers and to maintain sufficient operational and financial controls. We expect our growth to place significant demands on our management and other resources and require us to continue developing and improving our operational, financial and other internal controls. Our inability to secure significant amounts of financing, to manage expansion process can have an adverse effect on our business, financial condition and results of operations.

We could become liable to customers, suffer adverse publicity and incur substantial costs as a result of defects in our products or services

Our contracts involve providing products that are critical inputs to the products of our customers. Any failure or defect in our products could result in a claim against us for damages. We could also incur costs, receive adverse publicity and experience diversion of management resources in defending a claim. Settlement of any substantial claim(s) for damages could have an adverse effect on our business, financial condition and results of operations.

Our customers share their intellectual property rights, including their product designs, any misappropriation of which could harm our competitive position

If our customer's proprietary rights are misappropriated by us or our employees in violation of any applicable confidentiality agreements, our customers may make us liable for that act and seek damages and compensation from us. This could have an adverse effect on our business, financial condition and results of operations and hamper our reputation.

Our ability to proceed with major plans and also obtain financing is subject to our lender's covenants

As of March 31, 2004, we had Rs. 2,855.68 million of total debt. The agreements in respect of some of the debt contain certain covenants including maintenance of financial ratios, compliance reporting requirements and other restrictions which may significantly limit the our ability to borrow additional money, alter share capital, make expansions and diversifications, make capital expenditure and investments, merge or incur additional liens.

We have not commissioned an independent appraisal for the use of proceeds to be raised through this Issue

The use of proceeds of the Issue has been determined based on internal estimates of our management and no bank or financial institution has appraised the use of proceeds to be raised by us through this Issue. No independent body will be monitoring the use of proceeds. Progress in the use of proceeds from this Issue as is statutorily required by SEBI will be reported quarterly alongwith the publication of our quarterly results and in our annual report.

For our total project, which is estimated to cost Rs. 3,500 million, we have not placed orders or entered into agreements for a substantial portion of our planned investments from the net proceeds of this Issue.

For the total project costing about Rs. 3,500 million, we have placed orders for the purchase of capital equipment and building aggregating only Rs. 1,618.73 million, which we propose to fund by the net proceeds of this Issue.

Pending the deployment of funds towards the various objects of the Issue, the funds would be deployed either towards temporary reduction in utilization of short term working capital facilities and / or in liquid instruments such as Bank Deposits, Units, GILT edged securities and other 'AAA' rated interest bearing securities as may be approved by the Board of Directors or a Committee thereof. Such transactions would be at the prevailing commercial rates at the time of investment. Should the Company utilise the funds towards temporary reduction in utilization of short term working capital facilities, the Company undertakes that it would ensure consistent and timely availability of the rights issue money so temporarily deposited in the working capital facilities to timely meet the fund requirement of the project. For details of the project, please refer to the section "Objects of the Issue" on page 34 of this Letter of Offer.

We are in the process of applying for / obtaining certain approvals for our proposed expansion plan. Non-receipt of the said approvals or delay in receipt of the said approvals may delay our expansion plans and may have negative impact on our operations and proposed expansion plans

We are in the process of applying for industrial license for crankshaft machining facility expansion at our Mundhwa plant from the present level of 400,000 numbers per year to 450,000 numbers per year. We are also in the process of applying for the approval under Factories Act, 1948 in respect of the factory building proposed to be constructed for the proposed forging expansion. We have not yet received the following approvals in respect of the proposed expansion at Mundhwa:

- Industrial license for forging capacity expansion applied vide letter dated April 24, 2004
- Approvals under Factories Act, 1948 for setting up of new facility / expansion of facilities applied vide letter dated March 25, 2004
- Approval from Maharashtra State Electricity Board for additional load applied vide letters dated April 03, 2004 and April 24, 2004
- Approval from Pollution Control Board for Air and Water Pollution in respect of enhanced forging capacity applied vide letters dated April 15, 2004

Non-receipt of above approvals or delay in receipt of the approvals may delay our expansion plans and may have negative impact on our operations and proposed expansion plans.

The floor for warrant exercise price is not indicative of the future market price of equity shares of the Company

Warrant Exercise Price shall be at a 15% discount to the average of the previous three calendar months daily closing price immediately preceding the month in which the warrant conversion is exercised, subject to a floor price (minimum price) of at least Rs. 1,200 per warrant. We have fixed the floor price of Rs. 1,200 since that would be the minimum price at which the warrants can be exercised. Therefore though the warrant exercise price is linked to the market price, in the event the average market price is less than Rs. 1,200, the warrant exercise price would be fixed at Rs. 1,200 and as a result, the Warrant Exercise Price would be higher than the then prevailing market price. The investors may also note that the floor price of Rs. 1,200 per warrant should not be taken to be indicative of the market price of the equity shares, whether presently or after the equity shares are issued upon the exercise of warrants are listed. No assurance can be given regarding the active / sustained trading in the equity shares or the price at which the Equity Shares offered under the present Issue will trade either after the listing or at the time of exercise of warrants.

One of our group company, BF Utilities Limited incurred a loss of Rs. 20.49 million

For the year ended September 30, 2003, our group company, BF Utilities Limited incurred a loss of Rs. 20.49 million. We do not have any investment in BF Utilities Limited.

The accounts of our subsidiary for the first three months of its operations ended March 31, 2004 are unaudited

CDP Bharat Forge GmbH ("CDPBF") was incorporated on December 15, 2003 to acquire the German operations of Carl Dan Peddinghaus GmbH & Co., KG, Germany in an asset purchase deal with effect from January 01, 2004. The first accounting year of CDPBF would end on December 31, 2004. The statutory auditors of CDPBF have confirmed that as per German laws, there is no requirement to get the quarterly financials results audited, or publish audited or unaudited financial results. Accordingly, the accounts of our subsidiary, CDPBF (incorporated in Germany) for the first three months of its operations ended March 31, 2004 are unaudited.

We may face conflicts of interest with our affiliates, Kalyani Steel Limited and Kalyani Carpenter Special Steels Ltd., where our promoter and principal shareholder, is a director, promoter and maintains a majority ownership in these companies.

Mr. B N Kalyani, our promoter and principal shareholder, who controls 37.25% of our currently issued Equity Shares will continue to control at least 37.25% of our issued Equity Shares at the completion of the Issue. In this regard, the following should be noted:

Kalyani Carpenter Special Steels Ltd. (a related company) and Kalyani Steels Ltd. (a company promoted by Mr. Kalyani) are our major suppliers of steel. In the event there is a dispute between us and either of Kalyani Carpenter or Kalyani Steels there may be a conflict of interest in resolving such a dispute.

Mr. B N Kalyani, our promoter and principal shareholder, may have the ability to influence the outcome of any shareholder resolution.

Mr. B N Kalyani, our promoter and principal shareholder controlling 37.25% of our currently issued Equity Shares will continue to control at least 37.25% of our issued Equity Shares at the completion of the Issue. As a significant shareholder, Mr Kalyani will have the ability to influence the outcome of any shareholder resolution.

For the fiscal 2004, our total capital commitments were Rs. 739.36 million and outstanding bank guarantees were Rs. 69.47 million and other bank guarantees of Rs.49.04 million.

As of March 31, 2004, we had total commitments and bank guarantees of Rs. 857.87 million, which consisted of Rs. 739.36 million of capital expenditure being estimated value of contracts remaining to be executed on capital accounts, net of advances and not provided for and Rs. 69.47 million as secured guarantees provided by banks on our behalf and Rs. 49.04 million as other bank guarantees.

Our Contingent liabilities as on March 31, 2004 aggregated Rs. 3,442.35 million

As on March 31, 2004, we had the following contingent liabilities:

- Sales Bills Discounted of Rs. 1,525.81 million
- Balance outstanding on guarantees given by us on behalf of other companies of Rs. 1,566.69 million. These guarantees have been issued to facilitate borrowings for our promoter group companies.
- Claims against the Company not acknowledged as debts of Rs. 138.82 million
- Disputed Income Tax Matters of Rs. 191.30 million
- Excise Demand matters under dispute of Rs. 19.73 million

Crystallisation of any of the above liabilities may require us to honour the demands raised, if any, which may adversely impact our liquidity and thereby may have a material adverse impact on our financial resources and net worth.

We have an Outstanding Export Obligation, non fulfillment of which may expose us to pay the duty concession availed aggregating Rs. 111.28 million together with interest and penalties, if any

We have imported certain equipments at concessional duty under Export Promotion Capital Goods (EPCG) Scheme and have availed duty concessions of Rs. 111.28 million. As a result we have assumed export obligations, which we are required to fulfill by fiscal 2011. The consequence of not meeting the above commitments would be a retroactive levy of import duty on items previously imported at concessional duty. Additionally the respective authorities have rights to levy penalties and / or interest for any defaults on a case-by-case basis.

Failure by BF Utilities Limited to honour its sales tax deferral liability aggregating Rs. 463 million may have an adverse effect on our business, financial condition and results of operations

BF Utilities Limited, one of our group companies, engaged *inter-alia* in the business of wind power generation, has entered into an agreement dated March 10, 2001 with us to supply the said power. By virtue of setting up of the wind mills, BF Utilities is eligible to claim sales tax deferral / exemption benefits under the Package Scheme announced by the Government of Maharashtra. Pursuant to the aforesaid agreement, BF Utilities Limited has agreed to transfer the said Sales tax benefit to us

and we have agreed to transfer the sales tax collected by us to BF Utilities Limited, with an obligation on BF Utilities Limited to make the payment to the Government of Maharashtra as per the package scheme read with the aforesaid agreement. As a result, from time to time, we transfer the accumulated sales tax collected by us alongwith the obligation thereof under the deferral scheme to BF Utilities Limited. As of March 31, 2004, we have transferred sales tax collected by us aggregating Rs. 463 million to BF Utilities Limited and would continue to do so until termination of the said agreement or March 31, 2008, whichever is earlier. Should BF Utilities Limited fail to honour its commitment to make payments to the Government of Maharashtra in accordance with the package scheme, Government of Maharashtra is entitled to recover the same from us. In case of such eventuality, it may have an adverse effect on our business, financial condition and results of operations.

Following are material pending Litigations and defaults in which we, our directors and our group companies are involved

The following are the material pending litigations and defaults against us, some of our directors and group companies. For details of these litigations please refer to sub-section B under 'Outstanding Litigations' on page no. 122 of this Letter of Offer. For details of litigations initiated by the Company, please refer to the sub- section A under Outstanding Litigations on page 119 of this Letter of Offer.

a) Pertaining to Securities Law

Various suits have been filed by/against shareholders against/by third parties wherein the Company has been restrained from transferring the shares under dispute or paying dividend and other entitlements on such shares to such parties till the disposal of the suits.

b) Pertaining to Statutory Authorities

Excise & Customs disputes aggregating to Rs. 39.44 Million

The Company has fifteen excise and customs disputes generally relating to Excise duty and CENVAT Credit and the like, aggregating to Rs. 39.24 Million.

Income Tax disputes aggregating to Rs. 188.15 Million

The Company has fifteen income tax disputes of which two relate denial of carry forward loss on account of exchange rate fluctuation and other miscellaneous matters and thirteen relate to deductions made by the Company. The disputes aggregate to Rs. 188.15 Million.

Octroi Duty dispute aggregating to Rs. 103.11 Million

The Company has one dispute with the Pune Municipal Corporation regarding payment of interest on octroi duty payable by the Company, aggregating to Rs. 103.11 Million.

Property Tax dispute aggregating to Rs. 22.61 Million

The Company has one dispute with the Pune Cantonment Board regarding property tax in respect of the Company's properties at Mundhwa, Pune aggregating to Rs. 22.61 Million.

Environmental disputes

The Company has under the provisions of the Water (Prevention and Control of Pollution) Act, 1974, preferred two distinct appeals before the appellate authority against two orders of the Maharashtra Pollution Control Board for imposing stringent conditions in the consent to operate and imposing cess on the basis of a wrong consumption reading submitted by the Company. The disputes do not involve ascertainable amounts.

Export dispute fine of Rs. 0.07 Million

The Company has filed an appeal before the Additional Director General of Foreign Trade ("DGFT") against a fine of Rs. 75,000/- (paid by the Company under protest) imposed on the Company for its failure to establish documentary evidence proving exports made by the Company.

c) Pertaining to Labour Laws aggregating to Rs. 6.62 million

The Company is involved in disputes with its officers, workmen and contract labourers relating to reinstatement and backwages, aggregating to Rs. 6.62 million.

d) Pertaining to other matters

RBM Associates and Jarrett Associates, England (“Agent”) for damages in excess of £ 100,000/-

The Agent has issued a notice threatening to initiate arbitration proceedings claiming damages assessed by the Agent to be in excess of £ 100,000/- against the Company with respect to the alleged breach of an agency agreement by the Company. However, as of date the amount is not ascertainable in the absence of a formal claim invoking arbitration.

ITOCHU Automobile America INC., U.S.A. (Itochu) for agency commission of 5% of sales made by the Company to the Ford Motor Company, U.S.A

Itochu has issued a legal notice through its Attorneys, Abbot Nicholson PC, threatening appropriate legal action for failure by the Company to pay agency commission of 5% of sales made by the Company to the Ford Motor Company, U.S.A.

e) Against the Directors of the Company

Mr. P. Bhogilal

- A. Cummins India Ltd. has filed a criminal complaint against Mr. P. Bhogilal under Section 138 of the Negotiable Instruments Act, 1882 for dishonour of a cheque signed by him in his capacity as director of Batliboi Ltd. The matter is pending in Court of the Judicial Magistrate, First Class (“JMFC”), Pune. In a dispute between purchasers of shares of a company belonging to Mr. Bhogilal, Mr. Bhogilal has been impleaded as a party although no charges or claims are made against him. Mr. Bhogilal has made an application for discharge. No amounts are ascertainable for these disputes.
- B. One of our independent non-executive director, Mr. Pratap Bhogilal was an independent non-executive director on the Board of Mysore Kirloskar Limited (MKL), a company whose name appeared in the RBI defaulter list. The default pertained to the loan availed by MKL from Sumitomo Mitsui Bank. Mr. Bhogilal has ceased to be a director of MKL with effect from January 12, 2001. We understand that MKL was referred to Board for Industrial and Financial Restructuring (“BIFR”) and thereafter winding up orders was passed by Karnataka High Court on April 01, 2004.

Mr. S. D. Kulkarni

In a matter under the Foreign Exchange Regulation Act, 1973 despite holding that Mr. Kulkarni has not violated any provision of FERA, the adjudicating authority levied a penalty for Rs. 0.15 Million for not depositing the foreign exchange with the authorized dealer within the stipulated period. Mr. Kulkarni has filed an appeal against the said order and the same is pending.

Mr. G.K. Agarwal

Pursuant to an investigation into the cause of an accident in which a contract labourer was injured, the Factory Inspector initiated prosecution against Mr. G.K. Agarwal in his capacity as ‘Occupier’ of the Mundhwa factory at Pune for contravention of the provisions relating to “Safety and Maintenance in Dangerous Operations”, as stipulated under the Factories Act, 1948. The matter is pending before the Court of Chief Judicial Magistrate, Pune. No amount is ascertainable for this dispute.

Pursuant to injuries and death caused to certain employees at the Mundhwa Plant, (‘Plant’) a show-cause notice was issued to Mr. G. K. Agarwal as the Occupier of the Plant, asking him to show-cause as to why proceedings should not be initiated against him for breach of the provisions of Section 7-A (2) (a) of the Factories Act, 1948. Mr. Agarwal has appropriately replied to the show-cause notice. Thereafter summons have been served on Mr. Agarwal by the Court of Chief Judicial Magistrate, Pune. No amount is ascertainable for this proceeding.

Mr. Anil Rege

Mr. A.D. Rege, as a director of Indo Rama Synthetics (I) Ltd., has preferred an appeal before the Appellate Tribunal for Foreign Exchange, against an order dated February 12, 2004 of the Adjudicating Authority (“Order”) passed against Indo Rama Synthetics (I) Ltd. and its directors. The Order passed was for the contravention of the provisions of Section 18(3) of the (erstwhile) Foreign Exchange Regulation Act, 1973 (“Act”) as Rs. 0.89 Million towards the value of goods exported by Indo Rama Synthetics (I) Ltd. was not realised by Indo Rama Synthetics (I) Ltd., nor written off by the authorised dealer/ Reserve Bank of India. The Appellate Authority has also imposed a fine of Rs. 0.1 Million on the Company and Rs. 25,000 on

each director, under Sections 50 and 51 of the Act. Mr. A.D. Rege has resigned as a director of Indo Rama Synthetics (I) Ltd. with effective from April 20, 2004.

f) Litigations by and against the Promoter/Group/Associate Companies (top 5 listed)

Kalyani Brakes Limited

The company has filed appeals with the Commissioner in respect of seven excise cases for denial of CENVAT credit for imported machines taken on lease from Maruti who had imported the same under an EPCG. The amounts aggregate to Rs. 3.64 Million.

Automotive Axles Limited

There are five cases relating to entry tax aggregating to Rs. 0.20 Million. There are eight labour cases filed by the employees of the company for reinstatement with back wages aggregating to Rs. 5.46 Million. The cases are pending in various labour Courts. There is one case filed by the Employees Union against the company for wages during the four month strike period between February and May 1999. The amount involved is not ascertainable. There are two cases relating to Central Excise aggregating to Rs. 0.12 Million.

Kalyani Steel Limited

Seven civil suits are filed against various parties for recovering an aggregate sum of Rs 21.49 Million. One suit has been filed by the company against the Pune Municipal Corporation ("PMC") in respect of demands raised by the PMC aggregating to Rs. 54.27 Million. One suit has been filed by the company against the PMC to claim refund of Rs. 7.88 Million advanced as a security deposit. Five Civil Suits have been filed against company claiming an aggregating amount of Rs. 5.38 Million. There are four applications pending in the ESI Court involving demands of Rs. 2.46 Million. There are eight sales tax claims pending with various appellate sales tax authorities involving demands aggregating to Rs. 3.38 Million. There are two income tax claims pending with appellate income tax authorities involving demands aggregating to Rs. 0.25 Million. There are two show cause notices issued by the excise authorities relating to CENVAT/MODVAT Credit claimed by the company aggregating to Rs. 29.28 Million. In addition there are eleven excise claims pending with the various excise authorities relating to CENVAT Credit, valuation etc. aggregating to Rs. 119.87 Million.

g) Litigations by and against the Promoter/Group/Associate Companies (top 5 unlisted)

Meritor HVS Limited

The company has received a corrigendum to its reply to one show cause notice issued by the Assistant Commissioner of Central Excise relating to service tax for the technical support provided to Automotive Axles Ltd for Rs. 1.59 Million.

Kalyani Carpenter Special Steels Limited

There are four labour cases filed by the employees against the company regarding retrenchment. The cases are pending in the Labour Court, Pune aggregating to Rs. 2 Million.

Epicenter Technologies Pvt. Ltd.

The company has preferred an appeal against the order of the Assistant Commissioner of Income Tax disallowing certain expenses claimed by the company amounting to Rs.1.85 Million

Precision Seals Manufacturing Limited

The company has preferred an appeal against the order of the Additional Commissioner, Central Excise claiming excise duty on sale of rubber components by the company to Kalyani Brakes Limited. The amount claimed under the order is Rs. 1.67 Million (Plus penalty equal to the amount of duty payable and interest @ 24% per annum).

Promise v/s Performance Analysis

Bharat Forge Limited

The Company had made Rights Issue of equity shares in October 1989, October 1992 and in March 1994. The promised future performance of the Company was not presented in the Letters of Offer for October 1989 issue and hence a comparison of the Company's actual performance vis-à-vis the projections made in the Letters of Offer is not possible.

1992

Rights issue of 3,660,700 equity shares of Rs.10/- each for cash at a premium of Rs.150/- per share aggregating to Rs.585.70 million to the equity shareholders of Bharat Forge Limited in September-October, 1992. Additionally, 183,000 equity shares of Rs.10/- each for cash at a premium of Rs.150/- per share aggregating to Rs.29.30 million were offered to the employees (including Indian Working Directors and Workers) of the Company. There was a shortfall in the actual performance compared to the projections given in the Letter of Offer, as given below:

(in Rs. million except per share data)

Year ending March 31	1993		1994		1995	
	Promised	Actual	Promised	Actual	Promised	Actual
Total Income	3,385.70	2,416.74	3,701.10	2,365.87	3,944.00	3,583.42
PBDIT	600.20	450.63	764.30	588.24	899.60	764.24
Depreciation	202.90	123.77	228.20	146.75	252.40	165.99
Interest	308.10	253.58	273.60	325.19	273.80	340.10
Profit after Tax	98.00	73.29	159.10	116.30	209.60	258.15
Earning Per Share (Rs.)	5.30	3.98	8.00	5.89	10.54	7.96
Net Asset Value Per Share (Rs.)	80.19	76.49	90.85	85.88	98.39	72.74

The issue was made to finance the wheel rim project at projected cost of Rs. 372.50 million (actual cost Rs. 446.32 million), financial services division at actual cost of Rs. 600.00 million, normal capital expenditure & investments at actual cost of Rs. 288.00 million, for repayment of term loans & debentures and for working capital requirements accumulating to Rs. 1,193.10 million. The Wheel Rim Project was to be completed by August, 1994 (actual by March 1996) and Financial Services division by December, 1992 (actual during 1992-93). The recession in the Indian automotive industry during the period 1992-1994 contributed to the shortfall in the revenue and profitability parameters.

1994

Rights issue of 6,923,000 equity shares of Rs.10/- each for cash at a premium of Rs.40/- per share aggregating to Rs.346.15 million to the equity shareholders of Bharat Forge Limited in February-March, 1994. There was a shortfall in the actual performance compared to the projections given in the Letter of Offer, as given below:

(in Rs. million except per share data)

Year ending March 31	1994		1995		1996	
	Promised	Actual	Promised	Actual	Promised	Actual
Equity Share Capital	266.47	197.46	308.25	280.57	339.96	367.77
Reserves & Surplus	1,773.92	1,507.86	2,093.40	2,008.98	2,683.49	3,366.65
Total Income	2,772.72	2,365.87	3,086.11	3,583.42	3,634.12	4,964.96
PBDIT	566.06	588.24	720.22	764.24	918.65	1,124.08
Depreciation	194.27	146.75	209.89	165.99	272.61	176.38
Interest	290.33	325.19	291.13	340.10	339.85	438.20
Profit before Tax	81.46	116.86	219.20	259.02	306.19	509.50
Profit after Tax	81.46	116.30	219.20	258.15	306.19	508.74
Earning Per Share (Rs.)	3.06	5.89	7.11	7.96	9.01	12.31
Net Asset Value Per Share (Rs.)	76.57	85.88	77.91	72.74	88.94	97.82

The issue was made to finance the connecting rod project at projected cost of Rs. 164.12 million (actual cost Rs. 105.17 million), expansion of financial services division at actual cost of Rs. 300.00 million and for normal capital expenditure & investments at actual cost of Rs. 178.76 million. The connecting rod project was to be completed by September, 1995 (actual by December 1996). The recession in the Indian automotive industry during the period 1994 contributed to the shortfall in the revenue and profitability parameters.

Kalyani Steels Limited

Rights issue of 9,085,000 equity shares of Rs.10/- each at a premium of Rs.50/- per share aggregating Rs.545.10 million to equity shareholders of Kalyani Steels Limited in February-March, 1994. There was a shortfall in the actual performance compared to the projections given in the Letter of Offer, as given below:

(in Rs. million except per share data)

Year ending March 31	1994		1995		1996		1997	
	Promised	Actual	Promised	Actual	Promised	Actual	Promised	Actual
Equity Capital	148.80	147.85	239.65	241.10	239.65	300.71	239.65	300.53
Reserve & Surplus	1,344.65	1,323.38	1,916.10	1,885.03	2,025.72	2,586.41	2,336.96	2,590.79
Turnover	1,443.21	1,343.57	3,036.21	1,814.79	3,520.68	2,303.93	3,740.68	2,432.29
PBDIT	254.31	211.86	887.08	318.03	1,035.45	371.03	1,088.18	437.63
Depreciation	59.00	45.82	327.00	55.28	329.00	97.57	335.00	105.51
Interest	80.84	70.58	359.32	103.50	384.37	79.62	370.05	111.59
Profit before Tax	114.47	95.46	200.76	159.25	322.08	193.84	383.13	220.53
Taxation	-	0.32	-	0.30	-	0.30	-	0.30
Profit after Tax	114.47	95.14	200.76	158.95	322.08	193.54	383.13	71.58*
Earning Per Share (Rs)	7.69	6.39	8.38	5.27	13.44	6.42	15.98	2.38

* - After impact of an extraordinary item (octroi liability)

The issue was made to finance the modernization & rationalization of steel plant at Pune at projected cost of Rs 200 million, normal capital expenditure at projected cost of Rs 100.00 million, and funding long term working capital requirements at a projected cost of Rs 95.10 million and for investment proposals at projected cost of Rs 150.00 million to be completed by June, 1994. Data pertaining to the performance with regard to actual cost incurred and adherence to time schedule was not available. We understand that, the shortfall in the performance for fiscal year 1994 was attributable to the recession in the economy in general and the steel industry in particular. As regards the shortfall in the performance in fiscal years 1995-1997, the same was attributed to the transfer of seamless tube business in fiscal 1995 to a separate company. The promised figures contain the projections of the combined business of steel and seamless tubes. However, since the seamless tube business was hived off into a separate company in fiscal 1995 and as such the actual figures contain the performance of only the steel business and therefore the same are not comparable with the projections mentioned in the offer document for the fiscal year 1995-97. However as can be seen from the table above consistent growth, both in turnover and profitability was primarily on account of improved performance in steel operations.

Kalyani Brakes Limited

Rights issue of 3,465,500 equity shares of Rs.10/- each at a premium of Rs.65/- per share aggregating Rs.259.91 million to the equity shareholders of Kalyani Brakes Limited in October-November, 1995. There was a shortfall in the actual performance compared to the projections given in the Letter of Offer, as given below:

(in Rs. million except per share data)

Year ending March 31	1995		1996		1997		1998		1999	
	(September 30)		March 31							
			(Annualised)							
	Promised	Actual	Promised	Actual	Promised	Actual	Promised	Actual	Promised	Actual
Equity Capital	69.31	69.31	103.97	103.97	103.97	103.97	103.97	103.97	103.97	103.97
Net worth	105.34	217.99	441.97	469.98	497.70	469.98	565.05	475.52	632.67	478.22
Total Income	801.76	863.82	931.67	1,070.88	1,128.19	1,074.20	1,320.38	1,086.66	1,429.25	977.50
PBDIT	103.68	80.32	134.61	131.36	173.34	127.71	202.13	131.53	211.88	79.51
Depreciation	19.74	17.25	23.39	20.44	30.43	25.54	35.97	33.62	38.35	42.91
Interest	87.79	59.18	68.07	39.66	66.83	31.07	73.25	24.14	44.95	20.56
Profit before Tax	(3.85)	3.89	43.14	71.26	76.08	71.10	92.90	73.77	128.58	16.04
Taxation	-	-	-	-	-	-	-	7.79	30.2	1.8
Profit after Tax	(3.85)	3.89	43.14	71.26	76.08	71.10	92.90	65.98	98.38	14.24
Earning Per Share (Rs)	-	0.60	4.20	6.90	7.30	6.80	8.90	6.30	9.50	1.40

The issue was made to finance the cost of Building, projected cost Rs 44.00 million (actual cost Rs.98.27 million), Plant & Machinery (including Electrical Installations), projected cost Rs 159.50 million (actual cost Rs.179.34 million), utilities, projected cost Rs. 6.00 million (actual cost Rs.15.70 million), working capital margin for capacity expansion, projected cost Rs.13.00 million (actual cost Rs. 10.97 million), strengthening of the long term working capital, projected cost Rs 65.26 million (actual cost Rs. 79.25 million), and issue expenses, projected cost Rs 2.15 million, (actual cost Rs.4.94 million) to be completed by July, 1998 (actual by Dec, 1997). The recession in the Indian automotive industry during the period 1997-1999 contributed to the shortfall in the revenue and profitability parameters.

HIKAL Limited

Issue of 750,000 equity shares of Rs.10/- each for cash at a premium of Rs.40/- per share aggregating Rs.37.50 million equity shareholders of Hikal in October-November, 1994. There was a shortfall in the actual performance compared to the projections given in the Letter of Offer, as given below:

(in Rs. million except per share data)

Year ending March 31	1995		1996		1997	
	Promised	Actual	Promised	Actual	Promised	Actual
Equity Capital	30.00	30.00	30.00	30.00	30.00	35.60
Reserve & Surplus	48.00	46.50	60.30	52.10	78.70	110.50
Turnover	159.50	132.90	228.60	176.90	271.80	202.90
PBDIT	31.90	25.90	47.90	39.10	57.80	49.20
Depreciation	6.10	5.90	9.30	9.20	12.20	13.90
Interest	13.70	9.40	16.80	15.80	14.00	19.70
Profit before Tax	12.10	10.60	21.80	14.10	31.60	15.60
Taxation	1.10	0.50	3.50	1.20	5.70	2.00
Profit after Tax	11.00	10.10	18.30	12.90	25.90	13.60
Earning Per Share (Rs.)	5.1*	3.3	6.1	4.3	8.6	3.81

(* on expanded equity, Annualised)

The issue was made to finance the expansion & modernization at projected cost of Rs. 27.5 million (actual cost Rs. 28.7 million), diversification at projected cost of Rs. 41.0 million (actual cost Rs. 36.5 million), and others at projected cost of Rs. 17.5 million, (actual cost Rs. 20.8 million). As can be seen from the table above, while the company has been able to grow its turnover and profitability on a year on year basis, we understand that the shortfall in the sales turnover and profitability as compared to the projections was primarily attributable to a sluggish international demand for agro-chemicals and stiff competition from import substitutes.

Automotive Axles Limited

Rights issue of 2,062,500 equity shares of Rs.10/- each at a premium of Rs.20/- per share aggregating Rs.61.87 million to the existing shareholders of Automotive Axles in February-March, 1995. There was a shortfall in the actual performance compared to the projections given in the Letter of Offer, as given below:

(in Rs. million except per share data)

Year ending March 31	1995		1996		1997	
	Promised	Actual	Promised	Actual	Promised	Actual
Equity Capital	152.11	151.12	152.11	151.12	152.11	151.12
Reserve & Surplus	(63.30)	115.59	(20.50)	152.75	45.30	198.33
Turnover	549.80	815.82	618.50	1,140.47	950.00	957.90
PBDIT	86.50	114.59	103.40	165.52	175.10	190.86
Depreciation & Write Offs	31.50	36.76	33.30	53.80	39.30	82.97
Interest	33.60	33.15	27.30	27.86	28.70	25.88
Profit before Tax	21.50	44.68	42.70	83.86	107.10	82.02
Taxation	-	-	-	6.07	-	11.50
Profit after Tax	21.50	44.68	42.70	77.79	107.10	70.52
Earning Per Share (Rs)	1.41	2.96	2.80	5.15	7.04	4.67

The issue was made to finance the capital expenditures required for purchase of balancing equipment and for modernization of existing manufacturing facilities at projected cost of Rs 51.20 million (actual cost Rs 51.20 million), repayment of existing terms loans at projected cost of Rs 100.00 million (actual cost Rs 100.00 million), Interest due to Promoters/ Financial Institutions of Rs 34.10 million (actual cost Rs 34.10 million) and issue expenses of Rs.1 million (actual 0.09 million). The actual Profit before Tax, Profit after Tax and Earning Per Share (Rs) for the year ended March 31, 1997 were lower than what was projected primarily due to the following:

- Write-off of software costs - Rs.4.3 million.
- Charge-off of liability on restatement of Sales Tax deferred liability - Rs.7.4 million
- Tax liability arising out of carried forward allowances becoming time barred

For further details please refer section on Promise v/s. performance on page 128 of this Letter of Offer.

External Risk Factors

Changes in the emission norms may impact us

Government regulations regarding emission levels for manufacturing operations are likely to become more stringent. The cost for complying with these regulations can be significant. Thus, we may be required to incur significant capital costs in future to meet the stringent norms.

We derive substantial revenue from exports and accordingly face exchange rate risks.

We generate a significant portion of our revenues in US dollars and other foreign currencies, and a significant portion of our expenses are incurred in Rupees. The strengthening of the Rupee, particularly with respect to the US dollar, could adversely impact our profitability. We may import certain capital equipments for future expansion (for details please refer section of "Objects of the Issue" on page 37 of this Letter of Offer). An adverse change in currency exchange rates will increase the cost of these imports.

Some of our tax benefits may be withdrawn

Government of India has announced the gradual elimination of some of the income tax exemptions that are available to the Indian exporters. Non-availability of these tax exemptions will increase our future tax liabilities and decrease after tax profits that we might have in future.

Increased competition from other low cost destinations.

Other low cost manufacturing destinations such as South-East Asia and the Asia Pacific regions have become the focus of major international automobile manufacturers. These regions have developed significantly in recent years as major outsourcing zones. India, as an outsourcing player, will face competition from such other developing South-East Asia and the Asia Pacific regions making outsourcing from India less attractive.

Our business is significantly affected by external factors.

Our results have been and may be significantly affected by factors outside our control such as political unrest, cross-border hostilities, civil commotion and acts of terrorism either in India or outside India. Other factors include potential negative changes in environmental regulations, government regulations. We are also subject to the risk of loss of revenues and assets due to fire or natural disasters. The occurrence of all such event including natural disasters could interrupt our business for significant periods.

General economic conditions could significantly adversely affect our financial results.

Our business is cyclical and sensitive to changes in the automobile industry in particular and the economy in general. The forging sector may be unfavourably affected by such factors as changes in the global and domestic economies, changes in local market conditions, excess supply of capacities or setting up of newer capacities or reduced international or local demand for forged products, competition in the industry, changes in interest rates, the availability of finance and other natural and social factors. Since demand for forged products is affected by world economic growth, a global recession could lead to a downturn in the forging industry.

Changes in the Government of India policies could impact the liberalisation of the Indian economy and adversely affect economic conditions in India generally and our business in particular.

A significant change in India's economic liberalisation and deregulation policies could affect business and economic conditions in India generally and our business in particular. A significant change in the Indian government's or the state government's economic liberalisation and deregulation policies could adversely affect business and economic conditions in India generally and our business and financial condition and prospects in particular.

Notes to Risk Factors

- The book value per Equity Share as on March 31, 2004 was Rs. 56.58. The net worth (excluding preference share capital and miscellaneous expenditure to the extent not written off) of the Company as on March 31, 2004 was Rs. 2,131.05 million.
- Issue of 1,883,382 Equity Shares of Rs.10/- each for cash at a premium of Rs.550/- per equity share on rights basis to the existing equity shareholders of the Company in the ratio of 1 equity share for every 20 equity shares held on July 27, 2004 (date of the Book Closure). For every two equity shares being offered on rights basis under this issue, the allottees will receive one detachable Warrant. Total issue including conversion of warrants into Equity Shares at floor price would aggregate Rs. 2,184.72 million (herein after together referred to as "the Issue").
- Promoter group holds 37.25% of our paid-up share capital. The average cost of acquisition per equity share to the promoter group is Rs.89.94 .

- During the last six months, prior to the date of filing the draft Letter of Offer with SEBI, some of the members of the promoter group and directors have carried out transactions in equity shares of Bharat Forge Limited. Details of such transaction are as follows:

Name of the Promoter Group / Directors	Shares bought / sold	Average Rate (Rs.)	Maximum Price (Rs.)	Minimum Price (Rs.)	Amount (Rs. million)	Shares (No.)
Mr. Amit B Kalyani (relative of Mr. B N Kalyani)	Sold	544.29	553.50	541.62	2.72	5,000 shares
Mr. Pratap Bhogilal (Director)	Purchased	615.05	693.47	558.78	3.26	5,300 shares
Mr. P.H.Ravikumar (Director)	Purchased	582.91	-	-	0.06	100 shares

- Our related party transactions as per Indian GAAP for the last three years are as follows:

Sr. No.	Particulars	Year	Subsidiary Company	Associates	Key Management Personnel	Relatives of Key Management Personnel
1	Purchase of goods	2003-04	-	2,304.81	0.00	0.00
		2002-03	-	1,739.34	0.00	0.00
		2001-02	-	1,391.89		
2	Sale of goods	2003-04	4.33	352.35	0.00	0.00
		2002-03	-	225.53	0.00	0.00
		2001-02	-	137.58		
3	Rendering of services	2003-04	0.70	0.00	45.62	0.77
		2002-03	-	0.00	27.81	0.78
		2001-02	-	0.00	18.84	0.54
4	Interest Paid	2003-04	-	0.00	0.00	0.00
		2002-03	-	0.00	0.00	0.00
		2001-02	-	0.00	0.01	0.00
5	Finance provided-Investments	2003-04	343.77	-	-	-
		2002-03	-	-	-	-
		2001-02	-	-	-	-
	Expenses	2003-04	11.56	-	-	-
		2002-03	-	-	-	-
		2001-02	-	-	-	-
6	Balance Payable by BFL as on	31st March 2004	-	1,437.92	26.00	0.00
		31st March 2003	-	933.42	16.80	0.00
		31st March 2002	-	627.80	0.00	0.00
	Balance Receivable by BFL as on	31st March 2004	360.36	5.89	0.00	0.00
		31st March 2003	-	90.03	0.00	0.00
		31st March 2002	-	9.41	0.00	0.00

Note : Names of the related parties and description of relationship

Sr. No.	Particulars	Name of the Party
1	Subsidiary Company	CDP Bharat Forge GmbH
2	Associates	Kalyani Carpenter Special Steels Limited
3	Key Management Personnel	Mr. B. N. Kalyani Mr. G. K. Agarwal Mr. P. C. Bhalerao
4	Relatives of Key Management Personnel	Mr. A. B. Kalyani

- In addition we and the Lead Manager are also obliged to keep the Letter of Offer updated and keep the public informed of any material change / development.
- For details on the basis of allotment, Investors may refer to the paragraph titled “Basis of Allotment” on page 30 of this Letter of Offer.
- Investors are free to contact the Lead Managers for any clarification or information, who will be obliged to attend to the same.
- The investors may contact the Lead Managers and the Issuer for any complaint pertaining to the Issue.
- Investors are advised to refer to the paragraph titled “Basis for Issue Price” on pages 133 of this Letter of Offer.



(Incorporated on June 19, 1961 under the Companies Act, 1956)

Registered Office : Mundhwa, Pune Cantonment, Pune 411 036, Maharashtra, India

Tel. no. + 91-20-2687 1666 / 2687 0451 Fax no. + 91-20-2687 0693 / 2687 6961

Corporate Office: Mundhwa, Pune Cantonment, Pune 411 036, Maharashtra, India

Tel. no. +91-20-2687 1666 / 2687 0451 Fax no. +91-20-2687 0693 / 2687 6961

e-mail: secretarial@bharatforge.com; website: www.bharatforge.com

Dear Shareholder(s),

Pursuant to the resolution passed by the Board of Directors of the Company at its meeting held on January 19, 2004 and the approval of the Equity Shareholders in their Extra-ordinary General Meeting held on January 10, 2004, it has been decided to make the following offer to the Equity Shareholders of the Company:

ISSUE OF 1,883,382 EQUITY SHARES OF RS.10/- EACH FOR CASH AT A PREMIUM OF RS. 550/- PER EQUITY SHARE ON RIGHTS BASIS TO THE EXISTING EQUITY SHAREHOLDERS OF THE COMPANY IN THE RATIO OF 1 EQUITY SHARE FOR EVERY 20 EQUITY SHARES HELD ON JULY 27, 2004 (DATE OF THE BOOK CLOSURE). FOR EVERY TWO EQUITY SHARES BEING OFFERED ON RIGHTS BASIS UNDER THIS ISSUE, THE ALLOTTEES WILL RECEIVE ONE DETACHABLE WARRANT. TOTAL ISSUE INCLUDING CONVERSION OF WARRANTS INTO EQUITY SHARES DURING WARRANT CONVERSION PERIOD AT FLOOR PRICE WOULD AGGREGATE RS. 2,184.72 MILLION

I. GENERAL INFORMATION

IMPORTANT

1. This offer is applicable only to those Equity Shareholders whose names appear as beneficial owners in respect of the shares held in the electronic form and on the Register of Members of the Company in respect of the shares held in physical form as on July 27, 2004, i.e. the Date of the Book Closure.
2. Your attention is drawn to RISK FACTORS appearing on Page ii of this Letter of Offer.
3. Please ensure that you have received the CAF with this Letter of Offer.
4. Please read this Letter of Offer and the instructions contained therein and in the CAF carefully, before filling in the CAF. The instructions contained in the CAF are an integral part of this Letter of Offer and must be carefully followed. Application is liable to be rejected if it is not in conformity with the terms of the Letter of Offer or the CAF.
5. All enquiries in connection with this Letter of Offer or CAF should be addressed to the Registrars to the Issue, Intime Spectrum Registry Limited, quoting the Registered Folio Number / Depository Participant (DP) Number and Client ID Number and the CAF Numbers as mentioned in the CAF.

ELIGIBILITY FOR THE ISSUE:

Bharat Forge Limited is an existing listed company. It is eligible to offer this Rights Issue in terms of Clause 2.4.1(iv) of the SEBI Guidelines. The Company, its promoter(s), its directors or any of the Company's associate or group companies and companies in which the directors of the Company are associated as director(s) or promoter(s) have not been prohibited from accessing the capital

market under any order or direction passed by SEBI or any other regulatory authority. Further the promoters, their relatives (as per Companies Act, 1956), the Company, group companies, associate companies are not detained as willful defaulters by RBI / Government authorities and there are no violations of securities laws committed by them in the past or pending against them.

APPROVALS FOR THE ISSUE & BUSINESS ACTIVITY

Approvals obtained

The Company has obtained the following approvals:

UNIT: MUNDHWA, PUNE

Factory Licence: Licence No. Pune – 2(m)(i)33.339.9 dated March 29, 1996 which is valid till December 31, 2004. The Company has also applied for the licence for construction of a new factory/extension of the existing factory at Mundhwa, for the proposed expansion.

Environmental Approvals: Consent to operate/authorisation No. BO/Pune-198/R/CC-517 dated June 25, 2002 granted by the Maharashtra Pollution Control Board ("MPCB") under the Hazardous Wastes (Management & Handling) Rules, 1989 and the Amendment Rules, 2000 for collection, reception, transport, storage and disposal of hazardous wastes, the Water (Prevention and Control of Pollution) Act, 1974 and the Air (Prevention and Control of Pollution) Act, 1981. The consent/authorisation is valid till December 31, 2005. The Company has obtained consent from MPCB dated March 4, 2004 to establish additional machining facilities under the Water (Prevention and Control of Pollution) Act, 1974 and the Air (Prevention and Control of Pollution) Act, 1981 and authorisation under the Hazardous Wastes (Management & Handling) Rules, 1989 and Amendment Rules, 2003. The Company has applied on April 15, 2004 for similar consent in respect of the proposed forging expansion.

Power: The Company purchases power from BF Utilities Limited (“BFUL”) under the agreement dated March 10, 2001 entered into between the Company and BFUL, which has agreed to wheel and sell the entire electricity generated by it at its wind farm at Thoseghar, village Boposhi, District Satara to the MSEB, for supply of the same to the Mundhwa unit. Additionally, the Company has also entered into an agreement dated August 30, 2002 with the Maharashtra State Electricity Board (“MSEB”) for the supply of up to 34197 KW/15953 KVA of electricity at the Mundhwa plant. The Company has applied for additional power required for the project vide its letters dated April 3, 2004 and April 24, 2004.

Water supply: The Company draws water up to 1,534,000 litres of water per day from the Mula Mutha River/Mutha Right Bank canal under the agreement dated October 24, 2002 with the Government of Maharashtra. Under the agreement, the Company is entitled to draw water for a period of 6 years commencing November 1, 2002.

Excise: Certificate of Registration dated January 3, 2003 granted under the Central Excise Act, 1944 issued by the Assistant Commissioner of Central Excise, Pune for manufacture of excisable goods at Mundhwa.

Central Sales Tax: Certificate of Registration No. 411 036 S-50 dated March 29, 1996 granted by the Assistant Sales Tax Commissioner under the Central Sales Tax Act, 1956 with respect to steel forgings and automobile parts, trading in consumer electronics and automobile components (and High Speed Diesel with effect from November 4, 2000).

State Sales Tax: Certificate of Registration No. 411 036 S-99 dated March 29, 1996 granted by the Assistant Sales Tax Commissioner under the Bombay Sales Tax Act, 1959 with respect to steel forgings and automobile parts, trading in consumer electronics and automobile components, with effect from April 1, 1996.

Building Approval: The building plans for construction of FMD III (for expansion of the forgings division) have been sanctioned and approved by the Cantonment Board, Pune.

UNIT: CHAKAN, PUNE

Factory Licence: Licence No. PNA/37.379.8/A-96/34300 granted by the Chief Inspector of Factories, Maharashtra, which is valid till December 31, 2004.

Environmental Approvals: Consent to operate/authorisation No. BO/PUNE-157/R/CC-430 dated May 16, 2002 granted by the MPCB under the Hazardous Wastes (Management & Handling) Rules, 1989 and the Amendment Rules, 2000 for collection, reception, transport, storage and disposal of hazardous wastes, the Water (Prevention and Control of Pollution) Act, 1974 and the Air (Prevention and Control of Pollution) Act, 1981. The consent/authorisation was valid till November 30, 2003. The Company has by its letter dated September 5, 2003, applied for renewal of the consent. MPCB vide its letter dated May 7, 2004 has granted an in principle extension of the said license upto November 30, 2005 subject to us submitting an amount of Rs. 10,000 as a renewal fee, which was deposited with MPCB on May 14, 2004.

Power: The Company purchases power from the MSEB under the agreement dated October 5, 1996 entered into between the Company and MSEB, for the supply of up to 1600 KW/600 KVA of electricity

at the Chakan plant.

Water supply: The Company draws water from the well that it has sunk at Chakan, which services the entire water requirement of the Chakan plant

Excise: Certificate of Registration No. AAACB8519LXM003 granted under the Central Excise Act, 1944 issued by the Assistant Commissioner of Central Excise, Pune for manufacture of excisable goods at Chakan plant

Central Sales Tax: Covered by the registration for Mundhwa plant, being in same jurisdiction.

State Sales Tax: Certificate of Registration dated May 25, 1998 (with effect from May 8, 1998) granted by the Sales Tax Officer, Pune under the Bombay Sales Tax Act, 1959 with respect to steel forgings, finished auto parts, machined crankshafts and other machined components.

UNIT: JARANDESHWAR, SATARA

Factory Licence: Licence No. PNA/37.379.8/A-96/34300 granted by the Chief Inspector of Factories, Maharashtra, which is valid till December 31, 2004.

Environmental Approvals: Consent to operate/authorisation No. BO/SATARA 4/R/CC-25 dated January 8, 2002 granted by the Maharashtra Pollution Control Board under the Hazardous Wastes (Management & Handling) Rules, 1989 and the Amendment Rules, 2000 for collection, reception, transport, storage and disposal of hazardous wastes, the Water (Prevention and Control of Pollution) Act, 1974 and the Air (Prevention and Control of Pollution) Act, 1981. The consent/authorisation which was valid till November 30, 2002 has been renewed till November 30, 2005 by the letter dated October 31, 2003 from the MPCB.

Power: The Company purchases power from the MSEB under the agreement dated December 1, 1999 entered into between the Company and MSEB, for the supply of up to 1250 KW/275 KVA of electricity at the Satara plant.

Water supply: The Company entered into an agreement dated November 14, 2003 with Governor of Maharashtra through Executive Engineer, DHOM Irrigation division, Satara for supply of water.

Excise: Certificate of Registration No. STR-I/5/1992 dated June 22, 1992 granted under the Central Excise Act, 1944 issued by the Central Excise & Customs Department for manufacture of goods and machinery parts falling under Chapter Heading Nos. 72, 74, 76, 78, 79, 83 through 87, 90 and 93 of the Central Excise Tariff Act,

Central Sales Tax: Certificate of Registration No. 411 036 S-50 dated March 29, 1996 granted by the Assistant Sales Tax Commissioner under the Central Sales Tax Act, 1956 with respect to steel forgings and automobile parts, trading in consumer electronics and automobile components (and High Speed Diesel with effect from November 4, 2000).

State Sales Tax: Certificate of Registration No. 81527 dated February 26, 1996 (with effect from April 1, 1996) granted by the Sales Tax Officer, Satara under the Bombay Sales Tax Act, 1959 with respect to general engineering equipment, presses, material handling equipment.

GENERAL

The Company has the necessary approvals for undertaking its present activities and no further approvals from any Government authority are required by the Company to undertake its present activities.

Except as stated below, the Company has the necessary approvals for undertaking its proposed expansion activities.

Applications made

We have applied for the following approvals in respect of the proposed expansion at Mundhwa:

- Industrial license for forging capacity expansion applied vide letter dated April 24, 2004
- Approvals under Factories Act, 1948 for setting up of new facility / expansion of facilities applied vide letter dated March 25, 2004.
- Approval from Maharashtra State Electricity Board for additional load applied vide letters dated April 3, 2004 and April 24, 2004
- Approval from Pollution Control Board for Air and Water Pollution in respect of enhanced forging capacity applied vide letter dated April 15, 2004.

Applications in the process of being made

- We are in the process of applying for industrial license for crankshaft machining capacity expansion at Mundhwa, Pune from the present level of 400,000 nos. per year to 450,000 nos. per year.
- We are also in the process of applying for the approval under Factories Act, 1948 in respect of the factory building proposed to be constructed for the proposed forging expansion.

We undertake that all approvals required for our business to attain the Objects of the Issue shall be in place to meet our project implementation schedule.

RESERVE BANK OF INDIA

The Company had by its letter dated April 07, 2004 made an application to RBI for issue of the equity shares with detachable warrants on rights basis, including additional shares to its non resident shareholders. The RBI has vide its letter ref. CO/FID/864/10.1.02.01.06/2003-2004 dated May 12, 2004 given permission for issue of the equity shares with detachable warrants to non-residents shareholders within sectoral cap prescribed under FEMA 1999. Other than that no consent of the Government of India is required for the present Issue.

Save as stated hereinabove, the Company has all the necessary approvals from the Government authorities/ RBI as required to carry on the present business. The Company has complied with all the applicable guidelines / directions issued by RBI from time to time. The Company does not propose to enter new activities through this rights issue of equity shares for which any further approvals are required to be obtained.

CONSENT OF LENDERS

The agreements in respect of some of the debt taken by us contain certain covenants *inter-alia* for altering our share capital and for our expansion and diversification plans, including the expansion proposed to be funded out of the proceeds of this Issue. The consent of lenders, wherever required, has been obtained.

DISCLAIMER CLAUSE

AS REQUIRED, A COPY OF THIS DRAFT LETTER OF OFFER HAS BEEN SUBMITTED TO SEBI. IT IS TO BE DISTINCTLY UNDERSTOOD THAT SUBMISSION OF THIS DRAFT LETTER OF OFFER TO SECURITIES AND EXCHANGE BOARD OF INDIA ('SEBI') SHOULD NOT IN ANY WAY BE DEEMED OR CONSTRUED THAT THE SAME HAS BEEN CLEARED OR APPROVED BY SEBI. SEBI DOES NOT TAKE ANY RESPONSIBILITY EITHER FOR THE FINANCIAL SOUNDNESS OF ANY SCHEME OR THE PROJECT FOR WHICH THE ISSUE IS PROPOSED TO BE MADE, OR FOR THE CORRECTNESS OF THE STATEMENTS MADE OR OPINIONS EXPRESSED IN THE DRAFT LETTER OF OFFER. THE LEAD MANAGER TO THE ISSUE, M/S JM MORGAN STANLEY PRIVATE LIMITED HAS CERTIFIED THAT THE DISCLOSURES MADE IN THE DRAFT LETTER OF OFFER ARE GENERALLY ADEQUATE AND ARE IN CONFORMITY WITH SEBI (DISCLOSURE AND INVESTOR PROTECTION) GUIDELINES IN FORCE FOR THE TIME BEING. THIS REQUIREMENT IS TO FACILITATE INVESTORS TO TAKE AN INFORMED DECISION FOR MAKING INVESTMENT IN THE PROPOSED ISSUE. IT SHOULD ALSO BE CLEARLY UNDERSTOOD THAT WHILE THE ISSUER COMPANY IS PRIMARILY RESPONSIBLE FOR THE CORRECTNESS, ADEQUACY AND DISCLOSURE OF ALL RELEVANT INFORMATION IN THE DRAFT LETTER OF OFFER, THE LEAD MANAGERS ARE EXPECTED TO EXERCISE DUE DILIGENCE TO ENSURE THAT THE COMPANY DISCHARGES ITS RESPONSIBILITY ADEQUATELY IN THIS BEHALF AND TOWARDS THIS PURPOSE, THE LEAD MANAGER, JM MORGAN STANLEY PRIVATE LIMITED HAS FURNISHED TO SEBI A DUE DILIGENCE CERTIFICATE DATED MARCH 29, 2004 IN ACCORDANCE WITH SEBI (MERCHANT BANKERS) REGULATIONS 1992 WHICH READS AS FOLLOWS:

- 1. WE HAVE EXAMINED VARIOUS DOCUMENTS INCLUDING THOSE RELATING TO LITIGATION LIKE COMMERCIAL DISPUTES, PATENT DISPUTES, DISPUTES WITH COLLABORATORS ETC. AND OTHER MATERIALS IN CONNECTION WITH THE FINALISATION OF THE DRAFT LETTER OF OFFER PERTAINING TO THE SAID ISSUE;**

ON THE BASIS OF SUCH EXAMINATION AND THE DISCUSSIONS WITH THE COMPANY, IT'S DIRECTORS AND OTHER OFFICERS, OTHER AGENCIES, INDEPENDENT VERIFICATION OF STATEMENTS CONCERNING THE OBJECTS OF THE

ISSUE, PROJECTED PROFITABILITY, PRICE JUSTIFICATION AND THE CONTENTS OF THE DOCUMENTS MENTIONED IN THE ANNEXURE AND OTHER PAPERS FURNISHED BY THE COMPANY.

2. WE CONFIRM THAT:

- a) THE DRAFT LETTER OF OFFER FORWARDED TO SEBI IS IN CONFORMITY WITH THE DOCUMENTS, MATERIALS AND PAPERS RELEVANT TO THE ISSUE;**
- b) ALL THE LEGAL REQUIREMENTS CONNECTED WITH THE SAID ISSUE, AS ALSO THE GUIDELINES, INSTRUCTIONS, ETC. ISSUED BY SEBI, THE GOVERNMENT AND ANY OTHER COMPETENT AUTHORITY IN THIS BEHALF HAVE BEEN DULY COMPLIED WITH; AND**
- c) THE DISCLOSURES MADE IN THE DRAFT LETTER OF OFFER ARE TRUE, FAIR AND ADEQUATE TO ENABLE THE INVESTORS TO MAKE A WELL INFORMED DECISION AS TO THE INVESTMENT IN THE PROPOSED ISSUE.**

3. WE CONFIRM THAT BESIDE OURSELVES, ALL THE INTERMEDIARIES NAMED IN THE DRAFT LETTER OF OFFER ARE REGISTERED WITH SEBI AND THAT TILL DATE SUCH REGISTRATION IS VALID.

4. IF UNDERWRITTEN, WE SHALL SATISFY OURSELVES ABOUT THE WORTH OF THE UNDERWRITERS TO FULFIL THEIR UNDERWRITING COMMITMENTS

The filing of Letter of Offer does not, however, absolve the Company from any liabilities under Section 63 or Section 68 of the Act or from the requirement of obtaining such statutory and other clearances as may be required for the purpose of the proposed Issue. SEBI further reserves the right to take up, at any point of time, with the Lead Manager any irregularities or lapses in the Letter of Offer.

CAUTION

The Company and Lead Manager accept no responsibility for statements made otherwise than in the Letter of Offer or in the advertisements or any other material issued by or at the instance of the Company and that anyone placing reliance on any other source of information would be doing so at his/her/their own risk.

All information shall be made available by the Lead Managers and the Issuer to the shareholders and no selective or additional information would be made available for a section of the shareholders or investors in any manner whatsoever including at presentations, research or sales reports etc.

DESIGNATED STOCK EXCHANGE

The Designated Stock Exchange for the purpose of this offer will be the Stock Exchange, Mumbai.

DISCLAIMER IN RESPECT OF JURISDICTION

This Letter of Offer has been prepared under the provisions of Indian Law and the applicable rules and regulations hereunder.

The distribution of the Letter of Offer and the offering of the securities on a rights basis to persons in certain jurisdictions outside India may be restricted by the legal requirements prevailing in those jurisdictions. Persons into whose possession this Letter of Offer may come are required to inform themselves about and observe such restrictions. Any disputes arising out of this Issue will be subject to the jurisdiction of the appropriate court(s) in Pune, India only.

The securities offered on a rights basis in terms of this Letter of Offer have not been, and will not be, registered under the US Securities Act of 1933 or under the securities laws prevailing in any state of the United States of America.

No action has been, or will be taken to permit an offering of these securities in any jurisdiction where action would be required for that purpose, except that this Letter of Offer has been filed with SEBI and SEBI has given its observations and that the Letter of Offer would be filed with the relevant Stock Exchanges in India. Accordingly, the Equity Shares may not be offered or sold, directly or indirectly, and this Letter of Offer may not be distributed in any jurisdiction, except in accordance with the legal requirements applicable in such jurisdiction. Neither will the delivery of this Letter of Offer, nor any sale hereunder, shall under any circumstances, create any implication that the affairs of the Company have remained unchanged since the date hereof or that the information contained herein is correct as of any time subsequent to this date.

DISCLAIMER CLAUSES OF STOCK EXCHANGES

The Stock Exchange, Mumbai; The National Stock Exchange of India Limited and The Pune Stock Exchange (Stock Exchanges) have given their permission to the Company to use their respective names in the Letter of Offer as one of the Stock Exchanges on which the Company's shares issued in terms of this Issue are proposed to be listed. The Stock Exchanges have scrutinized this Letter of Offer for their limited internal purpose of deciding on the matter of granting the aforesaid permission to Bharat Forge Limited. The Stock Exchanges, who have given their Disclaimer clauses are mentioned below:

The Stock Exchange, Mumbai; Pune Stock Exchange and The National Stock Exchange of India Limited (Stock Exchanges) have vide their letters dated April 22, 2004, April 5, 2004 and April 13, 2004, respectively, given their permission to Bharat Forge Limited to use their respective names in the Letter of Offer as one of the stock exchanges on which Bharat Forge Limited's securities are proposed to be listed.

Disclaimer Clause of the BSE

The Stock Exchange, Mumbai ("the Exchange") has given vide its letter dated April 5, 2004 permission to the Company to use the Exchange's name in this Letter of Offer as one of the stock exchanges on which this Company's securities are proposed to be listed. The Exchange has scrutinized this Letter of Offer for its limited internal purpose of deciding on the matter of granting the aforesaid permission to this Company. The Exchange does not in any manner: (i) warrant, certify or endorse the correctness or completeness of any of the contents of this Letter of Offer; or (ii) warrant that this Company's securities will be listed or will continue to be listed on the Exchange; or (iii) take any responsibility for the financial or other soundness

of this Company, its promoters, its management or any scheme or project of this Company; and it should not for any reason be deemed or construed that this Letter of Offer has been cleared or approved by the Exchange. Every person who desires to apply for or otherwise acquires any securities of this Company may do so pursuant to independent inquiry, investigation and analysis and shall not have any claim against the Exchange whatsoever by reason of any loss which may be suffered by such person consequent to or in connection with such subscription/acquisition whether by reason of anything stated or omitted to be stated herein or for any other reason whatsoever.

Disclaimer Clause of the NSE

As required, a copy of this Letter of Offer has been submitted to National Stock Exchange of India limited (hereinafter referred to as "NSE"). NSE has given vide its letter dated April 13, 2004, permission to the Issuer to use the Exchange's name in this Letter of Offer as one of the Stock Exchanges on which this Issuer's securities are proposed to be listed. The Exchange has scrutinised this Letter of Offer for its limited internal purpose of deciding on the matter of granting the aforesaid permission to this Issuer. It is to be distinctly understood that the aforesaid permission, given by NSE, should not in any way be deemed or construed that the Letter of Offer has been cleared or approved by NSE; nor does it in any manner warrant, certify, or endorse the correctness or completeness of any of the contents of this Letter of Offer; nor does it warrant that this Issuer's securities will be listed or will continue to be listed on the Exchange; nor does it take any responsibility for the financial or other soundness of this Issuer, its promoters, its management, or any scheme or project of this Issuer. Every person who desires to apply for or otherwise acquire any securities of this Issuer may do so pursuant to independent inquiry, investigation and analysis and shall not have any claim against the Exchange whatsoever by reason of any loss which may be suffered by such person consequent to or in connection with such subscription / acquisition whether by reason of anything stated or omitted to be stated herein or any other reason whatsoever.

Disclaimer Clause of the PSE

"Pune Stock Exchange Ltd., Pune ("the Exchange") has given vide its letter dated April 5, 2004 permission to this Company to use the Exchange's name in this Offer Document as one of the Stock Exchanges on which this Company's securities are proposed to be listed. The Exchange has scrutinized this Offer Document for its limited purpose of deciding on the matter of granting the aforesaid permission to this Company. The Exchange does not in any manner (1) warrant, certify or endorse the corrections of any of the contents of this document; or (2) warrant that this Company's securities will be listed or will continue to be listed on the Exchange; or (3) take any responsibility for the financial or other soundness of this Company, its promoters, its management or any other scheme or project of this Company; it should not for any reason be deemed or construed that this Offer Document has been cleared or approved by the Exchange. Every person who desires to apply for or otherwise acquires any securities of this Company may do so pursuant to independent inquiry, investigation and analysis and shall not have any claim against the Exchange whatsoever by reason of any loss

which may be suffered by such person consequent to or in connection with such subscription / acquisition whether by reason of anything stated or omitted to be stated herein or for any other reason whatsoever."

IMPERSONATION

As a matter of abundant caution, attention of the applicants is specifically drawn to the provisions of sub-section (1) of Section 68A of the Act, which is reproduced below:

"Any person who

(a) makes in a fictitious name, an application to a company for acquiring or subscribing for, any shares therein, or

(b) otherwise induces a company to allot, or register any transfer of shares therein to him, or any other person in a fictitious name, shall be punishable with imprisonment for a term which may extend to five years."

MINIMUM SUBSCRIPTION

If the Company does not receive the minimum subscription of 90% of the issue (excluding the amounts on the rights entitlement on the equity shares held in abeyance as explained in the notes to the "Capital Structure"), the entire subscription shall be refunded to the applicants within forty two days from the date of closure of the issue. If there is a delay in the refund of subscription by more than 8 days after the Company becomes liable to repay the subscription amount, (i.e. forty two days after closure of the issue), the Company will pay interest for the delayed period, at prescribed rates in sub-section (2) and (2A) of Section 73 of the Act.

The issue will become undersubscribed after considering the number of shares applied as per entitlement plus additional shares. The undersubscribed portion can be applied for only after the close of the issue. The promoters or any other person can subscribe to such undersubscribed portion as per the relevant provisions of the law. If any person presently in control of the company desires to subscribe to such undersubscribed portion and if disclosure is made pursuant to SEBI (Substantial Acquisition of Shares and Takeover) Regulations, 1997, such allotment of the undersubscribed portion will be governed by the provisions of the SEBI (Substantial Acquisition of Shares and Takeover) Regulations, 1997".

Please also refer to page 30 under the head "Basis of Allotment".

LISTING

The existing equity shares of the Company are listed on the Pune Stock Exchange, The Stock Exchange, Mumbai and The National Stock Exchange of India Limited. The Company has paid the current annual listing fees to each of the stock exchanges where its equity shares are listed. Application will be made to the Pune Stock Exchange, The Stock Exchange, Mumbai and The National Stock Exchange of India Limited for permission to deal in and for an official quotation for the securities being offered through this Letter of Offer.

If the permission to deal in and for an official quotation of the Equity Shares is not granted by the stock exchanges mentioned above, the Company shall forthwith repay, without interest, all monies received from the applicants in pursuance of this Letter of Offer. If such money is not repaid within eight days after the Company becomes liable to

repay it (i.e. 42 days after closure of the Issue), then the Company and every director of the Company who is an officer in default shall, on and from expiry of eight days, be jointly and severally liable to repay the money, with interest as prescribed under sub-sections (2) and (2A) of Section 73 of the Act.

FILING

The Letter of Offer has been filed with SEBI, Mittal Court, 'A' Wing, Nariman Point, Mumbai – 400021, for its observations. The Letter of Offer has been filed with the Designated Stock Exchange as per the requirements of the law. All the legal requirements applicable till the date of filing the Letter of Offer with the stock exchanges have been complied with.

COMPULSORY DEMATERIALIZED DEALING

The equity shares of the Company have been under compulsorily dematerialized trading for all investors with effect from November 29, 1999. The Company has an agreement with National Securities Depository Limited (NSDL) and Central Depository Services (India) Limited (CDSL) and its equity shares bear the ISIN No INE465A01017.

ALLOTMENT AND REFUND

The Company will issue and dispatch the Letter of Allotment/Equity Shares/Demat Credit and/or Letter of Regret, along with the Refund Order, if any, within a period of six weeks from the date of closure of the Issue. If such monies are not repaid within eight days from the day the Company becomes liable to pay it, the Company shall, as stipulated under Section 73(2A) of the Act, pay such monies with interest @ 15% p.a. The Letter of Allotment / Refund Order exceeding Rs.1,500 would be sent by registered post / speed post to the sole/ first applicant's registered address. Refund Orders up to the value of Rs.1,500 would be sent under Certificate of Posting. Such Refund Orders would be payable at par at all places where the applications were originally accepted. The same would be marked 'Account Payee only' and would be drawn in favour of the sole/first applicant. Adequate funds would be made available to the Registrar to the Issue for this purpose.

ISSUE PROGRAMME

The subscription will open upon the commencement of the banking hours and will close upon the close of banking hours on the dates mentioned below:

Issue opens on	Last date for receiving requests for split Application Forms	Issue closes on
August 12, 2004	August 26, 2004	September 10, 2004



NAME AND REGISTERED OFFICE OF THE COMPANY

Bharat Forge Limited

Registered Office

Mundhwa, Pune Cantonment, Pune 411 036,
Maharashtra, India
Tel. no. +91-20-2687 1666 / 2687 0451
Fax no. +91-20-2687 0693 / 2687 6961

Corporate Office

Mundhwa, Pune Cantonment, Pune 411 036,
Maharashtra, India
Tel. no. +91-20-2687 1666 / 2687 0451
Fax no. +91-20-2687 0693 / 2687 6961
E-mail: secretarial@bharatforge.com
website: www.bharatforge.com

ISSUE MANAGEMENT TEAM

Lead Managers to the Issue

JM Morgan Stanley Private Limited

141, Maker Chambers III, Nariman Point,
Mumbai- 400 021, India
Tel No: +91-22-5630 3030
Fax No: +91-22-2202 8224
Email: bharatforgerights@jmmorganstanley.com

Enam Financial Consultants Private Limited

801, Dalamal Towers, Nariman Point,
Mumbai 400 021, India
Tel No: +91-22-5638 1800
Fax No: +91-22-22846824
Email: bharatforgerights@enam.com

DSP Merrill Lynch Limited

Mafatlal Centre 10th Floor, Nariman Point,
Mumbai 400 021, India
Tel. : +91- 22- 5632 8000
Fax. : +91- 22- 2204 8518
Email: bharatforge_rights@ml.com

ICICI Securities Limited

41/44, Minoo Desai Marg
Colaba, Mumbai 400 005, India
Tel. : +91-22-2288 2460/70
Fax: +91-22-2288 2448
Email: bharatforgerights@isecld.com

Inter – Se Allocation of Responsibilities between JM Morgan Stanley Private Limited (“JMMS”), DSP Merrill Lynch Limited (“DSPML”), Enam Financial Consultants Private Limited (“Enam”) and ICICI Securities (“ISEC”) for the Rights Issue of Bharat Forge Limited

Activity	Responsibility	Co-ordinator
Capital structuring with the relative components and formalities such as composition of debt and equity, type of instruments	DSPML, ENAM, ISEC	JMMS
Drafting and Design of the offer document and of advertisement / publicity material including newspaper advertisements and brochure / memorandum containing salient features of the offer document. The designated Lead Merchant Banker shall ensure compliance with the Guidelines for Disclosure and Investor Protection and other stipulated requirements and completion of prescribed formalities with Stock Exchange and SEBI.	JMMS	JMMS
Marketing of the Issue, which will cover, inter alia, formulating marketing strategies, preparation of publicity budget, arrangements for selection of (i) ad-media, (ii) centres of holding conferences of brokers, investors etc. (iii) bankers to the issue, (iv) collection centres (v) brokers to the issue, distribution of publicity and issue material including application form, prospectus and brochure, and deciding on the quantum of issue material.	JMMS, DSPML, ENAM, ISEC	JMMS
Selection of various agencies connected with the issue, namely Registrars to the Issue, printers and advertisement agencies.	JMMS	JMMS
Follow-up with bankers to the issue to get quick estimates of collection and advising the issuer about closure of the issue, based on the correct figures.	JMMS	JMMS
The post-issue activities will involve essential follow-up steps, which must include finalisation of basis of allotment / weeding out of multiple applications, listing of instruments and dispatch of certificates and refunds, with the various agencies connected with the work such as registrars to the issue, bankers to the issue, and bank handling refund business. Even if many of these post-issue activities would be handled by other intermediaries, the designated Lead Merchant Banker shall be responsible for ensuring that these agencies fulfill their functions and enable him to discharge this responsibility through suitable agreements with the issuer company.	ENAM, ISEC	JMMS

Legal Counsels to the Issue**AZB & Partners**

Advocates & Solicitors
Express Towers, 23rd Floor,
Nariman Point, Mumbai 400 021, India
Tel. : +91-22-5639 6880
Fax. : +91-22-5639 6888
Email: azb@azbpartners.com

Auditors to the Company**Dalal & Shah**

Chartered Accountants
East & West Insurance Building,
49/55, Bombay Samachar Marg, Fort,
Mumbai – 400023, India
Tel: +91-22-22662110/0115 Fax: +91-22-22661503
Email: techteam@dalalandshah.com

Tax Consultants

Kunte & Vaidya
Chartered Accountants
1204 / 26, Bapusaheb Purandare Road,
Shivajinagar, Pune 411 004, India
Tel. : +91-20-2553 1670 Fax : +91-20-2553 2228
Email: kjv@vsnl.com

Company Secretary & Compliance Officer**Mr. Ajay Nagle**

Vice President - Legal & Company Secretary
Bharat Forge Limited
Mundhwa, Pune 411 036, India
Tel: +91-20-2687 1666 / 2687 0391
Fax: +91-20-2687 6962
Email: anagle@bharatforge.com

Registrars to the Issue**Intime Spectrum Registry Limited**

Unit : Bharat Forge Limited– Rights Issue
C-13, Pannalal Silk Mills Compound,
Bhandup (West),
Mumbai – 400 078, India
Phone: +91 22 5555 5454,
Fax: +91 22 5555 5353
Email: isrl@vsnl.com

Bankers to the Issue**Citibank NA**

Citigroup Center
C61, Bandra Kurla Complex, G Block
Bandra (East), Mumbai 400 051, India
Tel. : +91-22-2653 5652
Fax : +91-20-2653 5868

Deutsche Bank AG

DB House, Hazarimal Somani Marg,
Fort, Mumbai 400 001, India
Tel. : +91-22-5658 4000
Fax : +91-22-2207 6553

ICICI Bank Limited

Capital Market Division
30, Mumbai Samachar Marg
Fort, Mumbai 400001, India
Tel. : +91-22-2265 5285
Fax : +91-22-2261 1138

Note : Investors are advised to contact the Registrars to the Issue/ Compliance Officer in case of any pre-issue/post-issue related problems such as non-receipt of Letter of Offer/Letter of Allotment/ Share Certificate(s) / Refund Orders / Demat Credit.

Credit Rating

As this is an offer for Equity Shares, a credit rating is not required. The details of the ratings received by us for other securities/instruments in the last 3 years are as follows:

Borrowing Program	Amount Rs. million	Rating Agency	Rating	Date of Rating Letter
Secured Non-Convertible Debentures	97.60	CRISIL	BBB+A+ (so) A+ (so)- Withdrawal	November 2001 December 2001 June 2002
Commercial Paper	500	CRISIL	P1 - Withdrawal	November 2001
Fixed Deposits as of December 31, 2003	195.50	CRISIL	FA (-) FA(-) - Reaffirmed FAFA (Rating watch) Upgraded to FAA(-)	November 2001 December 2001 March 19, 2003 December 2003 March 2004

The rating symbol “BBB+” from CRISIL indicates moderate safety of timely payment of interest and principal. The rating symbol “A+ (so)” from CRISIL indicates adequate safety for payment of principal and interest. The rating symbol “P1” from CRISIL indicates degree of safety regarding timely payment of the instrument is very strong. The rating symbol “FA” from CRISIL indicates that the degree of timely payment of interest and principal is satisfactory. The rating symbol “FAA(-) (stable outlook)” from CRISIL indicates that the degree of safety regarding timely payment of interest and principal is strong.

As instruments characteristics or debt management capability could cover a wide range of possible attributes whereas rating is expressed only in limited number of symbols, CRISIL assigns ‘ + ’ or ‘ - ’ signs to be shown after the assigned rating (wherever necessary) to indicate the comparative standing within the category covered by the rating symbol. (Source: Rating Symbols of CRISIL, dated October 2003)

Other than the above, the Company has confirmed that there are no other ratings in last three fiscals.

Underwriting / Standby Arrangements

The present Issue is not underwritten. The Company has not entered into any standby arrangements. Our promoter, Mr B N Kalyani, has confirmed that he along with his relatives and the companies controlled by him (together hereinafter referred to as “Promoter” in this para) together intend to apply for additional shares in the Issue such that atleast 90% of the Issue is subscribed (i.e. upto Rs. 949.22 million). In this regard, our Promoter, has entered into an underwriting agreement dated July 27, 2004 with JM Morgan Stanley Private Limited and Enam Financial Consultants Private Limited to underwrite Rs. 100 million each. Promoter will pay commission at the rate of 1.5% each of the amount being underwritten, to JM Morgan Stanley Private Limited and Enam Financial Consultants Private Limited respectively.

UTILISATION OF ISSUE PROCEEDS

The Company certifies that:

1. All monies received out of the issue of shares to the investors shall be transferred to a separate bank account other than the bank account referred to in sub-section (3) of Section 73 of the Act;
2. Details of all monies utilised out of the Issue referred to in 1 above shall be disclosed under an appropriate separate head in the balance sheet of the Company indicating the purpose for which such monies had been utilised; and
3. Details of all unutilized monies out of the Issue of shares, if any, referred to in 1 above shall be disclosed under an appropriate separate head in the balance sheet of the Company indicating the form in which such unutilized monies have been invested.

The funds received against this Issue will be kept in a separate bank account and the Company will not have any access to such funds unless it satisfies the Designated Stock Exchange with suitable documentary evidence that the minimum subscription of 90% of the Issue has been received by the Company.

UNDERTAKING BY THE COMPANY

The Company undertakes that:

- a) The complaints received in respect of the Issue shall be attended to by the Company expeditiously and satisfactorily;
- b) All steps for completion of the necessary formalities for listing and commencement of trading at all stock exchanges where the securities are to be listed are taken within seven working days of finalisation of basis of allotment;
- c) Funds required for dispatch of refund orders/allotment letters/ certificates by registered post / speed post shall be made available to the Registrars to the Issue by the Company;
- d) Certificates of the securities/refund orders to the Non-Resident Indians shall be dispatched within the specified time subject to receipt of approval from RBI;
- e) No further issue of securities shall be made till the shares offered through this Letter of Offer are listed or till the application moneys are refunded on account of non-listing, undersubscription, etc.
- f) that necessary cooperation with the credit rating agency(ies) shall be extended in providing true and adequate information till the debt obligations in respect of the instrument are outstanding.

All information shall be made available by the Lead Manager and the Issuer to the public and investors at large and no selective or additional information would be available for a section of the investors in any manner whatsoever including at road shows, presentations, in research or sales reports etc.

The Lead Manager and the Issuer shall update the offer document and keep the public informed of any material changes till the listing and trading commences.

All the legal requirements as applicable till the filing of the Letter of Offer with the Designated Stock Exchange have been complied with.

CAPITAL STRUCTURE

As on June 30, 2004		(in Rs. million) Aggregate Value
Authorised Share Capital		
45,000,000	Equity Shares of Rs.10 each	450.00
43,000,000	Cumulative Preference Shares of Rs.10 each	430.00
2,000,000	Unclassified ¹ Shares of Rs.10 each	20.00
Issued Share Capital		
10,000,000	11.50% Redeemable Cumulative Non-Convertible Preference Shares of Rs.10 each (Allotted on 9.8.1999)	100.00
10,000,000	9.50% Redeemable Cumulative Non-Convertible Preference Shares of Rs.10 each (Allotted on 1.8.2002)	100.00
10,000,000	8.25% Redeemable Cumulative Non-Convertible Preference Shares of Rs.10 each (Allotted on 11.2.2003)	100.00
37,702,196	Equity Shares of Rs.10 each	377.02
Subscribed and Paid-up Share Capital		
10,000,000	11.50% Redeemable Cumulative Non-Convertible Preference Shares of Rs.10 each (Allotted on 9.8.1999)	100.00
10,000,000	9.50% Redeemable Cumulative Non-Convertible Preference Shares of Rs.10 each (Allotted on 1.8.2002)	100.00
10,000,000	8.25% Redeemable Cumulative Non-Convertible Preference Shares of Rs.10 each (Allotted on 11.2.2003)	100.00
37,667,628	Equity Shares of Rs.10 each fully paid	376.68
	Add : 34,568 Forfeited Shares (amount paid up)	0.09
Present Issue being offered to the existing Shareholders through this Letter of Offer		
1,883,382	Equity Shares of Rs.10 each at a premium of Rs. 550 for cash with detachable Warrants	1,054.69
Paid Up Capital after the Issue (excluding shares forfeited)		
	After issue of Rights Equity Shares: 39,551,010 Equity Shares of Rs.10 each	395.51
	After issue of Equity Shares upon conversion of Detachable Warrants ² : 40,492,701 Equity Shares of Rs. 10/- each	404.93
Share Premium Account		
	Existing Share Premium Account	-
	Addition to Share Premium Account	
	After issue of Equity Shares	1,035.86
	After the exercise of Warrants (assuming a minimum floor price of Rs.1,200 comprising of Rs. 10 face value per equity share and Rs. 1,190 as share premium per equity share)	2,156.47
¹ Unclassified shares refer to the shares which were created in March 20, 1982 to be issued as equity and / or preference shares. These shares since have not been classified either as equity shares or preference shares.		
² Assuming exercise of all warrants by the holders. For details of the terms of Warrants proposed to be issued under this issue, please refer page 20 of this Letter of Offer.		
Notes: Of the above Shares		
(i) 4,760 Equity Shares of Rs. 100/- each are issued as fully paid up for consideration other than cash, to SIFCO, USA pursuant to a Technical Assistance Contract. These shares were issued in calendar year 1963 and 1964. Since then these equity shares have been sub-divided to a face value of Rs. 10/- each. Accordingly, the shares have been sub-divided into 47,600 Equity Shares of Rs. 10/- each.		

- (ii) 86,82,500 Equity Shares of Rs. 10/- each are issued as fully paid Bonus Shares by way of capitalization of Share Premium Account and Reserves. For details of the year in which these Bonus shares were issued, please refer note 1 on share capital history on page 13 of this Letter of Offer.
- (iii) 15,68,600 Equity Shares of Rs. 10/- each are issued at a premium of Rs.186.93 per share, under Senior Executives Stock Cum Share Option Scheme (The “Scheme” or “**ESOP Scheme**”) to Kritadnya Management and Trading Services Private Limited (“KMTS”). These shares were issued on June 16, 1995. As provided under clause 23 read with clause 3.1 of the Securities and Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999 (the “**ESOP Guidelines**”), the ESOP Guidelines are applicable to companies listed on any recognized stock exchange in India which offer an employee stock option scheme or a employee stock purchase scheme on or after June 19, 1999. As the shares under the ESOP Scheme were allotted to KMTS in 1995, the Guidelines were/are not applicable to the shares issued to KMTS for the ESOP Scheme. The said shares shall be used for allotment to the Senior Executives of the Company pursuant to the ESOP scheme as and when introduced. Presently the said shares are held by KMTS.
- (iv) On June 30, 1991, 5,426 Equity Shares (allotted on 23rd December, 1989), paid up at Rs.5/- towards face value, were forfeited. However, as per Article 57 of the Articles of Association, by March 31, 2003, forfeiture of 2,424 Equity Shares has been annulled
- (v) On November 30, 1993, 65,730 Equity Shares (allotted on 6th November, 1992), paid up at Rs.2.50 towards face value, were forfeited. However, as per Article 57 of the Articles of Association, by March 31, 2003 forfeiture of 34,164 Equity Shares has been annulled

Notes to the Capital Structure:

Share Capital History

Date of Allotment	Name of Allottee	Number of Equity Shares	Cumulative number of Shares	Face Value	Issue/ Conversion price (Rs.)	Nature of Payment	Ratio of Offer
September 26, 1961	First Allotment ¹	156	156	100	100	Cash	-
January 20, 1962	Private placement of shares to Directors, friends and relatives	6,000	6,156	100	100	Cash	-
May 8, 1962	Private placement of shares to Directors, friends and relatives	3,050	9,206	100	100	Cash	-
September 22, 1962	Private placement of shares to Directors, friends and relatives	50	9,256	100	100	Cash	-
May 21, 1963	Issued to SIFCO, US for consideration other than cash pursuant to their Technical Assistance Contract	2,380	11,636	100	100	Non Cash	-
April 23, 1963	Subscribed privately by Directors,	12,095	23,731	100	100	Cash	-
June 7, 1963	Promoters, Managing Agents,						
June 15, 1963	friends and relatives						
October 4, 1963	-Do-	13,458	37,189	100	100	Cash	-
November 16, 1963	-Do-	6,600	43,789	100	100	Cash	-
November 30, 1963	-Do-	23,076	66,865	100	100	Cash	-
1963 -1964	Details regarding the share capital subscription are not available	8,755	75,620	100	100	Cash	-
January 20, 1964	Initial Public Offering	77,000	152,620	100	100	Cash	-
March 25, 1964	Issued to SIFCO, US for consideration other than cash pursuant to their Technical Assistance Contract	2,380	155,000	100	100	Non Cash	-
			1,550,000	10	10 ²	N.A.	-
17-09-1976	Bonus Issue	930,000	2,480,000	10	10	N.A.	3:5
20-06-1981	Bonus Issue	2,480,000	4,960,000	10	10	N.A.	1:1
20-05-1987	Vth series convertible debentures	312,500	5,272,500	10	40	Cash	5:80 ³
24-04-1989	Bonus Issue	5,272,500	10,545,000	10	10	N.A.	1:1
23-12-1989	Rights Issue	4,090,700	14,635,700	10	50	Cash	1:4
06-11-1992	Rights Issue	3,801,950	18,437,650	10	160	Cash	1:4

Date of Allotment	Name of Allottee	Number of Equity Shares	Cumulative number of Shares	Face Value	Issue/ Conversion price (Rs.)	Nature of Payment	Ratio of Offer
14-12-1993	IXth series non-convertible debentures - coupon conversion	1,337,035	19,774,685	10	160	Cash	-
15-04-1994	Rights Issue	6,923,000	26,697,685	10	50	Cash	1:3
13-09-1994	Promoter group ⁴	3,500,000	30,197,685	10	156	Cash	-
19-12-1994	VIth series non-convertible debentures - coupon conversion	1,209,801	31,407,486	10	50	Cash	-
16-06-1995	Senior executive stock option scheme ⁵	1,568,600	32,976,086	10	196.93	Cash	-
01-08-1995	Xth series non-convertible debentures - coupon conversion	2,926,450	35,902,536	10	50	Cash	-
08-11-1995	Private placement to Promoter group ⁶	1,800,000	37,702,536	10	117.18	Cash	-
	Shares Forfeited ⁷	(34,568)	37,667,968				
	Shares allotted to Non-Residents ⁷	(340)	37,667,628				

- The details are not available as the records were burnt in fire which took place in our premises on April 24, 1998
- The shares of face value of Rs. 100 each were subdivided into an equity share of face value of Rs. 10 each vide the approval given the general body at the Extraordinary general meeting held on July 02, 1971
- Refers to the offer for issue of convertible debentures to the existing shareholders on rights basis.
- Equity shares issued at a premium of Rs 146/- per share, against Warrants issued to Promoter/Group Companies on preferential basis. These shares were allotted to Kalyani Steels Limited (2,885,000 equity shares), Ajinkya Investment and Trading Company Limited (205,000 equity shares), Koyna Investment and Trading Company (205,000 equity shares) and Cockscomb Investment and Finance Private Limited (205,000 equity shares). Details of certificate from the statutory auditors that the securities were issued in accordance with then existing SEBI Guidelines was not available as the records were burnt in fire which took place in our premises on April 24, 1998.
- In 1995, the Company provided an interest free loan of Rs.309 million to a company, Kritadnya Management and Trading Services Private Limited ("KMTS"), which has given an undertaking to hold the shares solely for the purpose of obligations of the "BFL Executives Welfare and Share Option Trust" in terms of clause (b) of the proviso to Section 77(2) of the Companies Act, 1956. In this regard, the Company has allotted 1,568,600 equity shares to KMTS in 1995. Also refer page 18 of this Letter of Offer.
- A private placement of 18 lakh shares was done to Promoter group companies. 900,000 shares were allotted to Surajmukhi Investment & Finance Limited and other 900,000 shares to Chakrapani Investment & Trades Limited. A certificate from the statutory auditors that the securities were issued in accordance with then existing SEBI Guidelines was obtained.
- Pertains to share forfeited on account of non-payment of calls; 5,426 equity shares were forfeited on June 30, 1991, of which forfeiture of 2,424 equity shares has been annulled on account of payment of overdue calls subsequently; 65,730 equity shares were forfeited on November 30, 1993, of which forfeiture of 34,164 equity shares has been annulled on account of payment of overdue calls subsequently. Allotment of 340 equity shares to non-residents was annulled in deference to RBI advise against allotting additional shares under 89 series debentures of VIth series with attached coupon warrants.

As on date, the balance in the share premium account is nil on account of transfer of then existing balance of Rs 2199.25 million on March 1, 2001 being transferred to BF Utilities Limited under scheme of demerger approved by the Honourable High Court of judicature at Mumbai vide their order dated January 17, 2001.

- Our promoters, their relatives and associates, and our Directors have not purchased or sold or financed, directly or indirectly, any equity shares during a period of six months preceding the date on which the draft Letter of Offer is filed with SEBI, except the following:
 - Promoter Group** - During the last six months, Mr. Amit B Kalyani (relative of Mr. B N Kalyani and director) sold 5,000 shares representing 0.01% of the present outstanding share capital
 - Directors of the Company** - During the last six months, Mr. Pratap Bhogilal and Mr. P. H. Ravikumar purchased 5,300 and 100 shares respectively representing 0.01% and 0.0002% of the present outstanding share capital
- For further details please refer section "Notes to Risk Factor" on page xv of this Letter of Offer

3. Details of shares held by the Promoter group are as follows;

Name of Holder	Folio No. DP ID / Client ID	No. of Shares	Date of Allotment	Total Face Value (Rs.)	Total Issue/ Conversion Price (Rs.)	% to Total Post Issue Capital	% to Total Post Issue Capital Including Warrant
PERSONAL							
Mr. B.N. Kalyani	15621	252					
	22213	368	20.05.1987				
	56078	184	23.12.1989				
	59747	200	15.04.1994				
	62014	200	01.08.1995				
	DPID IN321127		19.12.1994				
	CLID 15391910	6,000					
		7,204		72,040	398,230.68	0.02	0.02
RELATIVES							
Dr. N.A. Kalyani	IN300505	63,779					
	10039386						
	IN300505	32,669					
	10039394	96,448		964,480	3,742,182.40	0.246	0.246
Mrs. Sulochana N. Kalyani	IN300505	99					
	10039409	8					
		107		1,070	1,156.67		
Mr. Amit B. Kalyani	IN301127						
	15392003	64,790		647,900	3,688,464.83	0.17	0.17
Mrs. Sheetal G. Kalyani	IN300505						
	10039468	2,118		21,180	254,668.32		
Mrs. Rohini G. Kalyani	IN300505						
	10039492	7,137		71,370	73,796.58	0.02	0.02
Kumar Viraj G. Kalyani	IN300505						
	10039484	2,100		21,000	547,218.00		
TOTAL (A)	PERSONAL & RELATIVES	179,904			8,705,717.48	0.47	0.47
PROMOTERS							
Name of Holder	Folio No. DP ID / Client ID	No. of Shares	Date of Allotment	Total Face Value (Rs.)	Total Issue/ Conversion Price (Rs.)	% to Total Post Issue Capital	% to Total Post Issue Capital Including Warrant
1 KSL Holdings Pt.Ltd.	74761	4,628,574	12.10.2002	46,285,740	310,117,808.00	12.29	12.29
2 Ajinkya Invt. Trdg. Pvt. Ltd.	59999	368,014	01.08.1995	3,680,140	20,090,111.00	0.98	0.98
3 Koyana Invt. & Trading Co.	60000	375,000	01.08.1995	375,000	20,038,552.00	1.00	1.00
4 Cockscomb Invt. & Fin Pvt. Ltd.	59998	627,520	01.08.1995	6,275,200	37,673,172.04	1.67	1.67

Name of Holder	Folio No. DP ID / Client ID	No. of Shares	Date of Allotment	Total Face Value (Rs.)	Total Issue/ Conversion Price (Rs.)	% to Total Post Issue Capital	% to Total Post Issue Capital Including Warrant
5 Shailedra Invt. & Trdg Co.	60001	396,118	01.08.1995	3,961,180	27,803,179.00	1.05	1.05
6 Chakrapani Invt. & Trades Ltd.	74762	1,649,750	12.10.2002	16,497,500	189,703,255.00	4.38	4.38
7 Surajmukhi Invt. & Fin Ltd.	74763	1,899,490	12.10.2002	18,994,900	249,438,278.00	5.04	5.04
8 Gladiola Invt. Ltd.	74764	2,030,100	12.10.2002	20,301,000	265,289,975.00	5.39	5.39
9 Mundhwa Invt. Ltd.	75460	49,064	30.10.2003	490,640	8,541,107.00	0.13	0.13
10 Bhalchandra Invt. Ltd.	75461	109,845	30.10.2003	1,098,450	19,282,929.00	0.29	0.29
11 Forge Invt. Ltd.	75462	70,046	30.10.2003	700,460	12,381,681.00	0.19	0.19
12 Kalyani Utilities Devp. Ltd.	75532	30,267	-	302,670	4,927,677.00	0.08	0.08
13 Sundram Tradg & Invt. Pvt Ltd.	66391	50,000	19.05.1997	500,000	5,550,000.00	0.13	0.13
14 Kunal Trdg. & Invt. Pvt. Ltd.	66395	29,996	19.05.1997	299,960	3,088,227.00	0.08	0.08
15 Yeshwant Tradg. & Invt. Ltd.	66373	403,088	19.05.1997	4,030,880	43,542,442.80	1.07	1.07
16 Rajgad Trading Co. Ltd.	3692 13395 TO 13401	107,520 <u>25,032</u> 132,552	20.05.1980 20.05.1987 15.04.1994	1,325,520	3,723,592.00	0.35	0.35
17 Jannhavi Invt. Pvt. Ltd.	9825	443,514	15.04.1994	4,435,140	7,946,450.00	1.18	1.18
18 Yasmarg Invt. & Trading Pvt Ltd.	3780	1,64,400	15.04.1994	1,644,000	4,508,000.00	0.44	0.44
19 Tanmarg Invt. & Trading Pvt. Ltd.	3779	77,600	15.04.1994	776,000	3,880,000.00	0.21	0.21
20 Kalyani Consultants Pvt. Ltd.	5502 22105 22106	51,300 1,000 <u>13,400</u> 65,700	15.04.1994	657,000	3,285,000.00	0.17	0.17
21 Dronacharya Investment and Trading Pvt. Ltd.	20646 to 20648 20650 to 20653	443 <u>13,700</u> 14,143	15.04.1994	141,430	707,150.00	0.04	0.04
22 Cornflower Investment and Trading Pvt. Ltd.	20655 20689 20690 20691	1,300 33,600 9,900 <u>4,600</u> 49,400	15.04.1994	494,000	2,470,000.00	0.13	0.13
23 Campanula Investments & Trading Pvt. Ltd.	20657 36329 36344 36508	68,800 54 19 <u>16</u> 68,889	15.04.1994	688,890	3,418,500.00	0.18	0.18

Name of Holder	Folio No. DP ID / Client ID	No. of Shares	Date of Allotment	Total Face Value (Rs.)	Total Issue/ Conversion Price (Rs.)	% to Total Post Issue Capital	% to Total Post Issue Capital Including Warrant
24 Hastinapur Investments and Trading Pvt. Ltd.	20658 54310	3,800 13,000					
		16,800	15.04.1994	168,000	840,000.00	0.04	0.04
25 Dandakaranya Investments & Trading Ltd.	20656 5439	15,500 87,000					
		102,500	15.04.1994	1,025,000	5,125,000.00	0.27	0.27
TOTAL (B)		<u>13,852,370</u>			<u>1,253,372,085.84</u>	<u>37.25%</u>	<u>37.25%</u>
						Average Price	
TOTAL (A+B)		14,032,274			1,262,077,803.32	Rs.89.94	

None of the above shares have been pledged.

4. In accordance with Clause 4.10.1 (c) of the SEBI Guidelines, the requirements of promoter's contribution and lock-in do not apply to a Rights Issue.
5. Shareholding Pattern before and after the Issue is and will be as under:

Category	Existing (As on July 27, 2004)		After the Present Issue*	
	No. of Shares	%	No. of Shares	%
Promoter Group	14,032,274	37.25	14,733,888	37.25
Banks and Institutions, FIs & Insurance	4,331,457	11.50	4,548,030	11.50
Non Resident Indians /(OCBs – NIL)	193,502	0.51	203,177	0.51
FIIIs	5,679,622	15.08	5,963,603	15.08
Mutual Funds	902,532	2.40	947,659	2.40
Others – Foreign Nationals	4,425	0.01	4,646	0.01
Public	12,523,816	33.25	13,150,007	33.25
Total	<u>37,667,628</u>	<u>100.00</u>	<u>39,551,010</u>	<u>100.00</u>

* - Assuming that all the shareholders on the date of the Book Closure will subscribe to the rights issue

6. The list of top 10 shareholders of the Company and the number of Equity Shares held by them:

A) As on date of filing with BSE

Name of shareholders	No. of shares	%
KSL Holdings Pvt. Ltd.	4,628,574	12.29
Gladiola Investment Ltd.	2,030,100	5.39
Surajmukhi Investment and Finance Ltd.	1,899,490	5.04
Chakrapani Investments and Trades Ltd.	1,649,750	4.38
Kritadnya Management and Trading Services Pvt. Ltd.	1,568,600	4.16
The New India Assurance Co. Ltd.	1,456,094	3.87
Life Insurance Corporation of India	1,300,088	3.45
Janus Special Equity Fund	1,194,108	3.17
Emerging Markets Management LLC A/c	945,935	2.51
Cockscomb Investment and Finance P. Ltd.	627,520	1.67

B) 10 days prior to date of filing with BSE

Name of shareholders	No. of shares	%
KSL Holdings Pvt. Ltd.	4,628,574	12.29
Gladiola Investment Ltd.	2,030,100	5.39
Surajmukhi Investment and Finance Ltd.	1,899,490	5.04
Chakrapani Investments and Trades Ltd.	1,649,750	4.38
Kritadnya Management and Trading Services Pvt. Ltd.	1,568,600	4.16
The New India Assurance Co. Ltd.	1,456,094	3.87
Life Insurance Corporation of India	1,300,088	3.45
Janus Special Equity Fund	1,187,848	3.15
Emerging Markets Management LLC A/c	945,935	2.51
Cockscomb Investment and Finance P. Ltd.	627,520	1.67

C) 2 year prior to the date of filing with BSE

Name of shareholders	No. of shares	%
KSL Holdings Pvt. Ltd.	4,628,574	12.29
Life Insurance Corporation of India	2,420,545	6.43
Gladiola Investment Ltd.	2,030,100	5.39
Surajmukhi Investment and Finance Ltd.	1,899,490	5.04
The New India Assurance Co. Ltd.	1,826,094	4.85
Chakrapani Investments and Trades Ltd.	1,649,750	4.38
Kritadnya Management and Trading Services Pvt. Ltd.	1,568,600	4.16
Unit Trust of India	1,259,448	3.34
General Insurance Corporation of India	640,531	1.70
Cockscomb Investment and Finance P. Ltd.	627,520	1.67

Save as stated in point 15 below, as on date, there are no outstanding warrants, securities convertible into shares, options or rights to convertible debentures, loans or other instruments which would entitle promoter group or any other shareholder any option to receive equity shares of BFL.

6. Neither the Company nor its Directors have entered into any buy-back and/or standby arrangements for purchase of Equity Shares of the Company from any person. Our promoter, Mr B N Kalyani, has confirmed that he along with his relatives and the companies controlled by him (together hereinafter referred to as "Promoter" in this para) together intend to apply for additional shares in the Issue such that atleast 90% of the Issue (i.e. upto Rs. 949.22 million) is subscribed. In this regard, our Promoter has entered into an underwriting agreement dated July, 27, 2004 with JM Morgan Stanley Private Limited and Enam Financial Consultants Private Limited to underwrite Rs. 100 million each. Promoter will pay a commission at the rate of 1.5% each of the amount being underwritten, to JM Morgan Stanley Private Limited and Enam Financial Consultants Private Limited.
7. The Company has not raised any bridge loan against the proceeds of this Issue.
8. There would be no further issue of capital whether by way of issue of bonus shares, preferential allotment, rights issue or in any other manner during the period commencing from submission of the Letter of Offer with SEBI until permission for dealing in and an official quotation has been granted by the Stock Exchange for the Equity Shares offered through this Letter of Offer.
9. The Company presently does not have any intention or proposal to alter its capital structure for a period of six months from the date of opening of the Issue, by way of split/consolidation of the denomination of Equity Shares or further issue of Equity Shares (including issue of securities convertible into exchangeable, directly or indirectly for Equity Shares) whether preferential or otherwise.
10. The Company has not issued any Equity Shares out of revaluation reserves in the past.
11. There shall be only one denomination for the Equity Shares of our Company. The Company shall comply with such disclosure and accounting norms specified by SEBI, from time to time.
12. The Company had 28,422 members as of July 27, 2004.
13. Please see "Our Promoter" of this Letter of Offer for the names of natural persons who are in control (holding 10% or more voting rights) or who are on the board of directors.

14. In 1995, the Company provided an interest free loan of Rs.309 million to a company, Kritadnya Management and Trading Services Private Limited ("KMTS"), which has given an undertaking to hold the equity shares solely for the purpose of obligations of the "BFL Executives Welfare and Share Option Trust" in terms of clause (b) of the proviso to Section 77(2) of the Companies Act, 1956. In this regard, the Company has allotted 1,568,600 equity shares to KMTS in 1995. Please also refer note 15 below.
15. 15,68,600 Equity Shares of Rs. 10/- each are issued at a premium of Rs.186.93 per share, under Senior Executives Stock Cum Share Option Scheme (The "Scheme" or "**ESOP Scheme**") to Kritadnya Management and Trading Services Private Limited ("KMTS"). These shares were issued on June 16, 1995 and are already listed on the Stock exchanges. As provided under clause 23 read with clause 3.1 of the Securities and Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999 (the "**ESOP Guidelines**"), the ESOP Guidelines are applicable to companies listed on any recognized stock exchange in India which offer an employee stock option scheme or a employee stock purchase scheme on or after June 19, 1999. **As the shares under the ESOP Scheme were allotted to KMTS in 1995, the Guidelines were/are not applicable to the shares issued to KMTS for the ESOP Scheme.** The said shares shall be used for allotment to the Senior Executives of the Company pursuant to the ESOP scheme as and when introduced. Presently the said shares are held by KMTS. Other shares issued to KMTS for ESOP Scheme, the Company does not have any ESOP or ESPS Scheme as envisaged under Securities and Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999. ESOP or ESPS, if any, in future would be as per the requirements of the Securities and Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999.
16. As per regulation 6 of notification No. FEMA 20/200-RB dated May 03, 2000, the RBI has given general permission to Indian companies to issue Rights shares to Non-resident Indian including additional shares. However, since the equity shares being offered on rights basis in this issue also have detachable warrants, the Company by its letter dated April 07, 2004 had made an application to the RBI to grant permission to issue of equity shares with the detachable warrants to its non-resident shareholders. The RBI has vide its letter ref. CO/FID/864/10.1.02.01.06/2003-2004 dated May 12, 2004 given permission for issue of equity shares with detachable warrants to non-residents shareholders within sectoral cap prescribed under FEMA 1999.
17. The promoter has confirmed that he along with his relatives and the companies controlled by him (together hereinafter referred to as "Promoter" in this para) together intends to subscribe to the full extent of their entitlement in the Issue. Herein the Promoter reserves his right to subscribe to his entitlement in the issue by a combination of entities controlled by him and who are shareholders on the date of the Book

Closure for this Issue. The Promoter intends to also apply for additional shares in the Issue such that atleast 90% of the Issue is subscribed (i.e. upto Rs. 949.22 million). In this regard, our Promoter has entered into an underwriting agreement dated July 27, 2004 with JM Morgan Stanley Private Limited and Enam Financial Consultants Private Limited to underwrite Rs. 100 million each. Promoter will pay commission at the rate of 1.5% each of the amount being underwritten, to JM Morgan Stanley Private Limited and Enam Financial Consultants Private Limited respectively. As a result of this subscription and consequent allotment, the Promoter may acquire shares over and above his entitlement in the Issue, which may result in an increase of the shareholding being above the current shareholding with the rights entitlement under the present issue. This subscription and acquisition of additional shares by Promoter, if any, will not result in change of control of the management of the Company and shall be exempt in terms of proviso to Regulation 3(1)(b)(ii) of the SEBI (Substantial Acquisition of Shares and Takeover) Regulations, 1997. As such, other than meeting the requirements indicated in Use of Funds, (refer "Objects of the Issue" section on page 34 of this Letter of Offer), there is no other intention/purpose for this Issue, including any intention to delist the Company, even if, as a result of allotments to the Promoter, in this Issue, the Promoter shareholding in the Company exceeds his current shareholding. However, the Promoter has confirmed that in case the Rights Issue of the Company is completed with the Promoter subscribing to equity shares over and above his entitlement and as a result, if the public shareholding in the Company after the Rights Issue falls below the "permissible minimum level" as specified in the listing condition or listing agreement, he will either individually or jointly with other companies controlled by him make an offer for sale of his holdings so that the public shareholding is raised to the "permissible minimum level" within a period of 3 months from the date of allotment in the proposed Issue, as per the requirements of sub-clause 17.1 and 17.2 of SEBI (Delisting of Securities) Guidelines, 2003 or as per any amendment thereto or any other period as may be directed by SEBI or any appropriate authority. In this context, the promoter of BFL Limited has provided following undertaking:

"I hereby undertake that, in case the Rights Issue of Bharat Forge Limited is completed with the Promoter subscribing to equity shares over and above their entitlement and as a result, if the public shareholding in the Company after the Rights Issue falls below the "permissible minimum level" as specified in the listing condition or listing agreement, I will either individually or jointly with other companies controlled by me make an offer for sale of my holdings so that the public shareholding is raised to the "permissible minimum level" within a period of 3 months from the date of allotment in the proposed Issue, as per the requirements of sub-clause 17.1 and 17.2 of SEBI (Delisting of Securities) Guidelines, 2003 or as per any amendment thereto or any other period as may be directed by SEBI or any appropriate authority."

TERMS OF THE PRESENT ISSUE

The Equity Shares, now being issued, are subject to the terms and conditions of this Letter of Offer, the enclosed Composite Application Form ("CAF"), the Memorandum & Articles of Association of the Company, the approvals from the GoI, FIPB and RBI, if applicable, the provisions of the Companies Act, 1956, guidelines issued by SEBI, guidelines, notifications and regulations for issue of capital and for listing of securities issued by Government of India and/ or other statutory authorities and bodies from time to time, terms and conditions as stipulated in the Allotment Advise or Letter of Allotment or Share Certificate and rules as may be applicable and introduced from time to time.

AUTHORITY FOR THE PRESENT ISSUE

The present Rights Issue has been authorized by the Board at its meeting held on January 19, 2004 and vide resolutions passed on March 12, 2004 by the Committee of Directors. The present Issue is also being made pursuant to the resolution passed by the shareholders vide the Extraordinary General Meeting held on January 10, 2004. The Objects of the present Rights Issue have also been authorized by the Board at its meeting held on December 10, 2003.

BASIS OF OFFER

The Equity Shares with Detachable Warrants are being offered for subscription for cash to those existing Equity Shareholders whose names appear as beneficial owners as per the list to be furnished by the Depositories in respect of the shares held in the Electronic Form and on the Register of Members of the Company in respect of shares held in the physical form at the close of business hours on July 27, 2004 (date of the Book Closure), fixed in consultation with the BSE.

RIGHTS ENTITLEMENT

As your name appears as beneficial owner in respect of the shares held in the Electronic Form or appears in the Register of Members as an Equity Shareholder of the Company on July 27, 2004, (date of the Book Closure), you are entitled to the number of Equity Shares shown in Block I of Part A of the enclosed CAF.

The eligible Shareholders shall be entitled to the following:

- **One Equity Share for every twenty Equity Shares held on the date of the Book Closure.**
- **For every two Equity Shares being offered on rights under this Issue, the allottees will have one Detachable Warrant.**

PRINCIPAL TERMS OF THE ISSUE

The Equity Shares now being offered are subject to the provisions of the Act and the terms and conditions of this Letter of Offer, the CAF, the Memorandum and Articles of Association of the Company ("Memorandum" and "Articles"), the Foreign Exchange Management Act 1999 ("FEMA") and the Letters of Allotment/ Equity Shares/Warrant Certificates to be issued. Over and above such terms and conditions, the Equity Shares and the Detachable Warrants shall also be subject to applicable laws, guidelines, notifications and regulations relating to issue of capital and listing of securities issued from time to time by SEBI, the Government of India, RBI and / or other authorities.

Principal Terms are as follows:

Face Value

Each Equity Share shall have a Face Value of Rs.10/-

Issue Price

Each Equity Share shall be offered at an Issue Price of Rs.10/- each for cash at a premium of Rs. 550/- per equity share.

Entitlement Ratio

The Equity Share is being offered on rights basis to the existing Equity Shareholders of the Company in the ratio of one Equity Share for every 20 equity shares held as on the date of Book Closure. And for every two Equity Shares being offered on rights under this Issue, the allottees will have one detachable warrant.

Rights entitlement on shares held in the pool account of the clearing members on the date of the Book Closure shall be considered, and such claimants are requested to –

1. Approach the concerned depository through the clearing member of the Stock Exchange with requisite details; and
2. Depository in turn should furnish details of the transaction to the Registrars

Only upon receipt of the aforesaid details, rights entitlement of the claimants shall be determined.

Fractional Entitlement

For Equity Shares being offered on rights basis under this Issue, if the shareholding of any of the Equity Shareholders is less than 20 or is not in the multiples of 20, then the fractional entitlement of such holders for Equity Shares shall be rounded up to the next higher integer. The Equity Shares needed for such shares will be first adjusted from the unsubscribed portion of the Issue, if any and should there be further requirement, from the Promoter group's entitlement at the time of the allotment.

Terms of Payment

Full amount of Rs. 560/- is payable on application.

The payment towards the Equity Shares offered will be as under:

For Resident Applicants:	Towards Share Capital	Towards Share Premium Account
On application	Rs. 10/- per Share	Rs. 550/- per Share
For Non-Resident Applicants		
On application	Rs. 10/- per Share	Rs. 550/- per Share

Where an applicant has applied for additional shares and is allotted lesser number of Equity Shares than applied for, the excess application money paid shall be refunded. The monies would be refunded within 42 days from the closure of the Issue, and if there is a delay beyond 8 days from the stipulated period, the Company will pay interest on the monies in terms of Section 73 of the Companies Act, 1956.

Principal Terms of the Warrants

Entitlement

For allotment of every two equity shares being offered, one detachable Warrant would be issued. This Warrant can be freely and separately traded. The Warrant holder will be entitled to exercise his right to apply for one Equity Share of Rs. 10/- each at Warrant Exercise Price for each Warrant held, at any time during Warrant Exercise Period.

Fractional Entitlement of Warrants

For allotment of Warrants being offered along with the Equity Shares being offered on Rights basis, for every two Equity Shares being offered on rights under this Issue, will entitle the shareholder to have one detachable warrant. If the entitlement for Equity Shares of any of the Equity Shareholders is less than 2 or is not in the multiples of 2, then the fractional entitlement of such holders for Warrants shall be rounded up to the next higher integer. The Warrants needed for such shares will be first adjusted against the unsubscribed portion of the Issue and then if any, from the Promoter's entitlement at the time of the allotment.

Warrant Exercise Period

Warrant Exercise Period shall be the period commencing after 12 months from the Date of Allotment upto 24 months from the Date of Allotment. Warrant holders can exercise their right to apply for the Equity Share at the Warrant Exercise Price any time during the Warrant Exercise Period. No record date would be fixed by the Company for this purpose. **Further the Warrants not exercised during the Warrant Exercise Period shall lapse.** Also refer to the Call Option mentioned below on page 21 of this Letter of Offer. For valid applications received along with the Warrant Exercise Price during the Warrant Exercise Period, whether received in physical form or through transfer to the Escrow Account opened for the purpose, till the last working day of a calendar month of the Company shall be deemed to have been allotted on the 10th day of the succeeding calendar month (if the 10th calendar day is a holiday, the deemed date of allotment shall be the succeeding working day). In this regard, the Company shall disregard applications which are liable for rejections, due to such factors including incidence of dishonour of payment instrument or short payment.

Warrant Exercise Price

Warrant Exercise Price shall be at a 15% discount to the average of the previous three calendar months daily closing price immediately preceeding the month in which the warrant conversion is exercised, subject to a floor price (minimum price) of atleast Rs. 1,200 per warrant. We have fixed the floor price of Rs. 1,200 since that would be the minimum price at which the Warrants can be exercised. Therefore though the Warrant Exercise Price is linked to the market price, in the event the average market price is less than Rs. 1,200, the Warrant Exercise Price would be fixed at Rs. 1,200 and as a result, the Warrant Exercise Price would be higher than the then prevailing market price.

For this purpose daily closing prices as per BSE official quotation with reference to the date of receipt of the duly valid Warrant

Exercise Application Form at the Company's Registered Office would be considered in case of warrants held in physical mode and in case of warrants held in dematerialised mode, the date of credit to the Escrow Account opened for the purpose would be considered for determining the Warrant Exercise Price. This price would be adjusted for any further bonus issue made by the Company prior to the Warrant Exercise Period so as to ensure that the benefit to the Warrant holder is not prejudiced and remains the same as if the bonus would not have been declared. For example, should the Company declare a bonus issue prior to the Warrant Exercise Period in the ratio of 1:1, then the Warrant Exercise Price would be half of the Warrant Exercise Price as aforesaid. In case the Company announces a rights issue during the tenure of the Warrants, neither would any adjustment be made to the Warrant Exercise Price nor would there be any reservations for Warrant holders. The face value of each Equity Share of the Company is Rs.10/-. In the event of any sub-division or consolidation of the face value, the share entitlement on each Warrant shall be proportionately increased/decreased such that the aggregate nominal value of the entitlement remains the same as the nominal value of the Equity Shares immediately prior to such subdivision or consolidation e.g. in case the Company decides to reduce the face value of Equity Shares to Rs. 5 each, then upon exercise of each Warrant by making payment under the Warrant Exercise Price, the Warrant holder would get two Equity Shares of Rs. 5 each instead of one Equity Share of Rs. 10 each.

The investors may also note that the floor price of Rs. 1,200 per warrant should not be taken to be indicative of the market price of the equity shares, whether presently or after the equity shares are issued upon the exercise of warrants are listed. No assurance can be given regarding the active / sustained trading in the equity shares or the price at which the Equity Shares offered under the present Issue will trade either after the listing or at the time of exercise of warrants.

Procedure for Exercise of Warrants being issued with Equity Shares under this Issue

Application for issue of Equity Shares should be made on the prescribed Warrant Exercise Application Form. This application form would be sent to all the Warrant holders would be sent separately. The same would also be available on request with our Secretarial department (in-house Share Department) and during the Warrant Exercise Period can be downloaded from our web-site www.bharatforge.com.

- **In case of Warrant held in Physical Mode:** During the Warrant Exercise Period, the Warrant holder should send his application for issue of Equity Shares to our Secretarial department located at Mundhwa, Pune Cantonment, Pune 411 036, Maharashtra, India by filling up the requisite particulars on the Warrant Exercise Application Form and by discharging on the reverse of the Warrants certificate. It should be accompanied by a cheque/demand draft favoring "Bharat Forge Limited" payable at Pune for the requisite amount.
- **In case of Warrants held in Demat Form:** During the Warrant Exercise Period, the Warrant holder should send his application for issue of Equity Shares to our Secretarial department

located at Mundhwa, Pune Cantonment, Pune 411 036, Maharashtra, India by filling up the said application form. It should be accompanied by cheque/demand draft favouring “Bharat Forge Limited” payable at Pune for the requisite amount. Warrant holders should concurrently transfer their dematted holding to the Escrow Account to be opened by the Company by marking this as an off market transaction. Details of the Escrow Account would be mentioned on the Warrant Exercise Application Form, to be provided by the Company subsequently.

Warrants may not be exercised from within the United States or by or on behalf of US citizen. Each person exercising a Warrant must provide a written certification that he is not a US person and that the Warrant is not being exercised on behalf of a US citizen. No exercise will be accepted from any person whose address is within United States.

Call Option

The Company will have a one-time call option of exercising the Warrants at any time commencing after 12 months from the Date of Allotment upto 18 months from the Date of Allotment (“Call Option Date”). This Call would be made uniformly in respect of all the warrants outstanding. In case we exercise the Call Option, we will seek compulsory conversion of Warrants into Equity Shares of the Company at the Warrant Exercise Price determined as per the principle laid down above under the para “Warrant Exercise Price” with reference to the Call Notice Date, after which the warrants remaining unexercised, if any, will lapse. **The Company shall give atleast 45 days prior notice before making a call for compulsory conversion of the warrants.**

Procedure for exercise of Call Option

If we choose to exercise the Call Option, we shall give a Notice of the same to the Warrant holders at least 45 days prior to the Call Option Date. On receipt of the aforesaid intimation, the sole Warrant holder / all the joint holders should duly discharge the Warrant Certificate(s) by signing on its reverse and duly enclosed with the Warrant Exercise Application Form, send the same by Registered Post / Speed Post with acknowledgment due or by hand delivery to our in-house Share Department, located at Mundhwa, Pune Cantonment, Pune 411 036, India. For procedure of giving the Call Option, please refer to “Notices” on page 22 of this Letter of Offer.

Payment on exercise of Call Option

In case Company exercises the Call Option, it will send the notice to the Warrant Holder to compulsorily convert their Warrants into Equity Shares of the Company. Upon such notice being sent, the Warrant Holder shall be obliged to pay the call money within the date indicated therein, which shall not be later than 45 days of the date of such notice, by forwarding a cheque / demand draft favoring “Bharat Forge Limited” payable at Pune for the requisite amount.

MODIFICATION TO THE TERMS OF THE WARRANTS

ANY MODIFICATION TO THE TERMS OF ISSUE AND EXERCISE OF THE WARRANTS WOULD BE CARRIED OUT ONLY WITH THE PRIOR APPROVAL OF THE WARRANT HOLDERS. THIS WOULD BE DONE BY CONVENING

THEIR SPECIAL CLASS MEETING IN ACCORDANCE WITH THE PROVISIONS OF THE COMPANIES ACT, 1956 AND TAKING THEIR APPROVAL BY A SIMPLE MAJORITY TO THE TERMS OF MODIFICATION SOUGHT, FROM THE WARRANT HOLDERS PRESENT AND VOTING.

Rights of Warrant holders

- The Warrants shall be transferable and transmittable in the same manner and to the same extent and be subject to the same restrictions and limitations and other related matters as in the case of Equity Shares of the Company. The Company has already applied to NSDL and CDSL for separate ISIN for the warrants. By virtue of the Circular No. 14 dated September 16, 2003 issued by the RBI, overseas corporate bodies (“OCBs”) have been derecognized as an eligible class of investors and the RBI has subsequently issued the Foreign Exchange Management [Withdrawal of General Permission to Overseas Corporate Bodies (OCBs)] Regulations, 2003. Accordingly, the warrants shall not be transferable (by sale or gift) in favour of OCB(s).
- The Warrants shall not confer upon the holders thereof any right to receive any notice of the meeting of the Shareholders of the Company or Annual Report of the Company and or to attend/vote at any of the General Meetings of the Shareholders of the Company held, if any.
- Save and except the right of subscription to the Company’s Equity Shares as per the terms of the Issue of Warrants, the holders of the Warrants in their capacity as Warrant holders shall have no other rights or privileges.
- The Warrant holders *inter-se*, shall rank *pari passu* without any preference or priority of one over the other or others.

All the above rights of the Warrant holders shall lapse automatically if the Warrants are not exercised by 24 months from the date of their allotment or the date specified in the notice for call option and the unexercised Warrant shall automatically be treated as cancelled. A separate register of warrant holders would be maintained by the Company.

MARKET LOT

The securities of the Company are tradable only in dematerialised form. The market lot for Equity Shares and Warrants in Demat Mode is one. In case of holding in physical form, the Company would issue to the allottees one certificate for the Equity Shares and detachable Warrants with a split perforation (“Consolidated Certificate”). In respect of the Consolidated Certificate, the Company will, upon receipt of a request from the Equity Shareholder/Warrant holder, split such Consolidated Certificate into smaller denomination within one fortnight’s time from the request of the Equity Shareholders/Warrant holders in conformity with its Articles of Association. No fee would be charged by the Company for splitting the Consolidated Certificate.

RANKING OF EQUITY SHARES

The Equity Shares allotted in this Issue and Equity Shares allotted on exercise of Warrants offered through this Letter of Offer shall rank *pari-passu* in all respects with the then existing Equity Shares of the Company including in respect of dividend declared by the Company.

PRINTING OF BANK PARTICULARS ON REFUND ORDERS

As a matter of precaution against possible fraudulent encashment of refund orders due to loss or misplacement, the particulars of the applicant's bank account are mandatorily required to be given for printing on the refund orders. Bank account particulars will be printed on the refund orders/refund warrants which can then be deposited only in the account specified. The Company will in no way be responsible if any loss occurs through these instruments falling into improper hands either through forgery or fraud.

OFFER TO NON-RESIDENT EQUITY SHAREHOLDERS/APPLICANTS

As per regulation 6 of notification No. FEMA 20/200-RB dated May 03, 2000, the RBI has given general permission to Indian companies to Issue Rights shares to non-resident shareholders including additional shares. However, since the equity shares being offered on rights basis in this issue also have detachable Warrants, the Company by its letter dated April 07, 2004 had made an application to the RBI to grant permission to issue of equity shares with the detachable Warrants to its non-resident shareholders. The RBI has vide its letter ref. CO/FID/864/10.1.02.01.06/2003-2004 dated May 12, 2004 given permission for issue of equity shares with detachable warrants to non-residents shareholders within sectoral cap prescribed under FEMA 1999. The Board of Directors may at its absolute discretion, agree to such terms and conditions as may be stipulated by RBI while approving the Allotment of Equity Shares, payment of dividend etc. to the NR Shareholders. The rights shares purchased by non-residents shall be subject to the same conditions including restrictions in regard to the repatriability as are applicable to the original shares against which rights shares are issued. By virtue of the Circular No. 14 dated September 16, 2003 issued by the RBI, overseas corporate bodies ("OCBs") have been derecognized as an eligible class of investors and the RBI has subsequently issued the Foreign Exchange Management [Withdrawal of General Permission to Overseas Corporate Bodies (OCBs)] Regulations, 2003. Accordingly, OCBs shall not be eligible to subscribe to the Equity Shares with detachable warrants.

JOINT-HOLDERS

Where two or more persons are registered as the holders of any Equity Shares/Warrants, they shall be deemed to hold the same as joint-tenants with benefits of survivorship subject to provisions contained in the Articles.

NOMINATION

The sole Equity Share/Warrant holder or first Equity Share/Warrant holder, along with other joint Equity Share/Warrant holders (being individual(s)) may nominate any person(s) who, in the event of death of the sole holder or all the joint-holders, as the case may be, shall become entitled to the Equity Shares/Warrants. Person(s), being a nominee, becoming entitled to the Equity Shares/ Warrants by reason of the death of the original Equity Shares/Warrant holder(s), shall be entitled to the same rights to which he would

be entitled if he were the registered holder of the Equity Shares/ Warrants. Where the nominee is a minor, the Equity Share/ Warrant holder(s) may also make a nomination to appoint, in the prescribed manner, any person to become entitled to the Equity Share/ Warrant(s), in the event of death of the said holder, during the minority of the nominee. A nomination shall stand rescinded upon the sale of the Equity Share/ Warrant by the person nominating. A buyer will be entitled to make a fresh nomination in the manner prescribed. When the Equity Share/Warrant is held by two or more persons, the nominee shall become entitled to receive the amount only on the demise of all the holders. Fresh nominations can be made only in the prescribed form available on request at the Registered Office of the Company located at Mundhwa, Pune Cantonment, Pune 411 036, Maharashtra, India or such other person at such addresses as may be notified by the Company. The applicant can make the nomination by filling in the relevant portion in the CAF.

Only one nomination would be applicable for one folio. Hence, in case the Shareholder(s) has already registered the nomination with the Company, no further nomination need to be made for Equity Shares to be allotted in this Issue under the same folio.

In case the allotment of Equity Shares is in dematerialised form, there is no need to make a separate nomination for the Equity Shares to be allotted in this Issue. Nominations registered with respective Depository Participant of the applicant would prevail. If the applicant requires to change the nomination, they are requested to inform their respective Depository Participant.

NOTICES

All notices to the Equity Share/ Warrant holder(s) required to be given by Bharat Forge Limited shall be published in one English national daily with wide circulation, one Hindi national daily with wide circulation and one regional language daily newspaper in Pune with wide circulation and/or, will be sent by ordinary post/ to the registered holders of the Equity Share/ Warrant from time to time.

ISSUE OF DUPLICATE EQUITY SHARE CERTIFICATE/ WARRANT CERTIFICATE

If any Equity Share Certificate(s)/Warrant Certificate(s) is/are mutilated or defaced or the pages for recording transfers of Equity Share/Warrants are fully utilized, the same may be replaced by the Company against the surrender of such Certificate(s). Provided, where the Equity Share Certificate(s)/ Warrant Certificate(s) are mutilated or defaced, the same will be replaced as aforesaid only if the Certificate numbers and the Distinctive numbers are legible.

If any Equity Share Certificate(s)/Warrant Certificate(s) is destroyed, stolen or lost, then upon production of proof thereof to the satisfaction of the Company and upon furnishing such indemnity/ surety and/or documents as the Company may deem adequate, duplicate Equity Share Certificate(s)/Warrant Certificate(s) shall be issued.

PROCEDURE FOR APPLICATION

The CAF would be printed in green ink for all shareholders, with a additional separate advise for Non-resident shareholders. In case the original CAF is not received by the applicant or is misplaced by the applicant, the applicant may request the Registrars to the Issue, Intime Spectrum, for issue of a duplicate CAF, by furnishing the registered folio number, DP ID Number, Client ID Number and their full name and address.

Non-resident shareholders can obtain a copy of the CAF from the Registrars to the Issue, Intime Spectrum from their office located at C-13, Pannalal Silk Mills Compound, Bhandup (West), Mumbai – 400 078, India by furnishing the registered folio number, DP ID number, Client ID number and their full name and address.

ACCEPTANCE OF OFFER

You may accept and apply for the Equity Shares hereby offered to you wholly, or in part, by filling in Part “A” of the enclosed CAFs and submitting the same along with payment of the application money to any of the bankers to the Issue and their collection branches specified on the reverse of the CAF on or before the close of banking hours on September 10, 2004.

OPTIONS AVAILABLE TO THE EQUITY SHAREHOLDER

The Composite Application Form clearly indicates the number of Equity Shares that the Equity Shareholder is entitled to.

If the Equity Shareholder applies for an investment in Equity Shares, then he can:

- Apply for his entitlement in part
- Apply for his entitlement in part and renounce the other part
- Apply for his entitlement in full
- Apply for his entitlement in full and apply for additional Equity Shares

ADDITIONAL EQUITY SHARES

You are eligible to apply for additional Equity Shares over and above the number of Equity Shares you are entitled to, provided you apply for all the Equity Shares, to which you are entitled, without renouncing them, in whole or in part, in favour of any other person(s). If you desire to apply for additional Equity Shares, please indicate your requirement in Box [IV] of Part ‘A’ of the CAF. Applications for additional Equity Shares shall be considered and allotment shall be made in the manner prescribed under the section “Basis of Allotment” on page 30 of the Letter of Offer. The renouncees applying for all the Equity Shares renounced in their favour may also apply for additional Equity Shares.

In case of change of status of a holder, i.e., from a Resident Indian to Non-Resident Indian, a new Demat account shall be opened for the purpose.

Where the number of additional Equity Shares applied for exceeds the number available for allotment, the allotment would be made on a fair and equitable basis in consultation with the Designated Stock Exchange.

RENUNCIATION

This Issue includes a right exercisable by you to renounce the

Equity Shares offered to you either in full or in part in favour of any other person or persons. Such renouncees can only be Indian Nationals/Limited Companies incorporated under and governed by the Act, statutory corporations/institutions, trusts (unless registered under the Indian Trust Act), minors (through their legal guardians), societies (unless registered under the Societies Registration Act, 1860 or any other applicable laws) provided that such trust/society is authorised under its constitution/bye laws to hold equity shares in a company and cannot be a partnership firm, more than three persons including joint-holders, HUF, foreign nationals (unless approved by RBI or other relevant authorities) or to any person situated or having jurisdiction where the offering in terms of this Letter of Offer could be illegal or require compliance with securities laws of such jurisdiction or any other persons not approved by the Board.

Any renunciation from Resident Indian Shareholder(s) to Non-Resident Indian(s) or from Non-Resident Indian Shareholder(s) to other Non-Resident Indian(s) or from Non-Resident Indian Shareholder(s) to Resident Indian(s) is subject to the renouncer(s)/ renouncee(s) obtaining the approval of the FIPB and/ or necessary permission of the RBI under the Foreign Exchange Management Act, 1999 (FEMA) and other applicable laws and such permissions should be attached to the CAF. Applications not accompanied by the aforesaid approval are liable to be rejected.

By virtue of the Circular No. 14 dated September 16, 2003 issued by the RBI, Overseas Corporate Bodies (“OCBs”) have been derecognized as an eligible class of investors and the RBI has subsequently issued the Foreign Exchange Management [Withdrawal of General Permission to Overseas Corporate Bodies (OCBs)] Regulations, 2003. Accordingly, the existing Equity Shareholders of the Company who do not wish to subscribe to the Equity Shares being offered but wish to renounce the same in favour of renouncees shall not renounce the same (whether for consideration or otherwise) in favour of OCB(s).

The Board reserves the right to reject the request for allotment to renouncees in its sole and absolute discretion without assigning any reasons thereof.

Part A of the CAF must not be used by any person(s) other than those in whose favour this offer has been made. If used, this will render the application invalid. Submission of the enclosed CAF to the Banker to the Issue at its collecting branches specified on the reverse of the CAF with the form of renunciation (Part B of the CAF) duly filled in shall be conclusive evidence for the Company of the person(s) applying for Equity Shares in Part C to receive allotment of such Equity Shares. The renouncees applying for all the Equity Shares renounced in their favour may also apply for additional Equity Shares. Part ‘A’ must not be used by the renouncee(s) as this will render the application invalid. Renouncee(s) will also have no further right to renounce any shares in favour of any other person.

PROCEDURE FOR RENUNCIATION

(a) To renounce the whole offer in favour of one renouncee:

If you wish to renounce this offer in whole, please complete Part B of the CAF. In case of joint-holders, all joint-holders

must sign this part of the CAF. The person in whose favour renunciation has been made should complete and sign Part C of the CAF. In case of joint renouncees, all joint renouncees must sign this part of the CAF.

(b) To renounce in part/or to renounce the whole to more than one renouncee:

If you wish to either accept this offer in part and renounce the balance or renounce the entire offer in favour of two or more renouncees, the CAF must be first split by applying to the Registrars to the Issue. Please indicate your requirement for Split Forms in the space provided for this purpose in Part D of the CAF and return the entire CAF to the Registrars to the Issue so as to reach them latest by the close of business hours on August 26, 2004. On receipt of the required number of split forms from the Registrars, the procedure as mentioned in para (a) above shall have to be followed. In case the signature of the Equity Shareholder(s), who has renounced the Equity Shares, does not match with the specimen signature as per the records with the Company, the application is liable to be rejected.

(c) Change and/or introduction of additional holders:

If you wish to apply for Equity Shares jointly with any other person, or persons, not more than three, who is/are not already joint-holders with you, it shall amount to renunciation

and the procedure as stated above shall have to be followed. Even a change in the sequence of the joint-holders shall amount to renunciation and the procedure, as stated above shall have to be followed.

(d) Renouncee(s):

The person in whose favour the equity shares are renounced should fill in and sign Part C and submit the entire CAF to the Bankers or to the collection centres to the Issue on or before the closing date of the Issue along with the application money.

However, any right of renunciation is subject to the express condition that the Board of Directors of the Company shall be entitled in its absolute discretion to reject the request for allotment from the renounces without assigning any reasons thereof.

SPLITTING OF COMPOSITE APPLICATION FORMS

Only the person to whom this Letter of Offer has been addressed to and not the renouncee(s) shall be entitled to renounce and to apply for split application forms. Request for split forms should be sent to the Registrars to the Issue, namely Intime Spectrum before the closure of business hours on or before August 26, 2004 by filling in Part D of the CAF along with entire CAF. Split Forms cannot be re-split. The renouncee(s) shall not be entitled to split form(s). Split forms shall be sent to the applicant by post at the applicant's risk.

HOW TO APPLY FOR EQUITY SHARES

You may exercise any of the following options with regard to the Equity Shares offered to you, using the enclosed CAF.

OPTION	OPTIONS	ACTION REQUIRED
A	Accept your entitlement to all the Equity Shares offered to you	Fill and sign 'Part A' of the CAF (All joint holders must sign)
B	Accept your entitlement to all the Equity Shares offered to you and apply for additional Shares	Fill and sign 'Part A' of the CAF after indicating in Block IV the number of additional Equity Shares applied for
C	Accept only a part of your entitlement of the Equity Shares offered to you (without renouncing the balance)	Fill and sign 'Part A' of the CAF
D	Renounce all the Equity Shares offered to you to one person (Renouncee) (Joint Renouncees not exceeding three are considered as one Renouncee)	Fill and sign 'Part B' of the CAF indicating the number of Equity Shares renounced and hand over the entire CAF to the renouncee. The renouncee must fill and sign 'Part C' of the CAF

OPTION	OPTIONS	ACTION REQUIRED
E	Accept a part of the Equity Shares offered to you and then renounce the balance to one Renouncee.	Fill and sign 'Part D' of the CAF for Split Forms after indicating the required number of Split Application Forms and send the entire CAF to the Registrars to the Issue so as to reach them on or before the last date for receiving requests for Split Forms indicated in the CAF. On receipt of the Split Forms take action as indicated below: i) For the Equity Shares, if any, which you want to accept, fill in and sign 'Part A' of one Split Composite Application Form. ii) For the Equity Shares you want to renounce, fill in and sign 'Part B' in the required number of Split Composite Application Forms indicating the number of Equity Shares renounced to each renouncee. iii) Each of the renouncee should then fill in and sign 'Part C' of the respective Split Composite Application Form for the Equity Shares accepted by the renouncee.
F	Accept a part of the Equity Shares offered to you and renounce the balance to more than one renouncee.	Follow the procedures stated in (E) above for obtaining the required number of Split Composite Application Forms and on receipt of Split Composite Application Forms follow the procedure as stated in (E) (ii) and (iii) above.
G	Introduce a joint-holder or change the sequence of joint holders.	This will be treated as a renunciation. Fill in and sign Part B and the renouncees must fill in and sign Part C.

Applications for Equity Share should be made only on the CAF, which are provided by the Company. The CAF should be completed in all respects as explained under the head "INSTRUCTIONS" indicated on the reverse of the CAF before submission to the Banker to the Issue at its collecting branches mentioned on the reverse of the CAF on or before the closure of the subscription list. Non Resident Shareholders/Renouncee should forward their applications to Banker to the Issue as mentioned in the CAF for Non-Resident Equity Share-holders. No part of the CAF should be detached under any circumstances.

Applicants must provide information in the CAF as to their savings / current / NRE / NRO / FCNR bank account and the name of the bank with whom such account is held to enable the Registrar to print the said details in the refund orders after the name of the payees.

For applicants residing at places other than designated Bank Collecting branches.

Applicants residing at places other than the cities where the Bank collection centres have been opened should send their completed CAF by registered post/speed post to the Registrars to the Issue, Intime Spectrum alongwith bank drafts payable at Mumbai in favour of "BFL - Rights Issue" crossed "A/c Payee only" so that the same are received on or before closure of the Issue (i.e. September 10, 2004).

The Company will not be liable for any postal delays and applications received through mail after the closure of the Issue, are liable to be rejected and returned to the applicants. Applications

by mail should not be sent in any other manner except as mentioned below.

All application forms duly completed together with cash/cheque/demand draft for the application money must be submitted before the close of the Subscription List to the Bankers to the Issue named herein or to any of its branches mentioned on the reverse of the CAF. The CAF alongwith application money must not be sent to the Company or the Lead Managers to the Issue or the Registrars to the Issue except as mentioned above.

The applicants are requested to strictly adhere to these instructions. Failure to do so could result in the application being liable to be rejected with the Company, the Lead Managers and the Registrars not having any liabilities to such applicants.

Availability of Duplicate CAF

In case the original CAF is not received by the applicant or is misplaced by the applicant, the applicant may request the Registrars to the Issue, Intime Spectrum, for issue of a duplicate CAF, by furnishing the registered folio number, DP ID number, Client ID number and their full name and address.

Please note that those who are making application in the duplicate form should not utilise the original CAF for any other purpose including renunciation, even if it is received / found subsequently. Thus in case the original and duplicate CAFs are lodged for subscription, allotment will be made on the basis of the duplicate

CAF and the original CAF will be ignored.

APPLICATION ON PLAIN PAPER

Shareholder who has neither received the original CAF(s) nor is in a position to obtain the duplicate CAF(s) may make an application to subscribe to the Rights Issue on plain paper, along with an Account Payee Cheque /demand draft payable at Mumbai to be drawn in favour of "BFL - Rights Issue" in case of resident shareholders and non-resident shareholders applying on non-repatriable basis and in favour of "BFL - Rights Issue - NR" in case of non-resident shareholders applying on repatriable basis and marked "A/c Payee Only" and send the same by Registered Post/Speed Post directly to the Registrars to the Issue, Intime Spectrum, so as to reach them on or before the closure of the Issue. The envelope should be super scribed "BFL- Rights".

The application on plain paper, duly signed by the applicants including joint-holders, in the same order as per specimen recorded with the Company should contain the following particulars:

1. Name of Issuer
2. Name of the shareholder including joint-holders
3. Address of sole / first holder
4. Folio No./DP ID Number and Client ID Number
5. Number of shares held as on July 27, 2004 (date of the Book Closure)
6. Certificate numbers and Distinctive numbers, if held in physical form
7. Number of Equity Shares to which entitled
8. Number of Equity Shares applied for, out of entitlement
9. Number of additional Equity Shares applied for, if any
10. Total number of Equity Shares applied for
11. Amount payable on application
12. Particulars of Cheque / Draft enclosed
13. Savings/Current Account Number and Name and Address of the Bank where the Equity Shareholder will be depositing the refund order.
14. PAN/GIR number and Income tax Circle/Ward/District of the sole/all the joint applicants where the application is for shares of a value of Rs.50,000/- or more
15. In case of Non-Resident shareholders, NRE/FCNR/NRO Account No., name and address of the bank and branch
16. Signature of shareholders in the same order as appearing in our records.

Please note that those who are making the application on plain paper shall not be entitled to renounce their rights and should not utilise the CAF for any purpose including renunciation even if it is received subsequently. If the applicant violates any of these requirements, he/she shall face the risk of rejection of both the applications. The Company shall refund such application amount to the applicant without any interest thereon.

MODE OF PAYMENT

For Resident Indian Shareholders and Non-Resident Shareholders on Non-Repatriation basis

Payment should be made in cash (not more than Rs.20,000) or by cheque/bank draft/ drawn on any bank (including a co-operative bank) which is situated at and is a member or a sub-member of the bankers clearing house located at the centre where the CAF is submitted and which is participating in the clearing at the time of submission of the application. Outstation cheques/money orders/ postal orders will not be accepted and CAFs accompanied by such cheques/money orders/postal orders are liable to be rejected.

For NRIs holding shares on non-repatriation basis, payment may also be made by way of cheque drawn on Non-Resident Ordinary (NRO) Account maintained in Mumbai or Rupee Draft purchased out of NRO Account maintained elsewhere in India but payable at Mumbai. In such cases, the allotment of shares will be on non-repatriation basis. If the payment is made by a draft purchased from an NRO account, an Account Debit Certificate from the bank issuing the draft, confirming that the draft has been issued by debiting the NRO account, should be enclosed with the CAF. In the absence of the above, the application shall be considered incomplete and is liable to be rejected.

All cheques/bank drafts accompanying the CAFs should be crossed "A/c Payee Only" and made payable to "BFL – Rights Issue". The CAF duly completed together with the amount payable on application must be deposited with the collecting bank/collection centres indicated on the reverse of the CAF, on or before the close of banking hours on or before the Issue closing date. A separate cheque or bank draft must accompany each CAF. Reference number of CAF should be mentioned on the reverse of the Cheque/Draft.

General permission has been granted to any person resident outside India to purchase shares offered on rights basis by an Indian company in terms of regulation 6 of notification No. FEMA 20/200-RB dated May 03, 2000. The RBI has vide its letter ref. CO/FID/864/10.1.02.01.06/2003-2004 dated May 12, 2004 given permission for issue of equity shares with detachable warrants to non-residents shareholders within sectoral cap prescribed under FEMA 1999.

New Demat account shall be opened for holders who have had a change of status from Resident Indian to NRI.

For Non-Resident Shareholders on repatriation basis

Payment by NRIs/FIIs/Foreign Investors must be made by demand draft/cheque payable at Mumbai or funds remitted from abroad in any of the following ways:

- a) By Indian Rupee drafts purchased from abroad and payable at Mumbai or funds remitted from abroad; OR
- b) By cheque/draft on a Non-Resident External (NRE) Account or FCNR Account maintained in Mumbai; OR
- c) Rupee draft purchased by debit to NRE/FCNR Account maintained elsewhere in India and payable in Mumbai; OR
- d) FIIs registered with SEBI must remit funds from special non-resident rupee deposit accounts.

All cheque/drafts submitted by NRIs/ FIIs/Foreign Shareholders should be drawn in favour of **“BFL – Rights Issue NR”**. The CAF for non-residents applying on repatriation basis duly completed together with the amount payable on application must be delivered to the Registrars to the Issue on or before the close of banking hours on or before the Issue closing date.

A separate cheque or bank draft must accompany each application form. Applicants may note that where payment is made by drafts purchased from NRE/FCNR accounts as the case may be, an Account Debit Certificate from the bank issuing the draft confirming that the draft has been issued by debiting the NRE/FCNR account should be enclosed with the CAF. In the absence of the above the application shall be considered incomplete and is liable to be rejected. In case where repatriation benefit is available, dividend and sales proceeds derived from the investment in shares can be remitted outside India, subject to tax, as applicable according to the Income-tax Act, 1961 and subject to the permission of the RBI, if required.

In the case of NR who remit their application money from funds held in FCNR/NRE Accounts, refunds and other disbursements, if any shall be credited to such account details of which should be furnished in the appropriate columns in the CAF. In the case of NRIs who remit their application money through Indian Rupee Drafts from abroad, refunds and other disbursements, if any will be made in US Dollars at the rate of exchange prevailing at such time subject to the permission of RBI. The Company will not be liable for any loss on account of exchange rate fluctuation for converting the Rupee amount into US Dollars or for collection charges charged by the applicant's Bankers.

The Company has received letter from the RBI, No.CO/FID/864/10.1.02.01.06/2003-2004 dated May 12, 2004. granting approval for issuing right Equity Shares to existing Non-resident of Indian nationality/origin/FIIs/NR shareholders, with repatriation benefits, within sectoral cap prescribed under FEMA 1999.

Applications received from NRs, NRIs, persons of Indian origin resident abroad, for Allotment of Equity Shares shall be *inter-alia*, subject to the conditions imposed from time to time by the RBI under the Foreign Exchange Management Act, 1999 (FEMA) in the matter of refund of application monies, Allotment of Equity Shares, Issue of Letter of Allotment / Share Certificates, Warrant Certificate, Dividends, etc. Save as stated elsewhere in this Letter of Offer, general permission has been granted to non resident shareholders of an Indian company to purchase shares offered on rights basis and additional shares offered thereto, subject to the condition that the shares offered do not exceed the sectoral caps.

The Board of Directors may at their absolute discretion, agree to such terms and conditions as may be stipulated by RBI while approving the allotment of Equity Shares, payment of dividend etc. to the NR Shareholders.

Payment by Stockinvest

In terms of RBI Circular DBOD No. FSC BC 42/24.47.00/2003-04 dated November 5, 2003, the Stockinvest Scheme has been withdrawn with immediate effect. Hence, payment through Stockinvest would not be accepted in this Issue.

GROUND FOR TECHNICAL REJECTIONS

Applicants are advised to note that applications are liable to be rejected on technical grounds, including the following:

1. Amount paid does not tally with the amount payable for;
2. Bank account details (for refund) are not given;
3. Age of First Applicant not given;
4. PAN or GIR Number not given if Application is for Rs. 50,000 or more;
5. In case of Application under power of attorney or by limited companies, corporate, trust, etc., relevant documents are not submitted;
6. If the signature of the existing shareholder does not match with the one given on the Composite Application Form and for renounees if the signature does not match with the records available with their depositories;
7. If the applicant desires to have shares in electronic form, but the Composite Application Form does not have the Applicant's depository account details;
8. Composite Application Forms are not submitted by the Applicants within the time prescribed as per the Composite Application Form and the Letter of Offer;
9. Applications not duly signed by the sole/joint Applicants;
10. Applications by OCBs;
11. Applications accompanied by Stockinvest;
12. In case no corresponding record is available with the Depositories that matches three parameters, namely, names of the Applicants (including the order of names of joint holders), the Depository Participant's identity (DP ID) and the beneficiary's identity;
13. Applications by US persons;
14. Applications by ineligible Non-residents (including on account of restriction or prohibition under applicable local laws).

GENERAL

1. Please read the instructions printed on the enclosed CAF carefully.
2. Application should be made on the printed CAF, provided by the Company except as mentioned under the head, Application on plain paper in the Letter of Offer and should be complete in all respects.
3. A CAF found incomplete with regard to any of the particulars required to be given therein, and/or which is not completed in conformity with the terms of this Letter of Offer is liable to be rejected and the money paid, if any, in respect thereof will be refunded without interest and after deduction of bank commission and other charges, if any.
4. The CAF must be filled in English and the names of all the applicants, details of occupation, address, father's/husband's name must be filled in block letters.
5. Signatures should be either in English or Hindi or the languages specified in the Eighth Schedule to the Constitution of India. Signatures other than in the aforesaid languages or thumb

impression must be attested by a Notary Public or a Special Executive Magistrate under his/her official seal.

6. The CAF together with cheque/demand draft should be sent to the Bankers to the Issue/ Collecting Bank or to the Registrars and not to the Company or Lead Managers to the Issue. Applicants residing at places other than cities where the branches of the Bankers to the Issue have been authorized by the Company for collecting applications will have to make payment by demand draft payable at Mumbai and send their application forms to the Registrars to the Issue by REGISTERED POST/SPEED POST. If any portion of the CAF is/are detached or separated, such application is liable to be rejected.
7. In case of an application under Power of Attorney or by a body corporate or by a society, a certified true copy of the relevant Power of Attorney or relevant resolution or authority to make investment and sign the application along with the copy of the memorandum and articles of association and/or bye laws must be lodged with the Registrars to the Issue giving reference of the serial number of the CAF. In case the above referred documents are already registered with the Company, the same need not be furnished again. However, the serial number of registration or reference of the letter, vide which these papers were lodged with the Company/ Registrars must be mentioned just below the signature(s) on the application. **In no case should these papers be attached to the application submitted to the Bankers to the Issue.**
8. The shareholders must sign the CAF as per the specimen signature recorded with the Company. In case of joint-holders, all joint-holders must sign the relevant part of the CAF in the same order and as per the specimen signature(s) recorded with the Company. Further, in case of joint applicants who are renouncees, the number of applicants should not exceed three.
9. In case of joint applicants, reference, if any, will be made in the first applicants' name and all communication will be addressed to the first applicant at the address given in the CAF.
10. Application(s) received from Non-Residents/NRIs or persons of Indian origin residing abroad for allotment of Equity Shares shall, *inter alia*, be subject to conditions, as may be imposed from time to time by the RBI under FEMA in the matter of refund of application money, allotment of Equity Shares, subsequent issue and allotment of Equity Shares, dividend, interest, export of Equity Share certificates, etc. In case a Non-resident or NRI shareholder has specific approval from the RBI, in connection with his shareholding, he should enclose a copy of such approval with the CAF.
11. **Bank Account Details: It is mandatory for the applicant to mention the applicant's savings bank/current account number and the name of the bank with whom such account is held in the space provided in the CAF, to enable the Registrars to the Issue, to print the said details in the refund orders after the name of the payees. Such**

applications not containing the above details are liable to be rejected.

12. PAN/GIR Number: Where an application for allotment of shares individually is for a total value of Rs. 50,000/- or more i.e. the total number of shares applied for multiplied by the issue price is Rs. 50,000/- or more, the applicant or in case of applications in joint names, each of the applicants, should mention the applicant's Permanent Account Number (PAN) allotted under the Income-tax Act, 1961 or where the same has not been allotted, the GIR number under the Income tax Circle/Ward/District. In case where neither the PAN nor the GIR number has been allotted, the fact of non-allotment should be mentioned in the CAF. CAF without this information will be considered incomplete and will be liable to be rejected.
13. Payment by cash: The payment against the share application should not be effected in cash if the amount to be paid is Rs. 20,000/- or more. In case payment is effected in contravention of this, the application will be deemed invalid and the application money will be refunded and no interest will be paid thereon.
14. All communication in connection with application for the shares, including any change in address of the shareholders should be addressed to the Registrars to the Issue quoting the name of the first/sole applicant shareholder, folio number and CAF number.
15. Split Forms cannot be re-split.
16. Only the person or persons to whom shares have been offered and not renouncee(s) shall be entitled to obtain Split Forms.
17. As per section 109A of the Act, the sole applicant / joint applicants may nominate, in the prescribed manner, a person to whom his share in the Company shall vest in the event of his death.

Only one nomination would be applicable for one folio. Hence, in case the Shareholder(s) have already registered the nomination with the Company, no further nomination need to be made for Equity Shares to be allotted in this Issue under the same folio.

In case the allotment of Equity Shares is in a dematerialised form, there is no need to make a separate nomination for the Equity Shares to be allotted in this Issue. Nominations registered with respective depository participant of the Applicant would prevail. If the Applicant requires to change the nomination, they are requested to inform their respective depository participant.

18. Applicants must write their CAF number at the back of the cheque/demand draft.
19. Only one mode of payment per application should be used. The payment must be either in cheque/demand draft drawn on any of the banks, including a co-operative bank, which is situated at and is a member or a sub-member of the Bankers Clearing House located at the centre indicated on the reverse of the CAF where the application is to be submitted.

20. A separate cheque/draft must accompany each CAF. Outstation cheques/demand drafts or post dated cheques and postal/money orders will not be accepted and applications accompanied by such cheques/ demand drafts/ money orders or postal orders will be rejected. The Registrars will not accept payment against application if made in cash. (For payment against application in cash please refer point 13 above).

OPTION TO RECEIVE THE RIGHT EQUITY SHARES IN DEMATERIALISED FORM

The Equity Shares of BFL have been under compulsorily dematerialised trading for all investors, by SEBI, with effect from November 19, 1999. Hence, the equity shareholders who wish to trade on the stock exchanges are advised to opt for receiving these Equity Shares in dematerialised form.

BFL has depository arrangements with NSDL and CDSL for issue and holding of the equity shares in dematerialised form. In this context:

- (i) Bipartite agreements have been signed dated January 01, 2004 between the Company and CDSL and dated May 05, 2004 between BFL and NSDL, whereby direct connectivity has been established for the in-house Secretarial Department. Securities of the Company are transferred in-house by the Secretarial Department of the Company. The Company has applied to NSDL and CDSL for approval to admit the Detachable Warrants and resultant Equity Shares offered in terms of this Letter of Offer into their depository systems for trading and completion of other formalities. Further the Registrars to the Issue, Intime Spectrum shall be responsible to take requisite steps for completion of the Corporate Action laid down by the depositories and uploading of the allotment files with the depositories.
- (ii) Applicants opting to receive allotment in Demated form must have at least one beneficiary account with any of the Depository Participants (DPs) of NSDL or CDSL prior to making the application.
- (iii) For those Equity Shareholders who do not hold a Beneficiary Account(s) may open a Beneficiary Account with any DP (care should be taken that the Beneficiary Account should carry the name of the holder in the same manner as is exhibited in the records of the Company. In case of joint holding, the Beneficiary Account should be opened carrying the names of the holders in the same order as with the Company). In case of investors having various folios in the Company with different joint-holders, the investors will have to open separate accounts for such holdings.
- (iv) For Equity Shareholders already holding equity shares of the Company in dematerialized form as on the date of the Book Closure, the beneficial account number shall be printed on the CAF. For those who open accounts later or those who change their accounts and wish to receive their rights Equity Shares by way of credit to such account, the necessary details of their beneficiary account should be filled in space provided in the CAF. It may be noted that the allotment of securities arising out of this issue may be made in dematerialized form

even if the original equity shares of the Company are not dematerialized.

- (v) Applicants must necessarily fill in the details (including the beneficiary account number or client ID number) appearing in the CAF under the heading 'Request for Shares in Electronic Form'.
- (vi) Equity Share/Warrants allotted to an applicant in the electronic account form will be credited directly to the applicant's respective beneficiary account(s) with DP.
- (vii) Applicants should ensure that the names of the applicants and the order in which they appear in the CAF should be the same as registered with the Applicant's Depository Participant.
- (viii) Non-transferable allotment advice/refund orders will be directly sent to the applicant by the Registrars to this Issue.
- (ix) If incomplete/incorrect details are given under the heading 'Request for Shares in Electronic Form' in the CAF, the application will be deemed to be invalid.
- (x) The applicant is responsible for the correctness of their beneficiary account details given in the CAF vis-à-vis those with their DP. In case the information is incorrect or insufficient, the Issuer would not be liable for losses, if any.
- (xi) Renouncees can also exercise the option to receive Equity Shares in the demat form by indicating in the relevant block and providing the necessary details about their beneficiary account.
- (xii) It may be noted that Equity Share arising out of this Issue can be received in demat form even if the existing Equity Shares are held in physical form. Nonetheless, it should be ensured that the DP Account is in the name of the applicant(s) in the same order as per specimen signatures appearing in the records of the DP/Company.
- (xiii) It may be noted that shares in electronic form can be traded only on the Stock Exchanges having electronic connectivity with NSDL or CDSL.
- (xiv) Dividend or other benefits with respect to the shares held in dematerialised form would be paid to those equity shareholders whose names appear in the list of beneficial owners given by the DP to BFL as on the date of the Book Closure.

INVESTORS MAY PLEASE NOTE THAT THE EQUITY SHARES OF THE COMPANY CAN BE TRADED ON THE STOCK EXCHANGES ONLY IN DEMATERIALIZED FORM.

LAST DATE FOR SUBMISSION OF COMPOSITE APPLICATION FORM

The last date for receipt of the CAF, by the Banker to the Issue at its Collecting Branches, together with the amount payable, is on or before the close of banking hours, on September 10, 2004. If the CAF together with the amount payable is not received by the banker to the Issue at its Collection Branches on or before the close of banking hours on or before September 10, 2004, the offer contained in this Letter of Offer shall be deemed to have been declined, and the Board shall utilise this entitlement for allotting

the Equity Shares as mentioned below under the heading “Basis of Allotment” on page 30 of this Letter of Offer.

BASIS OF ALLOTMENT

The basis of allotment shall be finalised by the Board in consultation with BSE, which is the Designated Stock Exchange. The Board will proceed to allot the Equity Share in the following order of priority:

1. Full allotment to the Equity Shareholders who have applied for their Rights Entitlement either in full or in part and also to the renouncees who have applied in full or in part for the Equity Share renounced in their favour.
2. Allotment to the shareholders who are eligible for fractional entitlement and whose fractional entitlement shall be rounded up to the next higher integer. The additional shares required to accommodate such rounding off will be first adjusted out of the unsubscribed portion and then from the rights entitlement of promoter group.
3. To the Equity Shareholders who having applied for their full Rights Entitlement of Equity Share, have applied for additional Equity Shares, provided there is surplus after making full allotment under 1 and 2 above. The allotment of such additional Equity Shares shall be made as far as possible on equitable basis with reference to number of Equity Shares held on July 27, 2004 (date of the Book Closure), within the overall size of Rights Issue at the sole and absolute discretion of the Board of Directors or Committee thereof in consultation with BSE.
4. Allotment to renouncees who having applied for all the Equity Share renounced in their favour have applied for additional Equity Shares, provided there is a surplus remaining after 1, 2 and 3 above.
5. Equity Shares remaining unsubscribed after making full allotments under 1, 2, 3 and 4 above, shall be disposed of by the Board in manner as it in its sole discretion deems fit and the decision of the Board in this regard shall be final and binding.

After taking into account the full allotment under (1), (2) (3) and (4) above, if there is any unsubscribed portion, the Rights Issue, shall be deemed to be “unsubscribed” for the purpose of regulation 3(1)(b) of the Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeover) Regulations, 1997. The undersubscribed portion shall be applied for only after the close of the issue. The promoters or any other person shall subscribe to such undersubscribed portion as per the relevant provisions of the law. If any person presently in control of the Company desires to subscribe to such undersubscribed portion and if disclosure is made pursuant to SEBI (Substantial Acquisition of Shares and Takeover) Regulations, 1997, such allotment of the undersubscribed portion will be governed by the provisions of the SEBI (Substantial Acquisition of Shares and Takeover) Regulations, 1997 and Clause 40A of the Listing Agreement. In any event of undersubscription, the allotment shall be made in terms of (5) above.

The Company expects to complete the allotment of Equity Share within a period of 42 days from the date of closure of the Issue in accordance with the listing agreement with the Stock Exchange,

Mumbai, Pune Stock Exchange and National Stock Exchange.

The Company shall retain no oversubscription.

DISPOSAL OF APPLICATION AND APPLICATION MONEY

The Board reserves the right to reject applications in case the application concerned is not made in terms of this Letter of Offer. In case an application is rejected in full the whole of the application money received will be refunded to the first named applicant and where an application is rejected in part, the excess application money will be refunded to the first named applicant within 6 weeks from the date of closure of the subscription list in accordance with Section 73 of the Act. If there is delay of refund of application money by more than 8 days after the Company becomes liable to pay (i.e. forty-two days after the closure of Issue), the Company will pay interest for the delayed period at the rate prescribed under sub-section (2) and (2A) of Section 73 of the Act.

The subscription monies received in respect of this Issue will be kept in a separate bank account and the Company will not have access to nor appropriate the funds until it has satisfied the Stock Exchange with suitable documentary evidence that minimum subscription of 90% of the application money for the Issue has been received.

No acknowledgment will be issued for the application monies received by the Company. However, the Bankers to the Issue at its collection branches / Registrars to the Issue receiving the CAF as applicable as per the terms of this Letter of Offer, will acknowledge its receipt by stamping and returning the acknowledgment slip at the bottom of each CAF. Except for the reasons stated under “**GROUND FOR TECHNICAL REJECTIONS**” on page 27 of this Letter of Offer and subject to valid application, acknowledgement of receipt of application money given by the collection agent shall be valid and binding on issuer and other persons connected with the Issue.

ALLOTMENT / REFUND

Equity Share certificates / Letters of Allotment or Letter(s) of Regret together with refund orders exceeding Rs 1,500/-, if any, will be dispatched by registered post/speed post at the sole/first named applicant's address within 42 days from the date of the closing of the subscription list. Refund orders upto Rs 1,500/- will be dispatched under the Certificate of Posting. Adequate funds will be made available to the Registrars for the purpose.

The Company shall ensure that at par facility is provided for encashment of refund orders/pay orders at the places where applications are accepted.

In case of those shareholders who have opted to receive their Right Entitlement Shares in dematerialised form by using electronic credit under the depository system, an advice regarding the credit of the Equity Shares shall be given separately.

If such money is not repaid within 8 days from the day the Company becomes liable to pay it, the Company shall pay that money with interest as stipulated under Section 73 of the Act.

Refunds will be made by cheques or pay orders drawn on the bank(s) appointed by the Company as refund bankers. Such instruments will be payable at par at the places where applications

are accepted. Bank charges, if any, for encashing such cheques or pay orders will be borne by the applicants.

Allotment of Equity Shares to non-residents and the issue of letters of allotment/share certificates to non-residents shall be subject to the approval received from RBI, as mentioned on page 27 of this Letter of Offer.

For Non-Resident Applicants, refunds, if any, will be made as under:

1. Where applications are accompanied by Indian Rupee Drafts purchased abroad and payable at Mumbai, India, refunds will be made in convertible foreign exchange equivalent to Indian Rupees to be refunded. Indian Rupees will be converted into foreign exchange at the rate of exchange, which is prevailing on the date of refund. The exchange rate risk on such refunds shall be borne by the concerned applicant and the Company shall not bear any part of the risk.
2. Where the applications made are accompanied by NRE/FCNR/NRO cheques, refunds will be credited to NRE/FCNR/NRO accounts respectively, on which such cheques are drawn and details of which are provided in the CAF.

Interest in Case of Delay in Despatch of Allotment Letters/ Refund Orders in Case of Public Issues

The Company agrees that as far as possible allotment of securities offered to the public shall be made within 30 days of the closure of public issue. The company further agrees that it shall pay interest @15% per annum if the allotment letters / refund orders have not been despatched to the applicants within 30 days from the date of the closure of the issue. However applications received after the closure of issue in fulfillment of underwriting obligations to meet the minimum subscription requirement, shall not be entitled for the said interest.

Letters of Allotment / Equity Share certificates

Letters of Allotment/ Equity Share certificates or Letters of Regret will be dispatched to the registered address of the first named applicant or respective beneficiary accounts will be credited within six weeks, from the date of closure of the subscription list. In case the Company issues Letters of Allotment, the relative Equity Share certificates will be dispatched within three months from the date of allotment. Allottees are requested to preserve such Letters of Allotment (if any) to be exchanged later for Equity Share certificates. Export of Letters of Allotment (if any)/ Equity Share certificates to non-resident allottees will be subject to the approval of RBI.

TAX BENEFITS

The Company has been advised by M/s Kunte & Vaidya, Chartered Accountants vide their certificate dated July 12, 2004 in connection with the proposed Rights Issue that under the current provisions of the Income-tax Act, 1961(IT Act) and other applicable tax laws, for the time being in force, the following tax benefits and deductions, will, *inter alia*, be available, subject to the fulfillment of the respective requirements of the relevant provisions. However, all shareholders are advised to consult their own tax advisors as to the tax implications on investment in their individual case.

STATEMENT OF TAX BENEFITS

We hereby report that the enclosed annexure states the possible tax benefits available to Bharat Forge Limited (the "Company") and its shareholders under the current direct tax laws as proposed to be amended by the Finance (No. 2) Bill, 2004. Several of these benefits are dependent on the Company or its shareholders fulfilling the conditions prescribed under the relevant tax laws. Hence, the ability of the Company or its shareholders to derive the tax benefits is dependent upon fulfilling such conditions, which based on business imperatives the Company faces in the future, the Company may or may not choose to fulfill. The benefits discussed below are not exhaustive.

This statement is only intended to provide general information to the investors and is neither designed nor intended to be a substitute for professional tax advice. In view of the individual nature of the tax consequences and the changing tax laws, each investor is advised to consult his or her own tax consultant with respect to the specific tax implications arising out of their participation in the issue.

We do not express any opinion or provide any assurance as to whether :

- the Company or its shareholders will continue to obtain these benefits in future; or
- the conditions prescribed for availing the benefits have been / would be met with.

The contents of this annexure are based on information, explanations and representations obtained from the Company and on the basis of our understanding of the business activities and operations of the Company and the interpretation of current tax laws as proposed to be amended by the Finance (No. 2) Bill, 2004.

FOR KUNTE & VAIDYA,

CHARTERED ACCOUNTANTS,

[SANJAY. S. VAIDYA]

PARTNER

M. NO. 31963

Place : Pune

Date : 12th July 2004

ANNEXURE TO THE STATEMENT OF TAX BENEFITS

A. TO THE COMPANY

Under the Income Tax Act, 1961

1. The Company is entitled to a deduction under section 35(1)(iv) r. w. s. 35(2) of the Income Tax Act, 1961, of the entire amount of the capital expenditure (other than land) incurred on scientific research related to the business carried on by the Company, in the year in which such expenditure is incurred.
2. The Company will be eligible to depreciation at 80% of cost of Windmill as per the provisions of Income Tax Act, 1961.
3. The Company is eligible under section 35D of the Income

Tax Act, 1961 to a deduction equal to one-fifth of certain specified expenditure, including specified expenditure incurred in connection with the issue for the extension of the industrial undertaking, for period of five successive years subject to the limits provided and the conditions specified under the said section.

- 4.1 In accordance with the provisions of Section 10(38) [as proposed to be inserted by the Finance (No. 2) Bill, 2004 w.e.f. Assessment Year 2005-06], the long-term capital gains arising on the transfer of securities in a transaction entered into in a recognized stock exchange in India on or after the date on which Chapter VII of the Finance (No. 2) Act, 2004 comes into force, shall be exempt from income tax.
- 4.2 The long-term capital gains accruing to the company otherwise than as mentioned in 4.1 above, shall be chargeable to tax in accordance with and subject to the provisions of Section 112 of the Income tax Act, 1961 as follows :
 - If long term capital gain is computed with indexation @20% (plus applicable surcharge and education cess)
 - In the case of certain listed shares, securities and units, in a transaction not entered into in a recognized stock exchange, if long term capital gain is computed without indexation @ 10% (plus applicable surcharge and education cess)
5. The short-term capital gains accruing to the company, from the transfer of a short-term capital asset, being securities, in a transaction entered into in a recognized stock exchange in India, on or after the date on which Chapter VII of the Finance (No. 2) Act, 2004 comes into force, shall be chargeable to tax at the rate of 10% [plus applicable surcharge and education cess] as per the provisions of Section 111A [proposed to be inserted by the Finance [No. 2] Bill, 2004 w.e.f. Assessment Year 2005- 06].
6. The Company is eligible to claim exemption in respect of tax on long term capital gains u/s. 54EC and 54ED if the amount of capital gains is invested in certain specified bonds / securities subject to the fulfillment of the conditions specified in those sections.
7. The Company is eligible to exemption under section 10(34) in respect of income by way of dividend received from other Domestic Companies.

B. TO THE RESIDENT MEMBERS OF THE COMPANY

Under the Income Tax Act, 1961

1. Members will be entitled to exemption, under section 10(34) of the Income Tax Act, 1961, in respect of the income by way of dividend received from the Company.
2. If the shares of the company are sold by its members, after being held for more than 12 months, in a transaction entered into in a recognized stock exchange in India on or after the date on which Chapter VII of the Finance (No. 2) Act, 2004 comes into force, the gain, if any, would be exempt from tax as per the provisions of Section 10(38) [proposed to be inserted by the Finance (No.2) Bill 2004 w.e.f. Assessment Year 2005-06].

3. If the shares of the company are sold by the members, after holding them for a period of less than 12 months, in a transaction entered into in a recognized stock exchange in India on or after the date on which Chapter VII of the Finance (No. 2) Act, 2004 comes into force, the gain, if any, shall be chargeable to tax @ 10% [plus applicable surcharge and education cess] as per the provisions of Section 111A [proposed to be inserted by the Finance (No. 2) Bill, 2004 w.e.f. Assessment Year 2005-06].
4. The long-term capital gains accruing to the members of the company from the transfer of the shares of the company, otherwise than as mentioned in point 2 above, shall be charged to tax after deducting the indexed cost of acquisition at 20% (plus applicable surcharge and education cess) or without the benefits of indexation at @ 10% (plus applicable surcharge and education cess) as per the provisions of Section 112 of the Income Tax Act, 1961.
5. Long Term Capital Gains on sale of shares of the Company by the members shall be exempt from income tax if such gains are invested in bonds / equity shares specified in Section 54EC or Section 54ED respectively subject to the fulfillment of the conditions specified in those sections. In the case of individual or HUF members, Long Term Capital Gains on sale of shares of the Company shall be exempt from Income tax u/s. 54F subject to the fulfillment of the conditions specified therein.

Under Wealth Tax Act, 1957

As shares or securities are not included in the definition of 'asset' u/s. 2(ea) of the Wealth Tax Act, 1957, total exemption from wealth tax will be available on investments in shares of the Company.

C. TO THE NON-RESIDENT INDIAN MEMBERS OF THE COMPANY

Under Income Tax Act, 1961

1. If the shares of the company are sold by its members, after being held for more than 12 months, in a transaction entered into in a recognized stock exchange in India on or after the date on which Chapter VII of the Finance (No. 2) Act, 2004 comes into force, the gain, if any, would be exempt from tax as per the provisions of Section 10(38) [proposed to be inserted by the Finance (No.2) Bill 2004 w.e.f. Assessment Year 2005-06].
2. If the shares of the company are sold by the members, after holding them for a period of less than 12 months, in a transaction entered into in a recognized stock exchange in India on or after the date on which Chapter VII of the Finance (No. 2) Act, 2004 comes into force, the gain, if any, shall be chargeable to tax @ 10% [plus applicable surcharge and education cess] as per the provisions of Section 111A [proposed to be inserted by the Finance (No. 2) Bill, 2004 w.e.f. Assessment Year 2005-06].
3. As per the provisions of Section 115D and Section 115E of the Income Tax Act, 1961 investment in shares of the Company being specified asset, the long term capital gain computed in accordance with the provisions of the Act, arising

on the transfer of such shares (otherwise than as mentioned in 1 above) in the Company acquired in convertible foreign exchange by a Non-Resident Indian, as defined in Section 115C(e), will be charged to Income Tax @ 10% (plus applicable surcharge and education cess).

4. Under section 115F of the Income Tax Act, 1961 the Long Term Capital gain as referred to in 3 above shall be exempted from income tax entirely / proportionately subject to the fulfillment of the conditions specified in Section 115F if the member (i.e. Non Resident Indian as defined in Section 115C(e)) invests all or a portion of the net consideration in specified assets as defined in section 115C (f) of the Income Tax Act, 1961 within 6 months of the date of transfer. The amount so exempted shall, however, be chargeable to tax as long term capital gains under the provisions of section 115F(2) if the specified assets are transferred or converted in to money within three years from the date of acquisition thereof as specified in the said section.
5. As per the provision of section 115-I of the Act, when a Non Resident Indian, elects not to be governed by the provision of Chapter XII-A of the Income Tax Act, 1961, then his / her total income shall be computed and charged in accordance with other provisions of the Act.
6. Non resident shareholders will be entitled to exemption, under section 10(34) of the Income Tax Act, 1961, in respect of the income by way of dividend received from the Company.
7. Where any Double Taxation Avoidance Agreement [DTA] entered into by India with any other country provides for a concessional tax rate or exemption in respect of income from the investment in the company's shares, those beneficial provisions shall prevail over the provisions of the Income Tax Act, 1961 in that regard.

Under Wealth Tax Act, 1957

As shares or securities are not included in the definition of 'asset' u/s. 2(ea) of the Wealth Tax Act, 1957, total exemption from wealth tax will be available on investments in shares of the Company.

D. TO FOREIGN INSTITUTIONAL INVESTORS

1. If the shares of the company are sold by its members, after being held for more than 12 months, in a transaction entered into in a recognized stock exchange in India on or after the date on which Chapter VII of the Finance (No. 2) Act, 2004 comes into force, the gain, if any, would be exempt from tax as per the provisions of Section 10(38) [proposed to be inserted by the Finance (No.2) Bill 2004 w.e.f. Assessment Year 2005-06].
2. If the shares of the company are sold by the members, after holding them for a period of less than 12 months, in a transaction entered into in a recognized stock exchange in India on or after the date on which Chapter VII of the Finance (No. 2) Act, 2004 comes into force, the gain, if any, shall be chargeable to tax @ 10% [plus applicable surcharge and education cess] as per the provisions of Section 111A [proposed to be inserted by the Finance (No. 2) Bill, 2004 w.e.f. Assessment Year 2005-06].
3. Under Section 115AD(1)(b)(ii) of the Act, Income by way of

Short Term Capital Gain arising from the transfer of shares (otherwise than as mentioned in 2 above) held in the Company for a period of less than 12 months will be taxable @ 30% (plus applicable surcharge and education cess).

4. Under Section 115AD(1)(b)(iii) of the Act, Income by way of Long Term Capital Gain arising from the transfer of shares (otherwise than as mentioned in 1 above) held in the Company will be taxable @ 10% (plus applicable surcharge and education cess). It is to be noted here that the benefits of indexation and foreign currency fluctuation protection as provided by Section 48 of the Act are not available to Foreign Institutional Investors.
5. Income by way of dividend received on shares of the Company is exempt u/s. 10(34) of the Income Tax Act, 1961.
6. Where any Double Taxation Avoidance Agreement [DTA] entered into by India with any other country provides for a concessional tax rate or exemption in respect of income from the investment in the company's shares, those beneficial provisions shall prevail over the provisions of the Income Tax Act, 1961 in that regard.

E. TO FOREIGN COMPANY

1. If the shares of the company are sold by its members, after being held for more than 12 months, in a transaction entered into in a recognized stock exchange in India on or after the date on which Chapter VII of the Finance (No. 2) Act, 2004 comes into force, the gain, if any, would be exempt from tax as per the provisions of Section 10(38) [proposed to be inserted by the Finance (No.2) Bill 2004 w.e.f. Assessment Year 2005-06].
2. If the shares of the company are sold by the members, after holding them for a period of less than 12 months, in a transaction entered into in a recognized stock exchange in India on or after the date on which Chapter VII of the Finance (No. 2) Act, 2004 comes into force, the gain, if any, shall be chargeable to tax @ 10% [plus applicable surcharge and education cess] as per the provisions of Section 111A [proposed to be inserted by the Finance (No. 2) Bill, 2004 w.e.f. Assessment Year 2005-06].
3. Income by way of dividend declared by the Company is exempt from tax by virtue of provision of section 10(34) of the Income Tax Act, 1961.
4. Income by way of long term capital gain accrued otherwise than as mentioned in 1 above, will be taxed at concessional rate of 20% (plus applicable surcharge and education cess) as provided in Section 112(1)(c) of the Income Tax Act, 1961.
5. Where any Double Taxation Avoidance Agreement [DTA] entered into by India with any other country provides for a concessional tax rate or exemption in respect of income from the investment in the company's shares, those beneficial provisions shall prevail over the provisions of the Income Tax Act, 1961 in that regard.

F. TO MUTUAL FUNDS

As per the provisions of Section 10(23D) of the Act, any income of Mutual Funds registered under the Securities and Exchange Board of India Act, 1992 or Regulations made thereunder, Mutual Funds set up by public sector banks or public financial institutions and Mutual Funds authorised by the Reserve Bank of India would be exempt from income tax.

OBJECTS OF THE ISSUE

The net proceeds from the present Issue will be used to create infrastructure for our growth to enable us to consolidate our position in the existing markets and to make in-roads into new markets.

We intend to use the net proceeds of the present Issue for the following purposes:

- Setting up additional capacities at Mundhwa:
 - Expansion of our forging capacities;
 - Setting up new machining facilities; and
 - Other supporting capital expenditure for the above;
- Upgrading and enhancing our forging facilities at Mundhwa
 - Setting up Testing and Validation facilities

As regards working capital in respect of the project, we wish to state that we have existing banking relationships with a consortium of eleven banks and have a sanctioned fund based limit of Rs. 2,050 million, which is adequate to meet our existing requirements. As a matter of practice, we submit and would continue to submit the Credit Monitoring Arrangement (“CMA”) data giving the detailed assessment of working capital on an annual basis. In this manner we will tie up the annual limit, including the enhancement needed to meet the working capital needs arising out of the implementation of the Project on a regular basis. We do not foresee any difficulty whatsoever in doing so.

The expenses of the Rights Issue will be met out of proceeds of the Rights Issue. The expenses of this Issue include lead manager’s fees, printing and distribution expenses, legal fees, statutory advertisement expenses and listing fees payable to the stock exchanges amongst others. The total expenses of the Issue are estimated to be approximately Rs. 30 million, which will be funded out of proceeds of this Issue.

The main objects clause of the Memorandum of Association of the Company enables us to undertake our existing activities and the activities for which the funds are being raised by us, through the present Issue.

Requirements and Utilisation of Funds

Activity	Use of funds (Rs. Million)
Setting up additional capacities	
Expansion of our forging capacities at Mundhwa	
Building and Civil Work	100.00
Plant & Machinery	1,144.00
Other supporting Capital Expenditure	143.50
Total	1,387.50
Setting up new machining facilities at Mundhwa	
Building and Civil Work	160.00
Plant & Machinery	1,550.00
Other supporting Capital Expenditure	72.70
Total	1,782.70

Setting up Testing and Validation facilities 120.00
at Mundhwa

Other supporting Capital Expenditure, contingencies and Issue expenses	
Interest & Other Pre-Operative Expenses	14.80
Contingencies and cost escalations at 5%	165.00
Issue Expenses	30.00
Total	209.80
Total	3,500.00

The above capital expenditure will result in enhancement of existing capacities as follows;

Facility at Mundhwa	Present annual capacity	Expansion to annual capacity funded through Internal Accruals	Expansion to annual capacity through proposed Project	Total excepted annual capacity post expansion
Steel Forging	102,966 MT ²	17,034 MT ²	80,000 MT ²	200,000 MT ²
Finished Machined Crankshaft at Mundhwa Pune ¹	245,000 Nos.	Nil	200,000 Nos.	445,000 Nos

¹ In addition the Company has capacity to machine crankshafts at Chakan as well as capacity to machine Front Axle Assembly & components both at Mundhwa as well as Chakan. However, the same would not be affected by the project as no expansion is proposed at Chakan.

² The steel forging capacity in tonnage is at the present product mix using the average component weight.

The above requirements of funds are proposed to be met as follows:

Activity	Funds Required (Rs. million)
Proceeds from Rights Issue	
Equity Shares	1,054.69
Warrants (assuming full exercise, at minimum floor price of Rs. 1,200 per warrant)	1,130.03
Supplier’s credit/buyer’s credit/Debt	1,315.28
Total	3,500.00

As stated above, we intend to fund our requirements for the project through a combination of proceeds of this Issue and supplier’s / buyer’s credit. Supplier’s credit refers to the line of credit, for a tenure ranging upto 360 days, provided by our equipment suppliers to finance the transaction for purchase of machinery by us. Buyer’s credit refers to the line of credit, for a tenure upto 360 days, provided by our Bankers to finance the transaction for purchase of machinery by us. It is also possible to roll over this credit subject to maximum tenor of 3 years. We have received sanctions for Letter of Credit facility from various banks aggregating Rs. 2,255 million for import of plant and machinery and equipments under the Project. Under the said facility, we will be availing Buyer’s/Supplier’s credit for the durations mentioned above from time to time, of which the Supplier’s / Buyer’s credit aggregating Rs. 1,315.28 million has been considered in the table above. Of the Supplier’s / Buyer’s credit aggregating Rs. 1,315.28 million, we are in the process of utilizing limits upto Rs. 933 million. Additionally, we have received facility sanction letters from Bank of India and Bank of Baroda for External Commercial Borrowing

("ECB") both dated July 23, 2004 aggregating USD 30 million for our proposed project. The salient terms of the ECB are as follows:

Particulars	Bank of Baroda	Bank of India
Amount	USD 15 million	USD 15 million
Tenure	5 years from the date of first disbursement	Average maturity above 5 years
Repayment	In 3 equal installments at the end of 3rd, 4th and 5th year from the date of first disbursement	5 equal installments, first such installment commencing 3 years from the date of first disbursement
Security	First pari passu charge by way of a mortgage and hypothecation on fixed assets of the Company	Pari passu charge on gross block of the Company with a minimum asset coverage of 1.5 times of the loan amount to be maintained at all times.
Interest	6 months USD LIBOR + 190 bps	3 months USD LIBOR + 280 bps

The Warrants can be exercised at any time between 12 to 24 months from Date of Allotment. In the unlikely event of any shortfall in the proceeds to be raised upon conversion of the warrants, we would utilise internal accruals to fund the same. As per the Statement of Cash flow, for the fiscal 2003 and fiscal 2004, our net cash flow from operating activities were Rs. 1,675.30 million and Rs. 2,229.51 million, respectively. For details of the cash flow statement, please refer "Auditors Report" section. Alternatively, we may utilize need based debt financing through External Commercial Borrowing as mentioned above.

The Company has made firm arrangements of finance through verifiable means as explained above in the immediately preceding two paragraphs towards 75% of the stated means of finance, excluding the proceeds of this rights issue.

As of June 30, 2004, we had incurred Rs. 577.92 million in expenses including advances for the above activities. This expenditure has been presently funded through our internal accruals. We intend to utilise the Issue proceeds for replenishing the internal accruals to the extent of expenditure already incurred towards the above activities.

Pending the deployment of funds towards the various objects of the Issue, the funds would be deployed either towards temporary reduction in utilization of short term working capital facilities and / or in liquid instruments such as Bank Deposits, Units, GILT edged securities and other 'AAA' rated interest bearing securities as may be approved by the Board of Directors or a Committee thereof. Such transactions would be at the prevailing commercial rates at the time of investment. Should the Company utilise the funds towards temporary reduction in utilization of short term working capital facilities, the Company undertakes that it would ensure consistent and timely availability of the rights issue money so temporarily deposited in the working capital facilities to timely meet the fund requirement of the project.

Year-wise break-up of Fund requirement

The requirement of funds as estimated by the Management over the next two years is as follows:

Use (As per the date of incurring expenses)	Rs. in million			
	Upto 30th June 2004	July 2004 to March 2005	Apr. 2005 to March 2006	Total
Setting up Additional capacities				
Expansion of our forging capacities at Mundhwa	305.76	1,081.74	-	1,387.50
Setting up new machining facilities at Mundhwa	245.20	1,127.03	410.47	1,782.70
Other supporting Capital Expenditure, contingencies and Issue expenses	-	119.80	90.00	209.80
Setting up Testing and Validation facilities at Mundhwa	26.96	93.04	-	120.00
Total	577.92	2,421.61	500.47	3,500.00

The estimated cost of all the imported items (including duties) for all facilities at present is approximately Rs. 2,000 million, which is 57% of the cost of total capital expenditure proposed over the next two financial years.

The above fund requirement is based on our current business plan. In view of the highly competitive and dynamic nature of the industry in which we operate, we may have to revise our business plan from time to time and consequently our fund requirement may also change. This may include rescheduling of our capital expenditure programmes and increase or decrease in the capital expenditure for a particular purpose vis-à-vis current plans at the discretion of the Management. The project has been solely formulated by the management and has not been appraised independently by any agency nor is there any institutional exposure in the same.

Proposed schedule of implementation

Activity	Date of completion
Building for expansion of Machining facilities.....	By September 2004
Setting up of testing and validation facilities.....	By December 2004
Setting up of machining facilities – Line I.....	By December 2004
Completion of expansion in phases of forging facilities.....	By March 2005
Setting up of machining facilities – Line II.....	By March 2005
Setting up of machining facilities – Line III.....	By September 2005

¹ This schedule of implementation is tentative and is subject to change depending upon receipt of all necessary approvals and business dynamics.

The summary of the Present Status of the Project and the expected date of Commencement of Production is as follows:

Sr. No.	Particulars	Present Status	Commencement of Trial Period	Estimated Trial Period	Commencement of Commercial Production
1	Land Acquisition	Not Required	Not Required		
2	Building				
	Machining Capacity Expansion	Commenced	September - 2004	-	-
	Forging Facility Expansion	Building Plans being Finalised	November - 2004	-	-
3	Machinery For Expansion of Machining Facility				
	Line I	Orders Completed	December - 2004	30 Days	January - 2005
	Line II *	Orders expected to be raised in July 04	March - 2005	30 Days	April - 2005
	Line III *	Orders expected to be raised in December 04	September - 2005	30 Days	October - 2005
	For Expansion of Forging Facility				
	5,000 Ton Press Line **	Orders for basic equipment placed	October - 2004	60 Days	December - 2004
	5,500 Ton Press Line **	Orders for basic equipment placed	December - 2004	60 Days	February - 2005
	12,500 Ton Press Line **	Orders for basic equipment placed	March - 2005	60 Days	May - 2005
4	Testing & Validation	Orders are being raised progressively in order to meet project time line	December - 2004	30 Days	This facility will be available from January, 2005

* For both Line II & Line III the process of machine identification is already completed, only the ordering has been deferred

** Orders for related Capital Expenditure in form of Die Shop equipment, Heat Treatment equipment & Processing Capacity are being concurrently released in a manner that will match the schedule of the installation of the Basic Equipment & meet the project timeline.

Details of the Requirement of Funds

Setting up Additional capacities

We currently have manufacturing facilities at Mundhwa, Chakan and Satara. For details of our present capacity please refer "Our Business" Section.

We envisage growth potential on the export front. To meet this potential we are planning to add to our existing capacities in both forging as well as machining. Our scaling up exercise is a proactive investment to prepare ourselves to meet the growing global sourcing opportunities. Our forging capacity utilization during the fiscal year 2004 was 82%. The forging capacity utilization during the quarter ended March 2004 was 93% and therefore we believe that there is a distinct need to expand capacity in following areas:

- Small forgings for passenger cars
- Heavy forgings and
- Heavy duty crankshafts machining

In the passenger car segment we intend to get a significant share of the global engine component business. We currently have two 6,000 MT press lines (including one under installation) to cater to this segment. In order to meet the expected demand, we are significantly enhancing our small forging capacity by setting up three additional press lines, including one fully automated 5,500 MT transfer press line, one semi-automated 5,000 MT press line and one large forging press line with 12,500 MT. These additions will more than double our passenger car crankshaft forging capacity to approximately 3 million crankshafts per year and also strengthen our heavy crankshaft manufacturing facility. We are aggressively targeting these areas within our existing customers and potential customers and are confident of getting orders in the near future.

We have also identified the Machined Heavy Duty crankshaft market as a very important market for our future growth. In this regard, we are exploring several potential customers from whom we expect to receive orders in future. In order to meet this demand we intend to increase both, our machining and forging capacity. We propose to set up state of the art machining capacity totalling to 200,000 machined heavy crankshafts, which will comprise of three fully automatic machining lines having world class quality, productivity and cycle time parameters. To meet the forging requirements of the said machining facilities, as mentioned in the above para, we are planning to set up a third large forging press line. The machining facilities would comprise of three brand new machining lines. Each line primarily fulfills the objective of converting raw forged crankshaft into fully finished ready to assemble component. For achieving this, the crankshaft forging has to pass through a series of operations such as centering, milling, hardening, grinding, super finishing etc. Each line would have specialized equipment to carry out the above operations. Each line would also have material handling system. These lines are then tooled up using appropriate jigs, fixtures and toolings to meet the specific requirements of the products to be manufactured on the line. These state of the art machining lines are designed to meet the stringent requirements of our clients in terms of productivity, quality and precision.

Particulars of Equipment / Plant and Machinery ordered:

Particulars	Cost (Rs. in million)	Manufacturer/ Supplier	Date of placement order	Date of expected supply	New/ Pre-used	Residual Life
Forging Capacity Expansion						
Basic Press Lines						
12,500 tonnes Press line, 5,500 tonnes press line and 5,000 tonnes press line	556.23	Interstate Southwest Ltd., USA, Eumoco Make Pressline and Kurimoto Ltd., Japan	From February 2004 to March 2004	From June 2004 to October 2004	2 Presses are pre-used and the remaining one is new	For the pre-used equipment, more than 40 years
Related equipments						
Billet shear, die holder, robotic systems, twisting press, coining press, hydrojet descaling systems, compressors etc.	260.22	Atlas Copco India Ltd., Inductotherm India Pvt.Ltd., ABB Ltd., Utcon Engineers Pvt. Ltd., ARS Hydrojet Services, Gerlieva Spruhtechnik GmbH, etc.	From March 2004 to May 2004	From April 2004 to October 2004	New	N.A.
Machining Capacity Expansion						
Machining Line 1 and partial Line 2 Journal grinders, pin finish grinders, induction hardening machines, super finish machine, horizontal machining centre, angular wheel grinder, gantry system, CNC lathe, dynamic balance machine etc.	581.25	Gudel AG, Toyoda Machine Works Ltd., Karl Deutsch, Emag Maschinen Fabrk GmbH, Maschine Fabrk Alfing Kessler, Komatsu Machinery Corporation, etc. and various other local suppliers such as Tal Manufacturing Solutions Ltd., Lokesh Machines Ltd., Proteck Circuits & Systems Ltd., etc.	From February 2004 to May 2004	From April 2004 to November 2004	New	N.A.
Testing and Validation						
Electro dynamic testing equipment, electro dynamic shaker, vibration controller, component test actuator system	22.44	ARM Engineers, Unholtz Dickie Corporation, Dynamech Cranes Pvt. Ltd. etc	From February 2004 to May 2004	From April 2004 to September 2004	New	N.A.

(Source: Purchase orders placed by the Company)

Basis of estimation of cost for machines yet to be ordered:

The Company has so far procured 8 press lines ranging from 2,500 tonnes – 16,000 tonnes capacity. In respect of the proposed project, the Company has already placed orders for the basic forging press lines. As such the balance equipment relate to heat treatment, die shop, processing, material handling etc. Since the Company has routinely procured such equipments in the past, it is in a position to make a fair estimate of the costs involved on the basis of its past experience. Further, the Company already knows the sources from which these machines can be procured. In view of this, the cost estimate for the machines yet to be ordered has been done on the basis of the Company's own internal assessment.

Machining capacity expansion:

Under the Project, the Company proposes to procure 3 state-of-the-art machining lines. Out of the same the Company has already placed orders for the machines which would form the first line. The crankshaft machining process is more or less similar in terms of the steps involved and as such the machines required in each line are more or less similar. In our case also we have estimated the costs for the remaining 2 lines on the basis of actual costs for the first line.

The capacity addition is structured in a manner that we are able to ensure that short term requirements of capacity in the next few quarters are met as well as long term capacity addition over the next year is also in place. We will have adequate capacity coming on line in the near term, to ensure growth and meet demand for the next financial year.

Subject to receipt of all necessary approvals and barring unforeseen circumstances, the entire capacity expansion is expected to be ready for operation by March 2006.

We have applied for the following approvals in respect of the proposed expansion at Mundhwa:

- Industrial license for forging capacity expansion applied vide letter dated April 24, 2004
- Approvals under Factories Act, 1948 for setting up of new facility / expansion of facilities applied vide letter dated March 25, 2004.
- Approval from Maharashtra State Electricity Board for additional load applied vide letters dated April 3, 2004 and April 24, 2004
- Approval from Pollution Control Board for Air and Water Pollution in respect of enhanced forging capacity applied vide letter dated April 15, 2004.

We are in the process of applying for industrial license for crankshaft machining capacity expansion at Mundhwa, Pune from the present level of 400,000 nos. per year to 450,000 nos. per year. We are also in the process of applying for the approval under Factories Act, 1948 in respect of the factory building proposed to be constructed for the proposed forging expansion.

We undertake that all the approvals required for our business to attain objects of the issue shall be in place to meet our project implementation schedule.

Upto June 30, 2004, we have placed orders for Rs. 1,618.73 million of equipments / machinery and building. We have opened L/C for Rs. 1,102.86 million. The Company will open L/Cs for its other imported equipments as and when the respective orders are finalised.

Majority of our machinery is proposed to be imported. Of the total investment of around Rs.1,287.50 million and Rs.1,622.70 million in plants and machinery and other supporting capital expenditure for the forging facilities and machining facilities, respectively, we intend to import around 69% (in terms of value) of the machines. As per the present plan, machines for forging facilities are proposed to be purchased from India as well as inter-alia from U.S, Italy and Japan. The equipment for the state-of-the-art machining facilities are primarily proposed to be imported from various countries such as Germany, Japan, U.S., Switzerland. Some of these equipments will also be procured from Indian sources as well. Some of these machines proposed to be purchased may be used and refurbished machinery. As per the current estimate, around 25% (in terms of value) of the machines for the proposed project would comprise of re-used and refurbished machines. In view of the highly competitive and dynamic nature of the engineering industry, we may have to revise our plans for procuring machinery and consequently may require change in sourcing these machines. This may include substituting imported machines with domestic machines and vice-versa. This may also lead to change in the composition of new and re-used equipment as presently contemplated.

To support the expansion mentioned above, we would also have to spend on setting up the supporting infrastructure. We have also estimated certain Issue expenses. Thus we estimate an aggregate of Rs. 209.80 million to be spent on other supporting Capital Expenditure, contingencies and Issue expenses.

The capacity proposed to be augmented vide the expansion is as follows:

Facility at Mundhwa	Present annual capacity	Expansion to annual capacity funded through Internal Accruals	Expansion to annual capacity through proposed Project	Total excepted annual capacity post expansion
Steel Forging	102,966 MT	17,034 MT	80,000 MT	200,000 MT
Finished Machined Crankshaft at Mundhwa Pune ¹	245,000 Nos.	Nil	200,000 Nos.	445,000 Nos.

¹ In addition we also have capacity to machine crankshafts at Chakan as well as capacity to machine front axle assembly & components both at Mundhwa as well as Chakan. However, the same would not be affected by the project as no expansion is proposed at Chakan

Upgrading and enhancing our forging facilities at Mundhwa

Setting up Testing and Validation facilities

Apart from expanding our capacities for forgings and machining, we also intend to move up the value chain and become an end-to-end solutions provider to partner global OEM programmes. As a step towards that we would be setting up of a testing and validation facility by third quarter of Fiscal 2005. A short and predictable product design cycle is critical to the success of companies in the era of time-based competition. Product validation and testing is a

major activity in product development and has significant impact on product development time and cost. We utilise our comprehensive product design capabilities to significantly lower “time to market” for the customer. With our long standing expertise in automotive components, we have been providing customers with a complete range of product design, analysis, prototyping and testing services. In the past we had collaborated with “Automotive Research Association of India” - a renowned testing and analysis institute to provide world class product design and validation services.

All new products supplied by us to global OEMs undergo validation and testing of components at their end. This entails a large cost and hurdle to switching suppliers at times. Our captive facility will enable us to fatigue test products for our customers, using their protocols, at a much lower cost and time than it would normally take. This will lower costs for customers to switch to us and increase customer traction. We would be amongst the few suppliers to offer this capability and facility. This facility would enable us to move towards becoming complete an end-to-end solutions provider for our marquee customers, right from conceptualizing to designing, manufacturing, to a ready-to-fit product. Further this would also enable us to make deeper penetration into outsourcing with our customers by providing them upgraded services at reduced time and costs.

We currently intend to use approximately Rs. 120 million of the net proceeds received from the Issue to fund our initiatives in setting up the validation facilities at Mundhwa. We have not yet placed orders for the equipments / machinery in this regard.

Majority of our machinery is proposed to be imported. Some of the major items of machinery that the Company intends to purchase may be purchased from suppliers *inter-alia* from U.S. and Germany.

Expenditure already incurred on the objects of the Issue

The expenditure incurred including advances on the project upto June 30, 2004 as certified by our auditors, Dalal & Shah, Chartered Accountants pursuant to their certificate dated July 16, 2004 was Rs. 577.92 million as given in the table below:

	(Rs. million)
Activity	Funds Deployed
Building	110.75
Plant & Machinery	467.17
Total	577.92

Sources of Funds

The above expenditure has been financed from internal accruals of the Company and the buyer's / supplier's credit.

SELECTED FINANCIAL INFORMATION

You should read the following selected financial data, which have been prepared in accordance with Indian GAAP, in conjunction with our financial statements and related notes and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” (as per Indian GAAP). Our audited financial statements have been prepared in Indian rupees and have been prepared in accordance with Indian GAAP for the fiscal years ended 2001, 2002 and 2003 and 2004. For detailed financial statements, prepared in accordance with Indian GAAP, as required by SEBI Guidelines, please refer “Auditor’s Report” of this Letter of Offer.

Statement of Profit and Loss for the fiscals ending March 31, 2001, 2002, 2003 and 2004

Rs. million (except per share data)

	FY 01	FY 02	FY 03	FY 04
Income				
Manufactured Products	4,400.74	4,090.54	5,971.52	7,830.98
Traded Products	184.26	29.23	-	-
Total Sales (excluding Excise Duty)	4,585.00	4,119.77	5,971.52	7,830.98
Export Incentives	89.42	127.80	382.89	351.87
Operating and Other Income	215.31	38.95	95.14	328.54
Total Income	4,889.74	4,286.52	6,449.55	8,511.39
Expenditure				
Raw material & Components, Die Block ¹	1,891.47	1,586.46	2,223.16	3,181.42
Staff Cost	463.86	427.23	461.91	536.65
Other Manufacturing expenses	858.00	788.33	1,243.82	1,517.50
Administration expenses	298.43	299.94	386.35	425.24
Selling and Distribution expenses	49.49	61.59	175.73	257.66
Total Expenditure before Interest, Depreciation & Tax	3,561.25	3,163.56	4,490.97	5,918.47
EBIDTA	1,328.49	1,122.96	1,958.59	2,592.92
Interest	572.97	453.66	408.33	323.56
Depreciation	398.21	397.20	417.57	457.71
Total Expenditure	4,532.43	4,014.42	5,316.86	6,699.74
Net profit before Tax	357.31	272.10	1,132.69	1,811.65
Provision for Tax	27.87	132.76	321.79	562.58
Net profit after Tax	329.44	139.34	810.90	1,249.07
Exceptional Items	41.70	(73.57)	-	-
Adjusted Profit after Tax	287.74	212.91	810.90	1,249.07
Ratio Analysis				
Earning Per Share	8.37	3.36	20.71	32.28
Return on Net Worth	23.80%	15.09%	50.49%	51.38%
Net Asset Value per Equity Share	34.09	19.20	34.68	56.38

¹ The raw material consumption is after adjusting the effect of increase / decrease of finished goods, work in progress and die room inventory.

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion of our financial condition and results of operations together with our audited financial statements for each of the fiscals ended March 31, 2001, 2002 and 2003 and 2004, including the notes thereto and the reports thereon, which appear on page 93 of this Letter of Offer.

The following discussion is based on our audited financial statements for fiscals 2001, 2002 and 2003 and 2004, which have been prepared in accordance with Indian GAAP, and on information available from other sources. Our fiscal ends on March 31 of each year, so all references to a particular fiscal are to the twelve-month period ended March 31 of that year. Unless otherwise indicated, all references to sales and total income refers to net sales / net total income (i.e. net of excise duty).

Unless otherwise indicated, all financial and statistical data relating to the forging industry in the following discussion are derived from various industry reports. These data have been reclassified in certain respects for purposes of presentation.

Overview

We are the leading forging company in India and one of the technologically advanced commercial forging companies in the world. We are the leading manufacturers of chassis components such as front axle beams and steering knuckles and engine components such as crankshafts and connecting rods for the commercial vehicles. Our consistent focus on heavy, specialized and complex forgings has enabled us to cater to the varying needs of our customers in various countries. Our ability to deliver consistent quality of products with an early focus on export market has enabled us to be a leading supplier of auto components to leading OEMs in the world.

We currently serve over 150 international and domestic clients. For the year ended March 31, 2003 and 2004, we had total income of Rs. 6,449.55 million and Rs.8,511.39 million and profit after tax of Rs. 810.90 million and Rs. 1,249.07 million respectively, which is the highest for any Indian forging company. Of the abovementioned total income, export sales constituted 42.08% and 37.88% for the year ended March 31, 2003 and 2004.

Factors affecting our operations

Our future results of operations could potentially be affected by the following factors:

- Focus primarily on the automobile and auto-components industry and as a result, our operations are significantly influenced by the trends in the said industries. Further, our key products are crankshafts and front axles beam, which contribute substantially to our revenues
- We have certain key large customers from whom, we receive large orders and as a result, our operations are significantly influenced by the buying patterns of these customers
- Changes in prices of key raw material products and fuel products, such as steel, oil and gas etc.

- Currency fluctuation is a key factor affecting our operations, since significant portion of our revenue comes from exports. Similarly on account of our focused approach to dollarise our loans, we have managed to convert large portion of loans into foreign currency. While the Rupee appreciation had a negative impact on our export realisation, the same was mitigated due to the considerable benefit accrued to us on account of dollarisation of the loan liability.

Income

Our revenue primarily comprises of sale of steel forging products and revenue generated from general engineering activities. We also derive some other income on account of tooling charges and exchange gain on account of revalorisation of foreign currency loans and other miscellaneous receipts. The following table sets forth the contribution of the different components of our revenue and of other income towards total income during each of the fiscals 2001, 2002, 2003 and 2004:

	(In Rs. millions)			
	Fiscal ended			
	2001	2002	2003	2004
Revenue				
(excluding inventory adjustment)				
Steel forging products and general engineering	4,400.74	4,090.54	5,971.52	7,830.98
Trading	184.26	29.23	-	-
Total sales				
(including excise duty)	4,585.00	4,119.77	5,971.52	7,830.98
Export Benefits	89.42	127.8	382.89	351.87
Operating and Other Income	215.31	38.95	95.14	328.54
Total Income	4,889.73	4,286.52	6,449.55	8,511.39

Revenue

Revenue from steel forging products and general engineering

Steel forging products primarily comprise of forgings for both, automotive industry as well as non-automotive applications such as tractors, diesel generating sets, Oil & Gas exploration related products and other heavy engineering items. Being primarily focused on high end and complex automotive application forgings, our main products include both, engine components such as crankshafts, connecting rods and chassis components such as front axle beams and steering knuckles. We supply these products in forged as well as fully finished machined condition. Out of the total sales, the machined component sales accounted for 42%, 44%, 49% and 49% for fiscals 2001, 2002, 2003 and 2004, respectively. Besides, we also derive revenues from general engineering activities, which presently constitute very minor portion of our total sales. As per Company's accounting policy, revenue is recognised net of excise duty.

Revenue from trading activities

Over the years, in order to give more focus on the core manufacturing activities, we have progressively reduced our

dependence on trading activities and no revenues have been generated from this activity since last fiscal. Revenue from trading activities comprised 4% and 1% of total income for fiscals 2001 and 2002 respectively.

Export Revenues

With focus on exports, our export sales have been increasing over a period of last four years. The following table represents the breakup of our total sales into domestic and exports.

	<u>Fiscal 2001</u>	<u>Fiscal 2002</u>	<u>Fiscal 2003</u>	<u>Fiscal 2004</u>
Export Sales	19%	27%	45%	41%
Domestic Sales	81%	73%	55%	59%
Total Sales	100%	100%	100%	100%

Geographic Breakdown of Sales

Due to our conscious efforts to de-risk our geographic dependence, we have expanded our exports markets to newer geographies. The following table represents the percentage breakdown of our total sales by region:

	<u>Fiscal 2001</u>	<u>Fiscal 2002</u>	<u>Fiscal 2003</u>	<u>Fiscal 2004</u>
India	81%	73%	55%	59%
USA	18%	24%	28%	18%
Europe	1%	2%	5%	9%
Australia & Asia (excluding India)	-	1%	12%	14%
Total Sales	100%	100%	100%	100%

As can be observed from the above table, we have managed to increase our revenue from geographies such as Europe, China and Australia, which together have increased from 1% of our total sales for the fiscal 2001 to 23% for fiscal 2004.

Revenues from Machined Components

We supply components both, in forged as well as fully finished machined condition. Our ability to supply ready-to-use machined components has enabled us to get an edge over our competitors and has also improved our margins. The following table represents the percentage breakdown of our total revenues from forged and fully finished machined components:

	<u>Fiscal 2001</u>	<u>Fiscal 2002</u>	<u>Fiscal 2003</u>	<u>Fiscal 2004</u>
Forged Components	58%	56%	51%	51%
Fully finished Machined Components	42%	44%	49%	49%
Total Sales	100%	100%	100%	100%

Export Incentives

We are entitled to export incentives pertaining to DEPB ("Duty Entitlement Pass Book") licenses on account of our export sales. These DEPB licenses can be sold in open market or used to set-off import duties on import of raw materials, spares and consumables. Export Incentives comprised 2%, 3%, 6% and 4%

of total income for fiscals 2001, 2002 and 2003 and 2004, respectively.

Operating and Other Income

Operating and Other income primarily relates to die design and preparation charges, surplus on sale of assets, gains on foreign exchange fluctuation and miscellaneous receipts. Other income comprised 4%, 1%, 1% and 4% of total income for fiscals 2001, 2002 and 2003 and the 2004, respectively.

Sundry Debtors

Due to focus on exports and relatively higher collection cycle involved therein, we have high gross sundry debtors, which as of fiscal 2001, 2002, 2003 and 2004, were Rs. 1,249.34 million, Rs. 1,276.05 million, Rs. 1,977.22 million and Rs.2,527.20 million, respectively. Our days of sales outstanding (which is defined as the ratio of gross sundry debtors to total sales in a particular year multiplied by 365) for fiscal 2001, 2002, 2003 and 2004 were 89 days, 101 days, 111 days and 108 days, respectively. However, to manage the working capital cycle, we are actively discounting our bills both for domestic and international sales. As a result, our net sundry debtors were lower at Rs. 836.69 million, Rs. 715.73 million, Rs. 812.72 million and Rs.1,001.39 million as on fiscal 2001, 2002, 2003 and 2004, respectively. Consequently, our days of sales outstanding (which is defined as the ratio of net sundry debtors to total sales in a particular year multiplied by 365) has been progressively improving and the same for fiscal 2001, 2002, 2003 and 2004 were 59 days, 57 days, 46 days and 43 days, respectively. The following table presents the age profile of our debtors:

Debtor Ageing Analysis

	<u>Fiscal 2001</u>	<u>Fiscal 2002</u>	<u>Fiscal 2003</u>	<u>Fiscal 2004</u>
Period in Days				
0-180	88%	89%	94%	89%
More than 180	12%	11%	6%	11%
Total	100%	100%	100%	100%

During fiscal 2001, 2002, 2003 and 2004, we made provision for doubtful debts and wrote off Rs. 4.54 million, Rs. 10.20 million, Rs. 18.31 million and Rs. 8.87 million respectively.

Income Taxes

Historically, we benefited from a tax holiday given by the Government of India for the export of our products. As a result of these tax incentives, our operations in India were subject to reduced tax liabilities. We were eligible for deduction in respect of profits derived from the export of our goods or merchandise as per the provisions of section 80HHC of the Income Tax Act, 1961. However no deduction shall be available under Section 80HHC in respect of Assessment Year 2005-06 and any subsequent assessment year. The tax rate applicable to us in India is 35% plus surcharge applicable from time to time, which at present is 2.5%. Please also refer to the "Tax Benefit Report" on page 31 of this Letter of Offer.

Expenditure

The table below sets forth the main constituents of our costs derived from our audited financial statements for fiscal 2001, 2002, 2003 and 2004.

Costs as % of Total Expenditure excluding Interest and Depreciation

	<u>Fiscal 2001</u>	<u>Fiscal 2002</u>	<u>Fiscal 2003</u>	<u>Fiscal 2004</u>
Raw Materials & Components Costs	53%	50%	50%	54%
Employee Cost	13%	14%	10%	9%
Other Manufacturing Costs	24%	25%	28%	26%
Administration Costs	8%	9%	9%	7%
Selling & Distribution Costs	1%	2%	4%	4%

Costs as % of Total Income

	<u>Fiscal 2001</u>	<u>Fiscal 2002</u>	<u>Fiscal 2003</u>	<u>Fiscal 2004</u>
Raw Materials & Components Costs	39%	37%	34%	37%
Employee Cost	9%	10%	7%	6%
Other Manufacturing Costs	18%	18%	19%	18%
Administration Costs	6%	7%	6%	5%
Selling & Distribution Costs	1%	1%	3%	3%

Raw Materials & Components Costs

Raw Materials & Components costs comprise of raw materials consumed, i.e. mainly forging quality carbon and alloy steel and die blocks, die and tools steel consumed.

Employee Cost

Employee cost comprises of salaries, wages, bonus, allowances paid to factory workers and office personnel and contributions made by us to the provident / superannuation / gratuity fund. It also includes contribution to provident & other funds and schemes.

Other Manufacturing Costs

Other Manufacturing costs comprise of variable costs such as stores, spares & consumables, power & fuel charges, machining charges and repairs & maintenance charges.

Administration Costs

Administration costs comprise of rent, rates & taxes, insurance, commissions and miscellaneous expenses including travelling expenses, printing stationery, postage & telephones, bank charges, etc.

Selling & Distribution Costs

Selling & Distribution costs comprise of sales commissions and freight.

Adjusted Profit/(Loss) after Tax

The adjusted profit/(loss) after tax consists of the net profit/(loss) after tax as per the audited statement of accounts, adjusted on account of (1) changes in accounting policies and (2) the impact of

material adjustments and prior period items. The adjusted net profit was Rs. 287.74 million in fiscal 2001, adjusted net profit of Rs. 212.91 million in fiscal 2002 and Rs. 810.90 million in fiscal 2003 and Rs 1,249.07 million in fiscal 2004. Our adjusted net profit margins have been 6%, 5%, 13% and 15% for the fiscal years 2001, 2002, 2003 and 2004 respectively.

Our critical accounting policies

Our financial statements are prepared in accordance with generally accepted accounting principles, the applicable accounting standards issued by the Institute of Chartered Accountants of India and the relevant provisions of the Companies Act, 1956. Certain of our accounting policies are particularly important to the portrayal of our financial position and results of operations and require the application of assumptions and estimates of our management. For further details, see "Financial Statements – Significant Accounting Policies" on page 103 of this Letter of Offer.

System of Accounting

The Company follows the mercantile system of accounting and Financial Statements are based on historical cost.

Fixed Assets

Fixed Assets are stated at their original cost of acquisition including incidental expenses related to acquisition and installation of the concerned assets. Interest on borrowings and financing costs of specific loans taken for expansion or substantial modernisation of fixed assets, prior to commencement of commercial production is being capitalised to the cost of assets. Fixed Assets are shown net of accumulated depreciation (except free hold land) and amortisation.

Depreciation

- Lease hold land and Power Line: Premium on leasehold land is amortized over the period of lease and expenditure on power line is amortized over a period of seven years.
- Depreciation on additions to Buildings, Plant & Machinery, Railway Sidings and Electrical Installations is being provided on "Straight Line Method" basis in accordance with the provisions of Section 205(2)(b) of the Companies Act, 1956, in the manner and at the rates specified in Schedule XIV to the said Act.
- Depreciation in respect of other assets viz. Factory Equipments, Computers, Engineering Instruments, Furniture & Fittings, Office Equipments and Vehicles & Air Crafts is being provided on "Written down value" basis in accordance with the provisions of Section 205(2)(a) of the Companies Act, 1956 in the manner and at the rates specified in Schedule XIV to the said Act.

Inventories

Cost of Inventories have been computed to include all cost of purchases, cost of conversion and other costs incurred in bringing the inventories to their present location and condition.

Foreign Currency Conversion

- Foreign currency exposure in respect of loans, for financing fixed assets, outstanding at the close of the fiscal are revalued at the contracted and/or appropriate exchange rates at the close of the year. The gain or loss due to decrease/

increase in Rupee liability due to fluctuation in rate of exchange is adjusted to the cost of assets acquired through these loans, except in case of some transactions of swaps, which are contingent due to option built around them and hence can not be marked to market on each Balance Sheet date.

- Interest Rate cum Currency Swap transactions are accounted on their cut off date or on the date of an earlier unwind/liquidation of the transactions. However on simulation of the cut off date at the close of the period losses, if any, are provided for and gains, if any, are not recognised as a matter of prudence, being contingent.
- Current Assets and other Liabilities in foreign currency and foreign currency exposure in respect of foreign currency loans other than for financing fixed assets outstanding at the close of the fiscal are valued at the contracts and/or appropriate exchange rates at the close of the year. The loss or gain due to fluctuation of exchange rates is charged to Profit & Loss Account.

Retirement Benefits

Retirement benefits in the form of provident fund and pension schemes whether in pursuance of law or otherwise is accounted on accrual basis and charged to Profit & Loss account of the year. Payment for present liability of future payment of gratuity is being made to approved gratuity funds which fully cover the same under cash accumulation policy of the Life Insurance Corporation of India. Contribution made to Life Insurance Corporation for employees covered under superannuation scheme are accounted at the rate of 15% of such employees' annual salary.

Borrowing Costs

Interest on borrowings is recognised in the Profit and Loss account except interest incurred on borrowings, specifically raised for projects is capitalised to the cost of the assets until such time that the asset is ready to be put to use for its intended purpose.

Our Results of Operations

	Fiscal 2001	Fiscal 2002	Fiscal 2003	Fiscal 2004
Forging Capacity utilisation	51%	48%	68%	82%
Production per person (in MT)	18	20	27	31
Total Income per person (in Rs million)	1.71	1.70	2.50	3.13
EBITDA Margins (%)	27%	26%	30%	30%

Comparison of fiscal 2004 with fiscal 2003

Some of the key developments for fiscal 2004 were:

- Improvement in Indian automotive industry continued to lead to an increased demand for the auto-components, including the forged components which we supply to the leading automobile manufacturers in India. This has enabled us to further substantially improve capacity utilisation and thereby has improved our operating efficiencies as brought out in the above table.

- Increase in the global steel prices has led to increased cost of raw material for us. However we have been able to partially pass on the same to our customers, thereby reducing the impact on our profitability.
- We signed Memorandum of Understanding in November 2003 to acquire German operations of Carl Dan Peddinghaus GmbH & Co., Germany. The transaction has since been completed by signing "Purchase and Transfer Agreement" on January 16, 2004.

Revenue from steel forging products

Our revenue derived from steel forging products sales in the fiscal 2004 was Rs. 7,830.98 million. Due to increased demand in the domestic market as mentioned above, the domestic sales comprised 59% of our total sales for fiscal 2004 as compared to 55% in fiscal 2003. Also during this period, we were able to increase our export sales to Europe, China, Australia and Asia.

Operating and Other income

Operating and Other income for fiscal 2004 was Rs. 328.54 million (which includes tooling charges of Rs 137.67 million and gain of Rs 103.10 million on foreign exchange transactions through strategic dollarisation of loans).

Total Income

During fiscal 2004, our total income grew by 32% over the total income for the fiscal 2003. The total income for the fiscal 2004 was Rs. 8,511.39 million as compared to Rs. 6,449.55 million for fiscal 2003.

Raw Materials & Components Costs

Raw Materials & Components Costs in the fiscal 2004 was Rs. 3,181.42 million. Raw Materials & Components Costs as a percentage of total income increased to 37% in the fiscal 2004 from 34% in fiscal 2003. The increase in the cost was primarily on account of increase in the global steel prices.

Employees Cost

Employees Cost in the fiscal 2004 was Rs. 536.65 million. Employees Cost as a percentage of total income decreased to 6% in the fiscal 2004 from 7% in fiscal 2003 primarily due to better productivity in terms of revenue per employee.

Other Manufacturing Costs

Other Manufacturing Costs in the fiscal 2004 was Rs. 1,517.50 million. Manufacturing Costs as a percentage of total income decreased to 18% in the fiscal 2004 from 19% in fiscal 2003. This decrease was primarily on account of internal cost controls and production efficiencies.

Administration Costs

Administration Costs in the fiscal 2004 was Rs. 425.24 million. Administration Costs as a percentage of total income decreased to 5% in the fiscal 2004 from 6% in fiscal 2003.

Selling & Distribution Costs

Selling & Distribution Costs in the fiscal 2004 was Rs. 257.66 million. Selling & Distribution Costs as a percentage of total income

increased marginally to 3.0% in the fiscal 2004 from 2.7% in fiscal 2003.

Financial Expenses

Financial Expenses in the fiscal 2004 were Rs. 323.56 million. The finance costs as a percentage of total income decreased to 4% of our total income in the fiscal 2004 from 6% of our total income in fiscal 2003. This decrease was primarily on account of our continued efforts on dollarisation programme of debt obligations and better working capital management. As a result, the ratio of our total foreign currency denominated borrowings to total borrowings increased from 64% as on March 31, 2003 to 84% as on March 31, 2004. The increase in foreign currency debt was structured to counter the appreciating Rupee against US Dollar, which has affected our exports revenues. Similarly, with the consistent improvement in our financial performance we have been able to negotiate better terms for our various borrowing programs.

Depreciation and Amortisation

Depreciation in the fiscal 2004 was Rs. 457.71 million. Depreciation as a percentage of total income was 5% for the fiscal 2004 as compared to 6% for the fiscal 2003 primarily on account of increase in demand for our products leading to improved productivity and capacity utilisation as brought out in the chart above under the heading "Results of our Operations".

Profit / (Loss) Before Tax

Due to the factors explained above, our profit before tax as a percentage of total income increased to 21% in the fiscal 2004 from 18% in fiscal 2003. Our profit before tax for the fiscal 2004 was Rs. 1,811.65 million, as against Rs. 1,132.69 million for the fiscal 2003.

Income tax

Provision for tax for fiscal 2004 was Rs. 562.58 million. Provision for taxation as a percentage of net profit before tax increased from 28.4% for fiscal 2003 to 31.0% for fiscal 2004. This increase was primarily on account of reduction in extent of deduction on profits from export earnings.

Adjusted Profit/(Loss) after tax

Due to the factors explained above, our profit after tax as a percentage of total income increased to 15% in the fiscal 2004 from 13% in fiscal 2003. Our profit after tax for the fiscal 2004 was Rs. 1,249.07 million, as compared to Rs.810.90 million for fiscal 2003.

Comparison of fiscal 2003 with fiscal 2002

Some of the key developments for the fiscal 2003 were:

- We de-risked the business model by intensifying export thrust with a wider geographical spread
- We achieved reduction in costs due to internal cost management
- Improvement in domestic and global automotive industry led to an increased demand for the auto-components, including the forged components which we supply to the leading automobile manufacturers in India and globally. This has

enabled us to substantially improve capacity utilisation and thereby has improved our operating efficiencies as brought out in the above table.

Revenue

Revenue from steel forging products

Revenue from steel forging products increased significantly by 46% to Rs. 5,971.52 million in fiscal 2003 from Rs. 4,090.54 million in fiscal 2002. The increase in the sales was primarily on account of 146% increase in our export sales, which increased from Rs. 1,104 million to Rs. 2,714 million. Also as a result, our export sales as a percentage of total sales increased from 27% in fiscal 2002 to 45% in fiscal 2003.

Operating and Other Income

Operating and Other revenue increased to Rs. 95.14 million in fiscal 2003 from Rs. 38.95 million in fiscal 2002.

Raw Materials & Components Costs

Raw Materials & Components costs increased significantly to Rs. 2,223.16 million in fiscal 2003 from Rs. 1,586.46 million in fiscal 2002. This was on account of increased production due to higher demand from both export and domestic market. However, raw materials & components costs as a percentage of total income decreased to 34% in fiscal 2003 from 37% in fiscal 2002. This was on account of better production efficiencies.

Employees Cost

Employees costs increased to Rs. 461.91 million in fiscal 2003 from Rs. 427.23 million in fiscal 2002. Although there is an increase in employee cost in absolute terms, but employees costs as a percentage of total income decreased to 7% in fiscal 2003 from 10% in fiscal 2002. This was primarily on account of productivity improvement as brought out in the chart above under the heading "Results of Operations".

Other Manufacturing Costs

Other Manufacturing costs increased significantly to Rs. 1,243.82 million in fiscal 2003 from Rs. 788.33 million in fiscal 2002. Although there is an increase in other manufacturing costs in absolute terms on account of increased production, the other Manufacturing Costs as a percentage of total income increased to 19% in fiscal 2003 from 18% in fiscal 2002.

Administration Costs

Administration costs increased to Rs. 386.35 million in fiscal 2003 from Rs. 299.94 million in fiscal 2002. Administration costs as a percentage of total income reduced to 6% in fiscal 2003 from 7% in fiscal 2002.

Selling & Distribution Costs

Selling & Distribution costs increased significantly to Rs. 175.73 million in fiscal 2003 from Rs. 61.59 million in fiscal 2002. Selling & Distribution costs as a percentage of total income also increased to 3% in fiscal 2003 from 1% in fiscal 2002. This is on account of export expenses such as commission and freight being on the higher side due to higher exports.

Financial Expenses

Financial expenses decreased to Rs. 408.33 million in fiscal 2003 from Rs. 453.66 million in fiscal 2002. Financial expenses as a percentage of total income decreased substantially to 6% in fiscal 2003 from 11% in fiscal 2002. This was achieved primarily on account on initiation of the dollarisation of our borrowings.

Depreciation and Amortisation

Depreciation and Amortisation costs increased to Rs. 417.57 million in fiscal 2003 from Rs. 397.20 million in fiscal 2002. Although there is an increase in Depreciation and Amortisation costs in absolute terms, but depreciation and amortisation costs as a percentage of total income decreased to 6% in fiscal 2003 from 9% in fiscal 2002 on account of better capacity utilisation.

Profit/(Loss) Before Tax

As a result of the above factors, profit before tax increased significantly by 316% to Rs. 1,132.69 million in fiscal 2003 from Rs. 272.10 million in fiscal 2002. Since inception this was the first fiscal year in which we crossed the Rs. 1 billion mark for profit before tax. Profit before tax as a percentage of total income increased significantly to 18% in fiscal 2003 from 6% in fiscal 2002.

Income tax

Provision for tax for the fiscal 2003 was Rs. 321.79 million as compared to Rs. 132.76 million in fiscal 2002. Provision for taxation as a percentage of net profit before tax decreased from 49% for fiscal 2002 to 28% for fiscal 2003. This decrease was primarily on account of reduction in provision for deferred tax.

Adjusted Profit/(Loss) after tax

As a result of the above factors, profit after tax increased substantially by 281% to Rs. 810.90 million in fiscal 2003 as compared to Rs. 212.91 million in fiscal 2002.

Comparison of fiscal 2002 with fiscal 2001

Some of the key developments for the fiscal 2002 were:

- We had to compete in extremely unfavourable market conditions, with volumes and prices both being under tremendous pressure.
- We increased our export income through expansion in our overseas customer base, both in terms of user industries and geographical markets.
- As a step in this regard, we acquired order book from Dana Corporation's Spicer Europe Limited operations in Kirkstall, U.K, which enabled us to widen our footprints in Europe and strengthen the Oil & Gas sector business.

Revenue

Revenue from steel forging products

Revenue from steel forging products decreased to Rs. 4,090.54 million in fiscal 2002 from Rs. 4,400.74 million in fiscal 2001. This was primarily on account of reduced demand for our products due to overall slow down in the economy and negative impact due to the terrorist activities in India and abroad.

Operating and Other Income

Operating and Other income decreased significantly to Rs. 38.95 million in fiscal 2002 from Rs. 215.31 million in fiscal 2001. This was primarily on account of demerger of our windmill and investments division into a separate entity BF Utilities Limited.

Raw Materials & Components Costs

Raw Materials & Components costs decreased to Rs. 1,586.46 million in fiscal 2002 from Rs. 1,891.47 million in fiscal 2001. This was primarily on account of reduced production due to reduced demand. Raw Materials & Components costs as a percentage of total income decreased to 37% in fiscal 2002 from 39% in fiscal 2001.

Employees Cost

Employees costs decreased to Rs. 427.23 million in fiscal 2002 from Rs. 463.86 million in fiscal 2001. The employees costs as a percentage of total income increased marginally to 10% in fiscal 2002 from 9% in fiscal 2001. The reduction in employee cost was primarily on account of the Voluntary Retirement Schemes ("VRS") floated by the Company during the relevant period.

Other Manufacturing Costs

Other Manufacturing costs decreased to Rs. 788.33 million in fiscal 2002 from Rs. 858.00 million in fiscal 2001. However, other Manufacturing costs as a percentage of total income remained constant at 18% in both fiscal 2001 and fiscal 2002.

Administration Costs

Administration costs more or less remained flat at Rs. 299.94 million in fiscal 2002 from Rs. 298.43 million in fiscal 2001. However Administration costs as a percentage of total income increased marginally to 7% in fiscal 2002 from 6% in fiscal 2001. This was primarily on account of reduced production volumes.

Selling & Distribution Costs

Selling & Distribution costs increased marginally to Rs. 61.59 million in fiscal 2002 from Rs. 49.49 million in fiscal 2001. Selling & Distribution costs as a percentage of total income remained flat at 1% for both fiscal 2002 and fiscal 2001.

Financial Expenses

Financial expenses decreased to Rs. 453.66 million in fiscal 2002 from Rs. 572.97 million in fiscal 2001. Financial expenses as a percentage of total income decreased marginally to 11% in fiscal 2002 from 12% in fiscal 2001. This reduction was primarily on account of transfer of certain liabilities under the Scheme of Demerger, under which we transferred certain debt to BF Utilities Limited.

Depreciation and Amortisation

Depreciation and Amortisation costs decreased marginally to Rs. 397.20 million in fiscal 2002 from Rs. 398.21 million in fiscal 2001. Depreciation and Amortisation costs as a percentage of total income marginally increased to 9% in fiscal 2002 from 8% in fiscal 2001. This was primarily on account of reduced production volumes due to reduced demand.

Profit/(Loss) Before Tax

As a result of the above, our profit before tax decreased to Rs. 272.10 million in fiscal 2002 from Rs. 357.31 million in fiscal 2001. Profit before tax as a percentage of total income decreased to 6% in fiscal 2002 from 7% in fiscal 2001.

Income tax

Provision for tax for the fiscal 2002 was Rs. 132.76 million as compared to Rs. 27.87 million in fiscal 2001. Provision for taxation as a percentage of net profit before tax increased substantially from 8% for fiscal 2001 to 49% for fiscal 2002. This increase was primarily on account of additional provisioning required due to introduction of deferred tax liability.

Adjusted Profit/(Loss) after tax

As a result of the above, the profit after tax was Rs. 212.91 million in fiscal 2002 as compared to Rs. 287.74 million in fiscal 2001. During the year we had exceptional income of Rs. 73.57 million primarily on account of donation given in the earlier year returned to us and write back of provision on account of interest on octroi duty. In absence of these exceptional items, our profit after tax would have been lower at Rs. 139.34 million.

Liquidity and Capital Resources

Liquidity

Our primary liquidity needs have been to finance our working capital needs and our capital expenditures. To fund these, we have relied on cash flows from operations and short-term and long-term borrowings.

Cash Flows

The table below summarizes our cash flows for the fiscals 2001, 2002 and 2003 and 2004.

Cash Flow	(Rs. In millions)			
	Fiscal 2001	Fiscal 2002	Fiscal 2003	Fiscal 2004
Net Cash Flow from (used in) operating activities	2,099.14	1,423.82	1,675.30	2229.51
Net Cash Used in investing activities	1,565.12	(540.46)	(489.66)	(1,147.65)
Net Cash flow from (used in) financing activities	(3,791.38)	(819.08)	(1,045.32)	(1,229.26)
Net Increase/(Decrease) in Cash and Cash Equivalents	(127.12)	64.29	140.33	(147.41)

Figures in brackets represent cash outflow

For detailed cash flow statement, please refer Auditor's Report provided on page 105 in this Letter of Offer.

Our cash flows from operations are influenced primarily by working capital requirements and cash from operations and incurrence and repayment of debt. Our net cash flow provided by operating activities was a positive at Rs. 1,675.30 million in fiscal 2003 and Rs 2,229.51 for fiscal 2004.

Net cash used in investment activities is primarily on account of capital expenditure incurred by us. The Net cash used in investing activities was Rs. 540.46 million, Rs. 489.66 million and Rs. 1147.65 million during fiscal 2002, 2003 and 2004 respectively.

Our net cash flow from financing activities was a Rs. 819.08 million, Rs. 1045.32 million and Rs. 1,229.26 million in fiscal 2002, fiscal 2003 and fiscal 2004 respectively. This was primarily comprised of net repayment of loans, interest and dividend payout.

Indebtedness

Our financial position has significantly improved with falling leverage ratios. Total debt to net worth ratio (excluding deferred tax liability, as applicable) was 2.76, 3.74, 1.89, and 1.14 for the fiscals 2001, 2002, 2003 and fiscal 2004 respectively. The increase as witnessed in fiscal 2002 was primarily on account of newly introduced accounting standard relating to "Taxes on Income", which required us to make significant provision on account of deferred tax liability. If we adjust deferred tax liability for the year 2001, then Total debt to net worth ratio would be 4.84.

We have also changed the composition of our debt obligations with more of rupee loans being converted into foreign currency denominated loans. Foreign currency loans as percentage of total loans has increased from 44% and 64% in the fiscal ended 2002 and 2003 to 84% in fiscal 2004. Out of total loan outstanding of Rs 2,855.68 million, debt in foreign currency and Indian currency amounted to Rs 2,401.91 million and Rs 453.77 million respectively as on March 31, 2004.

Reduction in debt levels and changes in composition of debt has and will continue to effectively reduce the interest costs in years to come.

Commitments on behalf / for Subsidiary

Post December 31, 2003, we have issued a counter-guarantee and indemnity in favour of Deutsche Bank under which, in the event there is any invocation by the beneficiary of the guarantee, namely administrative receiver of CDP GmbH & Co. KG, of the bank guarantee given by Deutsche Bank, we would be required to contribute an amount actually paid by Deutsche Bank or € 5 million, whichever is less, in the capital of CDP Bharat Forge GmbH (CDPBF), our wholly owned subsidiary, so that Deutsche Bank can use the said proceeds to indemnify itself.

Further we have issued a counter-guarantee and indemnity favouring Deutsche Bank for Euro 2.015 million to cover the Bank Guarantee issued by them in favour of M/s Farina for credit offered by them against the procurement of forging press line by CDPBF. CDPBF has also obtained secured working capital facilities aggregating € 10 million from Bank of India and Bank of Baroda, both located at London, in respect of which we have agreed to provide a corporate guarantee, if required, only in the eventuality of default by CDPBF.

Letters of Comfort

We have issued Letters of Comfort to the lenders of our group company, BF Utilities Limited aggregating Rs. 945 million, of which Letters of Comfort amounting to Rs. 100 million, Rs. 120 million,

Rs. 455 million and Rs. 270 million have been issued to IDBI Bank, Standard Chartered Bank, Development Credit Bank and Deutsche Bank respectively. The present outstanding of the underlying loans for the same is Rs. 670 million as on June 30, 2004. These Letters of Comfort have been issued in consideration of the BF Utilities Limited's lenders granting various credit facilities to it. In these Letters of Comfort, we have assured to these lenders that we would not permit BF Utilities Limited to enter into liquidation and that BF Utilities Limited shall at all times be in a position to meet their liabilities to these lenders under the lending arrangements.

Historical capital expenditure

In the recent years we have incurred expenditure on additions to fixed assets, including capital work in progress, amounting to Rs. 465.16 million, Rs. 501.81 million and Rs. 1,261.17 million in the fiscal ended 2002, 2003 and 2004 respectively. This capital expenditure represents the expenditure incurred on capacity balancing, replacements and other normal capital expenditure.

Hedging structure for receivable

In July 2002, we entered into a hedging structure with Citibank to protect our expected export revenues in British Pounds ("GBP") from certain long term GBP denominated export contracts ("the structure"). Under this structure, as amended on March 27, 2003, we were under obligation to deliver GBP 2.08 million every quarter at a pre-determined USD-GBP parity of 1.5325 with a knock out level of 1.3850. This obligation commenced from the quarter ending March 2004 and is ending in quarter ending June 2005. If the parity in any quarter is below 1.3850, we will realise the actual market rate for the relevant quarter. If the parity in any quarter is above 1.3850, we will realise a pre-determined USD-GBP parity mentioned above. On April 13, 2004 we have supplemented the above transaction by another structure viz. USD-GBP accumulator with participation (Participation Structure). As per the participation structure, the maximum USD – GBP parity for our obligation mentioned above is capped at 1.8900 with a option to realise the benefit of lower USD – GBP parity in a step manner.

Securitisation of future export receivables with Citibank

In fiscal 2003 we securitised with Citibank N.A. a part of our future export receivable, arising from the contract that we executed with Dana Corporation for purchase of goods from us by Dana Corporation and their Affiliates for an aggregate of 40 million Pounds over seven years. Consequently, Citibank advanced Rs. 245.12 million equivalent to U.S. Dollars 5.00 million as consideration for the securitised assets i.e. future receivables, payable by way of trapping a portion of the invoicing under the said contract. We, in accordance with the guidance notes issued by the Institute of Chartered Accountants of India, have reflected this advance as a current liability and reduced the advance by removing the securitised assets from its Balance Sheet upon each quarterly realisations made by the Bank.

Sponsor Support Arrangement

We are a party to a Sponsor Support Agreement in relation to a project to be undertaken by Nandi Economic Corridor Enterprises Limited ("NECE" or the "Project Company"), for the construction

and operation of toll road near the city of Bangalore to be completed in three modules over 72 months from the financial closure ("Project") alongwith Nandi Infrastructure Corridor Enterprises Ltd. (NICE) who are the other sponsors (collectively the "Sponsors"). The Sponsors, in respect of module 1 of the Project estimated to cost around Rs. 836.30 crores, have agreed to arrange equity contribution for NECE, have agreed to arrange for a shortfall, if any, up to a maximum extent of Rs. 75.70 crores in the sale proceeds of saleable land, which is being acquired as a part of the Project and have agreed to arrange cost overrun, if any, in the acquisition of private land required for the Project. As of date, the Sponsors have procured commitment and / or tied up equity contribution for NECE to the extent of Rs. 158 crores leaving Rs. 17 crores to be arranged. In case the balance amount of equity capital is not tied up by December 2004, BFL is required to contribute / stand guarantor for the shortfall. However, we believe that it is unlikely that we will be required to make any financial arrangement under the Sponsor Support Agreement. Similarly, the Project Company has also tied up entire debt required for module 1 of the Project from various lenders without any recourse to Sponsors. Looking to the status of the land acquisition, commencement of construction & the expressions of interest received for the saleable land, we believe that the financial commitments including the balance equity tie up for module 1 will be procured by the Project Company. Further, the costs for modules 2 and 3, which are presently estimated at Rs. 150 crores and Rs. 50 crores, respectively (to be implemented within 48 months and 72 months respectively from the date of financial closure) are to be met out of the cash flows of module 1.

The debt raised by the Project Company is proposed to be secured by an Equitable Mortgage over the project land instead of English mortgage as originally contemplated. The lenders have consented to accept this subject to the Sponsors and the Project Company jointly giving a written undertaking to (a) pay stamp duty and all other sums that may be required to be paid in respect of the English Mortgage (or other deeds of mortgage, in case more than one is required) and the senior and junior trust deeds as and when executed, and (b) indemnify the lenders from any loss or damage that may be suffered or incurred in connection with any defect in title of the Project Company to any part of the project land forming part of the security in favour of the trustees, or for the acceptance of the Equitable Mortgage on any part of the project land instead of an English mortgage over the same. As per the present rate of duty payable on an English mortgage under the Karnataka Stamp Act, 1957 the stamp duty payable on the English Mortgage is approximately Rs. 46.27 crores. The Project Company, however, has pursuant to a written representation requested the Government of Karnataka for a full exemption from levy of stamp duty on the English Mortgage, which if accepted, would result in complete exemption from payment of stamp duty.

Exchange rate risk

With exports constituting about 41% of total sales for fiscal 2004, we are subject to fluctuations in exchange rates to the extent of receivables denominated in currencies other than Indian rupees. We also make some expenditures in foreign currency, but our earnings

in foreign currency surpass the expenditure in foreign currency by a large margin. We import some of our raw materials and capital equipment and our employees travel overseas for business purposes, costs of which are denominated in foreign currencies. Other expenditure in foreign currency includes interest payments on dollar denominated loans, legal and professional fees, commissions and discounts, etc.

Revenues earned by us in foreign currency (FOB value of exports and tooling charges) in the fiscal 2002, 2003 and 2004 were Rs. 1,108.03 million, Rs 2,717.21 million and Rs. 3,330.62 million respectively. Our aggregate CIF value of imports was Rs. 48.29 million, Rs. 473.37 million and Rs. 528.57 million in fiscals 2002, 2003 and 2004 respectively. Our aggregate expenditure in foreign currency was Rs. 131.04 million, Rs. 218.90 million and Rs. 346.42 million in fiscal 2002, 2003 and 2004 respectively.

Appreciation of the Indian rupee relative to the currency of our payables can decrease our earnings derived from export revenues, but we have converted our rupee debt obligations into foreign currency loans, which lower the interest costs and allows us to hedge on foreign exchange liabilities.

Interest rate risk

Over the past years, we have been able to reduce our interest costs due to the following factors:

- Reduction in debt levels over the past years
- Falling rates of interest in India
- Better negotiated loan agreements with lenders due to improving financial position of the Company
- Conversion of rupee debt into foreign currency loans

Working capital loans are usually linked to the prevailing Prime Lending Rate (PLR) and Short term interest rate, which is subject to change from time to time. Such changes apply to the working capital loans with prospective effect as such any upward revision in PLR / any significant change in short term interest rate can affect the interest cost of the Company. Further, the foreign currency loans raised by the Company are linked to a floating London Inter Bank Offered Rate (LIBOR) and are subject to periodic resets. Any upward revision in the LIBOR can have adverse effect on the Interest Cost of the Company.

Export Obligation

Upto March 31, 2004 we have imported certain equipments at concessional duty under Export Promotion Capital Goods (EPCG) Scheme and have availed duty concessions of Rs. 111.28 million. As a result we have assumed export obligations, which we are required to fulfil by fiscal 2011. The consequence of not meeting the above commitments would be a retroactive levy of import duty on items previously imported at concessional duty. Additionally the respective authorities have rights to levy penalties and / or interest for any defaults on a case-by-case basis. Based on future export plans and past performance, we expect to achieve the Export Obligations in the time period as per the flexibility permitted under the EXIM Policy.

List of small-scale undertakings to which the Company owe any sum, together with interest outstanding for more than 30 days as on March 31, 2004

As per the expert legal opinion obtained by us, with regards to the interpretation of the term, 'amounts outstanding and due' for more than 30 days, there are no amounts outstanding payable to the small-scale undertakings as on March 31, 2004 as stipulated by the notification issued on 22.02.1999 in the Gazette of India (GSR No. – 129(E) dated 22.2.1999) issued by the Department of Company Affairs, Ministry of Law, Justice and Company Affairs, Government of India.

Other Matters

Unusual or infrequent events and transactions

Other than as described elsewhere in this Letter of offer, particularly in "Management's Discussion and Analysis of Financial Condition and Results of Operations", to our knowledge there are no events that may be described as unusual or infrequent events and transactions.

Known trends and uncertainties

Other than as described elsewhere in this Letter of offer, particularly in "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations", to our knowledge there are no trends or uncertainties that have or had or are expected to have a material adverse impact on revenues or income of the Company from continuing operations.

Future relationship between costs and income

Other than as described elsewhere in this Letter of Offer, particularly in "Management's Discussion and Analysis of Financial Condition and Results of Operations", to our knowledge there are no known factors which will have a material adverse impact on the operation and finances of the Company and its subsidiaries, taken as a whole.

Total turnover of each industry segment in which the Company operates

We consider sale of steel forging products and revenue generated from general engineering activities as reportable segments. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" on page 42.

New product or business segment

Other than as described elsewhere in this Letter of Offer, particularly in "Business", to our knowledge there are no new business segments or material new products planned.

Seasonality of business

Our results of operations do not vary substantially from quarter to quarter and hence, we do not believe that our business is seasonal in nature.

Dependence on single or few customers

Other than as described elsewhere in this Letter of Offer, particularly in "Risk factors" on page iii, to our knowledge we have no dependence on a single or few customers and our business interests are spread across industries and customer segments.

Competitive conditions

We face competition in all our principal areas of business from Indian and foreign companies. See “Risk factors” on page iv and “Business” on page 65.

Significant Accounting and Regulatory Changes

Accounting Standard 22 on Deferred Taxes and Accounting Standard 18 on Related Party Transactions was adopted with effect from April 1, 2002. Adoption of Accounting Standard 22 resulted in significant increase in amount of income tax provision on account of deferred tax liability arising out of timing difference.

Significant Audit Comments

Note No. in audit report	Auditors’ comments	Management comments
3	As the amount of export incentive entitlements in the form of ‘Duty Exemption Pass Book Scheme’ (DEPB) introduced in 1997-98, could be estimated with considerable accuracy, the Company had during the year ended 31st March, 1999, accrued the export entitlements on the export of goods as against recognizing the same only on availability of credit. The income recognized, pending availability of credit, based on the accounting policy now adopted by the company in respect of DEPB entitlements aggregates Rs. 66,175,681/- (of which Rs. 2,690,745/- pertains to the exports made in the previous year) . As a result the profit for the year ended on 31st March, 1999 is higher by an equivalent amount.	This note is only a clarificatory note indicating that the Company has changed the method of accruing the export incentives in the year under audit as compared to the previous year and the impact of such change on the profit for the year. This is required as per the disclosure requirements prescribed by The Institute of Chartered Accountants of India.
8	The Company, for the year ended 31st March, 2000 changed its method of absorbing costs in the determination of the value at which inventories of WIP and finished goods are carried in the financial statements, in order that they are compliant to the method prescribed by Accounting Standards-2 Valuation of Inventories (Revised) issued by The Institute of Chartered Accountants of India, which have been made mandatory from April 1,1999. Consequently, the value of such inventory had increased by Rs.105,279,956/- and its consequential impact on the profit for the year being higher by Rs.91,177,819/- as compared to previous year.	This note is only a clarificatory note indicating that the Company has changed the method of valuing the Inventories of WIP and finished goods in order to be compliant with the Mandatory Accounting standard prescribed by The Institute of Chartered Accountants of India. The note therefore provides the impact of such change on the profit for the year. This is required as per the disclosure requirements prescribed by The Institute of Chartered Accountants of India.

- 9 In line with the Supreme Court's decision in the matter of Bharat Earth Movers Ltd. Vs. CIT, the Company had recognized (from the year ended 31st March, 2001) the privilege leave entitlement as an accrued liability in the year of rendering service by the employee as against the past practice of accounting for the same in the year of encashment or availment. As a result, of this change in the method of recognizing the liability of Privilege leave entitlements, the profit for the year ended on 31st March, 2001 is higher by Rs. 1,333,878/- which is not considered to have a material impact on the profit for the year and the liability in respect of the past years aggregating Rs. 41,701,479/- had been considered as a "prior period adjustment".
- 11 In accordance with the legal advice obtained by the Company on the matter of disputed claims of interest on Octroi duty, the company had written back to the profit and loss account, the unpaid amount of liability earlier provided for aggregating to Rs.36,065,066/-, as the said liability is said to be contingent and disclosed accordingly.
- As explained in the Management Discussion & Analysis section, with effect from fiscal 2001, we changed our system of accounting for the liability for leave encashment from payment basis to accrual basis. Accordingly, the charge to Profit & Loss account and liability at the year end were appropriately calculated using the actual leave balance and the salary relevant for the same. However, since this correction was done for the first time from fiscal 2001, for the purpose of adjusted profit and loss account for the Offer Document, we did not have adequate details in respect of actual leave balances of earlier year. In view of this, for fiscal 2001, the impact of this change in the accounting treatment has been shown as extra ordinary item without making corresponding corrections in the preceding years. However, the data for fiscal 2001 onwards is consistently in line with the amended system. The Company had provided an amount towards the interest on Disputed Octroi duty. The matter was heard and Hon'ble High Court of Mumbai directed the Company to pay part of the total amount provided as interest which was paid/deposited. Subsequently, based on the legal advice received by the Company on the matter of disputed claims of interest on Octroi duty, the company had written back to the profit and loss account, the unpaid amount of liability earlier provided, the Same being not payable any further aggregating to Rs.36,065,066/-, as the said liability is said to be contingent.

Significant Incidents

An incident took place on February 16, 2004 in the Hammer Shop at Mundhwa Plant of the Company. The failure of a compressed air pipe was identified as the primary cause of the incident. Unfortunately, few employees sustained injuries, and two of them succumbed to injuries. Pursuant to injuries and death caused to certain employees at the Mundhwa Plant, ('Plant') a show-cause notice was issued to Mr. G. K. Agarwal as the Occupier of the Plant, asking him to show-cause as to why proceedings should not be initiated against him for breach of the provisions of Section 7A(2)(a) of the Factories Act, 1948. Mr. Agarwal has appropriately replied to the show cause notice. Thereafter, summons have been served on Mr. Agarwal by the court of the Chief Judicial magistrate, Pune. No amount is ascertainable for this proceeding. This incident caused hammer shop to remain shut for a period of about 3 weeks and has since commenced operations. The affected area accounts for less than 10% of the total turnover of the Company and as such, the impact was not significant. Except for the disruption in the above area, all our manufacturing operations of the Company were functioning as usual.

Directors & Officers of Liability Insurance

We have purchased a Directors & Officers Liability Insurance for an overall sum Insured of Rs. 100 million to protect the Directors & Officers our Company from the legal liability including the cost of defence. The policy covers the liability arising out of certain wrongful acts in the insured's capacity as a director, officer or employee of the Company.

Material Development post audit

While announcing our quarterly audited results for the quarter ended June 30, 2004, we have informed the Stock Exchanges that we have recently won two major long term contract for material heavy duty diesel engine crank sharp from leading global engine manufacturers. These orders will help us gain entry into global power train business.

Save as stated elsewhere in the Letter of Offer, there is no subsequent development after the date of the Auditor's Report, which will have a material impact on reserves, profits, earnings per share and book value of the Company.

OUR INDUSTRY

The information presented in this section has been extracted from publicly available documents, which have not been prepared or independently verified by the Company, the Lead Manager or any of their respective affiliates or advisors or the sources referred to herein.

In this Section, we have relied on and referred to information regarding the industry and competitors from market research reports, and other publicly available sources. Although we believe that this information is reliable, we have not independently verified the accuracy and completeness of the information. We caution you not to place undue reliance on this data.

Over the past few years, the automobile industry has become increasingly dependent on outsourcing for meeting its requirements for forged parts. Original Equipment Manufacturers (OEMs) have started increasing their focus on core activities, such as vehicle design, research and development, vehicle assembly, marketing and brand management while outsourcing nearly 75% of the vehicle to auto parts manufacturers, which has opened opportunities for the auto parts manufacturers. This shift in the automaker's role from manufacturing to engineering, conceptualization, designing and marketing has redefined the relationship between OEMs and suppliers and has increased the need for the automakers to depend on outsourcing in a cost effective manner. We provide core forged parts, such as crankshafts, axle beams, steering knuckles and connecting rods to the automobile industry globally. While we provide forgings to non-automobile industries as well, we are predominantly dependent on the automobile industry.

Global Forging Industry

The U.S., Canada and Mexico based manufacturers of custom impression forgings (Custom impression forging means closed die forging where a set of dies with product design carved on it are used to convert the hot steel billet into the forging of the shape and design as required by the customer), the segment that we specialize in, reported aggregate sales of about US\$ 4bn in 2002. This includes output from 300 plants of 250 forging companies in these three countries. Automotive applications at US\$1.5bn accounted for 37.5% of total sales, while aerospace applications came second at 24%. As non-US automobile production accounts

for about 70% of the global auto production, the total market for automotive forgings is estimated at US \$5bn. Since we are present in the non-automotive forging segment as well, in our assessment our addressable market is larger than US \$5bn.

We are one of the largest suppliers of forged parts in the auto parts industry globally. ThyssenKrupp Automotive Group, Sumitomo Metal Industries, Japan (along with its joint venture, International Crankshaft, Inc in the US), and American Axles and Manufacturing are among the largest players in the industry. Transmission systems companies such as Dana Corporation and ArvinMeritor, also have large captive forging units that they are increasingly outsourcing, while themselves focusing on higher value added activities, such as design of systems and final assembly.

Indian Forging Industry

As mentioned above, the Indian forging industry is an integral part of the Indian auto parts industry. The forging industry supplies forgings ranging from crankshafts, camshafts, connecting rods, axle beams and steering knuckles for the four wheeler industry to kick starters for the motorcycle industry. According to Capitaline, the total capacity of the industry is approximately 800,000 tons per annum (tpa). The industry structure reveals four broad segments viz. large, medium, small, and tiny. Thus, while the large sector consists mere 9 units, the medium sector consists 31 units. The small sector has close to 250 units. No number can, however, be put to the tiny sector. The structure indicates that there is maximum competition and the lowest margins for the units in the small and tiny sector, which are typically involved in making small-sized products catering primarily to the replacement market. Apart from these, some auto majors also have their own captive forging plants. It is, however, pertinent to point out that with the recent moves to reduce vertical integration by automakers and increase outsourcing of parts, captive plants owned by automobile makers are being shut down providing better opportunity to the merchant-forging units. Forging plants are primarily small or medium-sized companies. About 40% of them employ between 20 and 99 workers, and more than 75% have less than 250 employees. We are the largest player in the organised segment. The other leading players are Amtek Auto, Super Forging, Amforge, Ahmednagar Forgings, E L Forge, India Forge and M M Forgings.

Table: Indian Forging Industry Overview

Indian Forging Industry - Listed Companies

		(Figures in Rs. million)		
Company Name	Finished Goods	Sales	Export Sales	PAT
Bharat Forge Ltd.	Steel Forgings, Front Axle Assembly & Comp., Crankshafts - Finished machine, Crankshafts, Aluminium, Road Wheel, Engineering Equipment General, Front Axle Assembly, Couplings, Bar Cutting bandsaw, Material Handling Equipments, Hydraulic/Mechanical Presses, Engineering Equipment - General Crankshafts, Connecting rod assemblies, Steering Knuckles	8,669.2	3,331.0	1,249.1
Amtek Auto Ltd.	Pivot Arms, CV Joint Bells, Cranks, Torque links, Case Component	4,122.5	-	424.2
Amforge Industries Ltd.	Forgings, Connecting Rods, Wheels - Auto Tractor, Heat Treatment, Files, Components - Tractor Wheel	1,481.4	16.7	53.9
M M Forgings Ltd.	Steel Forgings	831.6	576.0	65.5
Super Auto Forge Ltd.	Base Balls-Iron & Steel	635.6	370.8	193.4
Taparia Tools Ltd.	Hand Tools - Forged	541.2	-	30.1
India Forge & Drop Stampings Ltd.	Steel Forgings & Steel Assemblies	634.8	13.0	6.5
Krishna Engineering Works Ltd.	Railway Items, Steel Forgings, Automobile Components, Tractor Components, Brake Drums, Auto Components - Others	364.7	-	(120.1)
Micro Forge (India) Ltd.	N.A.	269.6	N.A.	11.4
EL Forge Ltd.	Forgings	398.9	N.A.	1.4
BCL Forgings Ltd.	Forgings	152.8	-	(3.9)

Note : All figures for the year ended March-03, except Bharat Forge and India Forge & Drop Stampings (March 04) Super Auto Forge (March-02) & Amtek Auto (June-03 - 15 months). Company related data with respect to other tables mentioned in this Letter of Offer have been sourced from the Auditor's Report. It may be noted that the data presented by "Capitaline Plus" is different from the Audit Report in case of Bharat Forge Limited. As per Audit Report the net sales, export sales (FOB Value) and PAT of Bharat Forge Limited for fiscal 2004 was Rs. 7,830.98 million, Rs. 3, 224.11 million and Rs. 1,249.07 million respectively.

Source : Capitaline Plus

Competitive Position of India in Auto Parts Industry

India has a strong competitive advantage to position itself as a sourcing partner of choice in the global auto parts industry against competitive choices like China and the Philippines. With its highly skilled and educated workforce and primarily English-speaking engineers and managers, quality conscious manufacturers, a low-cost manufacturing base (high machine tool capability, tooling expertise and local sourcing of raw material), the capability to handle complete programs spanning parts design, tooling, prototyping, parts development and system integration, and linkages with the global supply chain, India has the potential to become the chosen sourcing partner for the global auto parts industry against competitive choices like China and Philippines. In the past few months, several global automotive OEMs and Tier 1 companies have intensified their efforts to procure auto parts from suppliers in India and China. The Indian industry has sensed an opportunity to prove its expertise in dealing with state-of-the-art automotive technologies and integrating into the global automotive supply chain, either as Tier 2 or 3 suppliers or as value providers through engineering and software services. A few Indian suppliers have started supplying to the OEMs/Tier 1 companies for their local

requirements in India. These suppliers are now attempting to qualify as global suppliers.

Auto Component Industry: Comparative Ranking Perception Analysis of Countries (Asia), 2003

Parameter	India	China	Thailand	Taiwan
Quality of supply	1	4	2	3
Ability to supply consistent quality	3	4	2	1
Price competitiveness	4	1	3	2
Design and engineering capability	1	4	3	2
Customer / After sales support	3	4	1	2
Maturity of the auto components industry	1	4	3	2
Government regulations	4	3	1	2
Attractiveness of the domestic market	2	1	3	4
Compliance and transparency	2	4	3	1

Source: Frost & Sullivan

Quality of products

India has been ranked top on the parameter of product quality. The domestic auto component industry has taken great strides on this aspect in the last few years. The entry of vehicle manufactures

such as Hyundai Motor, General Motors, Ford Motor and Volvo has given an impetus to creating greater quality consciousness. Domestic component firms have been induced to upgrade manufacturing facilities and invest more in research and development. For example, Ford India supplies completely knocked down kits of its “Ikon” to South Africa and Mexico. This has been possible as domestic suppliers to Ford have achieved quality levels that match global requirements.

At present, a majority of component manufacturers have quality certifications such as ISO and QS that has helped them established credibility in the international markets. According to Frost & Sullivan, there are currently 337 companies with ISO-9000 certification, 193 with QS-9000 certification, 41 with ISO-14001 certification, and 25 with TS-16949 certification. These certifications have helped companies to achieve process improvements.

The process documentation has helped foreign buyers to evaluate companies based on international parameters and quickly approve the supplies. The improvement achieved by the industry in terms of quality levels is best reflected by the fact that three companies that have received Deming’s Award. These are Sundaram Fasteners, Sundaram Clayton, and Sundaram Brake Linings.

Indian manufacturers have also adopted concepts such as Total Quality Management (TQM), Total Productivity Management (TPM) and Six Sigma. The concept of quality and quality certifications are no more board room jargons, but tools used in shop floor to continuously improve quality. Thailand is perceived to be closest to India in terms of quality standards. The presence of leading vehicle manufacturers such as Toyota Motors and Honda and auto component manufacturers such as Delphi Automotive Systems and TRW Automotive has helped companies in Thailand to upgrade quality. For Toyota, both India and Thailand are important manufacturing bases in Asia outside Japan. While Thailand supplies the engines required for vehicles manufactured in India, transmissions requirement is to be fulfilled out of India. For global OEMs and Tier I companies, India and Thailand offer opportunities for quality supply of parts.

Design and Engineering Capability

Design and engineering capabilities are important for any country to create a sustained competitive advantage in the global market. India is ranked at the top in terms of this parameter. Over the years, design and engineering skills have been the intrinsic strength of Indian companies although the expenditure on research and development was fairly limited to large companies. The closed economy in the 1980’s and early 1990’s required Indian companies to design and produce all the components that were needed for the domestic industry. Although the technology was lacking, a wide network of engineering colleges and polytechnics helped to create a large body of professionals to cater to the need of the local companies. The pool of talent has helped Indian auto component manufactures in designing new products at substantial low cost of investments. At present India has a well developed tooling and casting industry that has achieved success in catering to the needs of the global market. Fluent English speaking engineers provides India the necessary competitive advantage when compared

to countries such as Thailand and China, where communication becomes an issue. The current interest in India as an outsourcing base for global OEMs can be mainly attributed to the engineering and design capabilities of Indian auto component manufacturers. One good example of this is Toyota’s decision to build manufacturing facility for auto transmissions in Bangalore. A prime reason for choosing India is its industry’s strength in making high quality tools and dies.

Maturity of the Auto Component Industry

The Indian auto component industry is highly matured when compared to countries such as China and Thailand. In the case of India, there is a clutch of home grown companies that dominated the vehicles market, especially the commercial vehicles, tractors, multi utility vehicle, and two-wheeler segments. The major component manufacturers were home grown conglomerates such as the Kalyani Group, TVS Group, Rane Group India and Amalgamations Group. Although many of the companies had joint venture partners, the partnership was mostly restricted to transfer of technology. With the entry of global auto majors in the mid 1990s, the maturity level of Indian manufacturers further improved with global norms being adopted.

In comparison, the Chinese market was highly protected with ownership of vehicles controlled by the Government. China also opened up its auto sector for foreign investments much later than India. These factors have hindered development of the auto component industry in China as there was no incentive to improve on quality levels. However, with the Chinese economy continuing to grow strongly and global Tier I companies setting up production bases, it will certainly kick start several changes within the industry making it more competitive. The same is the case with Thailand that has become the global hub for production of pick up trucks and attracted names such as Delphi, TRW and Denso Corporation.

Attractiveness of the Domestic Market

The demand level in the domestic market is another important criterion that affects the development of the industry. China has opened up its auto industry to foreign investment and there is a rush of companies entering into China through joint ventures. One of the major reasons for this rush into China is the rapidly growing demand for passenger cars brought about by long years of economic growth. A few years ago, private ownership of automobiles was highly restricted. With the removal of these restrictions, the Chinese market is expanding at a rapid pace with growth in volumes of over 50 percent annually. China is likely to be the largest market for automobiles by 2010.

In contrast India opened up its market to foreign investments in 1992. Sales of new vehicles in India were more than in China until 1999. While the Indian market continued to grow at a sedate pace, China leapfrogged ahead with car sales crossing the 1 million mark in 2002. In India, on the other hand, car sales remained stagnant at 600,000 units in the FY01 to FY03 period.

Skilled Labor at Low Costs

The low cost of labour is another significant strength of the Indian auto component industry. Components that are highly labour

intensive can be manufactured in India at lower cost primarily due to lower wage levels of skilled workers. The cost difference is significant throughout the value chain with highly skilled engineers and managers costing significantly lower than their international counterparts in developed countries such as the United States. A comparison of skilled labour costs in Europe and India point to the wide gap in the labour rates. A skilled person in Europe can earn as much as \$29 per hour while skilled labour in India earn as low as euro 5 per day. This difference factored in with the productivity gaps still provides an advantage for India that acts as strength on the Indian auto parts industry.

Compliance and Transparency

India also performs well in the area of compliance and transparency. India's strength lies in the fact that the country has a well-established legal system. The country provides recourse for legal redress if contracts and agreements are dishonoured. The Indian legal system uses English as the communication medium. This helps in increasing the comfort level of a potential investor.

Outlook on Outsourcing from India

Exports from India have been to two broad categories of customers: The global Tier-I/OEMs and the after-market. Traditionally, exports for after-markets accounted for more than 75%, with about 25% going to the global Tier-I and OEM customers. Over the last 3 years, the share of Tier-I/OEM exports has risen substantially and today this is closer to 40% for OEM/Tier-I and 60% for after-market. The MOU Policy followed by the Ministry of Commerce, under which the new vehicle JVs had to fulfill a mandatory export obligation, triggered this change in the export structure. As exports of fully built vehicles were not very easy, most new vehicle manufacturers like Ford, Daewoo, General Motors, DaimlerChrysler and Fiat set up plants to export auto parts from India to meet their export obligations. These exports were largely for their global manufacturing operations and not just for the after-market. What started, however, as an obligatory requirement soon turned full circle, with OEM and Tier-I suppliers realizing that India offered them an excellent sourcing base in view of the extremely capable, cost competitive and quality conscious parts industry. This led to more and more exports being directed to the international OEMs and Tier-I companies.

According to Automotive Component Manufacturers Association of India ("ACMA"), exports of auto parts have increased at a CAGR of 22%, from Rs 10.3 billion in FY97 to Rs 36 Billion in FY03. The share of exports in the industry (organized and unorganized) has also grown from 9% in FY97 to 16% in FY03. According to Frost & Sullivan, in FY03, automotive parts exports rose by 38.4 percent year-on-year after falling by 7.5 per cent year on year in FY02. There are two major reasons behind this rise. First, there has been an increase in exports by domestic

subsidiaries of global OEMs and Tier I manufacturers such as Ford India, Visteon and Delphi Automotive. Second, select Indian companies such as Bharat Forge managed to increase exports to OEMs and Tier I companies.

Frost & Sullivan estimates that the largest group of exporters to be that of subsidiaries of global OEMs and Tier I companies. In FY03, Ford India saw a sharp rise in exports of CKD units and components to around US\$37.0 million. Delphi Automotive India exports were valued at around US\$17 million. It is targeting exports worth US \$30-35 million in FY04. MICO exported components worth around US \$43.5 million in FY03. The company expects exports to grow at around 20 to 22 per cent in the forecast period, higher than the current 18 per cent per annum. Motherson Sumi's exports are expected to grow to \$135.0 million by FY09. Synergies Dooray is targeting exports of US \$20.0 million in FY04. Volvo India has plans to export components worth US \$800 million in the next five years.

Direct exports to the after-market by Indian companies are also likely to be a growth driver. This has traditionally been the backbone of India's exports of auto parts. The international after-market has always been a highly attractive market for the Indian industry due to the fact that lower volumes were involved, quality and delivery specifications were not as stringent as OEM requirements, sourcing and manufacturing technology was not a criteria and also since the size of the accessible market was much larger than the OEM market. On the whole, the quality requirement in the global after-market has always been more stringent than the requirements of the domestic market. Consequently, the parts industry has perhaps the highest number of ISO-9000 and QS-9000 companies in any industry sector in the country.

Exports of parts following export of Indian vehicles required to service these vehicles would also be growth driver. The vehicle industry in India is also making concerted efforts to export cars, commercial vehicles, two-wheelers and tractors to destinations like Africa, South-East Asia and even Europe. This will also open up wider opportunities for the parts industry to export Indian made parts in these after-markets. Exports can also follow if Indian vehicles are manufactured or assembled in other countries. Today, considerable import of parts is taking place into India as CKD/SKD kits. These imports are taking place to service the parts requirements of the global vehicle manufacturers who have assembly plants in India. Likewise, if some of the Indian vehicle manufacturers set up assembly plants in other countries, where there would be a demand for Indian vehicles, there could be substantial exports of Indian parts to these assembly plants for manufacturing the vehicles in those countries.

OUR BUSINESS

Brief History and Overview

Brief History

We are the flagship company of the Kalyani Group which has significant presence primarily in the auto component sector in India. The following table gives the major companies of the Kalyani Group which are engaged in the automotive industry related activities.

Name of the Company	Descriptions of major products	End use
Bharat Forge Ltd.	Automotive components such as crankshafts ¹ , front axle beams ² , connecting rods, steering knuckles ³ etc	Engine and chassis components for various automotive applications such as passenger cars, commercial vehicles, utility vehicles etc.
Kalyani Brakes	Automotive, air and hydraulic brake components.	Braking systems in the passenger car and two wheeler segments.
Automotive Axles Ltd	Axle assemblies	Commercial vehicle applications

¹ Crankshafts are engine parts which transmit the power generated in the cylinder through connecting rod to the main drive of the vehicle.

² Front axle beam is a chassis component which supports the front two wheels of the vehicle

³ Steering knuckle is also a chassis component and a part of the front axle assembly and does the operation in the process of steering the vehicle.

We were established in 1961 as Bharat Forge Company Limited by Dr. Neelakanth Kalyani with our registered office at 13th Elphinstone Road, Khadke, Pune 411 003. In 1964 the registered office was transferred to Mundhwa, Pune Cantonment, Pune 411 036, Maharashtra, India. We commenced our production in 1966. The name of the Company was subsequently changed to Bharat Forge Limited on April 30, 1986.

Some of our major milestones are as follows:

1961	Incorporation
1962	Technical agreement with SIFCO, USA for hammer forging technology
1966	Start of hammer shop commercial production
1972	Execution of maiden export order to Greece
1984	Technical agreement with Tokyo Drop Forge, Japan for technology upgradation and quality improvement for hammer forgings
1985	Entry in the erstwhile USSR market by winning a large contract for under carriage components
1986	Technical agreement with Jidosha Buhin Kogyo, Japan for machining of front axle beams
1990-91	Major breakthrough in the developed markets of Japan, USA and UK for the critical suspension and

engine components like front axle beams and machined crankshafts

1991	Implementation of a large US\$50 million forging facility upgradation programme by commissioning of 16000 MTs and 6000 MTs Weingarten (Germany) presses
1993	ISO 9002 accreditation
1996	Technical agreement with Metalart Corporation, Japan for small forgings and commissioning of 4000 MTs and 2500 MTs mechanical press lines for small forgings
1997-98	Establishment of new machining facilities for crankshafts, front axle beams and heavy steering knuckles
1999	QS 9000 accreditation
2000	Implementation of a US\$30 million forging facility expansion programme by commissioning of second 16000 MTs Weingarten (Germany) press and 2500 MTs mechanical press lines
2001	Windmill Division and Investment Division were vested in BF Utilities Limited vide a Scheme of Arrangement under Section 391 and 394 of the Companies Act, 1956
2002	Acquired the order book of Dana Spicer Europe Limited (Kirkstall Forge Division) and got access to new customers in Europe and strengthen our presence in Oil and Gas Sector.
2003	Acquired German operations of Carl Dan Peddinghaus GmbH & Co., Germany in an asset purchase deal through our wholly owned subsidiary, CDP Bharat Forge GmbH

As can be seen from the table above, we have been enhancing / increasing our production capacities from time to time. These expansions have been financed through internal accruals, equity and debt. For details of our share capital history, please refer to page 12 of this Letter of Offer.

For year ended March 31, 2004, our revenues were Rs. 8,511.39 million, representing growth of 31.97% over the previous year. The profit after tax for the same period was Rs. 1,249.07 million, representing growth of 54.03% over the previous year.

Main Objects of the Company

The Company's main objects as set forth in its Memorandum of Association, *inter-alia*, are:

- To carry on business as ironmasters, ironfounders, ironworkers, steel-makers, blast furnace proprietors, brassfounders and metal makers, refiners and workers generally, shipbuilders and shipwrights, dock and wharf proprietors, colliery proprietors, ore importers and workers, sandblast workers, mechanical engineers, electrical engineers, constructional engineers, marine engineers, civil engineers, consulting manufacturers, millwrights, wheelwrights, cement

and asbestos manufacturers, wood and timber merchants, joiners, woodworkers, manufacturing chemists, quarry owners, brick and tile manufacturers, galvanisers, machinists, japanners, annealers, welders, enamellers, electro and chromium platers, polishers, painters, warehousemen, storage contractors, garage proprietors and oil merchants, and contractors generally.

- To carry on business as manufacturers and repairers of and dealers in, forgings, castings, guns, projectiles, plates, boilers, engines, stoves, screws, nails, sewing machines, machinery, presses, implements, gears, motor cars, tools and engineering products and supplies of all kinds, motor lorries, omnibuses, coaches, tramcars, locomotives, railway carriages and trucks, and other vehicles; aeroplanes, seaplanes, airships and other aircrafts ironmongery and hardware, and wireless goods.
- To carry on business as locksmiths, tinsmiths and blacksmiths.
- To carry on business as manufacturers of and dealers in, nuts, bolts, screws, nails, plugs, latches, fastenings, chains, and similar goods.
- To carry on business as manufacturers, founders and suppliers of, and dealers in, aluminum castings, boxes, fittings, powder, foil, solder, and aluminum wares of all descriptions.

The Object clause of our Memorandum of Association enables us to undertake our existing activities. Since the present Issue is primarily for expansion and upgradation of our existing facilities, no alteration to the Object clause of our Memorandum of Association is required.

Changes in Memorandum of Association

Since our incorporation, other than the routine increase in the authorized capital of our Company the following changes have been made to our Memorandum of Association,:

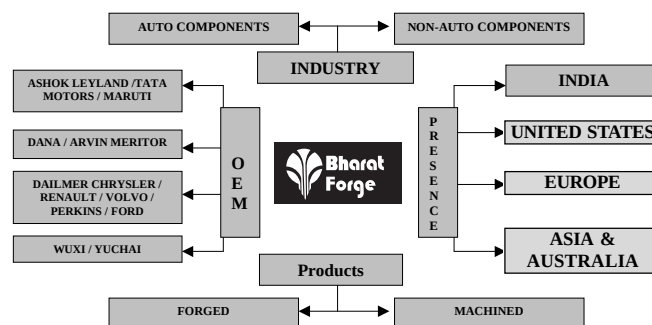
Date	Changes
1.5.1980	Alteration to the objects clause to enable the Company to undertake additional activities. For details please refer Sub-Clauses 46 to 49 of the Memorandum of Association, which is available as "Material Documents for Inspection"
30.4.1986	The name of the Company was changed from "BHARAT FORGE COMPANY LIMITED" to "BHARAT FORGE LIMITED" effective from 30.4.1986.
13.1.1988	Alteration to the objects clause to enable the Company to carry on the business in India or abroad of hire purchase finance, leasing and financing of lease operation of all kinds. For details please refer Sub-Clause 51 of the Memorandum of Association, which is available as "Material Documents for Inspection"
23.1.1992	Alteration to the objects clause to enable the Company to undertake additional activities. For details please refer Sub-Clauses 52 to 54 of the Memorandum of Association, which is available as "Material Documents for Inspection"

16.6.1994

Alteration to the objects clause to enable the Company to undertake additional activities. For details please refer Sub-Clauses 55 and 56 of the Memorandum of Association, which is available as "Material Documents for Inspection"

Over the period of time since inception we have increased our authorized share capital. The last amendment to the authorized capital was made on March 18, 1995, when the same was increased from Rs. 700 million to Rs. 900 million.

Overview



We are forging company in India with a customer pool comprising of leading domestic and international automobile and auto component manufacturers and are one of the technologically advanced commercial forging companies in India. We supply front axle and engine components to the leading commercial vehicle manufacturers in the world. We were the highest in terms of export sales amongst auto component manufacturers in India last year [Source: Automotive Component Manufacturers Association of India ("ACMA")]. Our consistent focus on heavy, specialized and complex forgings has enabled us to cater to the varying needs of our customers in various countries. Our ability to deliver consistent quality of products with an early focus on export market has enabled us to be a leading supplier of auto components to leading OEMs in the world.

We started with a clear strategy to cater to the heavy forging requirements of various industries. Having established our presence in the heavy forging industry, we shifted our focus to providing value added fully machined ready to use forged products, which provide us better margins and recognition. Having set up the machining facilities and having established ourselves in the domestic market, we geared ourselves for tapping the large and fast growing export markets. We now intend to move towards becoming a solution provider in both small and heavy forgings.

We manufacture wide range of forgings and machined components primarily for automotive industry. We also provide range of forgings and machined components for railways, earthmoving, cement, sugar, steel, coal, ship building and oil field industries. Our facilities are also equipped to provide customized general engineering equipments.

Over the past years we have invested considerably in setting up our infrastructure facilities, which enable us to meet the complex forging needs across industries. Our facilities include two high pressure 16,000 MT Weingarten presses and our total forging capacity is 102,966 MT annually. Besides we also have an extensive machining facility to manufacture machine crankshafts and front axles beams of 413,000 units and 374,000 units per annum, respectively. Besides we also have our own metallurgical testing facility. These facilities have enabled us to win confidence of our customers to deliver them the high quality products consistently.

At present we are employing about 2,700 employees, including around 1,000 engineers of which about 300 are degree holders. We are a company operating from India and we supply auto components to global Tier I and Original Equipment Manufacturers.

With reference to the automotive industry, Tier I customers are manufacturers of assemblies and aggregates which gets installed in the vehicle as a complete system. These assemblies and aggregates are made of various individual auto components. For example a machined crankshaft is an auto component, whereas an engine where it is used is a complete system.

Original Equipment Manufacturers ("OEM") are the producers of fully assembled vehicles using the various systems mentioned above for e.g. a vehicle manufacturer will use various systems such as engine, braking system, suspension system, seating system etc.

We are a beneficiary of the increasing trend towards auto component outsourcing as our clients seek high quality auto components at a competitive cost. The key strengths that differentiate us from our competitors include:

- production facilities recognised by ISO 9002 and QS 9000 certifications, highly developed engineering capabilities and scalable business model enables us to deliver large, complex and critical forging requirements on time and of high quality standards;
- our client relationship and project execution model that has enabled us to build long term relationships with large OEMs for whom we seek to provide their increasing requirement of forging solutions as also to attract other global OEMs;
- our ability to develop one stop shop forging solutions from our research and development efforts coupled with our delivery expertise at competitive costs enables our clients to reduce the time from placing of the orders to getting their deliveries and in turn lower "time to market" of our customers; and
- developed engineering capabilities and scalable business model enables us to deliver large, complex forging requirements on time and at high quality standards;

Thus our capabilities enable us to provide end-to-end forging solutions in diverse and complex areas, including facilities to provide ready to use validated products at competitive cost. Our auto component industry expertise and extensive research and development allow us to customize products for our clients' particular needs. Facilities in India allow us to access highly-skilled engineering professionals and deliver products on a round-the-clock and cost-effective basis to all our clients.

We currently serve over 150 customers, both in India and abroad including marquee global customers such as Daimler Chrysler, Arvin Meritor, Dana Corporation, Ford, Renault Vehicle Industry etc. Besides we have leading Indian automobile and engine manufacturers like Tata Motors, Ashok Leyand, Cummins, Tata Cummins, Mahindra & Mahindra and Maruti. For the year ended March 31, 2003 and March 31, 2004, we had total revenues of Rs. 6,449.55 million and Rs. 8,511.39 million and profit after tax of Rs. 810.90 million and Rs. 1,249.07 million respectively.

Our Competitive Strengths

We believe that we have several competitive strengths that provide us significant opportunities to grow our business in the forging industry. Our principal competitive strengths are as follows:

Large Independent Forging Player

We are forging company in India with a customer pool comprising of leading domestic and international automobile and auto component manufacturers and are one of the technologically advanced commercial forging companies in India. We supply front axle and engine components to the leading commercial vehicle manufacturers in the world. We have been in forging industry since 1966. Our early decision to focus on heavy forgings and targeting export markets, when others in the Indian forging industry focused on small forgings, has enabled us to become a leading forging company in India and the world. As of March 31, 2004, we have over 150 customers including over 30 international customers and over 120 domestic customers. We believe that our large scale operations provide us several competitive advantages in executing orders for our Indian and international clients:

- capability and proven track record in executing large-size orders with total annual revenues in excess of Rs. 1,300 million by effectively utilizing our facilities and skilled resources available within the organization;
- recognized image for quality and execution skills with a premier international client base; and
- flexibility to scale up our operations in structuring the delivery mechanism to effectively meet our clients' business objectives in a cost-effective manner.

Integrated facilities with extensive Repository of Tools

Over the years we have invested extensively in building up our facilities. Today, we have diverse production facilities comprising of two 16,000 MT Weingarten presses. Besides we also have 2,500 MT to 6,000 tons of Press lines, which enable us to produce practically the entire range of forgings from 0.5 kgs to 350 kgs. Our IT enabled business process comprises of comprehensive Computer Aided Designing / Computer Aided Manufacturing/ Computer Aided Engineering facilities and design softwares such as UG-II, Catia, Ideas and ProE. We also offer designing, machining, heat treatment, all under one roof. Our facilities are ISO 9002 and QS 9000 certified, which provide additional comfort to our clients. Over the years we have developed an extensive base of products design and development skills within the Company. We believe that our expertise and experience in the industry and particularly in automobile industry forgings has enabled us to implement

complex systems for our clients in a high-quality and cost-effective manner. Our expertise in automobiles forgings has enabled us to develop customized forgings for our clients at short notice. We have also built the ability to advise our clients on the design of their components, which may reduce its weight, cost and improve its efficiency. We also have our in-house tool room to repair and develop dies. This not only eliminates our dependence on outside agencies, but also reduces product development cost and cycle time. Thus extensive repertoire of these facilities has helped us in winning our deals while negotiating with our client by enabling us to offer a short and predictable product design cycle. In order to further develop advanced skill sets within our organization, we focus on research and development, through our internal research and development centre. Further single location facility for forgings also enables us to centralize our operations and thereby derive economies of scale.

Premier Client Base

We have about 150 customers, both in India and abroad including marquee global customers such as Daimler Chrysler, Arvin Meritor, Dana Corporation, Ford, Renault Vehicle Industry etc. Besides we have leading Indian automobile and engine manufacturers like Tata Motors, Ashok Leyland, Cummins, Tata Cummins, Mahindra & Mahindra and Maruti. For each of these clients, we are executing multiple assignments involving different product specifications. For the year ended March 31, 2004, the clients providing us revenues in excess of Rs. 100 million were 18 in number. For each of these clients, we have established significant production capacities to meet their requirements. As a result of this commitment, we believe that these clients are likely to provide a high level of repeat business. Further, by working on projects with these clients, our engineers are consistently exposed to the latest technologies and manufacturing processes that we are able to leverage to provide better forging solutions in future.

We believe that our client relationship and product delivery record has enabled us in developing long term relationships with our large clients. Some of our domestic customers include Tata Motors, Ashok Leyland and Maruti. An early focus on export market and move to service higher tonnage market, provided us an edge over our competitors in tapping global customers across continents. Some of our global customers include Dana, Ford Motor Company, Arvin Meritor, Daimler Chrysler, Renault, Caterpillar Perkins, Wuxi and Yuchai. With acquisition of German operations of Carl Dan Peddinghaus GmbH & Co., Germany, we intend to get access to clients like BMW, VW Audi and General Motors. Thus we have de-risked ourselves from dependence on few customers.

Group leverage

Our promoter group has presence in virtually all the major auto component segments. This helps us to better understand business dynamics of our customers understand the trends and identify opportunities. Also most of our inputs are tied up and provided by companies promoted by our promoters. For example strength of products is key in forging industry, which in turn is dependent on quality of steel. Access to good quality steel, which is approved by majority of our customers, is procured from our group companies Kalyani Carpenter Special Steels Limited and Kalyani

Steel Limited. Steel requirements of upto 80% are procured from our group companies, Kalyani Carpenter Special Steels Limited and Kalyani Steel Limited. We believe that this assures our customers of the reliability of product and supply as well as of consistency of products. We also have presence in other auto-component segments, which enables us to understand the industry trends and prepare accordingly. For example our group company, Automotive Axles Limited is into manufacturing of rear axle assemblies and Kalyani Brakes is into manufacturing braking systems for passenger cars and utility vehicles.

Our Business Strategy

Our objective is to be a leader in providing the comprehensive range of solutions in forging industry to our customers. We intend to focus on building long-term client relationships by delivering innovative, high quality products and solutions and services to our clients. We intend to continue to invest significantly at our facilities, in order to develop opportunities in newer markets and newer products as a means of building a competitive advantage.

We intend to pursue the following strategies aggressively in order to grow our business:

Maintain and Expand Long-term Client Relationships with large clients

We focus on building long-term relationships by offering the entire range of forging services. Our business model is based on client relationships that are established over period of time rather than on a project-based execution approach, which enables us to increase our market share with our existing clients by offering new and improved products to these clients, effectively moving up the client value chain. As a consequence of this approach, we have established multi-product relationships with clients such as Dana Corporation, Arvin Meritor, Mahindra & Mahindra, Tata Motors, Cummins and Ashok Leyland. We expect to increase the number of such multi-product client relationships on long-term basis and thereby increase our revenue share from such clients in the future. For the year ended March 31, 2004, the number of clients providing annual revenues in excess of Rs. 100 million was 18, as compared to 9 and 11 for the years ended March 31, 2002 and 2003, respectively.

De-risking through expansion of Geographies and export markets

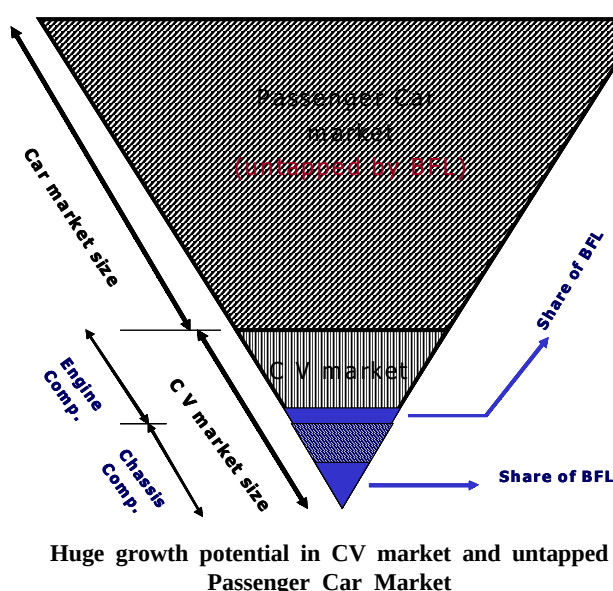
For the year ended March 31, 2002, 73% of our sales comprised of domestic sales. US sales accounted for 24% of our total sales for the same period. As against this, for the year ended March 31, 2004, the domestic sales accounted for 59% of our total sales and US sales accounted for only 18% of our total sales. During this period the Company has grown sales to the European region from 2% to 9% and Asia Pacific (other than India) from 1% to 14%. In this manner we have substantially de-risked our business model, which is primarily the result of following two actions:

- Acquisition of order book from Dana Kirkstall, which enabled us to widen our footprints in Europe and strengthen the Oil & Gas sector business.
- Entry into Chinese markets by procuring orders from Wuxi Diesel and subsequently from Yuchai

We expect the percentage of our revenues that come from Europe region to increase in the coming years as a result of our recent acquisition of CDP, which was one of the steps taken by us for de-risking. We intend to continue with our strategy to expand our geographic presence either through direct marketing or capacity acquisition or customer acquisitions.

De-risking through expansion of our segments and products

With a clear thrust on increasing exports, we intend to target new products and new market segments. We currently are one of the leading front axle and engine component manufacturers for the commercial vehicles in the world. Passenger car component constitute large percentage of the total forging market in the world and we have just made our debut in this segment. Our core focus for the near future is on passenger car components, including chassis components and machined diesel engine crankshafts, which require high pressure forgings.



Invest in technology and facilities

To meet the increasing global demand and to maintain our competitive edge we intend to continue to invest in our facilities. In this regard we intend setting up additional facilities for heavy forgings, small forgings for passenger cars and heavy duty diesel crankshaft machining. For details of our investment plans please refer "Use of Issue Proceeds" section of this Letter of Offer.

Growth through acquisitions

Our strategy so far has been aimed at organic growth. At this stage of our business, we believe that a combination of organic and inorganic models will help us continue to grow. Strategic acquisitions would help us in leveraging complementary skills to capture market opportunities as well as reduce time-to-market and accelerate growth. Typical acquisition candidates would be:

- companies with complementary product offerings, which can make our portfolio more comprehensive and also give us cross-selling opportunities; and/or
- companies with a good existing customer base and/or strong sales, marketing and execution capability in specific target markets.

As a step in this regard we have already acquired order book from Dana Kirkstall, which enabled us to widen our footprints in Europe and strengthen the Oil & Gas sector business. In this fiscal, we also acquired German operations of Carl Dan Peddinghaus GmbH & Co., Germany. For details please refer section on "Our Subsidiary" on page 67 of this Letter of Offer.

Our Products

We specialize in manufacturing over 1,500 different range of forgings and machined components for the automotive, diesel engine, railway, earthmoving, cement, sugar, steel, coal, ship building and oilfield industries. We specialize in Closed Die as well as Open Die Forgings.

Broadly we have organized our product offerings into two segments, based on the method of forging, viz. Closed Die Forgings and Open Die Forgings

Our technically competent engineers work closely with our customers to extract the best design and produce cost effective and quality forgings.

Closed Die Forging Products

Closed die forging accounts for more than 90% of our production. In this process, the hot metal is closed around a die consisting two halves. This process is used to make smaller forgings requiring closer tolerance limits like axles, gear blanks, crankshafts, etc. The process is sometimes referred to as impression die forging. Closed die forging, which accounts for the majority of forging production, is a process whereby two dies are brought together and workpiece undergoes deformation until its enlarged sides touch the die side walls. Material is deformed in a cavity that allows little or no escape of excess material, thus placing greater demands on die design. Our Closed Die Forging products can be primarily classified as Engine Components, Chassis Components and other. These components include:

Engine Components

Crankshafts

We are major suppliers of forged and fully finished machined crankshafts in India. Our customer pool for crankshafts comprises of leading automobile and auto component manufacturers in India as well as internationally. We have capabilities to manufacture a wide variety of crankshafts ranging from single cylinder crankshafts for light duty applications to large 12 cylinder crankshafts for heavy duty applications like marine, power generation and heavy construction. We have established a track record of supplying crankshafts to leading OEM's ("Original Equipment Manufacturers") all over the globe. We currently manufacture crankshafts ranging from 2 kgs to 350 kgs in forged and machined category.

Connecting Rods

We are a major supplier of connecting rods for the diesel engine industry, for automobiles as well as power generation applications. We currently manufacture forged connecting rods for leading OEMs throughout the world. Current range of connecting rods varies between 2-20 kgs. We propose to install an in-house machining capability for the same.

Chassis Components

Front Axle Beams

We are a major supplier of axle beams to the world market. With presence in US market in class 7 & 8 trucks, we cater to marquee OEM's in Europe and US. We currently manufacture front axle beams ranging from 50 - 200 kgs in forged and machined condition.

Steering Knuckles

We manufacture fully machined steering knuckles for OEMs in Europe and US. We are a major supplier of steering knuckles to marquee OEMs both in India and in the international market. We manufacture steering knuckles both in forged and machined condition in a range of 2 - 50 kgs.

Rocker Arm

We currently manufacture a wide range of rocker arms ranging from 75 gm to 2-3 kgs for applications ranging from small cars to heavy commercial vehicles.

Other

Transmission Parts

We manufacture transmission parts for passenger cars and SUVs, used in highly sophisticated manual as well as automated transmission. We manufacture a wide variety of parts such as input shafts, gears, sleeve transmission counter shafts, output shafts ranging from 0.5 kg to 10 kg.

Oil and Gas Products

In year 1998 we forayed in the Global oilfield market. Since our entry we are providing forgings for in the oil & gas segment, with products ranging from valves, chokes, casing heads, both in forged and machined condition. In year 2001, we consolidated our position as a major component supplier to the global oil and gas industry after we acquired an order book as a part of purchasing the Dana Kirkstall order book. We have developed forged valves for high-pressure applications in the oil industry, and intend to become a leading supplier of components for wellhead applications. Our Oil & Gas facility is API-6A Certified and our production strictly adheres to the API requirements.

Open Die Forging Products

Open die forging with hammers and presses is a modern-day extension of the pre-industrial metalsmith working with a hammer at the anvil. Open die forging technology is relatively simple. In

open die forging, the workpiece is not completely confined as it is being shaped by the dies. This process is adopted when the volume requirements are low. Usually open die forging is used for heavy forgings, which find application in industrial machinery. Open die production is restricted to a few companies in the industry. The open die process is commonly associated with large parts such as shafts, sleeves and disks, but part weights can range from 5 to 500,000 lb. Most open die forgings are produced on flat dies. Round swaging dies and V dies also are used in pairs or with a flat die. Operations performed on open die presses include drawing out or reducing the cross-section of an ingot or billet to lengthen it, upsetting or reducing the length of an ingot or billet to a larger diameter, upsetting, drawing out, and piercing-processes sometimes combined with forging over a mandrel for forging rough-contoured rings. In open die forging, metals are worked above their recrystallisation temperatures. As the process requires repeated changes in workpiece positioning, the workpiece cools during open die forging below its hot-working or recrystallisation temperature. It then must be reheated before forging can continue. For example, a steel shaft 2ft in diameter and 24ft long may require four to six heats before achieving the final forged dimension.

While Open die forgings division contributes to a small portion of our revenues, our open die forging division manufactures various products in different industries. We provide our open die forging for range of industries such as sugar industry, steel industry, fan & pump industry, seamless tube industry, cement industry, wind energy sector etc. Our product range includes roller shafts, blooming mill rolls, integral flange shaft, wind mill shaft etc.

Our infrastructure and facilities

Location	Land Area occupied by us (Acres)	Building Area occupied by us (sq. meters)
Mundhwa	87	154,185
Chakan	18	30,750
Satara	70	4,678
Jalgaon	97	3,241

We believe that our above land area is adequate to meet our present as well as the project needs. All the above facilities are located on land which is owned by us and in respect of which we have clear titles.

We also enjoy sales tax deferral benefits for our Mundhwa unit under wind power generation Scheme and for Chakan Unit under 1993 Package Scheme of Incentives. As a result, we are entitled to defer sales tax liability to the extent of incentives for 10 years and payable thereafter in five equal annual instalments.

Details of our licensed and installed capacities are as follows:

Licensed and Installed capacities and Production

Class of Goods	Unit	Licensed Capacity (a)		Installed Capacity (c)		Production (including jobwork)	
		2003-04	2002-03	2003-04	2002-03	2003-04	2002-03
(i) Steel Forging	M.T.	102,966	102,966	102,966	102,966	84,130 (d)	69,975 (d)
(ii) Finished Machined Crankshaft	Nos.	400,000 (f)	176,500	245,000	176,500	198,952	129,133
(iii) Couplings	M.T.	600	600	600	600	-	-
(iv) Front Axle Assembly & Components	Nos.	300,000 (g)	150,000	300,000	150,000	251,184	283,688
(v) Well Head Assembly and Parts	Nos.	5,000 (h)	-	-	-	-	-
(vi) Aluminium Road Wheel	Nos.	4,000	4,000	4,000	4,000	1,825	556
(vii) General Engineering Equipments	M.T. (b)	1,100	1,100	1,100	1,100	Nos. 23 (e)	Nos. 210
(viii) Material Handling Equipments	M.T. (b)	1,350	1,350	1,350	1,350	-	No.
(ix) Hydraulic & Mechanical Presses	Nos.	250	250	50	50	No.	No.
(x) Bandsaw Machines for cutting metallic round and square bars	Nos.	50	50	50	50	2 (e)	Nos. 2
(xi) Front Axle Assembly at Dharwar	Nos. (b)	50,000	50,000	-	-	-	-
(xii) Finished Machined Crankshafts at Chakan	Nos.	180,000	180,000	168,000	168,000	97,260	73,241
(xiii) Front Axle Assembly & Components at Chakan	Nos.	200,000 (i)	-	74,000	-	13,248	-
(xiv) Transmission Parts	Nos.	3,000,000 (j)	-	2,000,000	-	30,447	-
(xv) Seal Rings, Clamps & Hubs	Nos.	50,000 (j)	-	7,000	-	-	-
(xvi) Rocker Arm Assembly	Nos.	100,000 (j)	-	-	-	-	-
(xvii) Bonnets and Key Shafts	Nos.	50,000 (j)	-	6,000	-	-	-

(a) Annual Capacity on maximum utilisation basis.

(b) Under Registration with Government Authority.

(c) Since the Company's installed capacity is dependent on Product mix, which in turn is decided on the basis of actual for various products from time to time, it is not feasible for the Company to give exact installed capacity. The Company has, however, indicated installed capacity on the basis of year's Product mix, as certified by the Chairman and Managing Director and being a technical matter accepted by the Auditors as correct.

(d) Includes captive consumption 33,387 M.T. (2002-03 - 27,272 M.T.)

(e) Including captive consumption Band Saws 2 Nos (2002-03 - 2 Nos. General Engineering 5 Nos. (2002-03 - Nil)

(f) Licensed capacity since enhanced from 176,500 Nos. to 400,000 Nos. vide licence no. DIL : 8 (2004) dated February 3, 2004.

(g) Licensed capacity since enhanced from 150,000 Nos. to 300,000 Nos. vide licence no. DIL : 6 (2004) dated February 3, 2004.

(h) Licensed capacity vide acknowledgement no. 2615/SIA/IMO/2003 dated September 15, 2003.

(i) Licensed capacity vide acknowledgement no. 2361/SIA/IMO/2003 dated August 26, 2003.

(j) Licensed capacity vide acknowledgement no. 2362/SIA/IMO/2003 dated August 26, 2003.

Details of some of our key equipment and facilities are as follows:

Closed Die Forging Division Facilities

We believe that the key to our technological superiority and international acceptance lies in our forging lines. Our modern forging facilities include two automated 16,000 MT & 6,000 MT Muller Weingarten Screw Press lines, which are the most advanced lines in the world of forging.

Our manufacturing facilities also feature 4,000 MT and 2,500 MT lines. The installation of these automated forging lines has enabled the manufacture of precision forging and forgings of 2 to 350 kg. For details of proposed capacity expansion please refer "Use of Issue Proceeds" Section of this Offer Document.

Key Equipment List

Sr. No.	Press Type (Name)	Thrust Products
1.	16,000 MT Screw (2 Nos.)	Large Front Axle Beams and Large Crankshafts
2	6,000 MT Screw	Crankshafts and Steering Knuckles
3	4,000 MT Mech.	Engine, suspension and transmission components
4.	2,500 MT Mech. (2 Nos.)	Engine suspension and transmission components
5.	6,000 MT Mech. Under Installation	Crankshafts & Steering Knuckles
6.	2,500 MT Mech. Under Installation	Engine suspension and transmission components

Pneumatic drop Hammer/Upsetters

- Hammers ranging from 2,000 lbs. to 25,000 lbs.
- Upsetters ranging from 4" to 8"

Open Die Forging Division Facilities

The production facilities in this division comprise of a Forge System with a 1600 ton integrated hydraulic CNC press line. Ingots of upto 17 tons can be handled in this facility.

Machining Facility

Our machining facilities are comparable to the leaders in the industry. Our crankshaft machining capacity is 413,000 units per annum and our Front Axle assembly and components machining capacity is 374,000 units per annum. The facilities are being expanded to machine 613,000 crankshafts per year by adding three state of the art machining lines aggregating to a capacity of 200,000 crankshafts per annum. Our machining facilities include separate facilities for crankshafts, front axles beams, steering knuckles and machining facilities for Oil and Gas sector.

Die Shop Facility

We have an in-house, state-of-the-art Tool & Die manufacturing facility comprising of CNC milling machine and high speed milling

machines. We follow world class quality standards. The entire facility is inter-phased with the CAD-CAM CAE center, thereby ensuring high quality Tools & Dies in terms of consistency and repeatability.

CAD/CAE/CAM facility

Our engineering centre comprises of advanced computer aided design, manufacturing and analysis capabilities, which caters to range of customer needs. Our facilities include state-of-the-art CAD/CAM/CAE infrastructure for 3D modeling, NC tool path generation and FEA analysis as well as Metal flow simulation. We also have specialised softwares for performing design and optimization, generating NC tool paths for high-speed milling, virtual offline programming of CMM and for crankshafts and Customised software for specific applications in-house.

Our CAE facilities enable us to make Static Analysis, Modal Analysis, Fatigue (Durability) Analysis, Transient Dynamic Analysis and Harmonic Analysis. The softwares also enable us to perform Virtual manufacturing, Prediction of Forming Load Energy, Feasibility study on part manufacturing and Distress analysis.

Processing Facility

Our processing division comprises of all post heat treatment operations like Shot Blasting, Straightening, Magnetic Particle Inspection, Coining, Finishing Shot Peening and Painting / Rust preventive applications. With the technology and an objective to meet world class customer requirements, the division also has online gauging facilities for Front axle beams, Crankshafts, Steering Knuckles, Connecting rods and Oilfield products. With these systems in place all specific customer requirements are fulfilled. Our processing facilities have been audited and approved by leading automotive manufacturers in India and abroad.

Inspection and Testing Facility

We follow stringent Quality Control and Assurance practices to meet required quality standards of our customers. Our quality is measured and documented at every stage - right from manufacturing to shipment. Our dedicated quality control personnel in Metallurgical, Mechanical and Chemical ensure tight control on inspection and testing of the finished product. We have made significant investment in buying Metallurgical, Mechanical, Chemical and FMEA equipments, which ensure higher and consistent level of quality.

Clients

We believe that the quality and breadth of our clients distinguishes us from our Indian competitors. For the year ended March 31, 2004, we served over 150 clients. Our largest clients include some of the world's leading auto and auto component manufacturers. Our domestic clients include Tata Motors, Ashok Leyland, Mahindra & Mahindra, Maruti Udyog, Eicher Motors, Swaraj Mazda, Cummins India and Tata Cummins. Recently we have been mandated to supply transmission parts to Toyota's global transmission parts manufacturing hub near Bangalore in India. Our global customer include following:

North America	Europe	Asia
- Arvin Meritor - Dana - Ford	- Daimler Chrysler - Renault - Perkins Engine Company - Ford - Dana Automation Spain	- Wuxi - Yuchai - Toyota

Besides the above marquee customers, we supply forging products in Oil & Gas sector to companies such as Cameron / Cooper Cameron, PT Kaverner and Energy Equipment

Geographic Segmentation

The table below illustrates the geographical break-up of our sales:

	Fiscal 2001	Fiscal 2002	Fiscal 2003	Fiscal 2004
India	81%	73%	55%	59%
USA	18%	24%	28%	18%
Europe	1%	2%	5%	9%
Australia & Asia (excluding India)	-	1%	12%	14%
Total Sales	100%	100%	100%	100%

India. For the year ended March 31, 2004, 59% of our sales was from India. With stricter emission norms and increased thrust on infrastructure development by the Government of India, the demand for forged products is expected to increase. The Indian automobile industry is growing at a faster rate as compared to the automobiles markets in developed countries.

United States. For the year ended March 31, 2004, 18% of our sales was from our United States customers. The U.S. is the key market for us as the projects for U.S. clients are typically of large size and long duration. In future we also plan to tap the passenger car market of U.S. Further we have consolidated our position in the U.S. market with acquisition of order book from Dana Spicer Europe by virtue of which we have commenced supplies to Dana Corporation, U.S.

Europe. For the year ended March 31, 2004, 9% of our revenue was from Europe. Germany and France were the major contributors to our revenues from Europe and is a relatively mature market characterized by large projects, similar to the U.S. Our penetration in the markets of continental Europe would increase with the acquisition of German Operations of Carl Dan Peddinghaus GmbH & Co., Germany.

Australia & Asia excluding India. For the year ended March 31, 2004, 14% of our revenue was from Asia Pacific excluding India. China is the major contributor to our revenues from Asia Pacific excluding India. In the other markets in Asia Pacific excluding India, our strategy is to target large engagements and assignments from the local arms of multinational companies and large national companies. In Australia, our major customer is CMI Limited (Ford Australia).

Client Size

The table below illustrates the size of our client as measured by revenues:

	Number of clients in		
	Year ended March 31, 2002	Year ended March 31, 2003	Year ended March 31, 2004
Per client revenue			
Rs. 25-50 million	5	8	10
Rs. 50-75 million	4	5	3
Rs. 75-100 million	2	3	1
> Rs. 100 million.....	9	11	18

For the years ended March 31, 2002, 2003, and 2004, our five largest clients accounted for 50%, 53% and 47% of our revenues.

The following table provides details of products supplied to some of our top clients:

Client	Country	Products
Ashok Leyland	India	Steering Knuckles, Front Axle Beam, Crankshafts, Connecting Rods and Gears
Wuxi	China	Crankshafts and Connecting Rods
Arvin Meritor	U.S.	Front Axle Beam and Steering Knuckles
Tata Cummins	India	Crankshafts and Connecting Rods
Dana Corporation	U.S.	Front Axle Beam and Steering Knuckles

Sales and Marketing

Our target customers are primarily OE manufacturers and we contract our sales on direct sales basis, both in domestic and international market. Having already established strong relationship with the leading automobile manufacturers and OE manufacturers in India and abroad, our focus is to further strengthen this relationship and further penetrate to meet their existing and new demand for forged products. Our sales and marketing efforts are targeted in this direction.

We have dedicated sales and marketing teams, separately focused on domestic market and international markets. In India we have 15 sales offices spread across the country. In the international market, we have successfully executed the de-risking marketing strategy, whereby we have eliminated dependence on any single geographical location, product family or customer. Our combined domestic sales and international team comprises of 58 personnel, with domestic team (including at branches) comprising of 42 personnel and international team comprising of 16 personnel.

During last three fiscals we have added 8, 6 and 4 new export customers to our customer list.

Marketing

We manufacture forging products which are custom made to meet the specific requirements of the end customer. As such the marketing is done on the basis of the strengths in the areas of technology, manufacturing processes, product superiority and

accreditations in the form of ISO and QS certifications. In view of this we do not rely on using any brands as our marketing strategy.

Copyrights and Trademarks

We use the 'Kalyani Logo' in our literature and letterhead for our corporate identity. The said logo was registered in the name of Bharat Forge Limited as an "Artistic Work" under Copyright Act, 1957. However in 1990, the said logo was assigned by us to Kalyani Proprietary Private Limited who has agreed to permit us to use the said logo free of any charge. Further we have applied for the mark "BFL" as a label on July 25, 2000, which is awaiting registration. These marks have been applied for registration in 2 classes under Trade & Merchandise Marks Act, 1958, to be used on the products being manufactured by the Company.

Competition

The principal competitor of the forging industry as far as automotive industry applications are concerned is the casting industry. However, forged products offer several advantages over cast products. Firstly, forgings are stronger because casting cannot obtain the strengthening effects of hot and cold working. Casting defects occur in a variety of forms. Because hot working refines grain pattern and imparts high strength, ductility and resistance properties, forged products are more reliable. Further, forgings are manufactured without the added costs for tighter process controls and inspection that are required for casting. Forgings offer better response to heat treatment. Castings require close control of melting and cooling processes because alloy segregation may occur. This results in non-uniform heat treatment response that can affect straightness of finished parts. Forgings respond more predictably to heat treatment and offer better dimensional stability. Open-die and ring rolling are examples of forging processes that adapt to various productions run lengths and enable shortened lead times. Lastly, there are several products that cannot be effectively cast and have to be used in a forged condition for example Front Axle Beams, Heavy Duty Crankshafts etc. In the Indian automobile industry, majority of the passenger car crankshafts are cast products. With higher engine capacities in the passenger car segment, there is a trend towards using forged crankshafts rather than cast products due to the increased pressure that the crank is required to withstand. The crankshafts used in the commercial vehicle industry are largely forged products.

The global forgings industry is highly competitive and dynamic. We compete with a variety of organizations that offer services similar to those we offer. Our competitors, besides casting industry include:

- Global forging companies such as ThyssenKrupp Gerlach, Germany; Sumitomo Metal Industries (Forging Division), Japan; RABA, Hungary; SIFCO, U.S. and Imatra, Sweden, who compete with us in certain segments;
- India based forging companies such as Amforge, Amtek Auto, Ahmednagar Forging in certain smaller variety of forgings;
- Forging companies from other low-cost geographies such as Hungary, Mexico and Brazil.

The lower wage cost in India relative to companies in the U.S. and Europe has historically provided us a significant competitive advantage. Though the wage cost in India is increasing at a faster rate relative to the United States and Europe, we expect the wage cost differential to remain significant in the foreseeable future. Simultaneously, the traditional disadvantages faced by India such as paucity of capital and high interest cost are progressively disappearing, which give good manufacturing companies a significant competitive advantage compared to the past. The principal competitive factors that will impact our ability to compete include:

- ability to supply range of products and scalability;
- product quality and perceived value added;
- scope of services;
- timely deliver of products; and
- sustained ability to offer competitive prices;

Human Resources

Our success depends to a great extent on our ability to recruit, train and retain high quality engineering and technical professionals. Accordingly, we lay special emphasis to the human resources function in our organization and as a result we have not had any strikes or lock-outs or any labour disputes for last 20 years. We believe that our strong brand name, our industry leadership position, work opportunities and competitive compensation give us significant advantage in attracting and retaining our personnel. We seek to retain our professional talent through complete performance and career management as much as through providing a favourable compensation and working environment.

The table below provides details of our employees:

Employee's qualification	Number of employees as on March 31, 2004
Professionals:	
including Engineers, finance & Accounting professionals and Law graduates	1,023
Operating, Administrative and support staff	1,695
Total employees	2,718

We have an elaborate performance management system in place involving goal setting, and periodic reviews involving confirmation and project end reviews in addition to the annual reviews. The review sessions impress upon several aspects of the professionals' careers such as career and competency development, financial rewards and recognition. We endeavour to link careers to competencies, individual preferences and organisational needs. Our compensation package has a fixed component in line with the industry standards and a variable component linked to the corporate, business unit and individual performance.

In order to develop customer management competencies, we conduct employee workshops and personal excellence programs on communication and conversation skills. For example, presently we have workshop for teaching German language. We also consider

the requirements of our large customers while formulating the manpower and recruitment plan in order to meet our business plan. We have recently signed an agreement with BITS, Pilani under which employees of our Company can pursue a part time engineering course. Upon successful completion, the participants will be awarded B.S.(Mfg. Engg) degree. This will be a three-year course and the entire expense of the same will be borne by the Company.

Recruitment

We recruit professionals from various campuses as well as at lateral level. We visit some of the best engineering and management institutes in India for entry level recruitment. In order to maintain our brand image and attract the best students from campus, we maintain relationships with these institutions through campus interactions, joint participation with the institutes in areas of R&D, establishment of excellence centres and sponsoring academic and cultural events. Lateral recruitment is carried out through referral programs, advertisements, web searches and placement agencies.

Continuous Quality Improvement and Research & Development

We believe that the quality of our products and processes are integral to our ability to retain and attract customers. Improvement in our quality processes enables our clients to benefit from reduced costs, on-time delivery, increased productivity and greater reliability. We have received ISO 9002 certification for the entire enterprise and also have received QS 9000 certification.

As a part of on-going effort to attain continuous quality improvement, we employ several on the job quality improvement initiatives such as "Wave Team/Cross Functional Team", "Kaizen", and "5-S Program". These programs propagate good manufacturing practices such as cleanliness, orderliness, elimination of wastes etc. ("5-S Program"). The "Wave Team/Cross Functional Team" helps in pooling of thoughts/ideas to tackle a particular problem within the organization from multi-faceted angles. The concept of "Kaizen" motivates employees to think laterally and implement productivity improvement / cost saving ideas on a regular basis.

Some of our on-going and future R & D projects include:

- Development of balancing simulation software for passenger car crankshafts.
- Development of non-micro alloyed nitrogen-bearing steel for crankshaft applications.
- Development of front axle beams using micro alloyed steel.
- Setting up of an in-house fatigue testing laboratory in order to become a "full service supplier" to domestic and global customers.
- Carrying out improvements in the process of tooling design.
- Improving the manufacturing process to optimise costs and improve productivity.
- Extensive use of IT and specialised software to expedite the speed to development.

Recent acquisition of German operations of CDP would enable greater interaction between our employees with that of CDP Bharat Forge. It will also help us in adopting some of the best practices being employed by CDP and also constantly benchmark against the practices followed in the developed countries. We believe such interaction would greatly enhance the capabilities of our employees.

Key Inputs

Steel

The quality of our forged product depends on the quality of the steel used as raw material. Steel has been and is the key input metal for us since we are predominantly manufacturing forged auto-components made out of steel. Since most of our forged products form critical parts of the automobile engine, quality of steel is of paramount importance to us and also to our clients. Most of our customers inspect and approve the quality of the steel we procure. Also in terms of the percentage of the total cost of input, steel is the major raw material for us. Cost of Steel comprises 54% of our total expenditure.

We procure significant portion of our steel requirements from our group companies, Kalyani Steel Limited and Kalyani Carpenter Special Steels Limited. The steel supplied by these two companies constitutes more than 75% of our steel procured during any year. For the years ended March 31, 2001, 2002 2003 and 2004, we procured 79%, 85%, 77% and 80%, respectively of our steel from the two companies, Kalyani Steel Limited and Kalyani Carpenter Special Steels Limited. Steel is procured from these two companies on arm's length basis. We also procure steel from Mahindra Ugine Steel Company Limited, Steel Authority of India Limited, Tata Iron and Steel Company Limited. We are also looking to procure steel from other steel manufacturers as well, both in India and abroad. To ensure timely supplies of our steel requirement, we place orders with four months advance schedule, so that our operations are not hampered and we can take corrective steps should there be any problems in availability of Steel. Our major suppliers for the steel in last four years were as follows:

In Percentage

Supplier	2000-01	2001-02	2002-03	2003-04
Kalyani Steel Limited	2.08	5.87	9.99	14.63
Kalyani Carpenter Special Steels Limited	77.04	78.78	67.27	65.10
Others	20.88	15.35	22.74	20.27
Total	100.00	100.00	100.00	100.00

Electricity

We have a sanctioned load of 34.197 MW and sanctioned demand of 15.953 MVA from Maharashtra State Electricity Board ("MSEB"). This load is adequate to undertake our present activities. For our proposed expansion plan for which the proceeds of this Issue would be applied, we have already made the requisite applications for the additional load.

For our factory at Mundhwa, Pune, we receive credit from MSEB equivalent to units generated and supplied to the MSEB grid by the Wind Farm owned by our group company, BF Utilities Limited ("BFUL"), as per the agreements dated March 10, 2001 and supplementary agreement dated August 29, 2003. The capacity of this Wind Farm is 18.33 MW. We also have our own Wind Farm, having capacity of 4.2 MW for which we have a similar arrangement with MSEB.

Technical Know how and Assistance

For seeking assistance for the Technical Know-how, Technical Assistance and Services concerning transmission parts and other products, we have entered into a Technical Know how and Assistance Agreement, dated March 31, 2004, with Metalart Corporation, Japan (Metalart) for period of 6 years. For the financial year ended March 31, 2004, Metalart earned a Total Income, Profit before Tax and Profit after Tax of Japanese yen ("JPY") 14.13 billion & JPY 226.82 million and JPY 115.61 million respectively.

As per the terms of this agreement, Metalart will supply: (i) Description of Manufacturing process (ii) Specification of production materials including Die material inputs (iii) Specific process sheets and Die/Tool designs for 8 product part detailed in the agreement (iv) Quality control procedure and standard of quality (v) Technology to maintain agreed levels of productivity, efficiency and quality and increase such levels

As per the terms of the agreement Metalart will also depute their technicians on secondment to us, who will be in our full time employment, for purpose of implementing the Technical Know How and to train our Engineers/Employees. We will also be sending our Engineers to Metalart facilities for training.

In consideration of grant of exclusive right by Metalart to us, for use of Technical Know how in India and for rendering technical assistance and services, we have agreed to pay Rs. 11.9 Million in installments, as fees to Metalart. We have also agreed to pay royalty @ 3% with an annual cap for products covered under this agreement and sold by us based on the annual quantities sold. Royalty is paid on Net Ex Works, Pune Price. Net Ex Works, Pune Price means invoice price of products sold by us in normal, bonafide, commercial transactions without any deduction except actual (i) sales commission (ii) sales returned (iii) business and excise taxes on sales, (iv) freight charges on sales (v) cost of standard bought-out components (vi) landed cost of imported components (vii) machined costs and (viii) FOB expenses in case of Exports.

Our Subsidiary

CDP Bharat Forge GmbH

For the purpose of the following paras, reference to CDP indicates the German operation of Carl Dan. Peddinghaus GmbH & Co., KG, Germany acquired by our subsidiary, CDP Bharat Forge GmbH (CDPBF).

Overview

In a step closer to our goal of emerging as a global leader in the area of forged and machined components, we acquired German operations of Carl Dan. Peddinghaus GmbH & Co., KG, Germany, in an asset purchase deal in fiscal 2003-04. This acquisition was done through our wholly owned subsidiary, CDPBF. These operations were acquired from the administrative receiver of CDP, which had filed for insolvency in October 2002. While we entered into Memorandum of Understanding for this acquisition in November 2003, the business was transferred to CDPBF with effect from January 01, 2004. CDPBF was incorporated on December 15, 2003 and has its registered office at Ennepetal, Germany. With the acquisition of CDP, we have become one of the largest forging conglomerates in the world. We acquired entire German operations of CDP in an asset purchase deal. This acquisition will significantly enhance our presence in the European market and especially in the passenger car segment. Our long term aim to be a major player in the passenger car segment with a broader product profile in the global automotive segment would be significantly enhanced by CDP's acquisition.

CDP, one of the reputed names in the forging industry, was founded in 1839 and is known for its extensive design and engineering capabilities. CDP has one of the largest forge shops in Germany. CDP has its headquarters in Ennepetal near Dusseldorf and has a second facility in Daun. CDP has 790 employees, who continue to work with CDPBF.

CDP is a major supplier of critical chassis components to marquee automakers like Dailmer Chrysler, BMW, Audi, VW, Volvo and others and is known for its customer relationships. CDP provides end-to-end solutions based upon its extensive technology, product design and product development capabilities.

Acquisition cost and means of Finance

We have acquired CDP through CDPBF, including all its assets, except some real estate not relevant to the operating business for €29 million and have assumed liabilities only to the tune of €2.30 million. Other than the said liabilities we have not assumed any other liabilities. The details of the total cost of acquisition and the means of financing are as follows:

Particulars	Amount € Million
Cost of Acquisition	
Purchase price	28.00
Other cost of purchase, including expenses for acquisition	1.00
Total	29.00
Means of Finance	
Shareholders (BFL) contribution	6.00
Internal Accruals of CDP Bharat Forge GmbH ¹	5.00
Non-recourse long term debt	
From Deutsche Bank AG	8.93
From IKB Deutsche Industriebank AG	8.19
From Commerzbank AG	0.88
Total	29.00

Note:

1. In case of insufficient internal accruals, the funding would be done by us, for which we have provided to the administrative receiver a bank guarantee for € 5 million.
2. CDP has obtained a secured working capital facilities aggregating € 10 million from Bank of India and Bank of Baroda, both located at London, in respect of which the Company has agreed to provide a corporate guarantee, if required, only in the eventuality of default by CDPBF.

Details of the liabilities assumed by us are as follows:

Particulars	Amount € Million
Liabilities for pension of employees	1.70
Liabilities in connection with early retirement liabilities	0.30
Liabilities in connection with jubilee payment (employees who have completed 30 years of service)	0.30
Total	2.30

Synergies

In addition to an established design and engineering capability, CDP offers a close proximity to a global customer base. It also provides us with a wider market presence, larger product offerings, deeper penetration into passenger car market and presence in a developed country. We alongwith CDPBF expect to derive following synergies:

Production Synergies

We and CDP together offer wide range of complimentary forging facilities of any weight ranging from 0.5 kg to 350 kg and a combined capacity of approximately 200,000 tons/year prior to our envisaged expansion. There is no repetition in the major forging capacities. This will help both companies avoid repetitive cost and enable higher product focus.

Weight Range	12,500- 16000 MT	8000 MT	6000 MT	5000 MT	4000 MT	Upto 2500 MT
BFL						
Existing	2	-	2*	-	1	3*
Proposed	1	-	1	1	-	-
CDP						
Existing	-	2	-	1	4	2

* Includes one press each currently under installation

We have the advantage of being in a low cost country while CDP has technology intensive operations both of which are suitable for certain components respectively. This we believe would lead to achievement of optimum synergy levels.

Product Synergies

Product-wise revenue stream for us and CDP are as follows:

Product/Industry Segment	BFL	CDP	BFL+CDP
Construction	-	15%	6%
Railways	-	5%	2%
Commercial Vehicles	61%	23%	45%
Diesel Engines	18%	6%	13%
Passenger Cars	8%	51%	26%
Heavy Engineering	5%	-	4%
Oil and Gas and Others	8%	-	4%
Total	100%	100%	100%

About 51% of CDP's revenue comes from the Passenger Car segment, whereas in our case, at present, this segment contributes only 8% of our revenue. The CV market accounts for 61% of our revenue. Thus we believe that we alongwith CDPBF will be well diversified with a strong presence in both CV and Passenger Car markets. CDP is a major supplier of critical chassis components to leading automakers and specialize in passenger car and commercial vehicle components. We believe that there is a huge potential in this sector and intend to capitalize on CDP's strength to generate business. The product and market synergies complement each other completely thereby broadening the customer profile and geographic spread. Our strength in engine components would be complementary to CDP's capabilities. We plan to leverage CDP's strong customer relationships with its customers for engine components business in Europe.

Geographical synergies – complementing de-risking strategy

Continent-wise sales for us and CDP are as follows:

Product/Industry Segment	BFL	CDP
Asia	73%	5%
US	18%	16%
Europe	9%	79%
Total	100%	100%

CDP is extremely strong in Europe. Almost 80% of its revenue comes from marquee European customers. We have commenced the exercise of widening our footprints in Europe. CDP's customers are a high potential target customer base that we have already started working with on identifying supply opportunities. CDP's presence will be the springboard for our European growth strategy. Similarly, we are strong in the US, India, and China, and have strong relationships with certain customers that CDP does not have. CDP will be able to leverage our strength in these markets and with these customers to offer its products in the global markets, including India. We alongwith CDPBF will have strong presence in the North America, Europe and Asia which are the largest automotive markets in the world.

Leveraging Customers

CDP's marquee customers such as Daimler Chrysler, BMW, AUDI, Volkswagen, Volvo offer a significant opportunity to us for engine component supply that leverages CDP's strong customer relationships. We have been consciously pursuing a de-risking model. While we believe that the market based de-risking has been achieved, the CDP acquisition, will ensure the supply risk is also eliminated. We currently have over 30 major active customers while CDP has 20 to 25 major active customers. We will target CDP customers with our product offerings thus creating deeper penetration in CDP's customer segments. Our endeavour to be an end-to-end solutions provider will be further accelerated with critical technologies being absorbed from CDP to build a competitive edge in developed markets. CDP will continue to focus on Passenger Car Chassis Components. We will focus on Passenger Car Engine Components and Heavy Duty Machined Crankshafts.

Integration

We are confident that the CDP acquisition will yield significant market, operational, and technological synergies. In order to best leverage these synergies to the combined advantage of both organizations it is absolutely essential to have a well structured integration program with a defined process. We have completed a comprehensive integration program spanning 100 days from January 2004. Both, CDP and us had designated integration process teams with the key focus areas for integration at the strategic level, integration of Marketing & Customer Strategy, Manufacturing, integration of technology & Quality benchmarking, integration of Purchasing Strategy, integration of Communication and Organisation Plan and integration of Human Resources Strategy.

The key objective was to achieve a strong level of team-working, which enables a smooth flow of information creating an organization that is highly responsive to customers need, provides the best Speed To Market capability, and the highest level of customer satisfaction and service. Both companies will benchmark each other across a wide range of areas including cost, productivity, quality, speed, technology, and other operational parameters.

The programme ended successfully and we have moved to the next level of a two-way exchange of employees and benchmarking best practices.

Financial Summary

The provisional unaudited financial summary of CDP Bharat Forge GmbH for the period January - March 2004 (i.e. the first completed quarter after CDP Bharat Forge became our wholly owned subsidiary)

Particulars	Amounts (Rs. million)
Sales and Other Income	1,838.22
Profit after tax	96.86
Equity capital (<i>Euro 5 million</i>)	266.75
Reserves	135.96
Earning per Euro invested (annualized)*	1.45
Book Value Per Euro Invested *	1.51

* As per German Company law there is no concept of the share capital being subdivided into number of shares each having a specified face value. In view of this the share capital invested by BFL of Euro 5,000,000 is treated as one block investment. As such the conventional EPS / Book value per share calculation is not possible. Due to the above we have given Earning per share and Book value per share in terms of value per 1 Euro invested.

** As on date there are no litigations pending against CDP Bharat Forge GmbH.

OUR MANAGEMENT

The Company is managed by the Managing Director and Whole-time Directors under the overall supervision of the Board of Directors. Other members of the Board are renowned personalities and having significant expertise in their field and have been actively contributing through their valuable advice and support. The overall management of the Company is vested with the Board of Directors comprising persons with industrial, management, legal and administration experience. However the day-to-day affairs are looked after by Mr. B.N. Kalyani, Managing Director, and Mr. P C Bhalerao, Mr. G K Agarwal and Mr Amit Kalyani, the Whole-time Directors, who hold substantial powers of management. They are assisted by a team of professionals in the fields of engineering, marketing, finance and management.

BFL's Board meets with requirements of corporate governance as it consists of 7 Non-executive Directors out of total 11 Directors as on date, who account for about 64% of the total strength of the Board. Moreover, all Non-executive Directors are Independent Directors.

The following table sets forth details regarding our Board of Directors.

Director's Details	Other Directorships
Mr. Babasaheb Neelkanth Kalyani Designation: Executive Chairman and Managing Director Address: 'Amit' 221/A, Kalyani Nagar, Yerawada, Pune 411006 Qualification: B.E. (Mech) (Hons.); M.S. (M.I.T.) Age : 55 years Experience : More than 30 years (Director for about 20 years) Occupation: Industrialist and Agriculturist	1. Kalyani Brakes Limited 2. Kalyani Steels Limited 3. Automotive Axles Limited 4. The Ugar Sugar Works Limited 5. Kalyani Sharp India Limited 6. Hikal Limited 7. Nandi Infrastructure Corridor Enterprises Limited 8. Kalyani Lemmerz Limited 9. Kalyani Carpenter Special Steels Limited 10. Kalyani Carpenter Metal Centres Limited 11. Meritor HVS (India) Limited 12. BF Utilities Limited. 13. True Value Holdings Private Limited 14. Epicentre Technologies Private Limited 15. CDP Bharat Forge GmbH
Mr. Puranam Hayagreeva Ravikumar Designation: Non-executive and Independent Director; ICICI Bank Ltd. Nominee Address: Infinity Park, 602, 6th Floor, 244, Bhandar Gully, Mahim, Mumbai 400 016. Qualification: B.Com., CAIIB, AIB (London), Sr.Dip in French. Age: 52 years Experience: More than 25 years Occupation: Service	1. Eveready Industries Limited 2. National Commodity and Derivatives Exchange Limited (MD & CEO)
Mr. Pratap Bhogilal Designation: Non-executive and Independent Address: 26, B. G. Kher Marg, Malabar Hill, Mumbai 400 006. Age: 87 Experience: More than 60 years Occupation: Industrialist	1. Batliboi Limited 2. Automotive Axles Limited 3. Pramaya Shares and Securities Private Limited 4. Nirbhag Investments Private Limited

Mr. Sharatchandra Shripad Marathe

Designation: Non-executive and Independent

Address: 'Vinay', 9, Sahajeevan Housing Society,
Off Ganeshkhind Road, Pune 411 007.

Qualification: B.Sc (Hons), London School of Economics,
London, M.A. (Eco), Mumbai

Age: 81

Experience: More than 55 years

Occupation: Economist

1. Automotive Axles Limited
2. Bajaj Tempo Limited
3. Deepak Fertilizers and Petrochemicals Corporation Limited
4. Finolex Industries Limited
5. Futura Polyester Limited
6. Kinetic Motors Limited
7. Kirloskar Brothers Limited
8. Larsen & Toubro Limited
9. Mandovi Pellets Limited
10. Sandvik Asia Limited
11. GDA Trustee & Consultancy Private Limited
12. Bajaj Allianz General Insurance Company Private Limited
13. Synise Technologies Private Limited
14. Tata Asset Management Private Limited
15. Pan Gulf Group Limited St. Peter Port, Guernsey, Channel Islands

Mr. Padmakar Ramchandra Latey

Designation: Non-executive and Independent

Address: Plot 1181/2, Bldg. A, Flat 16, Suryakiran Park,
Shivajinagar, Pune 411 005.

Qualification: B.E.

Age: 74

Experience: More than 50 years

Occupation: Consultant

1. Bihar Sponge Iron Limited
2. U.P. Twiga Fibre Glass Limited

Mr. Anil Dattatraya Rege

Designation: Non-executive and Independent

Address: "RETREAT", 2A, Bawankhani Lane,
Off K.M.Munshi Marg, Chowpatty, Mumbai 400 007.

Qualification: F.I.I.B., B.Com

Age: 75

Experience: More than 50 years

Occupation: Consultant

1. Sanghvi Movers Limited
2. Kalyani Forge Limited

Mr. Shobhan Madhukant Thakore

Designation: Non-executive

Address: 509, Cumballa Crest, 42-A, G. Deshmukh Marg,
Mumbai 400 026.

Qualification: Solicitor

Age: 56

Experience: More than 30 years

Occupation: Solicitor and Advocate

1. Alkyl Amines Chemicals Limited.
2. Camphor & Allied Products Limited.
3. Novacell Limited (erstwhile Chinai Chemicals Limited)
4. Carraro India Limited.
5. Carraro PNH Components (India) Private Limited.
6. RNC Readymix (India) Private Limited
7. Siap Gears India Private Limited

Mr. Sudhakar Dinkar Kulkarni

Designation: Non-executive and Independent

Address: 12, Pushkar, Bhikoba Pathare Marg, Behind Catering
College, Dadar (West), Mumbai 400 028.

Qualification: C.A.

Age: 69

Experience: More than 45 years

Occupation: Company Director

1. Syngenta India Limited
2. Voltas Limited
3. SICOM Capital Management Private Limited
4. Sesa Goa Limited
5. Novartis India Limited
6. Feedback First Urban Infrastructure Development Company Limited
7. Mastek Limited

Mr. Gopal Krishan Agarwal

Designation: Executive Director

Address: B-7, Varsha Park, Baner Road, Aundh, Pune 411 045.

Qualification: B.E. (Mech.), M.B.A.

Age: 53

Experience : 31 years (Director since 1998)

Occupation: Service

1. BF Utilities Limited
2. CDP Bharat Forge GmbH

Mr. Prakash Chandrashekhar Bhalerao

Designation: Executive Director

Address: B-7, Varsha Park, Baner Road, Aundh, Pune 411 045.

Qualification: B.E. (Elect.), M.B.A., D.T.M.

Age: 54

Experience : 30 years (Director since 1998)

Occupation: Service

1. Automotive Axles Limited
2. Mundhwa Investment Limited
3. Bhalchandra Investment Limited
4. Jalkumbhi Investment & Finance Limited
5. Jalkamal Investment & Finance Limited
6. Forge Investment Limited
7. BF Utilities Limited
8. Meritor HVS (India) Limited
9. Kalyani Carpenters Special Steel Limited
10. CDP Bharat Forge GmbH
11. Nandi Economic Corridor Enterprises Limited

Mr. Amit Babasaheb Kalyani

Designation: Executive Director

Address: 'Amit' 221/A, Kalyani Nagar, Yerawada, Pune 411006

Qualification: B.E. (Mech)

Age : 28 years

Experience : More than 4 years

Occupation: Industrialist

1. Kalyani Net Ventures Limited
2. Bharati Sahakari Bank Limited
3. Nandi Economic Corridor Enterprises Limited
4. CDP Bharat Forge GmbH
5. Epicenter Technologies Private Limited
6. True Value Holdings Private Limited

B N Kalyani (Chairman & Managing Director)

Mr. B.N. Kalyani is the Chairman and Managing Director of Bharat Forge Ltd. Born on 7th January, 1949, Mr. Kalyani is a Mechanical Engineer from the Birla Institute of Technology, Pilani, Rajasthan. He also has an M.S. from the Massachusetts Institute of Technology, USA. The Kalyani Group is one of the leading Industrial Houses in India, having core businesses in Steel and Steel based products, Forgings and Automotive Components. Mr. Kalyani has represented the Confederation of Indian Industry on its various regional committees and is currently a member of the CII National Council. He also serves on the Board of Kalyani Brakes Limited, Kalyani Steels Limited, Automotive Axles Limited, The Ugar Sugar Works Limited, Kalyani Sharp India Limited, Hikal Limited, Nandi Infrastructure Corridor Enterprises Limited, Kalyani Lemmerz Limited, Kalyani Carpenter Special Steels Limited, Kalyani Carpenter Metal Centres Limited, Meritor HVS (India) Limited, BF Utilities Limited, CDP Bharat Forge GmbH, True Value Holdings Private Limited and Epicentre Technologies Private Limited.

Mr. Kalyani is associated with several other institutions. He is the founding Chairman of the Governing Board of the Indian Institute of Management, Indore; Member of the Executive Committee of Maratha Chamber of Commerce and Industry, Pune; Member, Executive Committee, India Education Initiative; Chairman, Pratham Pune Education Foundation; and Past Chairman of American Society of Metals, Pune Chapter. Widely travelled, Mr. Kalyani is also a member of the World Economic Forum, Switzerland. Mr. Kalyani's

contributions to industry have been recognised through awards and appreciations that he has received from associations such as FIE Foundation in 1991. Mr. Kalyani is the recipient of the Prestigious National Press Award, 1995. Also refer section on "Our Promoters" on page 83 of this Letter of Offer.

P.H. Ravikumar

Mr. P.H. Ravikumar, an ICICI Bank Ltd. nominee, is an independent and non-executive director on the Board. He is 52 years old and has over 25 years of working experience. Mr Ravikumar has done Bachelors in Commerce and CAIIB, AIB from London. He has also done a Diploma in French. Mr Ravikumar also serves on the Board of Eveready Industries (India) Limited and also serves as the Managing Director and Chief Executive Officer of National Commodity and Derivatives Exchange Limited.

Pratap Bhogilal

Mr Pratap Bhogilal, an industrialist with wide experience in industry, is Chairman of the Board of Batliboi Ltd. Born on 25 October 1916 and has over 60 years of working experience. Mr Bhogilal is an industrialist and also serves on the Boards of Automotive Axles Limited, Batliboi Limited, Pramaya Shares and Securities Private Limited and Nirbhag Investments Private Limited. He is also a Partner in Bhogilal Leherchand & Sons.

S S Marathe

Mr S S Marathe is an economist and a former Secretary, Ministry of Industry, Government of India. Born on 1 October 1922, Mr Marathe also serves on the boards of Automotive Axles

Limited, Bajaj Tempo, Deepak Fertilizers and Petrochemical Corporation, Finolex Industries, Futura Polyester Limited, Kinetic Motors, Kirloskar Brothers, Mandovi Pellets, Sandvik Asia Limited, Larsen & Toubro Limited, GDA Trustee & Consultancy Private Limited, Bajaj Allianz General Insurance Company Private Limited, Synise Technologies Private Limited, Tata TD Waterhouse Asset Management Private Limited and Pan Gulf Group Limited St. Peter Port, Guernsey, Channel Islands. Mr. Marathe is a BSc (Honours) from The London School of Economics, London and has done Masters in Economics from Mumbai. He has over 55 years of working experience.

P R Latey

Mr P R Latey, B.E. was formerly Director General (Technical Development), Ministry of Industry, Government of India. Born on 22 February 1930, Mr Latey also serves on the Board of Bihar Sponge Iron Limited and U.P. Twiga Fibre Glass Limited. He has over 50 years of working experience.

Anil Rege

Mr Anil Rege, F.I.I.B and B.Com, was formerly Executive Director of the Bank of India. Born on 1 March 1929, Mr Rege also serves on the Board of Sanghvi Movers and Kalyani Forge. He has over 50 years of working experience.

S M Thakore

Mr. S.M. Thakore, was a solicitor at a Mumbai based Solicitors Firm, M/s Bhaishankar Kanga and Girdharlal, who are also Solicitors of the Company. He has retired from M/s Bhaishankar Kanga and Girdharlal with effect from March 31, 2004 and has joined as a Partner at Solicitors Firm, AZB & Partners, with effect from April 01, 2004. Born on 23 July 1947, Mr. Thakore has been on the Board of the Company since 27 June 1986. Mr. Thakore also serves on the Boards of Alkyl Amines Chemicals Limited, Camphor & Allied Products Limited Novacell Limited (erstwhile Chinai Chemicals Limited), Carraro India Limited, Carraro PNH Components (India) Private Limited, RNC Readymix (India) Private Limited and Siap Gears India Private Limited. He has over 30 years of working experience.

S D Kulkarni

Mr S D Kulkarni, a Chartered Accountant by qualification, was formerly Managing Director and Chief Executive Officer of Larsen & Toubro Limited. Born on 20 September, 1934, Mr Kulkarni joined the Board with effect from 24 July 1999 and holds office as Director. Mr Kulkarni also serves on the Boards of Syngenta India Limited, Voltas Limited, SICOM Capital Management Private Limited, Sesa Goa Limited, Novartis India Limited, Feedback First Urban Infrastructure Development Co. Limited and Mastek Limited. He has over 45 years of working experience.

G K Agarwal (Executive Director)

Mr G K Agarwal, B.E.(Mech), MBA, is an Executive Director of the Company since April 01, 1998. Born on 17 February 1951, Mr Agarwal also serves on the Boards of BF Utilities Limited. He has over 31 years of working experience and has been associated with the Company for 28 years.

P C Bhalerao (Executive Director)

Mr. P.C. Bhalerao, B.E., M.B.A., D.T.M., born on 4 March 1950, is Executive Director of the Company since April 01, 1998. Mr. Bhalerao also serves on the Boards of Automotive Axles Limited, Mundhwa Investment Limited, Bhalchandra Investment Limited, Jalkumbhi Investment & Finance Limited, Jalkamal Investment & Finance Limited, Forge Investment Limited, BF Utilities Limited, Kalyani Carpenters Special Steel Limited and Meritor HVS (India) Limited. He has over 30 years of working experience and has been associated with the Company for 17 years.

Amit Kalyani

Mr. Amit Kalyani, B.E. (Mech), is son of Mr. B N Kalyani. Born on 26 July 1975, Mr. Amit Kalyani joined Bharat Forge with effect from October 24, 1999 as Chief Technology Officer and has since been instrumental in induction of technology in the Company and providing system support services to the Company's processes. He has also designed and implemented e-commerce strategies and is contributing significantly in manufacturing, marketing, exports and technology upgradation areas in the Company. He has been inducted on the Board of the Company with effect from May 11, 2004 as an Additional Director and an Executive Director. Mr. Amit Kalyani also serves on the Boards of Kalyani Net Ventures Limited, Bharati Sahakari Bank Limited, Nandi Economic Corridor Enterprises Limited, CDP Bharat Forge GmbH, Epicenter Technologies Private Limited, True Value Holdings Private Limited. He has over 4 years of working experience.

Compensation of Managing Directors / Whole-time Directors

B N Kalyani (Chairman & Managing Director)

In accordance with a resolution adopted at the annual general meeting of shareholders held on July 15, 2003, Mr. B N Kalyani is entitled to the following:

- basic salary of Rs. 5.4 million per annum
- commission based upon the net profits of the Company in accordance with overall ceilings laid down in Sections 198 and 309 of the Companies Act, 1956
- contributions to provident fund at 12% of his basic salary, superannuation and gratuity as per the rules of the Company
- perquisites comprising of house rent allowance, leave travel concession, medical reimbursement, fees of clubs and personal accident insurance

In fiscal 2004, Mr. Kalyani was paid a total compensation of Rs. 26.21 million to and his term expires on March 29, 2008.

P C Bhalerao (Executive Director)

In accordance with a resolution adopted at the annual general meeting of shareholders held on July 15, 2003, Mr. P C Bhalerao is entitled to the following:

- basic salary of Rs. 2.4 million per annum
- commission based upon the net profits of the Company in accordance with overall ceilings laid down in Sections 198 and 309 of the Companies Act, 1956

- contributions to provident fund at 12% of his basic salary, superannuation and gratuity as per the rules of the Company
- perquisites comprising of house rent allowance, leave travel concession, medical reimbursement, fees of clubs and personal accident insurance

In fiscal 2003, Mr. Bhalerao was paid a total compensation of Rs. 9.72 million and his term expires on March 31, 2008.

G K Agarwal (Executive Director)

In accordance with a resolution adopted at the annual general meeting of shareholders held on July 15, 2003, Mr. G K Agarwal is entitled to the following:

- basic salary of Rs. 2.4 million per annum
- commission based upon the net profits of the Company in accordance with overall ceilings laid down in Sections 198 and 309 of the Companies Act, 1956
- contributions to provident fund at 12% of his basic salary, superannuation and gratuity as per the rules of the Company
- perquisites comprising of house rent allowance, leave travel concession, medical reimbursement, fees of clubs and personal accident insurance

In fiscal 2003, Mr. Agarwal was paid a total compensation of Rs. 9.69 million and his term expires on March 31, 2008.

Amit B Kalyani (Executive Director)

In accordance with a resolution passed at the Board Meeting held on May 11, 2004, Mr. Amit Kalyani is entitled to the following:

- basic salary of Rs. 1.8 million per annum
- commission based upon the net profits of the Company in accordance with overall ceilings laid down in Sections 198 and 309 of the Companies Act, 1956
- contributions to provident fund at 12% of his basic salary, superannuation and gratuity as per the rules of the Company
- perquisites comprising of house rent allowance, leave travel concession, medical reimbursement, fees of clubs and personal accident insurance

In fiscal 2004, Mr. Amit Kalyani was paid a total compensation of Rs. 0.77 million and his term expires on March 31, 2008.

We have paid sitting fees and commissions to our non-whole-time directors. Following are the details of compensation paid in financial year ended March 31, 2004:

- P.H.Ravikumar	Rs 0.65 million
- P.Bhogilal	Rs 0.42 million
- S.S.Marathe	Rs 1.13 million
- A.C.Kirloskar	Rs 0.92 million
- P.R.Latey	Rs 0.43 million
- A.Rege	Rs 0.43 million
- S.M.Thakore	Rs 0.63 million
- S.D.Kulkarni	Rs 0.83 million

Corporate Governance

We have been committed to the principles of good corporate governance. We fundamentally believe that good corporate governance should be an internally driven need and is not to be looked upon as an issue of compliance dictated by statutory requirements. The Company's philosophy on corporate governance envisages an attainment of the highest level of transparency, accountability and equity in all facets of its operations and in all interactions with its stake holders including the shareholders, employees, government and lenders. We believe that all its operations and actions must serve the underlying goal of enhancing overall shareholder value over a sustained period of time and at the same time protect the interest of stakeholders.

We undertake that we are taking all necessary steps to comply with the Guidelines issued by SEBI in respect of Corporate Governance.

We undertake that we are complying with SEBI Guidelines in respect to corporate governance, especially with respect to the appointment of independent directors to our board and constituting our board committees: the Shareholding/Investor Grievance Committee; and the Audit Committee. The Company has complied with all the requirements of the Listing Agreements with Stock Exchanges and regulations and guidelines of SEBI. Further, there is no penalty/stricture by any statutory authority during the year.

Members of the Board Committees

The present members of the above Board Committees are:

Shareholders' / Investors' Grievances Committee

The committee specifically looks into redressing complaints of shareholders and investors such as transfer of shares, non-receipt of balance sheet, non-receipt of declared dividends and interest on debentures. The Committee comprises of Mr. S.D. Kulkarni (Chairman and independent Director), Mr. B.N. Kalyani (Managing Director) and Mr. P.C. Bhalerao (Executive Director).

Audit Committee

Our Audit Committee consists of independent and qualified non-executive Directors. It consists of Mr. S.S. Marathe (Chairman and independent Director), Mr. P.H. Ravikumar (ICICI nominee) and Mr. S D Kulkarni (Independent Director). The Internal Auditor are M/s Price Waterhouse Coopers.

The audit committee of Bharat Forge performs the following functions:

- overseeing the Company's financial reporting process and disclosure of financial information to ensure that the financial statement is correct, sufficient and credible;
- reviewing with management the annual financial statement before submission to the Board;
- reviewing with the management, external and internal auditors, the adequacy of internal control systems;
- reviewing the adequacy of internal audit function;
- discussing with internal auditors any significant finding and follow up on such issues;

- reviewing the findings of any internal investigations by the internal auditors in matters where there is suspected fraud or irregularity, or a failure of internal control systems of a material nature, and then reporting such matters to the Board;
- discussing with external auditors before the audit commences on the nature and scope of audit, as well as having post-audit discussion to ascertain any area of concern;
- reviewing any changes in accounting policies or practices as compared to last completed financial year and commenting on any deviation from accounting standards;
- reviewing details of related party transactions exceeding 1% of last year's turnover;
- discussing delays in recovery of dues and steps taken on the issue;
- reviewing the Company's financial and risk management policies; and
- examining the reasons for substantial default in the payment to depositors, debenture holders, shareholders (in case of non payment of declared dividends) and creditors, if any.

Remuneration Committee

Bharat Forge Limited does not have a Remuneration Committee. The Board determines commission payable to Directors. Commission to non-executive Directors and performance related bonus to Chairman and Managing Director and Executive Directors, paid in the form of commission, is disclosed in the above table.

Detailed terms of appointment of the Chairman and Managing Director and the Executive Directors are governed under Board and Annual General Meeting resolutions.

Shareholding of the Directors

The Articles of the Company do not require the Chairman and the Directors to hold any qualification shares. The director's shareholding as on March 31, 2004 was 210,940 equity shares of the Company. The details of the shareholding are as follows:

Director's Share holding in BFL (including that of their relatives)	As on the date of Book Closure
Mr B N Kalyani	179,904
Mr P H Ravikumar	100
Mr Pratap Bhogilal	15,054
Mr S S Marathe	1,778
Mr P R Latey	-
Mr Anil Rege	-
Mr S D Kulkarni	500
Mr S M Thakore	4,550
Mr G K Agarwal	655
Mr P C Bhalerao	450
Mr A B Kalyani	64,790
Total	267,781

Borrowing Powers of the Board

The shareholders vide a resolution pursuant to Section 293(1) (d) of the Companies Act, 1956 approved and delegated powers to the Board for borrowing up to a sum of Rs.5,000 million over and above the aggregate of the paid-up share capital and free reserves.

Interest of the Directors

All Directors of the Company, apart from reimbursement of expenses incurred, receive approved remuneration and benefits from the Company, and apart from their shareholding in the Company, if any, have no other interests except in respect of the commercial transactions between the Company, its subsidiaries and other companies in which they are Directors / interested.

The details of the transactions noted in Register under Section 301 pertaining to Contracts in which Directors are interested are given hereunder for the Board Meeting.

Name of the Director	Name of the Company	Date of the Meeting	Value(Rs.) (Purchases)	Value (Rs.) (Sales)	Description
Mr. B.N. Kalyani Mr. S.S. Marathe Mr. P.C. Bhalerao Mr. Pratap Bhogilal	Automotive Axles Ltd.	18 th May, 2002	-	41,005,356	Houses Forged Half, Crank Shaft, Knuckles
Mr. Atul C. Kirloskar Mr. B.N. Kalyani Mr. P.C. Bhalerao	Kirloskar Oil Engines Ltd.	-DO-	-	17,000	Con.Rod Shot Peering of C/R
	Kalyani Carpenter Special Steel Ltd.	-DO-	-	5,675,000	Labour Charges for Forging of Inserts
Mr. S.S. Marathe	Kirloskar Electronic Co. Ltd.	-DO-	-	335,964	P/M Shafts, P/M Bars
Mr. B.N. Kalyani	Kalyani Lemmerz Ltd	-DO-	-	240,000	P/M Shafts
Mr. S.S. Marathe	Larsen & Toubro Ltd.	-DO-	-	296,450	Rod Piston F5
Mr. S.S. Marathe	Sandvik Asia Ltd.	-DO-	2,048,019	-	Inserts, Screws, U/D
Mr. S.D. Kulkarni	Voltas Ltd.	-DO-	1,159,347	-	HSS M/S Tap, Keyway Broach

Mr. B.N. Kalyani					
Mr. P.C. Bhalerao	Kalyani Carpenter Special Steels Ltd.	-DO-	380,717,003	-	Forging Quality Steel
MR. B.N. Kalyani	Kalyani Steels Ltd.	-DO-	41,460,357	-	Forging Quality Steel
MR. B.N. Kalyani					
Mr. P.C. Bhalerao	Kalyani Carpenter Special Steels Ltd.	-DO-	-	49,973,442	Scrap
Mr. S.S. Marathe	Bajaj Tempo Ltd.	20 th July, 2002	-	4,600,000	St. Knuckles Rt.
Mr. B.N. Kalyani					
Mr. P.C. Bhalerao	Kalyani Carpenter Special Steels Ltd.	-DO-	-	120,000	Qu Enching Tempering
Mr. S.S. Marathe	Kirloskar Electronic Co. Ltd.	-DO-	-	86,495	P/M Cut Raw Bar
Mr. B.N. Kalyani	Kalyani Breaks Ltd.	-DO-	-	4,512,500	F5 Hub Front
Mr. S.S. Marathe	Larsen & Toubro Ltd.	-DO-	-	10,490,100	Crankshafts, BRG Sleeve
Mr. Atul Kirloskar	Toyata Kirloskar Ltd.	-DO-	-	259,510	Shaft Input P/M Gear
Mr. S.S. Marathe	Sandvik Asia Ltd.	-DO-	1,363,219	-	Tool Holder, Threading
Mr. S.D. Kulkarni	Voltas Ltd.	-DO-	427,107	-	Bush Broach, HSS M/C Tap, HSS Spiral
Mr. B.N. Kalyani					
Mr. P.C. Bhalerao	Kalyani Carpenter Special Steels Ltd	-DO-	215,973,061	-	Forging Quality Steel
Mr. B.N. Kalyani	Kalyani Steels Ltd.	-DO-	50,891,906	-	Forging Quality Steel
Mr. B.N. Kalyani					
Mr. P.C. Bhalerao	Kalyani Carpenter Special Steels Ltd.	-DO-	-	29,133,067	Scrap
Mr. S.S. Marathe	Sandvik Asia Ltd.	10 th August, 2002	1,137,923	-	Inserts, Boring Bar, Tool Holder
Mr. B.N. Kalyani					
Mr. P.C. Bhalerao	Kalyani Carpenter Special Steel Ltd.	-DO-	99,509,205	-	Forging Quality Steel
Mr. S.S. Marathe	Kirloskar Electric Co.	-DO-	-	41,200	P/M Cut Bar
Mr. B.N. Kalyani					
Mr. P.C. Bhalerao	Kalyani Carpenter Special Steel Ltd.	-DO-	-	2,634,940	F/M Roll
Mr. B.N. Kalyani	Kalyani Steels Ltd.	-DO-	9,637,201	-	Forging Quality Steel
Mr. B.N. Kalyani					
Mr. P.C. Bhalerao	Kalyani Carpenter Special Steels Ltd.	-DO-	-	18,839,006	Scrap
Mr. S.S. Marathe	Sandvik Asia Ltd.	21 st Oct, 2002	2,229,012	-	Insert, Pencil Hydrogrip
Mr. S.D. Kulkarni	Voltas Ltd.	-DO-	683,836	-	Keyway Broach, HSS M/C Tap
Mr. B.N. Kalyani					
Mr. P.C. Bhalerao	Kalyani Carpenter Special Steel Ltd.	-DO-	223,272,467	-	Forging Quality Steel
Mr. B.N. Kalyani					
Mr. P.C. Bhalerao					
Mr. S.S. Marathe					
Mr. Pratap Bhogilal	Automotive Axles Ltd.	-DO-	-	1,078,100	Axle Shaft, Gear
Mr. S.S. Marathe	Larsen & Toubro Ltd.	-DO-	-	300,000	P/M Shaft
Mr. S.S. Marathe	Kirloskar Electric Co.	-DO-	-	330,010	P/M Cut Bar
Mr. B.N. Kalyani	Kalyani Steels Ltd.	-DO-	26,233,605	-	Forging Quality Steel
Mr. B.N. Kalyani					
Mr. P.C. Bhalerao	Kalyani Carpenter Special Steels Limited.	-DO-	-	36,382,299	Scrap
Mr. S.S. Marathe	Sandvik Asia Ltd.	15 th Jan, 2003	2,019,126	-	'T' Max U Boring, Insert
Mr. S.D. Kulkarni	Voltas Ltd.	-DO-	493,670	-	HSS Sprial, HSS Tap, Broach
Mr. B.N. Kalyani					
Mr. P.C. Bhalerao	Kalyani Carpenter Special Steel Limited.	-DO-	312,845,836	-	Forging Quality Steel
Mr. B.N. Kalyani					
Mr. P.C. Bhalerao	Kalyani Lemmerz Ltd.	-DO-	-	323,000	P/M Shaft
Mr. S.S. Marathe	Kirloskar Electric Co.	-DO-	-	20,500	P/M Cut raw Bar
Mr. B.N. Kalyani					
Mr. P.C. Bhalerao	Kalyani Carpenter Special Steel Ltd.	-DO-	-	3,582,052	F/M Roll
Mr. S.S. Marathe	Larsen & Toubro Ltd.	-DO-	-	3,330,750	P/M Roller Shaft
Mr. B.N. Kalyani	Kalyani Steels Ltd.	-DO-	-	372,000	Flange
Mr. G. K. Agarwal	Seinumero MTL Ltd.	-DO-	-	39,000	Spindle Wheel
Mr. B.N. Kalyani					
Mr. P.C. Bhalerao					
Mr. Pratap Bhogilal					
Mr. S.S. Marathe	Automotive Axles Ltd.	-DO-	-	133,450,571	Spindle, Axle Shaft, H/C Wheel, Pinlo
Mr. B.N. Kalyani	Kalyani Brakes Ltd.	-DO-	-	700,000	HOB
Mr. B.N. Kalyani	Kalyani Steels Ltd.	-DO-	46,644,781	-	Forging Quality Steel

Mr. B.N. Kalyani Mr. P.C. Bhalerao	Kalyani Carpenter Special Steels Limited.	-DO-	-	58,534,908	Scrap
Mr.S.S. Marathe	Sandvik Asia Limited	May 5, 2003	3,300,818	-	Corogrip Chuck, Insert
Mr.S.S. Marathe	Larsen & Toubro Ltd	-Do-	-	1,380,000	Shaft
Mr. S.S. Marathe Mr. B.N. Kalyani Mr. .Pratap Bhogilal Mr .P.C. Bhalerao	Automotive Axles Limited	-Do-	-	203,750	P/M Shaft
Mr. S.D. Kulkarni	Voltas Ltd.	-Do-	320,468	-	HSS M/C Tap, Bush Broach
Mr.B.N. Kalyani Mr.P.C. Bhalerao	Kalyani Carpenter Special Steels Limited	-Do-	437,196,813	-	Forging Quality Steel
Mr.B.N. Kalyani	Kalyani Lemmerz	-Do-	-	83,000	P/M Shaft
Mr. B.N. Kalyani Mr. P.C. Bhalerao	Kalyani Carpenter Special Steels Limited.	-DO-	-	94,821,085	Scrap
Mr.S.S. Marathe	Sandvik Asia Limited	15 th July, 2003	3,932,547	-	Insert, Holder, A/K. P/S.
Mr.S.D. Kulkarni	Voltas Ltd.	-Do-	572,321	-	Broach, HSS M/C Tap
Mr.B.N. Kalyani Mr.P.C. Bhalerao	Kalyani Carpenter Special Steels Limited	-Do-	318,365,343	-	Forging Quality Steel
Mr.B.N. Kalyani	Kalyani Lemmerz	-Do-	-	947,170	Shaft, Rings & Disc.
Mr. B.N. Kalyani Mr. P.C. Bhalerao Mr. Pratap Bhogilal Mr.S.S. Marathe	Automotive Axles Limited	-Do-	-	124,958,126	P/M Shaft
Mr.S.S. Marathe	Bajaj Tempo Ltd.	-Do-	-	13,827,280	Stub Axle
Mr. Atul Kirloskar	Kirloskar Oil Engines Ltd.	-Do-	-	1,236,152	-
Mr. Atul Kirloskar	Bajaj Auto Ltd.	-Do-	-	1,987,020	Crank Shafts
Mr. B.N. Kalyani	Kalyani Steels Ltd.	-DO-	78,879,605	-	Forging Quality Steel
Mr. B.N. Kalyani Mr.P.C. Bhalerao	Kalyani Carpenter Special Steels Limited.	-DO-	-	46,555,008	Scrap
Mr.S.S. Marathe	Sandvik Asia Limited	21 st Oct, 2003.	1,680,976	-	Insert, A/K. Tool Holder
Mr.B.N. Kalyani Mr.P.C. Bhalerao	Kalyani Carpenter Special Steels Limited	-Do-	406,595,906	-	Forging Quality Steel
Mr.B.N. Kalyani	Kalyani Lemmerz Ltd.	-Do-	-	493,000	Crank Shaft
Mr.S.S. Marathe	Larsen & Toubro Ltd	-Do-	-	80,000	Tie Rod
Mr.B.N. Kalyani Mr.P.C. Bhalerao	Kalyani Carpenter Special Steels Limited	-Do-	-	43,295	Crank Shaft
Mr.B.N. Kalyani	Kalyani Lemmerz Ltd.	-Do-	-	519,190	Crank Shaft
Mr. Atul Kirloskar	Kirloskar Oil Engines Ltd.	-Do-	-	2,882,216	Connecting Rod, Shaft
Mr.B.N. Kalyani Mr.P.C. Bhalerao Mr. Pratap Bhogilal Mr. S.S. Marathe	Automotive Axles Ltd.	-Do-	-	2,508,884	Housing Half, Spindle
Mr. B.N. Kalyani	Kalyani Steels Ltd.	-DO-	118,591,883	-	Forging Quality Steel
Mr. B.N. Kalyani Mr.P.C. Bhalerao	Kalyani Carpenter Special Steels Limited.	-DO-	-	77,533,972	Scrap
Mr. S.S. Marathe	Larsen & Toubro Ltd.	19 th Jan. 2004	-	390,000	Shaft
Mr. Atul Kirloskar	Kirloskar Oil Engines Ltd.	-Do-	-	1,938,367	RA Connecting Rod
Mr. G.K. Agarwal	Seinumero MTL Ltd.	-Do-	-	2,196,000	Spindle
Mr. B.N. Kalyani Mr. P.C. Bhalerao Mr. Pratap Bhogilal Mr.S.S. Marathe	Automotive Axles Limited	-Do-	-	79,802,680	Housing Half, Spindle
Mr. B.N. Kalyani	Kalyani Brakes Ltd.	-Do-	-	12,180,000	HUB Front
Mr.S.S. Marathe	Sandvik Asia Ltd.	-Do-	1,708,405	-	Insert, Hydro Grip, Slides,
Mr.S.D. Kulkarni	Voltas Ltd.	-Do-	150,257	-	Keyway Broach
Mr.B.N. Kalyani Mr.P.C. Bhalerao	Kalyani Carpenter Special Steels Limited	-Do-	445,574,851	-	Forging Quality Steel
Mr. B.N. Kalyani	Kalyani Steels Ltd.	-DO-	84,289,115	-	Forging Quality Steel
Mr. B.N. Kalyani Mr. P.C. Bhalerao	Kalyani Carpenter Special Steels Limited.	-DO-	-	72,349,318	Scrap
Mr.B.N. Kalyani	Kalyani Lemmerz Ltd.	May 11, 2004	-	755,000	P/M Adaptor
Mr.B.N. Kalyani Mr.P.C. Bhalerao	Kalyani Carpenter Special Steels Limited	-Do-	-	1,308,483	FM Roll

Mr. Atul Kirloskar	Kirloskar Oil Engines Ltd.	-Do-	-	504,380	Rods
Mr.B.N. Kalyani					
Mr.P.C. Bhalerao					
Mr. Pratap Bhogilal					
Mr. S.S. Marathe	Automotive Axles Ltd.	-Do-	-	55,119,689	Housing Half
Mr. Atul Kirloskar	Toyota Kirloskar Auto Parts Limited	-Do-	-	174,351	Shaft
Mr. S.S. Marathe	Sandvik Asia Ltd.	-Do-	4,921,003	-	Inserts etc.
Mr.B.N. Kalyani					
Mr.P.C. Bhalerao	Kalyani Carpenter Special Steels Limited	-Do-	796,020,389	-	Forging Quality Steel
Mr. B.N. Kalyani	Kalyani Steels Ltd.	-DO-	230,625,198	-	Forging Quality Steel
Mr.B.N. Kalyani					
Mr.P.C. Bhalerao	Kalyani Carpenter Special Steels Limited	-Do-	-	118,710,000	Sale of scrap
Mr.B.N. Kalyani					
Mr.P.C. Bhalerao					
Mr.G.K. Agarwal					Sale of Forgings and rendering of services by the Company
Mr. A.B. Kalyani	CDP Bharat Forge GmbH	-Do-	-	Rs5,030,094/-	
Mr. B.N. Kalyani					
Mr. P.C. Bhalerao	Kalyani Carpenter Special Steels Limited	July 27, 2004		6,932,868	F/M Rolls
Mr. B.N. Kalyani					
Mr. P.C. Bhalerao	Kalyani Carpenter Special Steels Limited	-Do-		126,940,000	Sale of scrap
Mr. S.S. Marathe	Larsen & Toubro Limited	-Do-		1,620,000	Fin Stock Forging
Mr. S.S. Marathe	Sandvik Asia	-Do-	1,117,133.98		Finish Boring Unit, Corogrip chuck and Pressure Screw
Mr. B.N. Kalyani					Forging Quality Steels / Ingots
Mr. P.C. Bhalerao	Kalyani Carpenter Special Steels Limited	-Do-	237,693,157		
Mr. B.N. Kalyani					
Mr. P.C. Bhalerao	Kalyani Carpenter Special Steels Limited	-Do-	1,461,209		Hot Die Steel
Mr. B.N. Kalyani					Forging Quality Steels / Ingots
Mr. P.C. Bhalerao	Kalyani Carpenter Special Steels Limited	-Do-	251,301,509		
Mr. B.N. Kalyani					
Mr. P.C. Bhalerao	Kalyani Carpenter Special Steels Limited	-Do-	1,210,132		Hot Die Steel
Mr. B.N. Kalyani	Kalyani Steels Limited	-Do-	156,165,656		Forging Quality steels
Mr. S.D. Kulkarni	Voltas Limited	-Do-	323,357.40		Bush Broach & Keyway Broach
Mr. B.N. Kalyani					
Mr. P.C. Bhalerao					
Mr. G.K. Agarwal					
Mr. Amit Kalyani	CDP Bharat Forge GmbH, Germany	-Do-		6,112,741.80	CDP Suspension ARM

AZB & Partners, Advocates and Solicitors, a firm in which Mr. Shobhan Thakore is a partner with effect from April 01, 2004 has carried out the legal Due Diligence with respect to this Rights Issue.

All Directors of BFL may be deemed to be interested to the extent of fees, if any, payable to them for attending meetings of the Board or a Committee thereof as well as to the extent of other remuneration, reimbursement of expenses payable to them under our Articles of Association. The Chairman and Managing Director is interested to the extent of remuneration paid to him for services rendered by him. All our directors may also be deemed to be interested to the extent of equity shares held, if any, already held by them or their relatives in BFL, or that may be subscribed for and allotted to them, and also to the extent of any dividend payable to them and other distributions in respect of the said Equity Shares.

Our directors may also be regarded as interested in the equity shares, if any, held by or that may be subscribed by and allotted to the companies, firms and trusts, in which they are interested as directors, members, partners or trustees.

All Directors may be deemed to be interested in the contracts, agreements/arrangements entered into or to be entered into by us with any company in which they hold Directorships or any partnership firm in which they are partners.

Other than the aforesaid, we have not entered into any contracts, in which our directors are interested, directly or indirectly, and payments have been made to them in respect of these contracts, or is proposed to be made, which have been mentioned in Related Party Transactions as mentioned below in the Offer Document.

Compensation of Our Directors for fiscal 2004

(Figures in Rs)

<u>Name of Director</u>	<u>Sitting Fees</u>	<u>Salaries and Perquisites</u>	<u>Commission</u>	<u>Total</u>
B.N. Kalyani	NA	10,212,106	16,000,000	26,212,106
P.H. Ravikumar	55,000		600,000	655,000
P. Bhogilal	25,000		400,000	425,000
S.S. Marathe	135,000		1,000,000	1,135,000
A.C. Kirloskar	125,000		800,000	925,000
P.R. Latey	35,000		400,000	435,000
A. Rege	30,000		400,000	430,000
S.M. Thakore	35,000		600,000	635,000
S.D. Kulkarni	35,000		800,000	835,000
G.K. Agarwal	NA	4,687,890	5,000,000	9,687,890
P.C. Bhalerao	NA	4,719,292	5,000,000	9,719,292
A.B. Kalyani ¹	NA	771,682	-	771,682

¹ Joined the Board as an Additional Director and an Executive Director with effect from May 11, 2004.

Changes in Directors in the last three years

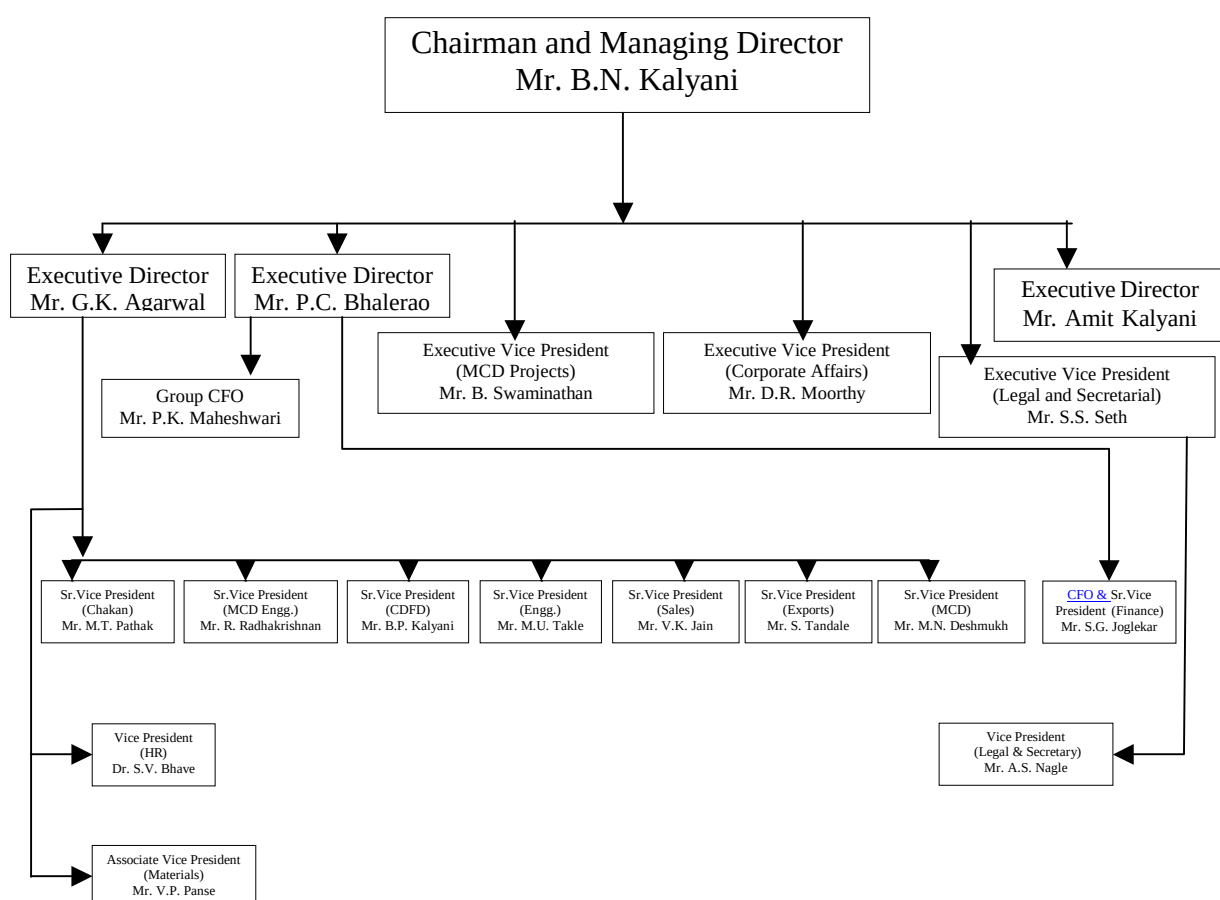
<u>S. No.</u>	<u>Name</u>	<u>Date of Appointment/Cessation</u>	<u>Reason</u>
FY2002			
1.	K.G. Vassal Nominee Director	ceased on November 12, 2001	UTI having withdrawn his nomination
2.	P.M. Ravikumar Nominee Director	appointed on April 3, 2001	ICICI nomination on the Board
FY2003			
1.	G. A. Nayak Nominee Director	ceased on December 19, 2002	UTI having withdrawn his nomination
2.	B.N. Kalyani Managing Director	reappointed on March 30, 2003	Reappointed for a further term of 5 years
FY2004			
1.	P.C. Bhalerao Executive Director	reappointed on April 1, 2003	Reappointed for a further term of 5 years
2.	G.K. Agarwal Executive Director	reappointed on April 1, 2003	Reappointed for a further term of 5 years
3.	Atul Kirloskar Director	ceased on March 31, 2004	Resigned
4.	Amit B Kalyani Executive Director	appointed on May 11, 2004	Appointed as an Additional Director and an Executive Director for a term of five years.

Date of Expiration of the term of Current Directors

Name of the Director	Nature of Directorship	Date of expiration of term of office
Mr. B.N. Kalyani	Whole-time Director	March 29, 2008
Mr. P.H. Ravikumar	Nominee of ICICI	Not liable for retirement by rotation
Mr. Pratap Bhogilal	Director retiring by rotation	Due for reappointment in the year – 2004
Mr. S.S. Marathe	Director retiring by rotation	Due for reappointment in the year – 2006
Mr. P.R. Latey	Director retiring by rotation	Due for reappointment in the year – 2006
Mr. Anil Rege	Director retiring by rotation	Due for reappointment in the year – 2006
Mr. S.M. Thakore	Director retiring by rotation	Due for reappointment in the year – 2005
Mr. S.D. Kulkarni	Director retiring by rotation	Due for reappointment in the year – 2004
Mr. G.K. Agarwal	Whole-time Director	Due for reappointment in the year – 2004
Mr. P.C. Bhalerao	Whole-time Director	Due for reappointment in the year – 2005
Mr. A.B.Kalyani	Whole-time Director	May 10, 2009

Our Management Organisation Structure

The organisation structure of the Company is as follows:



Key Managerial Personnel

Details of our key managerial personnel other than the Managing Director are as follows:

NAME	AGE	DESIGNATION	QUALIFICATION	TOT. EXP. (YRS.)	JOIN DATE	LAST EMPLOYMENT	Total Remuneration (Rs.) for fiscal 2004
AGARWAL G K	52	EXECUTIVE DIRECTOR	B.E. (Mech), M.B.A.	31	1.11.1976	G.K.W., HOWRAH	9,687,890
BHALERAO P C	53	EXECUTIVE DIRECTOR	B.E. (Mech), M.B.A., D.T.M.	30	3.3.1987	BHARAT STEEL TUBES LTD., DELHI	9,719,292
KALYANI A B	28	CHIEF TECHNOLOGY OFFICER	B.E. (Mech)	5	24.10.1999	KALYANI STEELS LTD., PUNE	771,682
MOORTHY D R	52	EXECUTIVE VICE PRESIDENT (CORP. AFFAIRS)	B.Sc., LL.B	28	29.4.1987	BUCKAU WOLF LTD., PUNE	1,296,606
SETH S S	62	EXECUTIVE VICE PRESIDENT (CORPORATE)	B.Com., M.A., LL.B, A.C.S.	42	20.10.1981	HINDUSTAN ANTIBIOTICS LTD., PUNE	1,288,644
MAHESHWARI P K	42	GROUP CHIEF FINANCE OFFICER	B.Com., PGDM., A.C.A.	21	1.12.2003	ESCORTS LIMITED, HARYANA	1,082,627
BSWAMINATHAN	56	EXECUTIVE VICE PRESIDENT	B.E. (Mech)	35	14.4.2003	TOYOTA KIRLOSKAR AUTO PARTS PVT.LTD., B'LORE	2,717,956
RADHAKRISHNAN R	55	SR VICE PRESIDENT (MANUFACTURING)	B.E.(Mech)	35	13.3.1995	DECCAN GRANITES LTD., HYDERABAD	1,023,852
KALYANI B P	41	SR.VICE PRESIDENT (F. M. D.)	B.E.(Prod), M.S., M.B.A	19	2.8.1982	-	1,289,111
TAKALE M U	43	SR.VICE PRESIDENT (F. M. D.)	B.E.(Mech), M.S., M.B.A	19	2.11.1982	-	1,342,737
JOGLEKAR S G	46	SR.VICE PRESIDENT (FINANCE)	B.Com., A C.A.	23	14.11.1999	-	1,138,058
DESHMUKH M N	54	SR.VICE PRESIDENT (M. C. D.)	B.E.(Mech)	31	20.12.1976	INTERNATIONAL TRACTOR CO. (I) LTD., MUMBAI	1,039,604
JAIN V K	56	SR.VICE PRESIDENT (SALES & MKTG.)	B.Tech.	36	20.12.1968	-	946,340
PATHAK M T	46	SR.VICE PRESIDENT (SPECIAL PROJECTS)	B.E.(Mech), D.B.M.	25	1.7.2002	EICHER LTD., THANE	1,176,032
TANDALE S.E.	35	SR.VICE PRESIDENT (I. T. D.)	B.E.(Mech)	13	1.8.1991	-	1,481,170
NAGLE A S	37	VICE PRESIDENT (SECTL & LEGAL)	B.Com., LL.B. (Gen), C.S.	14	27.3.2003	FULFORD (INDIA) LTD., MUMBAI	878,898
BHAVE S V (DR)	50	VICE PRESIDENT (H.R.)	B.A., MPM., LL.M., Ph.D.	24	7.10.2002	INDIAN ORGANIC CHEMICALS LTD., KHOPOLI	798,113
PANSE VP	51	AVP (MATERIALS)	B.E.(Metallurgy), DMS	30	15.11.1988	MAZGAON DOCK LTD., MUMBAI	494,184

As per Definition of 'Relative', under the Companies Act, 1956, other than Mr. Amit Kalyani, who is a relative of Mr. B N Kalyani, none of the above key managerial personnel are relatives of each other or relatives of any of the directors of the Company. All the employees named above are on the rolls of Bharat Forge Limited as permanent employees.

Shareholding of the Key Managerial personnel

The aggregate shareholding of the key managerial personnel as on the date of book closure was 67,614 Equity Shares.

NAME (including that of their relatives)	SHAREHOLDING
AGARWAL G K	655
BHALERAO P C	450
KALYANI A B	64,790
MOORTHY D R	184
SETH S S	Nil
MAHESHWARI P K	Nil
B.SWAMINATHAN	Nil
RADHAKRISHNAN R	Nil
KALYANI B P	572
TAKALE M U	432
JOGLEKAR S G	200
DESHMUKH M N	Nil

JAIN V K	247
PATHAK M T	Nil
TANDALE S.E.	84
NAGLE A S	Nil
BHAVE S V (DR)	Nil
PANSE VP	Nil

Bonus or Profit sharing plan for the Key Managerial Personnel

The Company does not have a performance bonus plan for its key managerial personnel.

Changes in the Key Managerial personnel in the last three years

Following are the changes in Key Managerial Personnel in the last three years (other than superannuation):

<u>Name of the Employee and Last / Current Designation</u>	<u>Date of Joining</u>	<u>Date of Leaving</u>	<u>Reason</u>
<i>Financial Year 2001</i>			
No change			
<i>Financial Year 2002</i>			
No change			
<i>Financial Year 2003</i>			
D.R.Kurne (AVP – HR)		May 11, 2002	Resignation
M.T.Pathak (Sr. VP– Special Projects)	July 1, 2002		
S.V.Bhave (VP – HR)	October 7, 2002		
A.S.Nagle (VP (Legal) & Company Secretary)	March 27, 2003		
<i>Financial Year 2004</i>			
B.Swaminathan (EVP)	April 14, 2003		
P.K.Maheshwari (Group CFO)	December 1, 2003		
V.Ganpathi (Sr. VP)		January 31, 2004	Resignation

The following may be noted with regard to Directors and Key Managerial Personnel of the Company:

- The Key Managerial Personnel are on the rolls of the Company as employees of permanent nature.
- None of the Directors and Key Managerial Personnel have any family relationship between them, except for Mr. A B Kalyani, who is related to Mr. B N Kalyani, our Chairman and Managing Director
- Except to the extent of nomination of Directors, there is no arrangement or understanding with major shareholders, customers, suppliers or others, pursuant to which any Director or Key Managerial Personnel was selected
- Except as stated in related party transactions, none of the Directors is entitled to any compensation or benefit in kind from the Company for their services to the Company. One of our directors, Mr. Shobhan Thakore is also consulted by us in his professional capacity as a solicitor and advocate. For these services, we had paid consultancy fees to his firm M/s Bhaishankar Kanga and Girdharlal of Rs. 40,000 in fiscal 2001.
- None of the Directors and Key Managerial Personnel, have been paid any compensation pursuant to a bonus or profit-sharing plan.

OUR PROMOTER

The Company was incorporated on June 19, 1961 and we commenced business in 1966. We were originally promoted by Kalyani family headed by Dr. Neelkanth Kalyani. Our initial equity was subscribed by Kalyani family.

PROMOTERS AND THEIR BACKGROUND

Mr. Baba Neelkanth Kalyani

Mr. B.N. Kalyani is the Chairman and Managing Director of Bharat Forge Ltd. Mr. Kalyani, 53 was born on January 7, 1949. Mr. Kalyani is a Mechanical Engineer from the Birla Institute of Technology, Pilani, Rajasthan and also has an M.S. from the Massachusetts Institute of Technology, USA. Mr. Kalyani has over 30 years of experience in business, and has significantly contributed to the success of Bharat Forge Limited. He is associated with Bharat Forge since 1972 and has contributed to the growth of the Company to its present position where it is one of the leading forging companies in the world. He has led Bharat Forge in capturing sizeable global market share for axle components and engine components in the range that the Company manufactures. Please also refer to the section 'Directors' on page 70 of the Letter of Offer.

Other Details of Promoter

Voter ID No.: MT/0042/0246/546457

Driving License No.: MH12/03/445188

Photograph of the Promoter is given below



The Permanent Account Number ("PAN"), Bank Account No. and Passport No. have been submitted to the stock exchanges, on which the rights issue shares are proposed to be listed at the time of filing the Letter of Offer with them.

The shares are held by the promoter in Bharat Forge through companies owned/controlled by the promoter. The promoter group shareholding in the Company as on the date of book closure is as follows:

	No. of Shares	Percent
Mr. B N Kalyani	7,204	0.02%
Mr B N Kalyani's relatives	172,700	0.45%
KSL Holdings Private Limited	4,628,574	12.29%
Ajinkya Investment and Trading Private Limited	368,014	0.98%
Koyna Trading and Investment Company	375,000	1.00%
Cockscomb Investment and Finance Private Limited	627,520	1.67%
Shailendra Trading and Investment Company	396,118	1.05%

	No. of Shares	Percent
Chakrapani Investment and Trades Limited	1,649,750	4.38%
Surajmukhi Investment and Finance Limited	1,899,490	5.04%
Rajgad Trading Company Private Limited	132,552	0.35%
Jannhavi Investments Private Limited	443,514	1.18%
Yusmarg Investment and Trading Private Limited	164,400	0.44%
Tanmarg Investment and Trading Private Limited	77,600	0.21%
Kalyani Consultants Private Limited	65,700	0.17%
Dronacharya Investment and Trading Private Limited	14,143	0.04%
Conflower Investment and Finance Private Limited	49,400	0.13%
Campanula Investment and Finance Private Limited	68,889	0.18%
Hastinapur Investment and Trading Private Limited	16,800	0.04%
Dandakaranya Investment and Trading Private Limited	102,500	0.27%
Sundaram Trading and Investment Private Limited	50,000	0.13%
Kunal Trading and Investment Private Limited	29,996	0.08%
Yashwant Trading and Investment Private Limited	403,088	1.07%
Gladiola Investments Limited	2,030,100	5.39%
Mundhwa Investment Limited	49,064	0.13%
Bhalchandra Investment Limited	109,845	0.29%
Forge Investment Limited	70,046	0.19%
Kalyani Utilities Development Limited	30,267	0.08%
Total	14,032,274	37.25%

We have 30 companies within the Group, comprising of 7 listed companies and 23 unlisted companies. We have entered into certain transactions with these companies for details of which please refer to para titled "Related Party Transactions" on page xvi and "Interest of Directors" on page 75 of this Letter of Offer. Please also refer to paras titled "Commitments on behalf / for Subsidiary", "Letters of Comfort" and "Sponsor Support Arrangement" on page 47, page 47 and page 48, respectively of this Letter of Offer for potential impact on our financials.

The Top 5 Companies of our group (in terms of market capitalization) are as follows:

Kalyani Steels Limited

Kalyani Steels Limited was incorporated on February 28, 1973. It is engaged in the business of manufacture of hot rolled carbon and alloy steel bars, billets, rounds, squares and various sizes of rolled sections.

The Board of Directors comprise of:

B.N. Kalyani	Chairman
A.B. Kalyani	Director
S.S. Hiremath	Director
S.M. Kheny	Director
Ajeet Prasad	UTI Nominee
C.G. Patankar	Executive Director
Suresh Pandey	Whole-time Director (Technical)
B.B. Hattarki	Whole-time Director

The shareholding pattern of the company as on June 30, 2004 is as follows:

Name	No. of Shares held of Rs 10 each	Shareholding (%)
Indian Promoters	23,103,068	54.938
Mutual Funds and UTI	1,356,214	3.225
Banks, Financial Institutions, Insurance Companies	2,071,082	4.925
FIIS	110,000	0.262
Private Corporate Bodies	5,966,261	14.187
Indian Public	9,260,523	22.021
NRIs/OCBs	185,912	0.442
Total	42,053,060	100.00

The financial performance for the last three years is as follows:

	Year ended March 31		
	2002	2003	2004*
(in Rs. million except per share data)			
Sales and other Income	2,485.81	3,609.32	5454.70
Profit after tax	37.20	56.18	119.66
Equity Capital	300.91	300.91	420.91
Reserves	2,325.65	2,401.38	1876.42
Earnings per share (of Rs.10- each)	0.76	1.78	2.82
Book Value per share (of Rs.10 each)	89.63	90.35	57.36

*after giving effect to the Scheme of Arrangement between Kalyani Ferrous Industries Limited and the Company.

Material Notes for Fiscal 2004 in the audit report, *inter-alia*, include:

1. Contingent liabilities not provided for as on March 31, 2004 amounted to Rs.203.37 million.
2. Estimated amount of Contracts remaining to be executed on Capital Account and not provided for (Net of advances) amounted to Rs. 80.48 million.

Quotes for last six months at BSE

Month	High (Rs)	Low (Rs)
January 2004	88.35	52.00
February 2004	58.85	46.15
March 2004	53.50	31.50
April 2004	55.10	41.00
May 2004	50.00	29.20
June 2004	41.75	32.10

Stock Market Data:

Name of Stock Exchange(s) where Listed	BSE, PSE
High/ Low price in the last 6 months (Rs.)	88.35 / 29.20
Market price as on July 16, 2004 (Rs.)	46.5
Market capitalization as on July 16, 2004 (Rs in million)	1,960.4
(Prices as on BSE)	

Kalyani Brakes Limited

Kalyani Brakes Limited was incorporated as a Private Limited Company called Kalyani Brakes Private Limited on May 25, 1982. Subsequently, it was converted into a public limited Company on November 24, 1982 and its name changed to Kalyani Brakes Limited. Kalyani Brakes Limited is a joint venture between Kalyani Steels Limited and its associates and Robert Bosch Corporation, USA. It is engaged in the business of manufacturing and marketing of brakes and brake aggregates.

The Board of Directors comprise of:

B.N.Kalyani	Chairman
Albert Hieronimus	Director
V.K.Viswanathan	Director
Johannes Schaefer	Director
Sanjay Vaidya	Director
Hans-Michael Huber	Director
Satish Sekhri	Managing Director

The shareholding pattern of the company as on June 30, 2004 is as follows:

Name	No. of Shares held of Rs 10 each	Shareholding (%)
Indian Promoters	4,158,600	40.00
Foreign Promoters	4,158,600	40.00
Mutual Funds and UTI	13,212	0.13
Banks, Financial Institutions, Insurance Companies	200,000	1.92
Private Corporate Bodies	716,430	6.89
Indian Public	1,024,756	9.86
NRIs/OCBs	124,902	1.20
Total	10,396,500	100.00

The financial performance for the last three years is as follows:

	Year ended March 31		
	2002	2003	2004
	(in Rs. million except per share data)		
Sales and other Income	1,939.31	2,528.38	3,469.54
Profit after tax	124.36	157.67	264.54
Equity Capital	103.97	103.97	103.97
Reserves	560.41	527.06	650.85
Earnings per share (of Rs.10- each)	12.00	15.00	25.44
Book Value per share (of Rs.10 each)	63.90	60.70	72.60

Material Notes for the Fiscal 2004 in the audit report, inter-alia, include:

- Contingent liabilities not provided for as on March 31, 2004 amounted to Rs.94.07 million.
- A demand had been raised by the Central Excise authorities to levy duty of Rs. 56.36 million and penalty upto the same amount and interest amount, which could not be ascertained. The demand relates mainly to the issue of valuation of goods sent on stock transfer basis to Company's other units for captive consumption. The Hon'ble Customs, Excise and Gold (Control) Appellate Tribunal (CEGAT) has passed an order confirming a demand of Rs.3.33 million, which was paid and adjusted against the Cenvat credit available to the Company. The balance amount of the demand of Rs. 53.02 million alongwith interest and penalty was set aside by the CEGAT. The Department has filed an appeal before the Supreme Court against the said order of CEGAT, which is pending.
- Estimated amount of Contracts remaining to be executed on Capital Account and not provided for (Net of advances) amounted to Rs. 32.32 million.

Quotes for last six months at BSE

Month	High (Rs)	Low (Rs)
January 2004	595.00	440.00
February 2004	500.00	381.25
March 2004	471.00	311.45
April 2004	436.00	335.00
May 2004	406.95	323.15
June 2004	385.00	326.60

Stock Market Data:

Name of Stock Exchange(s) where Listed	NSE, BSE, PSE
High/ Low price in the last 6 months (Rs.)	595.00 / 311.45
Market price as on July 16, 2004 (Rs.)	357.95
Market capitalization as on July 16, 2004 (Rs in million)	3,722.7

(Prices as on BSE)

HIKAL Limited

HIKAL Limited was incorporated on July 8, 1988. It is engaged in the business of manufacture and marketing of chemicals, intermediates, dyes, pharmaceuticals and pesticides.

The Board of Directors comprise of:

B.N.Kalyani	Chairman
Jai.Hiremath	Vice Chairman & Managing Director
Sameer Hiremath	Executive Director
Mrs. Sugandha Hiremath	Director
P. V. Mehta	Director
S. M. Kheny	Director
K. K. Unni	Director
B. K. Raizada	Director

The shareholding pattern of the Company as on June 30, 2004 is as follows:

Name	No. of Shares held of Rs 10 each	Shareholding (%)
Indian Promoters	11,281,339	74.81
Mutual Funds and UTI	114,291	0.76
Banks, Financial Institutions, Insurance Companies	409	0.00
FIIS	1,223,345	8.11
Private Corporate Bodies	195,209	1.29
Indian Public	1,440,582	9.55
NRIs/OCBs	28,658	0.19
Any other	796,267	5.28
Total	15,080,100	100

The financial performance for the last three years is as follows:

	Year ended March 31		
	2002	2003	2004
	<i>(in Rs. million except per share data)</i>		
Sales and other Income	1,166.25	1,356.68	1,635.24
Profit after tax	198.68	232.95	277.19
Equity Capital	100.53	100.53	150.80
Reserves	447.60	508.29	868.44
Earnings per share (of Rs.10- each)	19.77	23.18	18.38
Book Value per share (of Rs.10 each)	54.52	60.56	67.59

Material Notes for fiscal 2004 in the audit report, inter-alia, include:

1. Contingent liabilities not provided for as on March 31, 2004 amounted to Rs.169.69 million.
2. Estimated amount of Contracts remaining to be executed on Capital Account and not provided for (Net of advances) amounted to Rs. 24.89 million.

Quotes for last six months at BSE

Month	High (Rs)	Low (Rs)
January 2004	357.00	296.10
February 2004	335.00	288.90
March 2004	349.95	280.50
April 2004	355.00	312.10
May 2004	333.00	250.65
June 2004	319.00	255.05

Stock Market Data:

Name of Stock Exchange(s) where Listed	BSE, NSE
High/ Low price in the last 6 months (Rs.)	357.00 / 250.65
Market price as on July 16, 2004 (Rs.)	270.35
Market capitalization as on July 16, 2004 (Rs in million)	4,076.9
(Prices as on BSE)	

BF Utilities Limited

BF Utilities Limited was incorporated on September 15, 2000. It is engaged in the business of Investments and generation of electricity by means of non-conventional energy mainly through wind energy.

The Board of Directors comprise of:

B.N.Kalyani	Chairman
P. C. Bhalariao	Director
G. K. Agarwal	Director
B.B.Hattarki	Director
S. S. Vaidya	Director

The shareholding pattern of the company as on June 30, 2004 is as follows:

Name	No. of Shares held of Rs. 5 each	Shareholding (%)
Indian Promoters	18,439,658	48.95
Mutual Funds and UTI	1,482,598	3.94
Banks, Financial Institutions, Insurance Companies	6,036,641	16.03
FIIS	764	-
Private Corporate Bodies	4,894,656	12.99
Indian Public	6,768,873	17.97
NRIs/OCBs/Foreign Nationals	40,013	0.11
Any other	4,425	0.01
Total	37,667,628	100.00

The financial performance for the last three years is as follows:

	Year ended September 30		
	2001	2002	2003
	<i>(in Rs. million except per share data)</i>		
Sales and other Income	64.99	204.72	183.13
Profit after tax	0.15	19.20	(20.49)
Equity Capital	188.34	188.34	188.34
Reserves	1,908.85	1,932.92	1,910.61
Earnings per share (of Rs.5 each)	0.004	0.51	(1.04)
Book Value per share (of Rs.5 each)	55.676	56.315	55.723

Material Notes for the year ended September 30, 2003 in the audit report, inter-alia, include:

1. Contingent liabilities not provided for as on September 30, 2003 amounted to Rs.455 million.

Quotes for last six months at BSE

Month	High (Rs)	Low (Rs)
January 2004	33.25	20.00
February 2004	19.55	13.65
March 2004	16.63	11.20
April 2004	18.35	14.60
May 2004	16.85	12.90
June 2004	13.50	10.30

Stock Market Data:

Name of Stock Exchange(s) where Listed	BSE, PSE
High/ Low price in the last 6 months (Rs.)	33.25 / 10.30
Market price as on July 16, 2004 (Rs.)	12.77
Market capitalization as on July 16, 2004 (Rs in million)	480.9
(Prices as on BSE)	

Automotive Axles Limited

Automotive Axles Limited was incorporated on April 21, 1981. It is engaged in the business of manufacture and sale of rear single reduction drive axles, rear non drive axles, rear tandem single reduction drive axles, component for drive axles and sub assemblies, components for air actuated foundation brakes. All these products cater to the commercial vehicles segment of the Automotive Industry.

The Board of Directors comprise of:

B.N.Kalyani	Chairman
S. S. Marathe	Director
Pratap Bhogilal	Director
P. C. Bhalerao	Director
B. A. Arnold	Director
B. G. Palmer	Director
P. M. McNamara	Director
Ashok Rao	President & Whole-time Director
C. K. Sabareeshan	Executive Director (Finance) & Company Secretary

The shareholding pattern of the Company as on June 30, 2004 is as follows:

Name	No. of Shares held of Rs 10 each	Shareholding (%)
Indian Promoters	5,367,806	35.52
Foreign Promoters	5,367,275	35.52
Mutual Funds and UTI	1,803,913	11.94
Banks, Financial Institutions, Insurance Companies	166	0.00
FIIS	116,647	0.77
Private Corporate Bodies	770,897	5.10
Indian Public	1,659,122	10.98
NRI/OCBs	26,149	0.17
Total	15,111,975	100.00

The financial performance for the last three years is as follows:

	Year ended September 30		
	2001	2002	2003
	(in Rs. million except per share data)		
Sales and other Income	1693.82	2060.52	2451.97
Profit after tax	107.11	147.99	200.24
Equity Capital	151.12	151.12	151.12
Reserves	312.80	309.93	382.31
Earnings per share (of Rs.10 each)	7.09	9.79	13.25
Book Value per share (of Rs.10 each)	30.59	30.43	35.29

Material Notes for year ended September 30, 2003 in the audit report, *inter-alia*, include:

1. Claims against the Company not acknowledged as debt for Rs. 0.24 million.
2. Estimated amount of Contracts remaining to be executed on Capital Account and not provided for (Net of advances) amounted to Rs. 36.24 million.

Quotes for last six months at BSE

Month	High (Rs)	Low (Rs)
January 2004	304.00	202.10
February 2004	254.00	200.00
March 2004	231.00	171.00
April 2004	218.00	172.90
May 2004	208.00	162.00
June 2004	194.50	164.95

Stock Market Data:

Name of Stock Exchange(s) where Listed	BSE, NSE ¹
High/ Low price in the last 6 months (Rs.)	304.00 / 162.00
Market price as on July 16, 2004 (Rs.)	170.95
Market capitalization as on July 16, 2004 (Rs in million)	2,583.1
(Prices as on BSE)	

¹ Delisted from Bangalore Stock Exchange and Pune Stock Exchange with effect from January 29, 2004

Top Five Unlisted Companies In Terms Of Sales

Kalyani Carpenter Special Steels Limited

Kalyani Carpenter Special Steels Limited (KCSSL) was incorporated on July 24, 1998. Kalyani Carpenter Special Steels Limited is a joint venture between Kalyani Steels Limited and Carpenter Technology Corporation, USA. It is engaged in the business of manufacturing and marketing of Speciality & Alloy Steel Billets and rounds.

The Board of Directors comprise of:

Mr. B. N. Kalyani	Chairman
Mr. R. M. Unni	Executive Director & CEO
Dr. M. K S. Cherukuru	Executive Director
Mr. P. C. Bhalerao	Director
Mr. A. T. Ziolkowski	Director
Mr. M. L. Shor	Director

The shareholding pattern of the Company as on June 30, 2004 is as follows:

Name	No. of Shares held of Rs. 10 each	Shareholding (%)
Private Corporate Bodies (Kalyani Group)	22,231,052	74%
Any other (Carpenter Technology Mauritius Ltd.)	7,810,910	26%
Total	30,041,962	100

The financial performance for the last three years is as follows:

	Year ended March 31		
	2002	2003	2004
<i>(in Rs. million except per share data)</i>			
Sales and other Income	2,278.1	2,461.8	3,119.9
Profit after tax	83.9	80.7	137.0
Equity Capital	300.4	300.4	300.4
Reserves	397.8	355.6	407.6
Earnings per share (of Rs.10- each)	2.79	2.68	4.56
Book Value per share (of Rs.10 each)	22.16	24.31	26.74

Material Notes for fiscal 2004 in the audit report, *inter-alia*, include:

- Contingent liabilities not provided for as on March 31, 2004 amounted to Rs.9.41 million.
- KCSSL has imported certain capital goods under the Export promotion Capital Goods Scheme of the Government of India at concessional rates of duty against an undertaking to fulfill certain export obligation required to be fulfilled upto March 31, 2003 has been fulfilled after considering the extension granted by the competent authority. The minimum export obligation to be fulfilled by KCSSL under the said scheme upto March 23, 2004 has been extended upto September 23, 2004. The liability for non-fulfillment of the obligation upto such extended time is not quantifiable. However non fulfillment of such future obligations entails the Government to recover the difference between the duty leviable on goods and the duty paid by KCSSL alongwith the interest and penalty, if any.
- Estimated amount of Contracts remaining to be executed on Capital Account and not provided for (Net of advances) amounted to Rs. 74.51 million.

Meritor HVS (India) Limited

Meritor HVS (India) Limited was incorporated on 13th February 1998. Meritor HVS (India) Limited is a joint venture between Meritor HVS LLC, USA and Kalyani Group, Pune. It is engaged in the business of design, development, sales and marketing, including export of, automotive components & aggregates thereof.

The Board of Directors comprise of:

- Bradley A Arnold Chairman (Director and nominee of Meritor Heavy Vehicle Systems LLC, USA)
- B. N Kalyani Deputy-Chairman (Director and nominee of Kalyani Group of Companies, India)
- Blake G Palmer Director (nominee of Meritor Heavy Vehicle Systems LLC, USA subject to retirement by rotation)
- Patrick M McNamara, Director (nominee of Meritor Heavy Vehicle Systems LLC, USA, subject to retirement by rotation)
- Prakash C Bhalerao Director (nominee of Kalyani Group of Companies, India, subject to retirement by rotation)
- Craig Pryor Director (nominee of Meritor Heavy Vehicle Systems LLC, USA, subject to retirement by rotation)

The shareholding pattern of the company as on June 30, 2004 is as follows:

Name	No. of Shares held of Rs. 10 each	Shareholding (%)
Promoters:		
Indian	1,190,700	51
Foreign	1,239,300	49
Total	2,430,000	100

The financial performance for the last three years is as follows:

	Year ended September 30		
	2001	2002	2003
<i>(in Rs. million except per share data)</i>			
Sales and other Income	1,806.22	2,211.82	2,523.96
Profit after tax	34.63	73.22	74.12
Equity Capital	32.40	24.30	24.30
Reserves	28.36	42.25	62.85
Earnings per share (of Rs.10- each)	10.68	30.13	30.50
Book Value per share (of Rs.10 each)	18.80	27.40	35.90

Material Notes for year ended September 30, 2003 in the audit report, *inter-alia*, include:

- Estimated amount of Contracts remaining to be executed on Capital Account and not provided for (Net of advances) amounted to Rs. 4.59 million.

Epicenter Technologies Private Limited

Epicenter Technologies Private Limited was incorporated on 5th January 2000. It is engaged in the business of providing teleservices, business process outsourcing and related services.

The Board of Directors comprise of:

Mr. Baba Kalyani	Chairman
Mr. Amit Kalyani	Director
Mr. Pravin Gandhi	Director
Mr. Michael Borom	Director
Mr. Vishal Nevatia	Alternate Director to Michael Borom
Mr. Ken Eldred	Director
Mr. K Vijay Rao	Director

The shareholding pattern of the Company as on June 30, 2004 is as follows:

Name	No. of Shares held of Rs 10 each	Shareholding (%)
Indian Promoters	3,904,545	11.33%
Private Corporate Bodies	25,982,944	75.39%
NRIs/OCBs	1,523,080	4.42%
Any other	3,052,631	8.86%
Total	34,463,200	100.00

The financial performance for the last three years is as follows:

	Year ended March 31		
	2001 (period ended)	2002 (financial year ended)	2003 (financial year ended)
<i>(in Rs. million except per share data)</i>			
Sales and other Income	6.28	163.41	635.24
Profit /(Loss) after tax	(10.97)	(86.39)	76.94
Equity Capital (includes share premium)	87.45	162.53	185.57
Reserves (Debit bal in P&L acct)	(10.96)	(97.35)	(20.41)
Earnings / (Loss) per share (of Rs.10- each) (Basic)	(3.20)	(8.30)	4.59
Book Value per share (of Rs.10 each)	560.30	326.36	896.78

Material Notes for Fiscal 2003 in the audit report, inter-alia, include:

1. Contingent liabilities not provided for as on March 31, 2003 amounted to Rs.2 million.
2. Estimated amount of Contracts remaining to be executed on Capital Account and not provided for (Net of advances) amounted to Rs. 0.80 million.

Precision Seals Manufacturing Limited

Precision Seals Manufacturing Limited (PSML) was incorporated on 8th March 1989. It is engaged in the business of manufacturing and marketing of Rubber items & Backelite items.

The Board of Directors comprise of:

Mr. Satish Sekhri	Chairman
Mr. Deepak Mahindra	Executive Director
Mr. M.B.Ratnaparkhi	Director
Mr. B.B.Hattarki	Director
Mr. C.G.Patankar	Director
Mr. S.B.Kanade	Director

The shareholding pattern of the Company as on June 30, 2004 is as follows:

Name	No. of Shares held of Rs 10 each	Shareholding (%)
Private Corporate Bodies	1,12,500	100.00%
Total	1,12,500	100.00%

The financial performance for the last three years is as follows:

	Year ended March 31		
	2002	2003	2004
<i>(in Rs. million except per share data)</i>			
Sales and other Income	91.08	113.51	137.90
Profit /(Loss) after tax	11.73	16.60	26.98
Equity Capital (includes share premium)	11.25	11.25	11.25
Reserves (Debit bal in P&L acct)	27.76	31.68	39.62
Earnings / (Loss)	104.25	147.58	239.84
per share (of Rs.10 each) (Basic)			
Book Value per share	344.57	380.29	451.71
(of Rs.10 each)			

Material Notes for Fiscal 2004 in the audit report, inter-alia, include:

1. The auditors report contains a note pertaining to a pending dispute with respect to excise duty amounting to Rs.1.67 million.
2. Contingent liabilities not provided for as on March 31, 2004 amounted to Rs.4.94 million.
3. Estimated amount of Contracts remaining to be executed on Capital Account and not provided for (Net of advances) amounted to Rs. 2.19 million.

Mundhwa Investment Limited

Mundhwa Investment Limited was incorporated on 22nd October 1983. It is engaged in the business of investments and other financial activities.

The Board of Directors comprise of:

Mr. P.C.Bhalerao	Director
Mr. S.S.Seth	Director
Mr. D.R.Moorthy	Director

The shareholding pattern of the Company as on June 30, 2004 is as follows:

Name	No. of Shares held of Rs. 10 each	Shareholding (%)
Private Corporate Bodies	23,747,502	100.00%
Total	23,747,502	100.00%

The financial performance for the last three years is as follows:

	Year ended March 31		
	2002	2003	2004
	(in Rs. million except per share data)		
Sales and other Income	8.4	18.04	112.38
Profit /(Loss) after tax	5.29	0.52	36.93
Equity Capital (includes share premium)	67.47	237.47	237.48
Reserves (Debit bal in P&L acct)	(75.62)	(65.9)	(28.97)
Earnings / (Loss) per share (of Rs.10- each) (Basic)	0.78	0.02	1.55
Book Value per share (of Rs.10 each)	(1.21)	7.22	8.78

Material Notes for Fiscal 2004 in the audit report, *inter-alia*, include:

- The notes to accounts contains a note on contingent liability pertaining to a conveyance deed in respect of the ownership premises of Mundhwa Investments Limited at Antariksha Bhawan, New Delhi, which has not been executed as yet and the liability for the same has not yet been provided for in the Books of Accounts.

The promoter and the group companies have not been restrained from accessing the capital market for any reason by SEBI or any other regulatory authority.

Following are the companies from which the Company / Promoters have disassociated themselves in the last three years

BFL has not disassociated itself from any company in last three years, except that vide a Scheme of Arrangement approved by the Mumbai High Court, the wind mill division and investment division of the Company was demerged into a group company, BF Utilities Limited with effect from March 01, 2001.

The Kalyani group divested its stake in Kalyani Seamless Tubes Limited with effective date, April 24, 2000 with appointed date of July 01, 1999 vide court scheme.

None of the companies promoted by the Promoter have been struck off from the Register of Companies

Common Pursuits

There are no other companies in the Group, which are engaged in the business of forging.

Interest of Promoters in BFL

Save as stated in the in this Letter of Offer, the promoter, does not have any interest in the business of BFL, except to the extent of investments made by him and his investment companies in BFL and earning returns thereon. For details of the salary & remuneration earned by the Promoter, please refer section "Compensation of Managing Directors / Whole-time Directors" on page 73 of this Letter of Offer.

We have entered into various agreements / transactions with our group companies and other companies on an arms length basis. These agreements / transactions relate to various fields like raw material procurement, electricity supply, etc. For further details, see Related Party Transactions as mentioned below.

Following are the details of the sales or purchase between Bharat Forge and other companies in the Promoter Group exceeding in value in the aggregate 10% of the total sales or purchases of our Company.

Nature of Transaction	Group Company	Rs. (million) ¹
Purchase of Steel	Kalyani Carpenters Special Steels Limited ("KCSSL")	2,304.81
Purchase of Steel	Kalyani Steels Limited ("KSL")	515.67

¹Represents gross purchases including excise duty element as reported as per the requirements of Accounting Standard-18 issued by ICAI. The purchases net of Cenvat Credit on account of excise duty amounted to Rs.2,014.54 million and Rs.448.46 million for KCSSL and KSL respectively.

Related Party Transactions as per Accounting Standard 18

Related party transactions as per Accounting Standard 18 issued by Institute of Chartered Accountants for the last three years are as follows:

						(Rs. million)
Sr. No.	Particulars	Year	Subsidiary Company	Associates	Key Management Personnel	Relatives of Key Management Personnel
1	Purchase of goods	2003-04	-	2,304.81	0.00	0.00
		2002 - 03	-	1,739.34	0.00	0.00
		2001-02	-	1,391.89		
2	Sale of goods	2003-04	4.33	352.35	0.00	0.00
		2002 - 03	-	225.53	0.00	0.00
		2001-02	-	137.58		
3	Rendering of services	2003-04	.70	0.00	45.62	0.77
		2002 - 03	-	0.00	27.81	0.78
		2001-02	-	0.00	18.84	0.54
4	Interest Paid	2003-04	-	0.00	0.00	0.00
		2002 - 03	-	0.00	0.00	0.00
		2001-02	-	0.00	0.01	0.00
5	Finance provided-Investments	2003-04	343.77	-	-	-
		2002 - 03	-	-	-	-
		2001-02	-	-	-	-
	Expenses	2003-04	11.56	-	-	-
		2002 - 03	-	-	-	-
		2001-02	-	-	-	-
6	Balance Payable by BFL as on	31st March 2004	-	1,437.92	26.00	0.00
		31st March 2003	-	933.42	16.80	0.00
		31st March 2002	-	627.80	0.00	0.00
	Balance Receivable by BFL as on	31st March 2004	360.36	5.89	0.00	0.00
		31st March 2003	-	90.03	0.00	0.00
		31st March 2002	-	9.41	0.00	0.00

Note : Names of the related parties and description of relationship

Sr. No.	Particulars	Name of the Party
1	Subsidiary Company	CDP Bharat Forge GmbH
2	Associates	Kalyani Carpenter Special Steels Limited
3	Key Management Personnel	Mr. B. N. Kalyani Mr. G. K. Agarwal Mr. P. C. Bhalerao
4	Relatives of Key Management Personnel	Mr. A. B. Kalyani

Changes in Auditors in the last three years

There has been no change in the Auditors for the last three years. The details of the auditors appointed under the latest Annual General Meeting are given as below.

Dalal & Shah

Chartered Accountants

East & West Insurance Building, 2nd Floor

49/55, Bombay Samachar Marg, Fort

Mumbai – 400023, India

REPORT OF THE AUDITOR ON FINANCIAL INFORMATION

The Board of Directors
Bharat Forge Limited
Mundhwa,
Pune Cantonment
Pune-411 036, India

Gentlemen,

- 1) We have examined the accompanying statement of adjusted Profits and Losses for each of the six financial years ended 31st March, 1999, 2000, 2001, 2002, 2003 and 2004 and the statement of adjusted assets and liabilities as on those dates, forming Part A of the "Financial Information" dealt with by this Report, detailed below. Both read together with the notes thereon, which are the responsibility of the Company's management, have been audited by us and made up

In terms of the requirements of :

- a. Paragraph B (1) of Part II of Schedule II to the Companies Act, 1956 and
 - b. The Securities and Exchange Board of India (Disclosure and Investor Protection) Guidelines 2000 issued by SEBI on January 19, 2000 in pursuance of Section 11 of Security and Exchange Board of India Act (SEBI), 1992, "the SEBI Guidelines" and
 - c. The instructions dated 21st February, 2004 received from Bharat Forge Limited, requesting us to issue a report as statutory auditors of the Company relating to the offer document being issued by the Company in connection with the Rights Issue Offer of equity shares of Bharat Forge Limited,
- 2) We report as under :
- (i) The statements of adjusted profits and/or losses, and the assets and liabilities of the Company as at the end of each of the six financial years ended 31st March, 2004 reflect the profits and losses and assets and liabilities extracted from the Profit and Loss accounts and Balance sheets for those years, audited by us, after making such adjustments, regroupings and disclosures as were, in our opinion, appropriate and required to be made in accordance with the provisions of paragraph 6.18.7 of The Securities and Exchange Board of India (Disclosure and Investor Protection) Guidelines 2000 issued by SEBI on January 19, 2000 in pursuance of Section 11 of SEBI Act, 1992, "the SEBI Guidelines, and the same
 - (ii) in our opinion, read with the respective Significant Accounting Policies and subject to / read together with the notes thereon and after making such adjustments, regroupings and disclosures as were, in our opinion, appropriate and required, have been prepared in accordance with Part II of Schedule II of the Companies Act, 1956 and the SEBI Guidelines.
 - (iii) As regards the unaudited provisional Financial Information, of the Company's wholly owned subsidiary viz. CDP-Bharat Forge GmbH, Germany, for the three months since the date of its economic acquisition, i.e. 1st January, 2004 upto 31st March, 2004 disclosed in Part B of "Financial Information" dealt with by this Report on a stand alone basis has been disclosed only for purposes of information and have not been audited or reviewed by us. Accordingly we do not express any opinion on the same. The Profits and Losses as well as the Assets and Liabilities of the said subsidiary, being a wholly owned subsidiary, entirely concern the members of the Bharat Forge Limited.
- 3) Our this Report, is being provided solely for the use of Bharat Forge Limited, for the purpose of inclusion in the said Offer Document in connection with the Rights Issue Offer of the equity shares of the Company.
- 4) This Report may not be used or relied upon by, or disclosed, referred to or communicated by yourself (in whole or in part) to, any third party for any purpose other than the stated use, except with our written consent in each instance, and which consent, may be given, only after full consideration of the circumstances at that time.

Yours faithfully,
For and on behalf of
Dalal & Shah
Chartered Accountants

Anish Amin
Partner
Membership No. 40451

Mumbai:

Date: July 14, 2004

“Financial Information” dealt with by this report:

PART A

- a. Statement of adjusted Assets and Liabilities.
- b. Statement of Profits and Losses.
- c. Major Notes to, including inter alia significant Accounting Policies followed by the Company, and forming a part of the Statements of adjusted Profits and Losses and statement of adjusted Assets and Liabilities.

Including:

- i) Statement of Cash Flows of the Company
- ii) Changes in the Accounting Policies during 1998-99 to 2003-04
- iii) Exceptional Items
- iv) Details of Other Income.
- v) Tax Statement.
- vi) Rates of Dividend
- vii) Age wise analysis of Sundry Debtors and details of Loans and Advances as at 31st March, 2004.
- viii) Capitalisation Statement.
- ix) Details of Reserves and Surplus
- x) Details/Analysis of Outstanding Unsecured Loans taken by the Company.
- xi) Principal Terms of Loans and Assets charged as Security.
- xii) Related Party Transactions.
- xiii) Accounting Ratios.

PART B

Unaudited Financial Information of CDP- Bharat Forge GmbH, Germany, a wholly owned subsidiary of Bharat Forge Limited.

PART A

a. - STATEMENT OF ADJUSTED ASSETS AND LIABILITIES

(Figures given in Rs million)

Description	As at 31 st March,					
	2004	2003	2002	2001	2000	1999
A Fixed Assets						
Gross Block	8,219.747	7,697.149	7,071.057	6,359.356	6,769.112	4,698.628
Less: Depreciation	3,707.923	3,270.407	2,858.734	2,463.120	2,120.513	1,825.200
Net Block	4,511.824	4,426.742	4,212.323	3,896.236	4,648.599	2,873.428
Capital Work-in-Progress	877.084	138.510	262.789	509.328	396.912	824.265
Total	5,388.908	4,565.252	4,475.112	4,405.564	5,045.511	3,697.693
B Investments	343.765	-	-	11.854	927.914	1,663.092
C Deferred Tax Assets	44.656	38.795	34.953	-	-	-
D Current Assets, Loans and Advances						
Inventories	1,331.334	1,264.136	859.614	879.257	931.834	758.954
Sundry Debtors	1,001.392	812.724	715.733	836.692	663.336	822.995
Cash and Bank Balances	86.038	233.445	93.116	28.830	155.953	51.207
Other Current Assets	443.189	383.571	152.124	112.966	143.847	109.192
Loans and Advances	2,366.280	1,319.892	1,118.204	956.299	2,310.932	2,540.957
Total	5,228.233	4,013.768	2,938.791	2,814.044	4,205.902	4,283.305
E Liabilities and Provision						
Loan Funds						
Secured	2,190.525	2,529.724	2,202.512	2,623.302	2,597.774	2,219.615
Unsecured	665.155	706.059	1,619.857	1,505.681	1,494.208	1,737.282
Total	2,855.680	3,235.783	3,822.369	4,128.983	4,091.982	3,956.897
F Deferred Tax Liability	850.189	818.357	774.545	-	-	-
G Current Liabilities and Provisions						
Current Liabilities	3,380.814	2,192.187	1,511.482	1,363.667	1,635.376	1,231.032
Provisions	1,487.832	765.346	417.198	354.603	435.878	410.307
Total	4,868.646	2,957.533	1,928.680	1,718.270	2,071.254	1,641.339
H Net Worth	2,431.047	1,606.142	923.262	1,384.209	4,016.091	4,045.854
Represented by :						
I Shareholder's Funds						
Share Capital	676.770	676.770	576.770	476.770	476.770	376.769
Reserves	705.617	538.617	356.879	331.879	2,949.638	3,199.705
Balance in Profit & Loss Account	1,129.941	505.811	97.520	689.426	601.012	488.957
Total	2,512.328	1,721.198	1,031.169	1,498.075	4,027.420	4,065.431
Less						
J Miscellaneous Expenditure (to the extent not written off or adjusted)	81.281	115.056	107.907	113.866	11.329	19.577
K Net Worth	2,431.047	1,606.142	923.262	1,384.209	4,016.091	4,045.854

b - STATEMENT OF PROFITS AND LOSSES
(Figures given in Rs million)

Description	As at 31 st March,					
	2004	2003	2002	2001	2000	1999
Income						
Sales						
Of Products Manufactured by the Company	8531.463	6477.006	4561.012	4958.877	5406.012	4170.908
Less Excise Duty	700.484	505.487	470.479	558.135	594.202	437.624
Net Sales	7,830.979	5,971.519	4,090.533	4,400.742	4,811.810	3,733.284
Traded by the Company	-	-	29.233	184.258	116.349	247.070
Total Sales	7,830.979	5,971.519	4,119.766	4,585.000	4,928.159	3,980.354
Export Incentives Received (Refer Note No. 3)	351.867	382.892	127.802	89.424	154.801	175.642
Other Income	328.543	95.143	38.953	215.314	175.602	255.799
Increase / (Decrease) in Inventory	(27.90)	312.079	(19.19)	(46.14)	159.50	(12.69)
Total Income	8,483.491	6,761.633	4,267.336	4,843.595	5,418.066	4,399.107
Expenditure						
Raw Materials & Components, Die Blocks, Die & Tool Steel and Goods Consumed	3153.521	2535.238	1567.272	1845.325	2000.163	1648.621
Staff Costs	536.654	461.906	427.231	463.864	464.587	439.752
Other Manufacturing Expenses	1517.502	1243.824	788.334	857.996	1113.577	854.131
Administration Expenses	425.242	386.351	299.944	298.432	315.671	282.806
Selling & Distribution Expenses	257.656	175.726	61.594	49.486	55.511	60.205
Interest	323.555	408.329	453.657	572.969	442.342	424.476
Depreciation	457.714	417.568	397.202	398.214	304.668	295.553
Total Expenditure	6,671.844	5,628.942	3,995.234	4,486.286	4,696.519	4,005.544
Net Profit before tax & Extra Ordinary / Exceptional Items	1,811.647	1,132.691	272.102	357.309	721.547	393.563
Provision for Taxation	562.581	321.787	132.759	27.866	98.318	36.198
Net Profit before Extra Ordinary / Exceptional Items	1,249.066	810.904	139.343	329.443	623.229	357.365
Extra Ordinary Item of Expenditure (Refer Note No. 6)	-	-	-	-	133.299	-
Exceptional Items (Refer Note No 9,10,11)	-	-	(73.565)	41.701	-	-
Net Profit after Extra Ordinary / Exceptional Items	1,249.066	810.904	212.908	287.742	489.930	357.365
As per last Account after adjusting Adjustments relating to earlier years transitional provision for Deferred Tax Liability in the year 2002	505.811	97.520	54.193	601.012	488.957	369.421
Profit available for appropriation	1,754.877	908.424	267.101	888.754	978.887	726.786
Appropriations:						
Debenture Redemption Reserve	17.000	17.000	-	25.700	30.566	30.585
General Reserve	150.000	100.000	25.000	35.000	70.000	40.000
Contingency Reserve	-	-	-	-	60.000	-
Dividend on Preference Shares	29.250	30.650	11.564	11.500	7.436	-
Tax on above Dividend	3.748	-	1.180	2.599	0.818	-
Proposed Dividend	376.676	226.006	131.837	113.003	188.338	150.670
Tax on Proposed Dividend	48.262	28.957	-	11.526	20.717	16.574
Balance carried to Balance Sheet	1,129.941	505.811	97.520	689.426	601.012	488.957

c - MAJOR NOTES TO AND FORMING A PART OF THE STATEMENT OF ADJUSTED PROFIT AND LOSS ACCOUNT AND STATEMENT OF ADJUSTED ASSETS AND LIABILITIES, WITH A VIEW TO GIVE A BETTER UNDERSTANDING OF THE AFORESAID STATEMENTS:

1. Significant events during the last five years, which would better explain the Statements dealt with by these notes:
 - i. On 1st March 2001 Bharat Forge Limited demerged its Investments division (defined to include inter alia all financial assets) and Wind Mill division into a new Company viz. BF Utilities Limited, which was formed for the purpose through a scheme of arrangement under Section 392 and 394 of the Companies Act, 1956, sanctioned by the High Court of Judicature Mumbai. Consequently the Assets and Liabilities listed below were demerged from Bharat Forge Ltd. and thus in the above statements, the financial Information for years ended subsequent to 31st March, 2000 do not include the assets and liabilities of these divisions and exclude the operational results of these divisions subsequent to the years ended subsequent to 31st March, 2001. Thus the Financial Information above is strictly not comparable.

Details of the Assets and Liabilities demerged as on 1st March, 2001:

	Rs.	Rs.	Rs. As on March 1, 2001
Fixed Assets		733,448,227	
Capital Work In Progress		6,344,790	739,793,017
Investments			1,308,381,937
Current Assets, Loans and Advances:			
Sundry Debtors		28,415	
Interest receivable		5,076,933	
Loans		1,635,653,750	
Advances recoverable in cash or in kind or for value to be received		74,885,500	
		<u>1,715,644,598</u>	
Less Current Liabilities & Provisions:			
Sundry Creditors		172,544,981	
Interest accrued but not due		6,538,498	
		<u>179,083,479</u>	1,536,561,118
			<u>3,584,736,072</u>
Less			
Reserves:			
Capital Incentive Subsidy		2,000,000	
Secured Loans:			
Debentures	110,000,000		
IREDA Loans	<u>294,532,000</u>	404,532,000	
Unsecured Loans:			
Sales Tax Deferrals Liability		<u>107,297,638</u>	513,829,638
			<u>3,070,906,434</u>
Charged against:			
(as per the Scheme of Arrangement)			
Capital Redemption Reserve			400,000,000
Share Premium Account			2,199,246,115
General Reserve			<u>471,660,319</u>
			<u>3,070,906,434</u>

- ii. Sales tax deferral incentives attached to the erstwhile wind mill division, which was demerged to BF Utilities Ltd. have been passed on thereafter from year to year by the Company to the latter, under an arrangement, with all liabilities and obligations attached thereto. Consequently sales tax deferral liability in the statement of adjusted Assets and Liabilities, represents net liability to the Company after such pass on aggregating to;

At the close of the year ended 31 st March, 2001	Rs.123 million
At the close of the year ended 31 st March, 2002	Rs.230 million
At the close of the year ended 31 st March, 2003	Rs.336 million
At the close of the year ended 31 st March, 2004	Rs.463 million

- iii. Balances due from Subsidiaries advanced as a part of the Investments Division outstanding prior to the demerger on 1st March 2001.

Balances due from the Subsidiary Companies comprises - :

(Until Demerger i.e. upto March 31, 2000, as detailed in Note 1(i))

	Balance as on March 31, 2000 Rs.	Balance as on March 31, 1999 Rs.
Bhalchandra Investment Limited		
- Interest Free	273,257,972	263,996,586
- Other	55,387,294	55,387,294
Mundhwa Investment Limited		
- Interest Free	86,049,663	42,096,207
- Other	42,000,000	-
Forge Investment Limited		
- Interest Free	96,176,655	293,122,319
- Other	153,817,898	153,817,898
Jalakamal Investment & Finance Limited		
- Interest Free	188,737,531	222,292,331
Jalkumbhi Investment & Finance Limited		
- Interest Free	173,514,825	237,752,525
	1,068,941,838	1,268,465,160

2. Statement Showing contingent liabilities not provided for in respect of:

(Figures given in Rs million)

	As at 31st March,					
Description	2004	2003	2002	2001	2000	1999
Sales Bills Discounted	1,525.810	1,164.499	560.320	412.647	665.464	433.922
Of which :						
Since realized	316.438	246.756	136.339	69.579	126.014	288.882
Matured & Overdue	56.231	39.864	0.098	8.622	0.022	-
Guarantees given by the Company on behalf of Other companies						
Balance outstanding as on 31st March (Maximum Amount)	1,566.685 (2,216.538)	2,335.715 (2,714.088)	2,395.617 (2,704.905)	1,866.789 (2,374.905)	629.968 (956.415)	784.940 (1,043.895)
Claims against the Company not acknowledged as Debts	138.816	114.802	98.497	65.543	78.175	73.712
Disputed Income Tax matters	191.304	180.949	180.949	180.949	190.354	114.506
Excise Demands - matters under dispute	19.731	27.413	48.389	67.160	78.521	40.583
Customs Matters						0.050

(Figures given in Rs million)

Description	As at 31 st March,					
	2004	2003	2002	2001	2000	1999
Any Loss that may arise in future on account of delinquencies in respect of hire purchase receivables which have been assigned to third parties with recourse	-	-	-	-	Amount unascertainable	Amount unascertainable
Concessional Duty Availed on Import of Capital Goods under the EPCG Scheme, against guarantee of Future Exports Performance	-	-	-	-	Amount unascertainable	
Liability on account of Unpaid Calls on Investments	-	-	-	-	-	3.360

Notes Pertaining To Financial Year Ended On March 31, 1999

- As the amount of export incentive entitlements in the form of 'Duty Exemption Pass Book Scheme', (DEPB) introduced in the 1997-98, could be estimated with considerable accuracy, the Company had during the year ended 31st March, 1999 accrued the export entitlements on the export of goods as against recognising the same only on availability of credit. The income recognised, pending availability of credit, based on the accounting policy now adopted by the Company in respect of the DEPB entitlements aggregates Rs. 66 175 681/- (of which Rs. 2 690 745/- pertains to the exports made in the previous year). As a result the profit for the year ended on 31st March, 1999 is higher by an equivalent amount.
- Some documentary evidences, statutory or otherwise maintained in the premises of the Company, at Mundhwa, were completely destroyed by fire which occurred on 23rd April, 1998. Therefore some of the documentary evidence in respect of transactions for the year prior to the said date may not be available now as the same are destroyed .

Notes Pertaining To Financial Year Ended On March 31, 2000

- The Company, as on 31st March, 2000 set aside from its retained and current earnings a reserve for contingencies aggregating to Rs. 460,000,000/- that may arise in the event there is a loss / diminution of assets, and advances of a permanent nature in the future. The management has effected this in order that it aligns its net worth in a more meaningful manner. However in the subsequent years, on reassessment, the management determined amounts in excess of requirements and transferred the same to the General Reserves and Profit and Loss account as follows:
At the year ended on 31st March, 2001 Rs. 400,000,000/-
At the year ended on 31st March, 2002 Rs. 60,000,000/-
- As part of the Company's strategic financial restructuring, a part of the investments in the Group Companies were sold during the year ended 31st March, 2000 resulting in a loss of Rs. 133,298,679/-, which has been written off to the profit and loss account, as an extra ordinary item of expenditure.
- During the year ended 31st March, 2000, a scheme of arrangement approved by the Bombay High Court was entered between Kalyani Seamless Tubes Limited, a company co-promoted by Bharat Forge Limited and Indian Seamless Metal Tubes Limited. Pursuant to this arrangement, under an agreement entered into between the aforesaid two companies, interest accrued for earlier years in the books of account on inter corporate advances placed with Kalyani Seamless Tubes Limited amounting to Rs. 24,911,367/-, is to be given up and had consequently been written off as a debit relating to earlier years. This has been appropriately adjusted in the financial information to which these notes refer.
- The Company, for the year ended 31st March, 2000 changed its method of absorbing costs in the determination of the value at which inventories of WIP and finished goods are carried in the financial statements, in order that they are compliant to the method prescribed by Accounting Standards - 2 Valuation of Inventories (Revised) issued by The Institute of Chartered Accountants of India, which have been made mandatory from April 1, 1999. Consequently, the value of such inventory had increased by Rs. 105,279,956/- and its consequential impact on the profit for the year being higher by Rs. 91,177,819/- as compared to previous years.

Notes Pertaining To Financial Year Ended On March 31, 2001

- In line with the Supreme Court's decision in the matter of Bharat Earth Movers Ltd V/S CIT, the Company had recognised (from the year ended 31st March, 2001) the privilege leave entitlement as an accrued liability in the year of rendering service by the employee as against the past practice of accounting for the same in the year of encashment or availment. As a result, of this change in the method of recognising the liability of privilege leave entitlements, the profit for the year ended on 31st March, 2001

is higher by Rs.1,333,878/- which is not considered to have a material impact on the profit for the year and the liability in respect of the past years aggregating Rs. 41,701,479/- had been considered as a "prior period adjustment".

Further, as adequate data is not available in respect of leave records in respect of prior years, no adjustments are possible in the above Statements and thus the same has been disclosed as an exceptional item in the Statement of adjusted profits and losses.

Notes Pertaining To Financial Year Ended On March 31, 2002

10. Miscellaneous receipts include Rs. 37,500,000/-, donation given in an earlier year, returned during the year ended on 31st March, 2002.
11. In accordance with the legal advice obtained by the Company on the matter of disputed claims of interest on Octroi duty, the Company had written back to the profit and loss account, the unpaid amount of liability earlier provided for aggregating to Rs. 36,065,066/-, as the said liability is said to be contingent and disclosed accordingly.

Notes Pertaining To Financial Year Ended On March 31, 2003

12. The Company, in the financial year ended 31st March, 2003 securitised with Citibank N.A. a part of its future export receivable, arising from the contract the Company executed with Dana Corporation for purchase of goods from the Company by Dana Corporation and their Affiliates of an aggregation of 40 million Pounds over seven years. Consequently, Citibank advanced Indian Rs. equivalent to U. S. Dollars 5.00 million as consideration for the securitised assets i.e. future receivables, payable by way of trapping a portion of the invoicing under the said contract. The Company, in accordance with the guidance notes issued by the Institute of Chartered Accountants of India, has reflected this advance as a current liability and reduces the advance by removing the securitised assets from its Balance Sheet upon each quarterly realisations made by the Bank.
13. The Company, during the year ended 31st March, 2003, had prematurely retired its obligations of the Sales Tax Deferral Incentive availed under the package scheme of Incentives 1995, thereby generating a surplus of Rs. 64,738,075/-. Since the incentive was fundamentally provided to encourage capital investments in designated underdeveloped zones and thereby defray to some extent, deficiencies, the same has been, as per the opinion of the "Expert Advisory Committee" set up by the Institute of Chartered Accountants of India, credited to "Capital Reserve" to be apportioned to Revenue Reserves over the future life of the underlying investments at the end of each financial year commencing from 31st March, 2004. The Company has obtained a legal opinion from two eminent counsels regarding the non-taxability of the said surplus and accordingly the provision for current tax has been computed for that year.

Notes pertaining to Financial Year Ended On 31st March, 2004

14. (a) Debentures:
 - (i) Debentures of series upto Tenth Series have been redeemed on their respective due dates. However, charge is yet to be satisfied in respect of Ninth and Tenth Series.
 - (ii) 9.25% Redeemable Secured Non-Convertible Debentures- 2002-2005- Fifteenth -A series issued in terms of Debenture Trust-cum-Mortgage Deed Dated 1st November, 2002, to be redeemed at the end of three years from the date of allotment (viz. 12th August 2002) i.e. on 11th August, 2005.
Above Debentures are secured by a first charge by way of a mortgage of Land (excluding 25 acres of Land given on lease), Buildings and all immovable Plant and Machinery (other than purchased or to be purchased under I.D.B.I. Bills Rediscounting Scheme and / or other deferred payment Schemes or other Schemes of Financial Institutions and / or other Institutions / Banks) and all other Fixed Assets, present and future, situate at Mundhwa Village, Pune and Village Vaduth Dist. Satara and hypothecation of all movable Fixed Assets both present and future (except Plant & Machinery purchased under I.D.B.I. Bills Rediscounting Scheme and / or other deferred payment schemes of Financial Institutions and / or other Institutions / Banks) at Mundhwa Village, Pune and Village Vaduth Dist. Satara, ranking *pari passu*** to first charge in favour of ICICI Limited, Industrial Development Bank of India, Industrial Finance Corporation of India Limited, Life Insurance Corporation of India and Unit Trust of India for Foreign Currency and Rupee Term Loans under the Project Finance Participation Scheme.
14. (b) Rupee / Foreign Currency Loans
 - (i) ICICI Limited - Foreign Currency Loans and Rupee Loan - Balance outstanding Nil
 - (ii) Exim Bank - Foreign Currency Term Loan Balance outstanding
USD 6,428,015.82
 - (iii) Bank of India - Rupee Term Loan. - Converted into a Foreign Currency Loan w.e.f. 24/07/03 Balance outstanding
USD 6,487,538.52
 - (iv) UTI Bank - Rupee Term Loan - Converted into a Foreign Currency Loan w.e.f. 1/10/03 Balance outstanding
USD 2,055,470.30
 - (v) Bank Of Baroda, London Foreign Currency Term Loan Balance outstanding USD 10,000,000

The above loans are secured by (i) a First Charge by way of Mortgage of Land (excluding 25 acres of Land given on lease), Buildings and all immovable Plant & Machinery (other than purchased or to be purchased under I.D.B.I. Bills Rediscounting Scheme and / or other deferred payment schemes or other Schemes of Financial Institutions and / or other Institutions / Banks) and all other Fixed Assets present and future situate at Mundhwa Village, Pune and Village Vaduth, Dist. Satara and hypothecation of all movable Fixed Assets both present and future (except Plant and Machinery purchased or to be purchased under I.D.B.I. Bills Rediscounting Scheme and / or other deferred payment Schemes of Financial Institutions and / or Banks) at Mundhwa Village, Pune and Village Vaduth, Dist. Satara, both ranking *pari passu*** inter-se (ii) a First Charge by way of Mortgage of Land, Buildings and all immovable Plant and Machinery and all other Fixed Assets, and hypothecation of all movable Fixed Assets, both present and future, at Village Kusumbe Khurd, Tal. Jalgaon, Dist. Jalgaon, (iii) a First Charge by way of Mortgage of Land (Excluding 8.50 acres of land given on lease), Buildings and all movable Plant and Machinery and all other Fixed Assets and hypothecation of all movable Fixed Assets, both present and future, at Chakan, Pune and (iv) a First Charge by way of hypothecation of Stock-in-Trade, Raw Materials, Finished Dies and Die Blocks, Work-in-Process, Stores and Spares, etc. (excluding Book-Debts), present and future, wheresoever situate, subject to First Charge created and / or to be created in favour of Company's Bankers for securing borrowings for working capital requirements in the ordinary course of business.

Hypothecation & Mortgage for Bank of Baroda London (Foreign Currency) loan is yet to be created.

The above security extends also to the following loans, which have already been repaid, but the charge is yet to be satisfied.

- (a) ICICI Limited - Foreign Currency Loan under the Project Finance Participation Scheme in participation with Industrial Development Bank of India and Industrial Finance Corporation of India Limited.
- (b) ICICI Limited - Rupee Term Loan under the Project Finance Participation Scheme in participation with Industrial Development Bank of India, Industrial Finance Corporation of India Limited, Life Insurance Corporation of India and Unit Trust of India.
- (c) ICICI Limited - Rupee Term Loan under the Technology Upgradation Scheme and under Crankshaft Modernization Scheme in participation with Industrial Development Bank of India and Industrial Finance Corporation of India Ltd.
14. (c) Others:
 - i) Sumitomo Mitsui-Banking Corporation - Foreign Currency Loan Balance outstanding USD 3 466 666.68
 - (ii) Bank of India, New York-Foreign Currency Loan Balance outstanding USD 15 000 000

The above loans are secured by (i) a Second Charge by way of Mortgage of Land (excluding 25 acres of Land given on lease), Buildings and all immovable Plant & Machinery (other than purchased or to be purchased under I.D.B.I. Bills Rediscounting Scheme and / or other deferred payment schemes or other Schemes of Financial Institutions and / or other Institutions / Banks) and all other Fixed Assets present and future situate at Mundhwa Village, Pune and Village Vaduth, Dist. Satara and hypothecation of all movable Fixed Assets both present and future (except Plant and Machinery purchased or to be purchased under I.D.B.I. Bills Rediscounting Scheme and / or other deferred payment Schemes of Financial Institutions and / or Banks) at Mundhwa Village, Pune and Village Vaduth, Dist. Satara, both ranking *pari passu*** inter-se (excluding hypothecation of specific Plant and Machinery consisting of Wind Energy Converter of 600 KV - 7 Nos. at Village Boposhi, Dist. Satara) (ii) a Second Charge by way of Mortgage of Land, Buildings and all immovable Plant and Machinery and all other Fixed Assets and hypothecation of all movable Fixed Assets, both present and future, at Village Kusumbe Khurd, Tal. Jalgaon, Dist. Jalgaon, (iii) A second Charge by way of Mortgage of Land (excluding 8.50 acres of land given on lease), Buildings and all movable Plant and Machinery and all other Fixed Assets and hypothecation of all movable Fixed Assets, both present and future, at Chakan, Pune and (iv) a Second Charge by way of hypothecation of Stock-in-Trade, Raw Material Finished Dies and Die Blocks, Work-in-Process, Stores and Spares, etc. (excluding Book - Debts), present and future, wheresoever situate, subject to Charges created and / or to be created in favour of Company's Bankers for securing borrowings for working capital requirements in the ordinary course of business and in favour of other lenders.

14. (d) Assets acquired from foreign supplier under deferred payment facility are hypothecated by way of first charge in favour of Bank against guarantees executed by them. Satisfaction of charge is yet to be filed for.
14. (e) Guarantees given by Company's Bankers on behalf of the Company, against sanctioned guarantee limit aggregating to Rs. 750,000,000/- (2002-2003 Rs. 200,000,000/-) for contracts undertaken by the Company and other matters are secured by extension of charge by way of joint hypothecation of stock-in-trade, stores and spares etc., book debts, subject to prior charge in their favour. Amount outstanding Rs.69,674,024/- (2002-2003 Rs. 181,318,310/-)

Note : ** Company holds consent letters from Banks and Financial Institutions. Inter-se pari-passu agreement is yet to be executed.

15. As required by the Accounting Standard 22- "Taxes on Income" issued by The Institute of Chartered Accountants of India, which became mandatory in nature for all financial years commencing on or after 1st April, 2000, the Company recognised Deferred Taxes, which result from timing difference between the Book Profits and Tax Profits for the years in the profit and loss account

and the balance of the Deferred Tax Assets and Liabilities are carried in the Balance sheet, the details of which are as hereunder. However, as required by the above mentioned Accounting Standard, the Deferred Taxes as at 1st April 2000 computed as the transitional provision as if the standard was applicable ab-initio have been adjusted to the opening revenue reserves and have been accordingly reflected as such in the above statements of adjusted profits and losses and assets and liabilities.

(Figures given in Rs000)

Particulars	Transitional Adjustments March 31, 2001	Arising during the year	Balance as at March 31, 2002	Arising during the year	Balance as at March 31, 2003	Arising during the year	Balance as at March 31, 2004
Deferred Tax Liabilities:							
On Account of timing difference in							
A) Depreciation and Amortisation	662,498	111,901	774,399	43,400	817,799	31,832	849,631
B) Voluntary Retirement Scheme	5,629	(5,483)	146	412	558	-	558
Total Deferred Tax Liabilities	668,127	106,418	774,545	43,812	818,357	31,832	850,189
Deferred Tax Assets:							
On Account of timing difference in							
A) Privilege Leave Encashment	14,411	(1,392)	13,019	4,067	17,086	2,885	19,971
B) Provision for Bad & Doubtful Debts and Advances	10,159	2,879	13,038	371	13,409	1,542	14,951
C) Disallowances u/s 43B of I. T. Act, 1961	8,324	572	8,896	(596)	8,300	1,434	9,734
Total Deferred Tax Assets	32,894	2,059	34,953	3,842	38,795	5,861	44,656
Net Deferred Tax	635,233	104,359	739,592	39,970	779,562	25,971	805,533

Deferred Tax Assets and Deferred Tax Liabilities at the close of each subsequent year have been disclosed in the manner required by Accounting Standard and clarification issued thereon.

16. Advances recoverable in cash or in kind or for value to be received includes Rs. 289,386,383/- (Previous year Rs.Nil) after adjustment for steel supplies, given to BF Utilities Ltd., to secure purchase of Steel (Raw Material) which BF Utilities Ltd. is entitled to receive as an intermediary under a debt settlement agreement.
17. Interest free loan of Rs. 309,085,000/- given to a Company which has given an undertaking to hold the shares solely for the purpose and obligations of the "BFL Executives Welfare and Share Option Trust" in terms of clause (b) of the proviso to Section 77(2) of the Companies Act, 1956, which in the opinion of an eminent Counsel, obtained by an Associate Company, falls within the purview of the said proviso to the above mentioned section.
18. a) The Company has, through its wholly owned subsidiary, viz. CDP Bharat Forge GmbH(CDPBF) a limited liability company formed for the purpose, acquired the German operations of Carl Dan Peddinghaus GmbH & Co, KG Germany(CDP) from the administrative receiver appointed under insolvency administration. The said operations/business was acquired, by CDPBF, for a price of Euro 28 million with economic effect from 1st January 2004.

The net purchase consideration aggregating Euro 28 million (i.e. after assumption of pension and other dues of employees amounting to Euro 2.3 million) has been Satisfied by Capital contributions made by Bharat Forge Limited aggregating Euro 5 million disclosed as Investments in Equity Share Capital, Euro 18 million through borrowings by CDPBF from banks in Germany and the balance Euro 5 million to be paid on/by August, 2004 from the internal accruals of CDPBF failing, which Bharat Forge Limited has undertaken to make further contributions to the equity of CDPBF to remit the said amount.

Further Capital contributions of Euro 0.6 million, in to capital reserve have been made to meet other acquisition costs etc. Expenses incurred by Bharat Forge Limited on the acquisition, aggregating Euro 0.4 million, have been partially converted in to Capital Contributions in to Capital Reserve.

These contributions in to the Capital Reserve as per the German commercial code forms a part of the Equity Share Capital and accordingly has been considered as an Investment.

CDPBF has raised working capital resources from Banks aggregating Euro 10 million against which the company has agreed to provide a guarantee for repayment on behalf of CDPBF only in the eventuality of Default by CDPBF.

- b) As the Financial Statements of CDPBF, since becoming a Subsidiary, will be drawn up for a completed financial year only on 31st December 2004, no consolidated Financial statements can be prepared for the year ended 31st March, 2004. The first consolidated Financial statements of Bharat Forge Ltd. and CDPBF will be presented for the Financial year ended 31st March, 2005.

19. Significant accounting policies followed by the Company

1. System of Accounting:
 - i. The Company follows the mercantile system of accounting and recognises income and expenditure on an accrual basis except those with significant uncertainties.
 - ii. Financial Statements are based on historical cost. These costs are not adjusted to reflect the impact of the changing value in the purchasing power of money.
 - iii. Estimates and Assumptions used in the preparation of the financial statements are based upon management's evaluation of the relevant facts and circumstances as of the date of the Financial Statements, which may differ from the actual results at a subsequent date.
2. Fixed Assets and depreciation:
 - A. Fixed Assets are stated at their original cost of acquisition including incidental expenses related to acquisition and installation of the concerned assets. The fixed assets manufactured by the Company are stated at manufacturing cost. Fixed Assets are shown net of accumulated depreciation (except free hold land) and amortisation. Also refer Para 4(i).
 - B. Expenditure on New Projects and Expenditure during Construction etc. :
In case of new projects and in case of substantial modernisation or expansion at the existing units of the Company, expenditure incurred including interest on borrowings and financing costs of specific loans, prior to commencement of commercial production is being capitalised to the cost of assets. Trial Run expenditure is also being capitalised.
 - C. Depreciation and amortisation:
 - a) Lease hold land and Power Line:
Premium on leasehold land is amortized over the period of lease and expenditure on power line is amortized over a period of seven years.
 - b) Other Fixed Assets:
 - i. Depreciation on additions to Buildings, Plant & Machinery, Railway Sidings and Electrical Installations is being provided on "Straight Line Method" basis in accordance with the provisions of Section 205(2)(b) of the Companies Act, 1956, in the manner and at the rates specified in Schedule XIV to the said Act.
 - ii. Depreciation in respect of other assets viz. Factory Equipments, Computers, Engineering Instruments, Furniture & Fittings, Office Equipments and Vehicles & Aircrafts is being provided on "Written down value" basis in accordance with the provisions of Section 205(2)(a) of the Companies Act, 1956 in the manner and at the rates specified in Schedule XIV to the said Act.
 - c)
 - i. Depreciation on additions to assets during the year is being provided on *pro-rata* basis from the date of acquisition/installation.
 - ii. Depreciation on assets sold, discarded or demolished during the year, is being provided at their respective rates on *pro-rata* basis upto the date on which such assets are sold, discarded or demolished.
 - iii. Depreciation on additions on account of increase in Rupee value due to revalorisation of foreign currency loans is being provided at rates of depreciation over the future life of the said asset.
3. Inventories:

Cost of Inventories have been computed to include all cost of Purchases, Cost of Conversion and other costs incurred in bringing the inventories to their present location and condition.

 - i. Raw materials and components, stores and spares are valued at cost. The costs are ascertained using the weighted average method, except in case of slow moving and obsolete material, at lower of cost or estimated realisable value.
 - ii. Work-in-progress and finished goods are valued at the lower of cost or realisable value.
 - iii. Scrap is valued at estimated realisable value.

- iv. Goods in transit are stated at actual cost upto the date of Balance Sheet.
 - v. Dies are amortised over their production life. Expenditure incurred to renew the production life is added to the cost of the die and amortised over the balance production life.
4. Foreign Currency Conversion:
- i. Foreign currency exposure in respect of Loans, for financing fixed assets, outstanding at the close of the financial year are revaloured at the contracted and/or appropriate exchange rates at the close of the year. The gain or loss due to decrease/increase in Rupee liability due to fluctuation in rate of exchange is adjusted to the cost of assets acquired through these loans to the extent recognised.
- The transactions to enhance its interest rates profile by entering in to Interest Rate cum Currency Swap transactions, which are over the counter transactions and contingent due to options built around them, cannot be marked to market on each Balance Sheet date. Consequently, they will be accounted on their cut off date or on the date of an earlier unwind/liquidation of the transactions. However on simulation of the cut off date at the close of the period, losses, if any, are provided for and gains, if any, are not recognised as a matter of prudence, being contingent.
- ii. Current Assets and other Liabilities in foreign currency and foreign currency exposure in respect of foreign currency loans other than for financing fixed assets outstanding at the close of the financial year are valued at the contracts and/or appropriate exchange rates at the close of the year. The loss or gain due to fluctuation of exchange rates is charged to Profit & Loss Account.
- As regards transactions to hedge foreign exchange risks on future receivables the same also cannot be marked to market on each Balance sheet date as they are contingent on future options built around them. Consequently they are recognised in the period the relevant underlying transaction comes into existence or the settlement dates, whichever is earlier.
5. Technical Know-how Fees:
- Expenditure on acquiring Technical Know-how is being amortised over a period of six years.
6. Investments:
- a) Investments are valued at cost of acquisition, less provision for diminution, as necessary, if any.
 - b) Investments made by the Company are of a long term nature and hence diminution in value of quoted investments are generally not considered to be of permanent nature.
7. a. Sales: - Export Sales are accounted on the basis of the dates of Bill of Lading.
- b. Export Incentives: - Export Incentives are accounted for on Export of Goods if the entitlements can be estimated with reasonable accuracy and conditions precedent to claim are fulfilled.
8. Research & Development Expenditure:
- Research & Development expenditure is charged to Revenue under the natural heads of account in the year in which it is incurred. However, expenditure incurred at development phase, where it is reasonably certain that outcome of research will be commercially exploited to yield economic benefits to the company, is considered as an intangible asset.
9. Retirement Benefits:
- i. Retirement benefits in the form of Provident Fund and pension Schemes whether in pursuance of law or otherwise is accounted on accrual basis and charged to Profit & Loss account of the year.
 - ii. Gratuity:
- Payment for present liability of future payment of gratuity is being made to approved gratuity funds which fully cover the same under cash accumulation policy of the Life Insurance Corporation of India.
- iii. Superannuation;
- Contribution made to Life Insurance Corporation for employees covered under Superannuation scheme are accounted at the rate of 15% of such employees' annual salary.
10. Privilege Leave Benefits:
- Liability for privilege leave benefits, in accordance with the rules of the Company is provided for at prevailing salary rate for the entire unavailed leave balance as at the balance sheet date.

11. Borrowing Costs:

Interest on borrowings is recognised in the Profit and Loss account except interest incurred on borrowings, specifically raised for projects are capitalised to the cost of the assets until such time that the asset is ready to be put to use for its intended purpose except where installation is extended beyond reasonable/ normal time lines.

12. Taxation:

Provision for Taxation is made on the basis of the Taxable Profits computed for the current accounting period in accordance with the Income Tax Act, 1961. Deferred Tax resulting from timing difference between Book Profits and Tax Profits is accounted for at the applicable rate of tax to the extent the timing differences are expected to crystallise, in case of Deferred Tax Liabilities with reasonable certainty and in case of Deferred Tax Assets with virtual certainty that there would be adequate future taxable income against which Deferred Tax Assets can be realised.

20. Previous financial year's figures have been regrouped wherever necessary.

21. Audit Qualifications during 1998-99 to 2003-04

- There were no audit qualifications during 1998-99 to 2003-04.
- References to Note no. 3, 8, 9 and 11 above were made for better understanding of the expression of the audit opinion on the Financial Statements of the relevant years.
- A reference was drawn on the manner of presentation of deferred tax assets and liabilities in the reports for the year ended 31st March 2002 and 2003, which the company adopted on the basis of an experts opinion, which subsequently has been remedied on clarifications/ revisions to Accounting Standard –22 issued by the Institute of Chartered Accountants of India for the year ended 31st March, 2004.

22. Other relevant disclosures as required by Para 6.18 of the of The Securities and Exchange Board of India (Disclosure and Investor Protection) Guidelines 2000 issued by SEBI on January 19, 2000 in pursuance of Section 11 of SEBI Act, 1992, "the SEBI Guidelines" considered as a part of the Statutory Auditors Report.

i - Statement of Cash Flows of the Company

						(Rs. in million)
Sr. Particulars No.	2003-04	2002-03	2001-02	2000-01	1999-00	1998-99
A CASH FLOW FROM OPERATING ACTIVITIES :						
Profit Before Tax	1,811.647	1,132.691	345.667	315.608	588.248	393.563
Adjustment For :						
Interest / Depreciation / Other Non Cash Expenses	850.101	906.613	911.110	1,060.222	920.039	755.201
Interest / Dividend / Other Adjustments	(35.072)	(8.073)	(39.999)	(54.743)	(56.874)	(126.785)
OPERATING PROFIT BEFORE WORKING CAPITAL CHANGES	2,626.676	2,031.231	1,216.778	1,321.087	1,451.413	1,021.979
Changes in Working Capital (Increase) / Decrease	146.649	(88.681)	228.250	784.132	678.563	753.252
CASH GENERATED FROM OPERATIONS	2,773.325	1,942.550	1,445.028	2,105.219	2,129.976	1,775.231
Direct taxes paid	(543.819)	(267.250)	(21.204)	(6.082)	(110.682)	(131.356)
NET CASH FROM OPERATING ACTIVITIES (A)	2,229.506	1,675.300	1,423.824	2,099.137	2,019.294	1,643.875
B CASH FLOW FROM INVESTMENT ACTIVITIES :						
(Additions) / deductions to Fixed Assets / Other Adjustments	(1,147.650)	(489.656)	(540.463)	1,565.118	(1,420.808)	(590.113)
NET CASH USED IN INVESTING ACTIVITIES (B)	(1,147.650)	(489.656)	(540.463)	1,565.118	(1,420.808)	(590.113)

C CASH FLOW FROM FINANCING ACTIVITIES :

Increase / (Decrease) in Share Capital /						
Borrowings	(624.094)	(511.061)	(188.844)	46.710	144.053	(581.001)
Adjustment to net worth	-	64.738	-	(3,070.930)	(18.162)	(13.972)
Interest Paid	(318.191)	(435.632)	(493.881)	(565.819)	(425.915)	(445.738)
Dividend	(286.979)	(163.160)	(135.567)	(201.339)	(193.716)	(165.414)
Preference Share Issue Expenses	-	(0.200)	(0.783)	-	-	-
NET CASH USED IN FINANCING ACTIVITIES (C)	(1,229.264)	(1,045.315)	(819.075)	(3,791.378)	(493.740)	(1,206.125)
Net Change in cash and cash equivalents (A + B + C)	(147.408)	140.329	64.286	(127.123)	104.746	(152.363)
Cash and cash equivalents (opening balance)	233.445	93.116	28.830	155.953	51.207	203.570
Cash and cash equivalents (closing balance)	86.037	233.445	93.116	28.830	155.953	51.207
Difference in cash & cash equivalents (Cl - OP)	(147.408)	140.329	64.286	(127.123)	104.746	(152.363)

ii - Changes in the Accounting Policies during 1998-99 to 2003-04

1. The Company, for the year ended 31st March, 2000 changed its method of absorbing costs in the determination of the value at which inventories of WIP and finished goods are carried in the financial statements, in order that they are compliant to the method prescribed by Accounting Standards - 2. Valuation of Inventories (Revised) issued by The Institute of Chartered Accountants of India, which have been made mandatory from April 1, 1999. Consequently, the value of such inventory had increased by Rs. 105,279,956/- and its consequential impact on the profit for the year being higher by Rs. 91,177,819/- as compared to previous years.
2. In line with the Supreme Court 's decision in the matter of Bharat Earth Movers Ltd. V/S CIT, the Company had recognised (from the year ended 31st March, 2001) the privilege leave entitlement as an accrued liability in the year of rendering service by the employee as against the past practice of accounting for the same in the year of encashment or availment. As a result, of this change in the method of recognising the liability of privilege leave entitlements, the profit for the year ended on 31st March, 2001 is higher by Rs. 13,33,878/- which is not considered to have a material impact on the profit for the year ended 31st March, 2001 and the liability in respect of the past years aggregating Rs. 41,701,479/- had been considered as a "prior period adjustment".

Further, as adequate data is not available in respect of leave records in respect of prior years, no adjustments are possible in the above Statements and thus the same has been disclosed as an exceptional item in the Statement of adjusted profits and losses.

iii - Exceptional Items

	(Rs. in million)					
Description	31-Mar-04	31-Mar-03	31-Mar-02	31-Mar-01	31-Mar-00	31-Mar-99
Extra Ordinary Item of Expenditure						
Loss on Sale of Investments	-	-	-	-	133.299	-
(Refer Note No. 6)						
Total	-	-	-	-	133.299	-
Exceptional Items						
Income:						
Donation returned (Refer Note 10)	-	-	(37.500)	-	-	-
Interest on Octroi Liability reversed (Refer Note 11)	-	-	(36.065)	-	-	-
Expenditure:						
(Privileged Leave Entitlement) (Refer Note 9)	-	-	-	41.701	-	-
Total	-	-	(73.565)	41.701	-	-

iv - Details of Other Income.

Break Up of Other Income (if > 20% of Profit before Tax)

	(Rs. in million)					
Description	31-Mar-04	31-Mar-03	31-Mar-02	31-Mar-01	31-Mar-00	31-Mar-99
Profit Before Tax (Excluding Extra Ordinary Items)	1,811.647	1,132.691	272.102	357.309	721.547	393.563
20% of Net Profit Before Tax	362.329	226.538	54.420	71.462	144.309	78.713
Other Income for the Year	328.543	95.143	38.953	215.314	175.602	255.799
Other Income Details						
Recurring, From Business Activities						
Die Design & Preparation Charges	137.668	3.136	6.740	56.150	52.216	25.973
Income on Assignment of Sales Tax benefit	31.500	31.500	-	-	-	-
Total	169.168	34.636	6.740	56.150	52.216	25.973
Non Recurring, From Business Activities						
Gain on Foreign Exchange Fluctuation	103.101	17.213	1.039	-	-	-
Interest, Others	4.828	4.895	1.833	12.212	-	-
Miscellaneous Receipts	18.870	10.546	17.060	24.211	29.233	23.245
Sales Tax Refunds	2.332	24.475	11.019	0.796	1.017	4.597
Surplus on Sale of Asset	24.604	0.270	0.210	1.073	0.644	13.849
Bad Debt Recovered	-	0.200	0.200	0.545	7.450	1.840
Provision for Doubtful Debts and advances written back	2.323	0.776	0.667	1.813	1.461	0.855
Provision no longer Required	3.317	2.132	0.185	4.795	1.545	2.244
Total	159.375	60.507	32.213	45.445	41.350	46.630
Income from Discontinued lines of business (Refer Note No 1)						
Income from Financial Activities						
Dividends	-	-	-	0.821	0.688	0.161
Interest on Inter Corporate Deposits	-	-	-	22.266	45.605	55.848
Income from Hire Purchase Business	-	-	-	0.604	1.041	15.957
Income from Leasing Business	-	-	-	-	-	9.752
Profit on Sale of Investments	-	-	-	86.631	10.257	-
Bill Discounting Charges	-	-	-	-	-	0.013
Subtotal	-	-	-	110.322	57.591	81.731
Income from Investment Activities						
Dividends & Income from Units	-	-	-	3.088	14.409	89.019
Interest	-	-	-	-	10.017	12.416
Others	-	-	-	0.309	0.019	0.030
Subtotal	-	-	-	3.397	24.445	101.465
Total	-	-	-	113.719	82.036	183.196
Total Other Income	328.543	95.143	38.953	215.314	175.602	255.799

v - Tax Statement

	(Rs. in million)					
Assessment Year	2004-2005	2003-2004	2002-2003	2001-2002	2000-2001	1999-2000
Financial year	2003-2004	2002-2003	2001-2002	2000-2001	1999-2000	1998-1999
Profit / (Loss) as per books of account	1,811.647	1,132.690	352.763	358.671	594.272	418.235
Tax rate (including surcharge) %	35.875	36.75	35.70	39.55	38.50	35.00
Notional Tax Payable (A)	649.928	416.264	125.936	141.854	228.795	146.382
B) Permanent Difference						
(I) Export Profit (Section 80 HHC) & 80-G	(203.770)	(221.970)	(21.687)	-	(31.568)	(12.143)
(ii) Dividend (Section 80 M)	-	-	-	(3.909)	(15.097)	(81.197)
(iii) Capital Gains/ Loss (different Treatment in Tax)	-	-	(1.039)	(86.940)	122.298	(14.522)
(iv) Income Taxed in earlier year	-	-	(35.500)	-	-	-
(v) Premium on Redemption on Debentures	-	-	-	-	(19.701)	(14.500)
(vi) Others	11.568	15.727	2.117	1.270	2.197	5.910
Subtotal (B)	(192.202)	(206.243)	(56.109)	(89.579)	58.129	(116.452)
C) Timing Difference						
(I) Difference in Book & Tax depreciation	(156.183)	(171.076)	(268.915)	(417.764)	(424.378)	(234.614)
(ii) Deferred revenue expenditure	-	(1.555)	(0.397)	(11.149)	5.037	5.037
(iii) Expenses u/s. 43B	12.041	5.302	0.194	7.590	2.642	(5.178)
(iv) Pre operative expenses and Interest Capitalized claimed as deduction	-	-	-	(2.335)	(88.819)	(67.257)
(v) Other Timing Difference	4.296	1.900	7.022	4.619	6.895	0.230
Subtotal (C)	(139.846)	(165.429)	(262.096)	(419.039)	(498.623)	(301.782)
Net Adjustments (B-C)	(332.048)	(371.672)	(318.205)	(508.618)	(440.494)	(418.234)
Tax Burden / (Savings) thereon (D)	(119.122)	(136.589)	(113.599)	(201.158)	(169.590)	(146.382)
Total Tax (A+D)	530.806	279.674	12.337	(59.304)	59.205	-
Tax Provision / Provision u/s.115JA / JB	535.000	280.000	26.700	30.700	100.000	43.900
Unabsorbed Depreciation and Business loss	-	-	-	-	-	-
Loss under the head Capital gains to be carried forward.	568.213	568.213	568.440	553.606	631.901	31.574

Notes:

The figures in the above statement are taken as per the Returns of Income filed

vi - Rates of Dividend

(Rs. in million)

For the financial year ended

Particulars	31-Mar-04	31-Mar-03	31-Mar-02	31-Mar-01	31-Mar-00	31-Mar-99
Equity Shares						
Rate of Dividend	** 100%	60%	35%	30%	50%	40%
Dividend Amount	** 376.676	226.006	131.836	113.003	188.338	150.670
Preference Shares						
11.50% Redeemable Cumulative Non-Convertible Preference Shares						
Rate of Dividend	11.50%	11.50%	11.50%	11.50%	11.50%	-
Dividend Amount	11.500	11.500	11.500	11.500	7.436	-
11.75% Redeemable Cumulative Non-Convertible Preference Shares						
Rate of Dividend	-	11.75%	11.75%	-	-	-
Dividend Amount	-	11.717	0.064	-	-	-
9.50% Redeemable Cumulative Non-Convertible Preference Shares						
Rate of Dividend	9.50%	9.50%	-	-	-	-
Dividend Amount	9.500	6.325	-	-	-	-
8.25% Redeemable Cumulative Non Convertible Preference Shares						
Rate of Dividend	8.25%	8.25%	-	-	-	-
Dividend Amount	8.250	1.107	-	-	-	-

** Subject to the approval of Shareholders at the ensuing Annual General Meeting.

vii - Statement showing age wise analysis of Sundry Debtors and details of Loans and Advances at 31st March 2004:

(Rs. in million)

Particulars	As at 31 st March, 2004
Sundry Debtors, Unsecured: (unless otherwise stated) (Net of Bills Discounted with Banks)	
I Over six months:	
Good	116.037
Doubtful	21.325
Less: Provision	21.325
	<u>-</u>
	116.037
II Other, Good	885.355
Total	<u>1,001.392</u>
Loans & Advances, Unsecured, Good (unless otherwise stated)	
Amount recoverable from Wholly Owned Subsidiary Company	11.563
Loan to a company (See Note 17)	309.085
Loans to Employees for purchase of Company's Shares - in terms of Section 77 of the Companies Act, 1956	0.015
Advances recoverable in cash or in kind or for value to be received	
Good	493.436
Doubtful Advances	20.348
Less: Provision	20.348
	<u>-</u>
	493.436
Advance for Capital Goods for Projects under implementation	72.970

Security Deposit for supply / purchase of power	224.246	
Expenditure to date on Projects pending adjustment on completion / conclusion	12.747	
Balances with Customs, Central Excise Departments	100.454	
Tax paid in advance	1,141.764	
	<u>2,366.280</u>	
Total		<u>2,366.280</u>

viii - Capitalisation Statement

		(Rs. in million)
Particulars	Pre - issue as at 31 st March 2004	* Adjusted for the Right Issue
Borrowings		
Short-term debt	307.093	307.093
Long-term debt	2,548.587	2,548.587
Total Debts	<u>2,855.680</u>	<u>2,855.680</u>
Shareholders' Funds		
Share capital		
- Equity	376.770	395.604
- Preference Share	300.000	300.000
Reserves and surplus	1,835.558	2,871.418
Less : Deferred Tax Assets	(44.656)	(44.656)
Miscellaneous Expenditure not written off	(81.281)	(81.281)
Total Shareholders Funds	<u>2,386.391</u>	<u>3,441.085</u>
Long Term Debt/Equity Ratio	<u>1.07</u>	<u>0.74</u>

* The above capitalisation statement is without considering issue of 941,691 detachable warrants to be converted in equity after the expiry of 12 months but not later than 24 months from the date of allotment, at warrant exercise price, which will be 15% discount to the average price of previous three months' closing price, subject to a floor price (minimum price) of atleast Rs. 1,200 per warrant. The exact conversion shall be finalised later.

ix - Details of Reserves and Surplus

					(Rs. in million)	
Particulars	31-Mar-04	31-Mar-03	31-Mar-02	31-Mar-01	31-Mar-00	31-Mar-99
1. Capital Reserve	62.979	67.238	2.500	2.500	2.500	-
2. Capital Redemption Reserve	-	-	-	-	400.000	400.000
3. Share Premium	-	-	-	-	2,199.270	2,219.932
4. Debenture Redemption Reserve	34.000	17.000	48.800	98.800	175.600	422.300
5. Investment Allowance Reserve	-	-	-	-	-	20.000
6. Contingency Reserve	-	-	-	60.000	67.529	-
7. General Reserve	608.638	454.379	305.579	170.579	104.739	137.473
8. Balance in Profit & Loss Account – Surplus	1,129.941	505.811	97.520	689.426	601.012	488.957
Total	<u>1,835.558</u>	<u>1,044.428</u>	<u>454.399</u>	<u>1,021.305</u>	<u>3,550.650</u>	<u>3,688.662</u>

x - Details/Analysis of Unsecured Loans taken by the Company

(Rs in million)

Sr No.	Name of the Lender	Facility	Sanctioned Amount	Balance INR 31.03.2004	Rate of Interest	Repayment Schedule
1	Bank of India Singapore	External Commercial Borrowings	\$ 14.900	216.050	Libor + 1.35% 2.60%	USD 4.967 million each annually upto November 2004
2		Sales Tax Deferral Liability Accrual in FY 2003		4.397	Interest Free	The repayments will start after the period of 9 years from the date of Accrual and the repayments will be made in 5 equal annual installments.
		Accrual in FY 2004		15.382	Interest Free	
3						
a)	Bank of Maharashtra	Buyer's Credit	USD 666,800	29.006	USD Libor + 35 bps 1.60%	Bullet repayment on 5-Jun-04
b)	Bank of Maharashtra	Buyer's Credit	USD 188,483	8.199	USD Libor + 50 bps 1.73%	Bullet repayment on 18-May-04
c)	Canara Bank	Buyer's Credit	JYP 82,090,000	34.355	JPY Libor + 50 bps 0.287%	Bullet repayment on 26-Apr-04
d)	Citibank	Buyer's Credit	GBP 300,000	23.940	GBP Libor + 50 bps 4.10%	Bullet repayment on 2-Apr-04
			GBP 280,000	22.344	GBP Libor + 50 bps 4.10%	Bullet repayment on 2-Apr-04
			GBP 320,000	25.536	GBP Libor + 50 bps 4.06%	Bullet repayment on 23-Apr-04
			GBP 538,000	42.932	GBP Libor + 50 bps 4.03%	Bullet repayment on 30-Apr-04
e)	Citibank	Buyer's Credit	GBP 50,000	3.990	GBP Libor + 50 bps 4.10%	Bullet repayment on 2-Apr-04
			GBP 43,500	3.471	GBP Libor + 50 bps 4.03%	Bullet repayment on 30-Apr-04
f)	The Hongkong & Shanghai Banking Corporation Limited	Buyer's Credit	USD 93,000	4.046	USD Libor + 30 bps 1.78%	Bullet repayment on 27-Sep-04
g)	The Hongkong & Shanghai Banking Corporation Limited	Buyer's Credit				
			USD 515,000	22.403	USD Libor + 30 bps 1.79%	Bullet repayment on 27-Sep-04
			USD 120,000	5.220	USD Libor + 30 bps 1.79%	Bullet repayment on 18-Oct-04
h)	The Hongkong & Shanghai Banking Corporation Limited	Buyer's Credit	USD 288,630	12.555	USD Libor + 30 bps 1.75%	Bullet repayment on 8-Dec-04
i)	The Hongkong & Shanghai Banking Corporation Limited	Buyer's Credit	GBP 105,000	8.379	GBP Libor + 30bps	Bullet repayment on 8-Dec-04
4	Public / Shareholders	Fixed Deposit		182.945	Currently 9.00%	Within 1 year : Rs.105.325 million Within 2 years : Rs. 72.320 million Within 3 years : Rs. 5.300 million
5	Central Bank of India, Trustee A/c Mr. P. N. Oza	Loan		0.005	15.00%	Since matured, however unclaimed

xi - Principal Terms of Loans and Assets charged as Security
(Rs. in million)

Sr. No.	Name of the Lender	Facility	Sanctioned Amount	Balance INR 31.03.2004	Rate of Interest	Repayment Schedule	Security *	Prepayment Clause
1	Sundaram Mutual Funds	Debentures	100.000	100.000	9.25%	Bullet repayment in August 2005	First <i>pari-passu</i> charge on fixed assets of the Company	The Board of Directors shall have the right to re - purchase the Debentures at par value before the fixed period for redemption and cancel or re-issue them at their discretion either by re- issuing the same Debentures or by issuing other Debentures from time to time in accordance with the provisions of Section 121 and other applicable sections, if any, of the Companies Act, 1956.
2	Export Import Bank of India	Foreign Currency Term Loan (Originally Rupee Term Loan)	300.000	116.494	Libor + 2.25% 3.50%	In 7 equal half-yearly installments upto Nov. 2005	First <i>pari-passu</i> charge on fixed assets of the Company	Prepayment of Loan may be considered at the discretion of Exim Bank and upon such terms and conditions as it may specify in this regard, including payment of such premium as may be specified. Permission for prepayment will need to be obtained by the Borrower from regulatory authorities.
	Export Import Bank of India	Foreign Currency Term Loan	\$ 5,000	163.125	Libor + 2.25% 3.63%	8 half-yearly installments of \$ 500,000 each from July 03 8 half yearly installments of \$ 125,000 each from Sep 03	First <i>pari-passu</i> charge on fixed assets of the Company	The Borrower may prepay on any Interest Payment Date ... the whole or any part (being an amount or multiple of \$100,000) of the dollar loan together with the accrued interest thereon subject to payment of prepayment premium at such rate as may be determined by Exim Bank.
3	Standard Chartered Bank	Rupee Term Loan	250.000	140.273	10.00%	Rs. 21.750 million each per quarter upto July 2005	Exclusive charge on Wind mill	No specific clause

Sr. No.	Name of the Lender	Facility	Sanctioned Amount	Balance INR 31.03.2004	Rate of Interest	Repayment Schedule	Security *	Prepayment Clause
4	Bank of India	Foreign Currency Term Loan (Originally Rupee Term Loan)	300,000	282,208	Libor + 3.00% 4.13%	In 3 equal annual installments from March 2005	First <i>pari-passu</i> charge on fixed assets of the Company	No specific clause
5	UTI Bank Limited	Foreign Currency Term Loan (Originally Rupee Term Loan)	500,000	89,413	Libor + 4.00% 5.18%	USD 685,176.56 each per quarter upto December 2004	First <i>pari-passu</i> charge on fixed assets of the Company	The Co. shall not, without the approval of UTI (which approval may be given subject to such terms and conditions as may be stipulated by UTI including payment of prepayment premium), prepay the o/s principal amounts of the facility in full or part, before the due date.
6	Bank of Baroda	External Commercial Borrowings	\$ 10,000	435,000	Libor + 1.25% 2.44%	In 3 equal annual installments from October 2006	First <i>pari-passu</i> charge on fixed assets of the Company	1% of the amount to be prepaid in the multiples of USD 500,000 with a minimum amount of USD 10,00,000
7	Sumitomo Mitsui Banking Corporation	External Commercial Borrowings	\$ 3,000 \$ 9,500	13,050 137,750	Libor + 1.35% Libor + 1.35% 2.66%	USD 300,000 each half-yearly upto May 2004 USD 3,167 million each annually upto May 2004	Second charge on fixed assets of the Company	No prepayment of the Loan or any part of them is permitted
8	Bank of India New York	External Commercial Borrowings	\$ 15,000	652,500	Libor + 2.00% 3.13%	USD 5,000 million each annually from September 2006	Second charge on fixed assets of the Company	The Borrower will not prepay the Advance without written consent of the Bank and in event any prepayment is made, Borrower agrees to pay a prepayment penalty of one (1%) percent per annum of the amount so prepaid for the remaining period until due date of the note

Sr. No.	Name of the Lender	Facility	Sanctioned Amount	Balance INR 31.03.2004	Rate of Interest	Repayment Schedule	Security *	Prepayment Clause
	Working capital Loans							
	Consortium of Banks	Various	#	60.712	As	As per nature of facility	First charge by way	
	Lead Bank - Bank of India	facilities		@	negotiated		of hypothecation	
	Other Banks:	like Cash			from time		of Inventory and	
	Bank of Maharashtra,	Credit,			to time with		Book Debts	
	Bank of Baroda, Canara	Packing			reference to			
	Bank, State Bank of	Credit			various			
	India, HDFC Bank	Foreign			facilities			
	Limited, ICICI Bank	Currency						
	Limited, ABN Amro	Demand						
	Bank, Citibank,	Loan etc.						
	Standard Chartered Bank							

* The loans are secured by First / Second Charge by way of Mortgage of Land (excluding 25 acres of Land given on lease), Buildings and all immovable Plant & Machinery (other than purchased or to be purchased under I.D.B.I. Bills Rediscounting Scheme and / or other deferred payment schemes or other Schemes of Financial Institutions and / or other Institutions / Banks) and all other Fixed Assets present and future situate at Mundhwa Village, Pune and Village Vaduth, Dist. Satara and hypothecation of all movable Fixed Assets both present and future (except Plant and Machinery purchased or to be purchased under I.D.B.I. Bills Rediscounting Scheme and / or other deferred payment Schemes of Financial Institutions and / or Banks) at Mundhwa Village, Pune and Village Vaduth, Dist. Satara, both ranking *pari passu*** inter-se (ii) a First / second Charge by way of Mortgage of Land, Buildings and all immovable plant and Machinery and all other Fixed Assets, and hypothecation of all movable Fixed Assets, both present and future, at Village Kusumbe Khurd, Tal. Jalgaon, Dist. Jalgaon, (iii) a First / Second Charge by way of Mortgage of Land (Excluding 8.50 acres of land given on lease), Buildings and all movable Plant and Machinery and all other Fixed Assets and hypothecation of all movable Fixed Assets, both present and future, at Chakan, Pune and (iv) a First / Second Charge by way of hypothecation of Stock-in-Trade, Raw Materials, Finished Dies and Die Blocks, Work-in-Process, Stores and Spares, etc. (excluding Book-Debts), present and future, wheresoever situate, subject to First Charge created and / or to be created in favour of Company's Bankers for securing borrowings for working capital requirements in the ordinary course of business.

** Against hypothecation of stocks of semi-finished and finished goods, Raw materials, Finished Dies and Die Blocks, Work-in-progress, consumable stores and spares, Book Debts etc.

Total Fund Based limit of Rs. 135 crores from Consortium of Bankers was enhanced to Rs. 205 crores in the Consortium meeting held in September 2003. Single window documentation for enhancement in shares in yet to be completed.

@ Balance outstanding as on 31st March, 2004 is excluding Rs. 1525.810 million availed against sales bills discounting facility, as appearing in the schedule of contingent liabilities.

xii Related party transactions:

Related Party disclosures have been set out herein below. The related parties, as defined by Accounting Standard -18 'Related Party Disclosures' issued by The Institute of Chartered Accountants of India, in respect of which the disclosures have been made, have been identified on the basis of disclosures made by the key managerial persons and taken on record by the Board.

						(Rs. in million)
S. No.	Particulars	Year	Subsidiary Company	Associates	Key Management Personnel	Relatives of Key Management Personnel
1	Purchase of goods	2003-04	-	2,304.81	-	-
		2002-03	-	1,739.34	-	-
		2001-02	-	1,391.89		
2	Sale of goods	2003-04	4.33	352.35	-	-
		2002-03	-	225.53	-	-
		2001-02	-	137.58		
3	Rendering of services	2003-04	0.70	-	45.62	0.77
		2002-03	-	-	27.81	0.78
		2001-02	-	-	18.84	0.54
4	Interest Paid	2003-04	-	-	-	-
		2002-03	-	-	-	-
		2001-02	-	-	0.01	-
5	Finance provided-Investments	2003-04	343.77	-	-	-
		2002-03	-	-	-	-
		2001-02	-	-	-	-
	Expenses	2003-04	11.56	-	-	-
		2002-03	-	-	-	-
		2001-02	-	-	-	-
6	Balance Payable by BFL as on	31st March 2004	-	1,437.92	26.00	-
		31st March, 2003	-	933.42	16.80	-
		31st March, 2002	-	627.80	9.00	-
	Balance Receivable by BFL as on	31st March, 2004	360.36	5.89	-	-
		31st March, 2003	-	90.03	-	-
		31st March, 2002	-	9.41	-	-

Note : Names of the related parties and description of relationship

S.No.	Particulars	Name of the Party
1	Subsidiary Company	CDP Bharat Forge GmbH
2	Associates	Kalyani Carpenter Special Steels Limited
3	Key Management Personnel	Mr. B. N. Kalyani Mr. G. K. Agarwal Mr. P. C. Bhalerao
4	Relatives of Key Management Personnel	Mr. A. B. Kalyani

xiii - Accounting Ratios

		(Rs. in million)					
Ratios		<u>31-Mar-04</u>	<u>31-Mar-03</u>	<u>31-Mar-02</u>	<u>31-Mar-01</u>	<u>31-Mar-00</u>	<u>31-Mar-99</u>
Earnings Per Share (EPS) (Excluding Extra ordinary & exceptional items)							
Net Profit after Tax	A	1249.066	810.904	139.343	329.443	623.229	357.365
Less: Preference Dividend (Including Dividend Tax)	B	32.998	30.650	12.744	14.099	8.254	-
Net Profit	C=A-B	1,216.068	780.254	126.599	315.344	614.975	357.365
Number of Equity Shares	D	37,667,628	37,667,628	37,667,628	37,667,628	37,667,628	37,667,492
Earnings Per Share	C/D	32.28	20.71	3.36	8.37	16.33	9.49
Earnings Per Share, after Extra Ordinary Items		32.28	20.71	5.31	7.26	12.79	9.49
Return on Networth							
Net Profit after Tax	A	1,249.066	810.904	139.343	329.443	623.229	357.365
Net Worth	B	2431.047	1606.142	923.262	1384.209	4016.091	4045.854
Return on Networth	A/B	51.38%	50.49%	15.09%	23.80%	15.52%	8.83%
Net Asset Value per Equity Share							
Equity Net Worth	A	2,131.047	1,306.142	723.262	1,284.209	3,916.091	4,045.854
Number of Equity Shares	B	37,667,628	37,667,628	37,667,628	37,667,628	37,667,628	37,667,492
Net Asset Value per Equity Share	A/B	56.58	34.68	19.2	34.09	103.96	107.41

PART B

Unaudited Financial Information of CDP Bharat Forge GmbH, Germany, the only wholly owned subsidiary of Bharat Forge Limited

Balance Sheet as at March 31, 2004

ASSETS

	03/31/2004		03/31/2004	
	€	€	INR	INR
A. Fixed Assets				
I. Intangible assets				
Software		227,026.78		12,066,473.36
II. Tangible assets				
1. Land, land rights & buildings including buildings on third party land	4,964,610.75		263,869,061.36	
2. Technical equipment and machinery,	9,294,665.64		494,011,478.77	
3. other plant, factory and office equipment	<u>4,510,800.66</u>		<u>239,749,055.08</u>	
	18,770,077.05		997,629,595.21	
	18,997,103.83		1,009,696,068.57	
B. Current assets				
I. Inventories				
1. Raw materials, supplies and operating materials	2,608,862.21		138,661,026.46	
2. Work in progress	6,575,535.41		349,489,707.04	
3. Finished goods and merchandise	<u>3,290,094.10</u>		<u>174,868,501.42</u>	
	12,474,491.72		663,019,234.92	
II. Receivables and other assets				
1. Trade receivables	14,123,559.89		750,667,208.15	
2. Receivables from affiliated companies	-		-	
3. Other assets	<u>130,450.80</u>		<u>6,933,460.02</u>	
	14,254,010.69		757,600,668.17	
III. Cash on hands, bank balances	<u>1,551,093.84</u>		<u>82,440,637.60</u>	
Total	<u>47,276,700.08</u>		<u>2,512,756,609.26</u>	

EQUITY AND LIABILITIES

	03/31/2004		03/31/2004	
	€	€	INR	INR
A. Equity				
I. Share Capital	5,000,000.00		266,750,000.00	
II. Capital reserves	1,000,000.00		53,350,000.00	
III. Profit/loss brought forward	<u>-2,090.91</u>		<u>-111,550.05</u>	
IV. Net income for the year	<u>1,727,844.92</u>		<u>96,862,986.21</u>	
	7,725,754.01		416,851,436.16	
B. Foreign Currency Translation Reserve	-		-14,137,799.74	
C. Accruals				
1. Accruals for pensions & similar obligations	1,747,931.00		93,252,118.85	
2. Tax accruals	<u>929,188.00</u>		<u>49,572,179.80</u>	
3. Other accruals	2,374,018.43		126,653,883.24	
	5,051,137.43		269,478,181.89	
D. Liabilities				
1. Liabilities to banks	22,627,449.90		1,207,174,452.17	
2. Trade payables	3,223,908.58		171,995,522.74	
3. Liabilities to affiliated companies	-		-	
4. Other liabilities	<u>8,648,450.16</u>		<u>461,394,816.04</u>	
	34,499,808.64		1,840,564,790.95	
Total	<u>47,276,700.08</u>		<u>2,512,756,609.26</u>	

- The assets and liabilities are translated at the year end rate;
- Income and Expense items are translated at monthly average rate; and
- The resulting exchange difference is accumulated in Foreign Currency Translation Reserve.

PART B

Unaudited Financial Information of CDP Bharat Forge GmbH, Germany, the only wholly owned subsidiary of Bharat Forge Limited

Profit and Loss Account for the period from January 01 to March 31, 2004

1/1/2004-3/31/2004

	€	€	INR	INR
1. Sales		32,761,773.81		1,836,625,039.79
2. Other Company produced additions to assets		7,892.26		442,440.10
3. Increase or decrease in finished good inventories and work-in-process		1,583,000.00		88,742,980.00
		34,352,666.07		1,925,810,459.89
4. Other operating income		20,478.50		1,148,024.71
		34,373,144.57		1,926,958,484.60
5. Cost of materials				
a) Cost of raw materials, consumables, supplies and purchased merchandise	14,578,812.54		817,288,230.99	
b) Cost of purchased services	1,809,631.23		101,447,926.75	
		-16,388,443.77		-918,736,157.76
		17,984,700.80		1,008,222,326.85
6. Personnel expenses				
a) Wages and salaries	8,261,383.28		463,133,146.68	
b) Social security contributions and pension expenses	1,739,040.64		97,490,618.28	
		10,000,423.92		560,623,764.96
7. Depreciation and amortization on intangible fixed assets and tangible assets		997,860.00		55,940,031.60
8. Other operating expenses		3,846,018.37		215,607,789.82
		3,140,398.51		176,050,740.47
9. Investment income		-		
9. Other interest and similar income	1,466.73		82,224.88	
10. Interest and similar expenses	264,877.66		14,849,041.62	
		-263,410.93		-14,766,816.74
11. Results from ordinary business operations		2,876,987.58		161,283,923.73
12. Extraordinary expenses		-		0.00
13. Taxes on income and profits	1,127,309.60		63,196,976.18	
14. Other taxes	21,833.06		1,223,961.34	
		1,149,142.66		64,420,937.52
15. Net income for the year		1,727,844.92		96,862,986.21

OUTSTANDING LITIGATIONS

Save as stated herein under, there are no material outstanding/pending litigations, suits, criminal/civil prosecutions, proceedings initiated for offence (including past cases, economic offences, etc.) irrespective of whether specified in Schedule XIII of the Act and litigations for tax liabilities against the Company, directors of the Company, Promoters, companies promoted by the promoters and group companies.

No disciplinary action has been taken by the SEBI/ Stock exchanges against the Company, Directors of the Company, promoters, companies promoted by the promoters and group companies.

A. Litigations by the Company

No.	Suit No.	Name of the Party	Brief description of the matter	Adjudicating Authority	Amount (Rs. million)
1.	Special Civil Suit No. 1131/90	M/s Dhananjay Engineering	Suit filed by the Company against M/s Dhananjay Engineering, a partnership firm and its partners, Mr. D.M. Vidhate, Mr. M. K. Vidhate and Mrs. U. S. Vidhate, in the Court of the Civil Judge Senior Division, Pune (CJSD) to recover an amount of Rs. 19,00,056 together with interest thereon @ 21% p.a. from September 19, 1990 till payment or realization for failure to return the Company's material after manufacturing certain products on a job work basis for the Company. The suit is pending decision of the Court.	Court of Civil Judge Senior Division, Pune ("CJSD")	1.90
2.	Special Civil Suit No. 176/2000	Pal Peugeot Ltd.	Suit fled by the Company against Pal Peugeot Ltd. before the CJSD, Pune on February 1, 2000 to recover an amount of Rs. 1,49,81,895 and interest thereon @ 18% p.a. from the date of the suit till payment or realization.	CJSD, Pune	14.98
3.	RTS Revision Appeal 85/2000 & 24/2000	P. D. Patil & U. H. Patil	Dispute as regards a piece of land measuring 1H.81 Ares situated at Village Kusumbe Khurd, Jalgaon on which a guesthouse of the Company is constructed. The Collector has in Appeal held that the transfer of the land to the Company's seller was illegal under the provisions of the Bombay Tenancy and Agricultural Land Act, 1948 ("the Act") as no requisite permission under Section 43 of the Act was obtained. The Company has appealed against the order before the Adl. Divisional Commissioner, Nashik, who has remanded the matter back to the Collector, Jalgaon. The Collector is yet to initiate proceedings.	Collector, Jalgaon	NA
4.	Not Applicable	NEPC (I) Ltd.	The Company has on August 12, 2000 filed a statement of claim against NEPC (I) Ltd. before Justice Mr. T. Somasundaram (Retd.), Arbitrator for a sum of Rs. 2,94,17,519.79 and interest of 20% on the principle amount of Rs. 1,56,24,960 on account of overdue payments for supply of shafts to be used in windmills. NEPC (I) Ltd. has on March 1, 2001 filed a counter claim for Rs. 67,51,472 together with interest thereon at the rate of 18% per annum, on account of rejected supplies due to manufacturing defects. The matter is pending before the arbitrator.	Arbitrator	29.42 (NB : Counter claim by NEPC of 6.75)

No.	Suit No.	Name of the Party	Brief description of the matter	Adjudicating Authority	Amount (Rs. Million)
5.	Civil Suit No. 218/1999	NEPC (I) Ltd.	The Company has filed a suit against NEPC (I) Ltd. in 1999 before the High Court, Madras for a sum of Rs. 22,55,842 together with interest @ 20% p.a. thereon for over due payments for supply of shafts. The suit is pending the decision of the Court.	Madras High Court.	2.26
6.	Special Civil Suit 716/2003	Ispat Profiles India Ltd.	A suit was filed by the Company against Ispat Profiles India Ltd. ("Ispat") for failure by Ispat to pay the contracted amount of Rs. 7,40,000 for Universal Spindle Heads manufactured by the Company.	CJSD, Pune.	0.74
7.	Criminal Complaint Nos. 3727/02 4505/02 5084/02 6494/02 6986/02 7627/02 8532/02 956/03 2650/03 4354/03 4353/03 5782/03 6683/03 7827/03 9208/03 11132/03 12184/03 13124/03 14866/03 1489/04 2477/04 3562/04 4630/04 6620/04	Mrs. Sabitha T. K (sole proprietor of Anand Exports)	The Company has filed 24 criminal complaints under Section 138 of the Negotiable Instruments Act, 1881 against Mrs. Sabitha T. K (the sole proprietor of Anand Exports) for dishonour of 21 cheques aggregating to Rs. 4.45 million. The cases are pending before the Judicial Magistrate First Class ("JMFC"), Pune.	Judicial Magistrate First Class ("JMFC"), Pune.	5.1
8.	Special Civil Suit No. 975/1995	Neema Trading Pvt. Ltd.	The Company has filed a suit in the Court of CJSD in 1995 to recover Rs. 19,72,998/- together with interest @ 24% per annum from Neema Trading Pvt. Ltd. ("Neema"). The suit is filed to recover the purchase consideration from Neema in respect of transfer of import licenses (obtained against exports made by the Company), to Neema. The suit is pending the decision of the Court.	CJSD, Pune	1.97
9.	Special Summary Suit No. 852/2002	Onil Gulati. (sole proprietor of Gulati Automobiles)	Summary Suit under Order 37 rule 2 of the Code of Civil Procedure, 1908, filed by the Company in the Delhi High Court against Mr. Onil Gulati, sole proprietor, Gulati Automobiles, to recover an amount of Rs. 26,29,858 together with interest thereon @ 18% p.a. for various products sold to Gulati Automobiles. The matter is being heard as to its maintainability as a Summary Suit.	High Court, Delhi.	2.63

No.	Suit No.	Name of the Party	Brief description of the matter	Adjudicating Authority	Amount (Rs. Million)
10.	Number not available	Mr. Vijay Kumar and Mr. Satish Kumar	The Company has filed a criminal complaint under Section 138 of the Negotiable Instruments Act, 1881 against Mr. Vijay Kumar and Mr. Satish Kumar for dishonour of 5 cheques issued by Mr. Kumar aggregating to Rs. 8,87,471. The matter is pending in the Court of the Additional Chief Metropolitan Magistrate, ("ACMM"), New Delhi.	Additional Chief Metropolitan Magistrate ("ACMM"), New Delhi.	0.8
11.	Special Civil Suit No. 37/1999 Special Civil Suit No. 1451/1998	Mr. S.C. Shaha, Mr. G. M. Shah	The Company has filed two separate suits in the Court of the CJSD, Pune restraining Mr. S.C. Shaha and Mr. G.M. Shah respectively, who resigned from the Company, from taking up employment in a competing organization in violation of the terms of their employment which was secured by a bond signed with the Company.	CJSD, Pune	0.4 (Collectively)

NA: Not Ascertained.

B. Litigations against the Company

Pertaining to Securities Law

Various suits have been filed by/against shareholders against/by third parties wherein the Company has been restrained from transferring the shares under dispute or paying dividend and other entitlements on such shares to such parties till the disposal of the suits.

Pertaining to Statutory Authorities

No	Suit No.	Brief description of the matter	Amount (Rs. millions)
Excise	And Customs		
1.	Not available	The Company has appealed against the rejection of several claims for CENVAT credit for capital goods for the period from 1994 to 1999. The Company has paid the amount under protest.	3.54
2.	E/918/04	The Company has appealed against the order of the Commissioner (Appeals) confirming penalty in respect of CENVAT credit on inputs written off as obsolete.	2.38
3.	66/2003	The Commissioner (Appeals) has passed an order against the appeal filed by the Company against the order of the Deputy Commissioner denying CENVAT credit on inputs used in the manufacture of exempted finished goods.	3.69
4.	E/3945/03	The Company has filed an appeal against the levy of penalty in respect of CENVAT credit claimed on depreciated capital goods by the Company.	0.50
5.	E/2987/02	The Company has filed an appeal against the inclusion in the assessable value of third party inspection charges recovered from customers. The CESTAT has remanded the appeal back to the Commissioner (Appeals) for re-adjudication.	0.28
6.	E/2266/02	The Company has filed an appeal before the Tribunal against the order of the Commissioner (Appeals) disallowing CENVAT credit availed by the Company in respect of capital goods cleared from Chakan to Mundhwa at full rate instead of at the statutory rate of fifty percent.	1.83
7.	E/2265/02	The Company has filed an appeal before the Tribunal against the order of the Commissioner (Appeals) requiring the Company to pay a higher duty at the current rate instead of the rate originally availed as CENVAT credit in respect of inputs cleared as such.	1.91
8.	218/2002	The Company has preferred an appeal before the Commissioner (Appeals) against the order of the Deputy Commissioner imposing a penalty for the Company taking credit of the duty paid against exports on the evidence of proof of export without waiting for the sanction by the Deputy Commissioner.	0.25
9.	E/2278/01	The Central Government has preferred an appeal before the Tribunal against the order of the Commissioner (Appeals) who has passed an order in favour of the Company relating to classification of crankshafts.	4.95
10.	28/2004	The Company has preferred an Appeal before the Commissioner (Appeals) against the order of the Deputy Commissioner rejecting the Company's claim for refund of duty paid on differential value of goods transferred to Chakan.	0.86
11.	MR/SCN/447 MR/SCN/BF/L93 MR/SCN/BFL/93 MR/SCN/BFL/93	The Company has received 4 (four) Show-Cause Notices relating to demands on excise duty on drawings and designs supplied by customers free of cost to the Company.	0.56
12.	E/2031/R/99	The Company has preferred an appeal against the order on the Commissioner imposing a penalty on the Company for dies cleared by the Company to its Jalgaon Unit.	1.20
13.	MR/SCN/BFL/ 2002/112 4/2/2004	The Company has received a Show-cause Notice relating to a demand of interest on differential duty paid on clearances made by the Company to its Chakan unit.	0.92
14.	E/35/201-Mum	The Central Excise Department has preferred an appeal against the orders of the Commissioner (Appeals) passed in favour of the Company in relation to imposition of duty and penalty for supply of seamless tubes by Kalyani Seamless Tubes Ltd., Baramati to the Company.	0.15

No	Suit No.	Brief description of the matter	Amount (Rs. millions)
15.	SCN NO./IV/ Prer/BFL/28/2003 7/4/2004	The Company has received a Show-Cause Notice relating to a demand on CENVAT credit availed by the Company.	16.22
Income Tax			
1.	Not available	Two appeals relating to Assessment Years 1996-97 and 1997-98 are pending in the Tribunal in respect of denial of carry forward loss on account of exchange rate fluctuation and other miscellaneous matters.	180.95
2.	Not available	Thirteen cases filed by the Department are pending in the Tribunal and Assessing Authorities in respect of several deductions allowed to the Company.	7.20
Octroi Duty			
1.	Special Civil Suit No.584/1999	The Pune Municipal Corporation ("PMC") is presently claiming an amount of Rs. 13,87,66,870/- towards outstanding dues and interest in respect of an earlier dispute regarding octroi duty payable by the Company. Aggrieved by this demand the Company had filed a suit before the Pune district court and had moved an application for ad interim reliefs restraining the PMC from receiving the alleged dues by coercion or force until the disposal of the suit. The interim application was rejected and hence the Company filed an appeal before the Bombay High Court, which admitted the appeal and granted the interim relief sought till the disposal of the appeal, subject to the Company paying the PMC a sum of Rs. 2,56,50,879/- (in addition to Rs. 10,000,000/- already paid).. The amount of Rs. 2,56,50,879/- was paid by the Company. The suit is pending before the District Court, Pune and the Appeal is pending before the Bombay High Court.	103.11
Property Tax			
1.	Writ petition no. 4130/2003	With effect from April 1, 1980 the Pune Cantonment Board ("PCB") revised the Annual Rental Value ("ARV") of the Company's properties at Mundhwa from Rs. 5,37,972/- to Rs. 21,03,121/-. Aggrieved by the said revision the Company filed an appeal in the District Court, Pune. Further unacceptable revisions in the ARV were also appealed against in the District Court. Totally five such appeals were filed. However, by an order dated March 20, 2001 the District Court dismissed all the appeals. Aggrieved by the order of the District Court, the Company has filed a Writ Petition before the High Court, Bombay inter alia challenging the order of the District Court and questioning the constitutional validity of the provisions of the Cantonments Act, 1924 under which the properties of the Company are assessed for taxation. The Writ Petition is pending admission in the High Court, Bombay. The PCB issued a notice dated January 4, 2004 under Section 91 of the Cantonments Act, 1924 demanding a total amount of Rs. 113,53,054 against tax arrears. The Company has replied to the said notice by its letter dated January 19, 2004 asking the PCB to keep the matter in abeyance as the same is <i>sub-judice</i> .	22.61*
* Amount includes the claim of the PCB and the provision made by the Company to address the liability on account of property tax and cess payable on the ARV.			
Environmental Matters			
1.	Appeal/2002/787/ CR/103/D1	The Company has filed an appeal before the Appellate Authority constituted under Section 28 of the Water (Prevention and Control of Pollution) Act, 1974 against the stringent conditions stipulated in the consent to operate dated June 25, 2002 issued by the Maharashtra Pollution Control Board ("MPCB"). The appeal is pending the decision of the Appellate Authority.	NA
2.	Appeal/2002/787/ CR/103/D1	The Company has filed an appeal before the Appellate Authority constituted under Section 13 of the Water (Prevention and Control of Pollution) Act, 1974 against the assessment order issued by MPCB imposing cess on the basis of a wrong consumption reading submitted by the Company to the MPCB for the period commencing on June 2003 and ending on August 2003.	NA

No	Suit No.	Brief description of the matter	Amount (Rs. millions)
Exports			
1.	11/356/03-04/ ECA-1/1731	The Company has filed an appeal before the Additional Director General of Foreign Trade (“DGFT”) against a fine of Rs. 75,000/- (paid by the Company under protest) imposed on the Company for its failure to establish documentary evidence proving exports made by the Company.	0.075

Pertaining to Labour Laws

No.	Suit No.	Category	Brief description of the matter	Amount Rs. million
1.	Special Leave Petition (Civil) 2880/2002 (Supreme Court Matter) ULP 217/1999	Workmen	The Company has after holding necessary inquiries dismissed two workmen with effect from January 17, 1984 and July 13, 1999 respectively. The workmen have individually filed cases for reinstatement and full back-wages. One matter is pending in the Supreme Court and the other in the Labour Court	0.80 (collectively)
2.	IDA/424/2000 IDA/460/2000 IDA/260/2000 IDA/428/2000 IDA/254/2002 IDA/326/96 IDA/70/2001	Contract Labourers	Approximately seven contract labourers have either left the services of or have been removed by their respective contractors appointed by the Company and have claimed reinstatement with full back-wages with the contractor. The matters are pending in Labour Courts.	NA
3.	ULP/257/01 ULP/301/01 ULP/273/02 ULP/42/03 IDA/501/02 ULP/9/02 ULP/7/03	Officers	The Company has after due inquiries terminated the services of approximately seven officers. The officers have individually raised claims for backwages and reinstatement and the matters are pending in the Courts.	1.62 (collectively)
4.	ULP/4/02 to ULP/20/02 ULP/40/02 ULP/9/03	Jalgaon Workmen	The Company notified the closing down of its manufacturing activities at its factory at Jalgaon. The services of the nineteen workmen who were on the rolls of Jalgaon factory were terminated with effect from February 11, 2001 and all their legal dues were paid. The workmen, thereafter, approached the Company to consider their cases under a Voluntary Retirement Scheme, which was announced earlier. Accordingly, they resigned and their dues were settled. The workmen have now filed a complaint of unfair labour practice for illegal closure of the Jalgaon factory.	4.20

NA: Not Ascertained.

Pertaining to other matters.

No.	Suit No.	Name of the Party(ies)	Brief description of the matter	Adjudicating Authority	Suit No.	Amount (Rs. million)
1.	Not Applicable	RBM Associates and Jarrett Associates, England (jointly, the Agent)	The Agent has issued a notice threatening to initiate arbitration proceedings claiming damages assessed by the Agent to be in excess of £ 100,000/- against the Company with respect to the alleged breach of an agency agreement by the Company.	-	-	NA
2.	Not Applicable	ITOCHU Automobile America INC., U.S.A. (Itochu)	Itochu has issued a legal notice through its Attorneys, Abbot Nicholson PC, threatening appropriate legal action for failure by the Company to pay agency commission of 5% of sales made by the Company to the Ford Motor Company, U.S.A.	-	-	NA

NA: Not ascertainable in absence of a formal claim invoking arbitration.

Against the Directors of the Company

No.	Suit No.	Name of the Director	Brief description of the matter	Adjudicating Authority	Amount (Rs. million)
1.	Criminal Complaint Nos. 796/2003 797/2003 798/2003 926/2003 1434/2003 1443/2003 1444/2003 1911/2003 1912/2003 1913/2003 1445/2003	Mr. P. Bhogilal	Cummins India Ltd. has filed criminal complaints against Mr. P. Bhogilal under Section 138 of the Negotiable Instruments Act, 1881 for dishonour of cheques signed by him in his capacity as director of Batliboi Ltd. The matters are pending in Court of the Judicial Magistrate, First Class("JMFC"), Pune.	Judicial Magistrate (First Class), Pune.	NA
2.	Suit No. 01 of 2001	Mr. P. Bhogilal	In a dispute between purchasers of shares of a company belonging to Mr. Bhogilal, Mr. Bhogilal has been impleaded as a party although no charges or claims are made against him. Hence, Mr. Bhogilal has made an application for discharge.	District Court, Surat.	NA
3.	Not available	Mr. S. D. Kulkarni	In a matter under the Foreign Exchange Regulation Act, 1973 despite holding that Mr. Kulkarni has not violated any provision of FERA, the adjudicating authority levied a penalty for not depositing the foreign exchange with the authorized dealer within the stipulated period. Mr. Kulkarni has filed an appeal against the said order and the same is pending.	Appellate Authority for Foreign Exchange	0.15

No.	Suit No.	Name of the Director	Brief description of the matter	Adjudicating Authority	Amount (Rs. million)
4.	STC/5/2003	Mr. G. K. Agarwal.	Pursuant to an investigation into the cause of an accident in which a contract labourer was injured, the Factory Inspector initiated prosecution against Mr. G. K. Agarwal in his capacity as Occupier of the Mundhwa factory at Pune for contravention of the provisions relating to "Safety and Maintenance in Dangerous Operations", as stipulated under the Factories Act, 1948. The matter is pending before the Court of Chief Judicial Magistrate, Pune.	Court of Chief Judicial Magistrate, Pune.	NA
5.	STC/30/2004	Mr. G. K. Agarwal.	Pursuant to injuries and death caused to certain employees at the Mundhwa Plant, ('Plant') a show-cause notice was issued to Mr. G. K. Agarwal as the Occupier of the Plant, asking him to show-cause as to why proceedings should not be initiated against him for breach of the provisions of Section 7-A (2) (a) of the Factories Act, 1948. Mr. Agarwal has appropriately replied to the show-cause notice. Thereafter summons have been served on Mr. Agarwal by the Court of Chief Judicial Magistrate, Pune.	Court of the Chief Judicial Magistrate, Pune	NA

NA: Not Ascertained.

Default by Mysore Kirloskar Limited on which Mr. Pratap Bhogilal was an independent non-executive director

Mr. Pratap Bhogilal was an independent non-executive director on the Board of Mysore Kirloskar Limited (MKL), a company whose name appeared in the RBI defaulter list. The default pertained to the loan availed by MKL from Sumitomo Mitsui Bank. Mr. Bhogilal has ceased to be a director of MKL with effect from January 12, 2001. We understand that MKL was referred to Board for Industrial and Financial Restructuring ("BIFR") and thereafter winding up orders was passed by Karnataka High Court on April 01, 2004.

Order against Indo Rama Synthetics (I) Ltd. on which Mr. Anil Rege was a Director

Mr. A.D. Rege, as a Director of Indo Rama Synthetics (I) Ltd., has preferred an appeal before the appellate tribunal for Foreign Exchange, against an order dated February 12, 2004 of the adjudicating authority ("Order") passed against Indo Rama Synthetics (I) Ltd. and its Directors. The order passed was for the contravention of the provisions of Section 18(3) of the (erstwhile) Foreign Exchange Regulation Act, 1973 ("Act") as Rs. 0.89 million towards the value of goods exported by Indo Rama Synthetics (I) Ltd. was not realised by Indo Rama Synthetics (I) Ltd. nor written off by the authorised dealer / Reserve Bank of India. The appellate authority has also imposed a fine of Rs. 0.1 million on the Company and Rs. 25,000/- on each director, under Sections 50 and 51 of the Act. Mr. A.D. Rege has resigned as a Director of Indo Rama Synthetics (I) Ltd. with effective from April 20, 2004.

C. Litigations by and against the Promoter/Group/Associate Companies (top Listed group companies in terms of market capitalisation)

No.	Name of the Company	Brief description of the matter.	Amount (Rs. million)
1.	Kalyani Brakes Limited	The company has filed appeals with the Commissioner in respect of seven excise cases for denial of CENVAT credit for imported machines taken on lease from Maruti who had imported the same under an EPCG.	3.64 (Collectively)
2.	Automotive Axles Limited	There are five cases relating to entry tax. There are eight cases filed by the employees of the company for reinstatement with backwages. The cases are pending in various labour Courts.	0.20 (Collectively) 5.46 (Collectively)

No.	Name of the Company	Brief description of the matter.	Amount (Rs. Million)
		There is one case filed by the Employees Union against the Company for wages during the four-month strike period between February and May 1999.	NA
3.	Kalyani Steel Limited	There are two cases relating to Central excise	0.12
		Seven civil suits are filed against various parties for recovering an aggregate sum of Rs 21.49 million.	21.49 (Collectively)
		One suit has been filed by the company against the Pune Municipal Corporation in respect of demands raised by the PMC aggregating to Rs. 54.27 million.	54.27
		One suit has been filed by the company against the Pune Municipal Corporation to claim refund of Rs. 7.88 million advanced as a security deposit.	7.88
		Five Civil Suits have been filed against company claiming an aggregating amount of Rs. 5.38 million.	5.38 (Collectively)
		There are four applications pending in the ESI Court involving demands of Rs. 2.46 million.	2.46 (Collectively)
		There are eight sales tax claims pending with various appellate sales tax authorities involving demands aggregating to Rs. 3.38 million.	3.38 (Collectively)
		There are two income tax claims pending with appellate income tax authorities involving demands aggregating to Rs. 0.25 million	0.25 (Collectively)
		There are two show causes issued by the excise authorities relating to CENVAT / MODVAT Credit claimed by the company aggregating to Rs. 29.28 million.	29.28 (Collectively)
		In addition there are eleven excise claims pending with the various excise authorities relating to CENVAT / MODVAT Credit, valuation etc. aggregating to Rs. 119.87 million.	119.87 (Collectively)
D. Litigations by and against the Promoter/Group/Associate Companies (top 5 unlisted group companies in terms of turnover/income)			
No.	Name of the Company	Brief description of the matter.	Amount (Rs. million)
1.	Meritor HVS Limited	The company has received a corrigendum to its reply to one show cause notice issued by the Assistant Commissioner of Central Excise, relating to service tax for the technical support provided to Automotive Axles Ltd.	1.59
2.	Kalyani Carpenter Special Steels Limited	There are four labour cases filed by the employees against the company regarding retrenchment. The cases are pending in the Labour Court, Pune.	2.00
3.	Epicenter Technologies Pvt. Ltd.	The company has preferred an appeal against the order of the Assistant Commissioner of Income – tax disallowing certain expenses claimed by the company amounting to Rs.1.85 million	N.A
4.	Precision Seals Manufacturing Limited	The company has preferred an appeal against the order of the Additional Commissioner, Central Excise claiming excise duty on sale of rubber components by the company to Kalyani Brakes Limited.	1.67 (Plus penalty equal to the amount of duty payable and interest @ 24% per annum.)

PROMISES VS PERFORMANCE IN RESPECT OF PREVIOUS ISSUES

For the Company

The Company had made Rights Issue of equity shares in October 1989, October 1992 and in March 1994. The promised future performance of the Company was not presented in the Letters of Offer for October 1989 issue and hence a comparison of the Company's actual performance vis-à-vis the projections made in the Letters of Offer is not possible.

1992

Rights issue of 3,660,700 equity shares of Rs.10/- each for cash at a premium of Rs.150/- per share aggregating to Rs.585.70 million to the equity shareholders of Bharat Forge Limited in September-October, 1992. Additionally, 183,000 equity shares of Rs.10/- each for cash at a premium of Rs.150/- per share aggregating to Rs.29.30 million were offered to the employees (including Indian Working Directors and Workers) of the Company. There was a shortfall in the actual performance compared to the projections given in the Letter of Offer, as given below:

(in Rs. million except per share data)

Year ending March 31	1993		1994		1995	
	Promised	Actual	Promised	Actual	Promised	Actual
Total Income	3,385.70	2,416.74	3,701.10	2,365.87	3,944.00	3,583.42
PBDIT	600.20	450.63	764.30	588.24	899.60	764.24
Depreciation	202.90	123.77	228.20	146.75	252.40	165.99
Interest	308.10	253.58	273.60	325.19	273.80	340.10
Profit after Tax	98.00	73.29	159.10	116.30	209.60	258.15
EPS (Rs.)	5.30	3.98	8.00	5.89	10.54	7.96
NAV (Rs.)	80.19	76.49	90.85	85.88	98.39	72.74

The issue was made to finance the wheel rim project at projected cost of Rs. 372.50 million (actual cost Rs. 446.32 million), financial services division at actual cost of Rs. 600.00 million, normal capital expenditure & investments at actual cost of Rs. 288.00 million, for repayment of term loans & debentures and for working capital requirements accumulating to Rs. 1193.10 million. The Wheel Rim Project was to be completed by August, 1994 (actual by March 1996) and Financial Services division by December, 1992 (actual during 1992-93). The recession in the Indian automotive industry during the period 1992-1994 contributed to the shortfall in the revenue and profitability parameters.

1994

Rights issue of 6,923,000 equity shares of Rs.10/- each for cash at a premium of Rs.40/- per share aggregating to Rs.346.15 million to the equity shareholders of Bharat Forge Limited in February-March, 1994. The actual performance compared to the projections given in the Letter of Offer, as given below:

(in Rs. million except per share data)

Year ending March 31	1994		1995		1996	
	Promised	Actual	Promised	Actual	Promised	Actual
Equity Share Capital	266.47	197.46	308.25	280.57	339.96	367.77
Reserves & Surplus	1,773.92	1,507.86	2,093.40	2,008.98	2,683.49	3,366.65
Total Income	2,772.72	2,365.87	3,086.11	3,583.42	3,634.12	4,964.96
PBDIT	566.06	588.24	720.22	764.24	918.65	1,124.08
Depreciation	194.27	146.75	209.89	165.99	272.61	176.38
Interest	290.33	325.19	291.13	340.10	339.85	438.20
Profit before Tax	81.46	116.86	219.20	259.02	306.19	509.50
Profit after Tax	81.46	116.30	219.20	258.15	306.19	508.74
EPS (Rs.)	3.06	5.89	7.11	7.96	9.01	12.31
NAV (Rs.)	76.57	85.88	77.91	72.74	88.94	97.82

The issue was made to finance the connecting rod project at projected cost of Rs. 164.12 million (actual cost Rs. 105.17 million), expansion of financial services division at actual cost of Rs. 300.00 million and for normal capital expenditure & investments at actual cost of Rs. 178.76 million. The connecting rod project was to be completed by September, 1995 (actual by December 1996). The recession in the Indian automotive industry during the period 1994 contributed to the shortfall in the revenue and profitability parameters.

Kalyani Steels Limited

Rights issue of 9,085,000 equity shares of Rs.10/- each at a premium of Rs.50/- per share aggregating Rs.545.10 million to equity shareholders of Kalyani Steels Limited in February-March, 1994. There was a shortfall in the actual performance compared to the projections given in the Letter of Offer, as given below:

(in Rs. million except per share data)

Year ending March 31	1994		1995		1996		1997	
	Promised	Actual	Promised	Actual	Promised	Actual	Promised	Actual
Equity Capital	148.80	147.85	239.65	241.10	239.65	300.71	239.65	300.53
Reserve & Surplus	1,344.65	1,323.38	1,916.10	1,885.03	2,025.72	2,586.41	2,336.96	2,590.79
Turnover	1,443.21	1,343.57	3,036.21	1,814.79	3,520.68	2,303.93	3,740.68	2,432.29
PBDIT	254.31	211.86	887.08	318.03	1,035.45	371.03	1,088.18	437.63
Depreciation	59.00	45.82	327.00	55.28	329.00	97.57	335.00	105.51
Interest	80.84	70.58	359.32	103.50	384.37	79.62	370.05	111.59
Profit before Tax	114.47	95.46	200.76	159.25	322.08	193.84	383.13	220.53
Taxation	-	0.32	-	0.30	-	0.30	-	0.30
Profit after Tax	114.47	95.14	200.76	158.95	322.08	193.54	383.13	71.58*
Earning Per Share (Rs)	7.69	6.39	8.38	5.27	13.44	6.42	15.98	2.38

* - After impact of an extraordinary item (octroi liability)

The issue was made to finance the modernization & rationalization of steel plant at Pune at projected cost of Rs 200 million, normal capital expenditure at projected cost of Rs 100.00 million, and funding long term working capital requirements at a projected cost of Rs. 95.10 million and for investment proposals at projected cost of Rs. 150.00 million to be completed by June, 1994. Data pertaining to the performance with regard to actual cost incurred and adherence to time schedule was not available. We understand that, the shortfall in the performance for fiscal year 1994 was attributable to the recession in the economy in general and the steel industry in particular. As regards the shortfall in the performance in fiscal years 1995-1997, the same was attributed to the transfer of seamless tube business in fiscal 1995 to a separate company. The promised figures contain the projections of the combined business of steel and seamless tubes. However since the seamless tube business was hived off into a separate company in fiscal 1995 and as such the actual figures contain the performance of only the steel business and therefore the same are not comparable with the projections mentioned in the offer document for the fiscal year 1995-97. However as can be seen from the table above consistent growth, both in turnover and profitability was primarily on account of improved performance in steel operations.

Kalyani Brakes Limited

Rights issue of 3,465,500 equity shares of Rs. 10/- each at a premium of Rs. 65/- per share aggregating Rs. 259.91 million to the equity shareholders of Kalyani Brakes Limited in October-November, 1995. There was a shortfall in the actual performance compared to the projections given in the Letter of Offer, as given below:

(in Rs. million except per share data)

Year ending March 31	1995 (September 30)		1996 March 31 (Annualised)		1997		1998		1999	
	Promised	Actual	Promised	Actual	Promised	Actual	Promised	Actual	Promised	Actual
Equity Capital	69.31	69.31	103.97	103.97	103.97	103.97	103.97	103.97	103.97	103.97
Net worth	105.34	217.99	441.97	469.98	497.70	469.98	565.05	475.52	632.67	478.22
Total Income	801.76	863.82	931.67	1070.88	1,128.19	1074.20	1320.38	1086.66	1429.25	977.50
PBDIT	103.68	80.32	134.61	131.36	173.34	127.71	202.13	131.53	211.88	79.51
Depreciation	19.74	17.25	23.39	20.44	30.43	25.54	35.97	33.62	38.35	42.91

Interest	87.79	59.18	68.07	39.66	66.83	31.07	73.25	24.14	44.95	20.56
Profit before Tax	(3.85)	3.89	43.14	71.26	76.08	71.10	92.90	73.77	128.58	16.04
Taxation	-	-	-	-	-	-	-	7.79	30.2	1.8
Profit after Tax	(3.85)	3.89	43.14	71.26	76.08	71.10	92.90	65.98	98.38	14.24
Earning Per Share (Rs)	-	0.60	4.20	6.90	7.30	6.80	8.90	6.30	9.50	1.40

The issue was made to finance the cost of Building, projected cost Rs 44.00 million (actual cost Rs.98.27 million), Plant & Machinery (including Electrical Installations), projected cost Rs 159.50 million (actual cost Rs.179.34 million), utilities, projected cost Rs. 6.00 million (actual cost Rs.15.70 million), working capital margin for capacity expansion, projected cost Rs.13.00 million (actual cost Rs. 10.97 million), strengthening of the long term working capital, projected cost Rs 65.26 million (actual cost Rs. 79.25 million), and issue expenses, projected cost Rs 2.15 million, (actual cost Rs.4.94 million) to be completed by July, 1998 (actual by Dec, 1997). The recession in the Indian automotive industry during the period 1997-1999 contributed to the shortfall in the revenue and profitability parameters.

HIKAL Limited

Issue of 750,000 equity shares of Rs.10/- each for cash at a premium of Rs.40/- per share aggregating Rs.37.50 million to the equity shareholders of Hikal in October-November, 1994. There was a shortfall in the actual performance compared to the projections given in the Letter of Offer, as given below:

(in Rs. million except per share data)

Year ending March 31	1995		1996		1997	
	Promised	Actual	Promised	Actual	Promised	Actual
Equity Capital	30.00	30.00	30.00	30.00	30.00	35.60
Reserve & Surplus	48.00	46.50	60.30	52.10	78.70	110.50
Turnover	159.50	132.90	228.60	176.90	271.80	202.90
PBDIT	31.90	25.90	47.90	39.10	57.80	49.20
Depreciation	6.10	5.90	9.30	9.20	12.20	13.90
Interest	13.70	9.40	16.80	15.80	14.00	19.70
Profit before Tax	12.10	10.60	21.80	14.10	31.60	15.60
Taxation	1.10	0.50	3.50	1.20	5.70	2.00
Profit after Tax	11.00	10.10	18.30	12.90	25.90	13.60
Earning Per Share (Rs)	5.1*	3.3	6.1	4.3	8.6	3.81

(* on expanded equity, Annualised)

The issue was made to finance the expansion & modernization at projected cost of Rs. 27.5 million (actual cost Rs. 28.7 million), diversification at projected cost of Rs. 41.0 million (actual cost Rs. 36.5 million), and others at projected cost of Rs. 17.5 million, (actual cost Rs. 20.8 million). As can be seen from the table above, while the Company has been able to grow its turnover and profitability on a year on year basis, we understand that the shortfall in the sales turnover and profitability as compared to the projections was primarily attributable to a sluggish international demand for agro-chemicals and stiff competition from import substitutes.

Automotive Axles Limited

Rights issue of 2,062,500 equity shares of Rs.10/- each at a premium of Rs. 20/- per share aggregating Rs. 61,875,000/- to the existing shareholders of Automotive Axles in February-March, 1995. There was a shortfall in the actual performance compared to the projections given in the Letter of Offer, as given below:

(in Rs. million except per share data)

Year ending March 31	1995		1996		1997	
	Promised	Actual	Promised	Actual	Promised	Actual
Equity Capital	152.11	151.12	152.11	151.12	152.11	151.12
Reserve & Surplus	(63.30)	115.59	(20.50)	152.75	45.30	198.33
Turnover	549.80	815.82	618.50	1,140.47	950.00	957.90
PBDIT	86.50	114.59	103.40	165.52	175.10	190.86

Depreciation & Write Offs	31.50	36.76	33.30	53.80	39.30	82.97
Interest	33.60	33.15	27.30	27.86	28.70	25.88
Profit before Tax	21.50	44.68	42.70	83.86	107.10	82.02
Taxation	-	-	-	6.07	-	11.50
Profit after Tax	21.50	44.68	42.70	77.79	107.10	70.52
Earning Per Share (Rs)	1.41	2.96	2.80	5.15	7.04	4.67

The issue was made to finance the capital expenditures required for purchase of balancing equipment and for modernization of existing manufacturing facilities at projected cost of Rs 51.20 million (actual cost Rs 51.20 million), repayment of existing terms loans at projected cost of Rs 100.00 million (actual cost Rs 100.00 million), Interest due to Promoters/ Financial Institutions of Rs 34.10 million (actual cost Rs 34.10 million) and issue expenses of Rs.1 million (actual Rs. 0.09 million). The actual Profit before Tax, Profit after Tax and Earning Per Share (Rs) for the year ended March 31, 1997 were lower than what was projected due to the following:

- Write-off of software costs - Rs.4.3 million.
- Charge-off of liability on restatement of Sales Tax deferred liability - Rs.7.4 million
- Tax liability arising out of carried forward allowances becoming time barred

STOCK MARKET DATA FOR ORDINARY SHARES OF THE COMPANY

(i) The following is the movement in the share price of the Company on the BSE:

Year ended March 31	High			Low			Average price(Rs.)
	Date	(Rs.)	Volume	Date	(Rs.)	Volume	
2000	4/1/2000	365.90	50,275	28/4/1999	59.90	31,602	212.90
2001	12/4/2000	225.50	53,424	23/3/2001	74.10	240,175	149.80
2002	12/2/2002	130.35	273,450	26/7/2001	46.00	2,267	88.18
2003	21/2/2003	267.50	23,118	1/4/2002	110.00	27,052	188.75
2004	12/1/2004	860.00	130,856	1/4/2003	241.00	7,476	550.50

The following is the movement in the share price of the Company on the NSE:

Year ended March 31	High			Low			Average price(Rs.)
	Date	(Rs.)	Volume	Date	(Rs.)	Volume	
2000	7/12/1999	381.65	111,666	28/4/1999	59.00	5,150	220.33
2001	12/4/2000	228.95	28,462	23/4/2001	75.00	30,109	151.98
2002	12/2/2002	131.50	129,576	26/7/2001	41.00	3,136	86.25
2003	13/3/2003	280.00	26,272	1/4/2002	111.00	16,360	195.50
2004	30/12/2003	890.00	98,925	1/4/2003	240.60	12,024	565.30

(ii) The closing market price of the equity share of the Company on the BSE on the day after the Board approved the Issue (i.e. January 19, 2004) was Rs.770.95 per share. (Source: BSE Website)

(iii) The total volume of securities traded in each month during the preceding six months on the BSE is as follows:

Period	High Price (Rs.)	Date of High Price quotation	No. of Shares Traded on the day of High Price	Low Price (Rs.)	Date of Low Price quotation	No. of Shares Traded on the day of Low Price
January 2004	860.00	12/01/2004	130,856	670.00	22/01/2004	42,999
February 2004	816.00	10/02/2004	68,116	671.00	04/02/2004	34,033
March 2004	810.00	03/03/2004	40,922	675.00	17/03/2004	6,171
April 2004	846.75	23/04/2004	5,713	731.00	2/04/2004	8,514
May 2004	825.00	6/05/2004	5,041	554.60	17/05/2004	34,982
June 2004	714.00	1/06/2004	42,854	588.05	22/06/2004	24,877

The total volume of securities traded in each month during the preceding six months on the NSE is as follows:

Period	High Price (Rs.)	Date of High Price quotation	No. of Shares Traded on the day of High Price	Low Price (Rs.)	Date of Low Price quotation	No. of Shares Traded on the day of Low Price
January 2004	860.00	15/01/2004	57,273	666.00	22/01/2004	62,794
February 2004	816.00	10/02/2004	132,631	675.00	03/02/2004	46,434
March 2004	804.00	4/03/2004	104,716	651.40	12/03/2004	56,292
April 2004	845.00	23/04/2004	18,083	731.05	2/04/2004	9,585
May 2004	870.00	10/05/2004	108,747	554.70	17/05/2004	96,517
June 2004	749.00	2/06/2004	21,420	581.00	25/06/2004	14,500

The total volume of securities traded in each month during the preceding six months on the BSE and NSE is as follows:

Period	Total Volume on BSE	Total Volume on NSE
January 2004	6,32,233	13,93,660
February 2004	5,21,054	9,53,855
March 2004	4,33,505	5,77,892
April 2004	1,79,241	4,09,696
May 2004	9,33,964	9,09,021
June 2004	4,73,782	4,87,864

(iv) The Ordinary Shares of the Company are actively traded on The Stock Exchange, Mumbai and National Stock Exchange of India Limited but not actively traded on Pune Stock Exchange.

(v) Please refer to page xvi of this Letter of Offer for details regarding transactions in the securities of the Company undertaken by the promoters, relatives and directors of the Company during the last 6 months, from date of filing of draft offer document with SEBI and updated till date.

BASIS FOR ISSUE PRICE

Investors should also refer to the risk factors commencing on page ii and the financials of the company as set out in the auditor's report commencing on page 93 of this Letter of Offer to have more informed view before the investment decision.

Qualitative Factors

- The Company's customer pool comprises of leading domestic and international automobile and auto component manufacturers and the Company has one of the technologically advanced commercial forging shops in India.
 - The Company was highest in terms of export sales amongst auto component manufacturers in India last year (Source: ACMA)
 - Premier client base with over 150 customers, both in India and abroad including marquee global customers such as Daimler Chrysler, Arvin Meritor, Dana Corporation, Ford, Renault Vehicle Industry, etc. and leading Indian automobile and auto-component manufacturers like Tata Motors, Ashok Leyand, Cummins, Tata Cummins, Mahindra & Mahindra and Maruti
 - De-risked business model with a wider geographical spread and major thrust on exports (export revenues constituted about 38% of total income in the year ended March 31, 2004)
 - Leverages on promoter group's presence in the major auto component segments
1. Adjusted Earning Per Share (EPS) #

<u>Year</u>	<u>EPS (Rs.)</u>	<u>Weight</u>
2000-2001	7.26	1
2001-2002	5.31	2
2002-2003	20.71	3
2003-2004	32.28	4
Weighted Average EPS	20.91	

After Extraordinary Items

2. Price/Earning Ratio (P/E)

Based on Adjusted EPS for Fiscal 2004 in relation to Rights Issue Price Band : Rs.560 - 17.35x

Based on Weighted average EPS in relation to Rights Issue Price: Rs.560 - 26.78x;

Industry P/E -

Highest 20.3

Lowest 1.5

Industry Composite 12.9

Source: Capital Markets Issue (July 19-Aug.1, 2004)

3. Return on Net Worth

<u>Year</u>	<u>RoNW (%)</u>	<u>Weight</u>
2000-2001	23.80%	1
2001-2002	15.09%	2
2002-2003	50.49%	3
2003-2004	51.38%	4
Weighted Average RoNW	41.10%	

4. Minimum Return on Total Net Worth after Issue needed to maintain pre-issue EPS is 40.07%.

5. Minimum return on Total Net Worth after issue (at Rs. 560/- per share) and exercise of warrants (at minimum price of Rs. 1,200/- per share) needed to maintain pre-issue EPS is 30.29%.

6. Net Asset Value (NAV)

(a) As at March 31, 2004	56.58
(b) After Issue	80.55
(c) Issue Price	560.00

Please refer to page 116 under 'Auditor's Report' of the Letter of Offer for detailed workings of the abovementioned accounting ratios.

Industry Comparables

(in Rs. million except stated otherwise)

Company Name	Year Ended	Equity (Rs. Mn)	Book Value (Rs.)	RONW (%)	Sales (Rs. Mn)	PBIDT (%)	Net Profit (Rs. Mn)	PAT (%)	P/E Ratio
Ahmednagar Forg.	200306(15)	80	53.1	10.6	1,042	17.9	53	5.08%	5.1
Amforge Inds.	U200403	148	32.3	-	2,069	12.8	131	6.33%	8.7
Amtek Auto	200306(15)	163	104.9	19.7	4,123	24.6	424	10.28%	15.1
Bharat Forge	200403	377	58.7	41.5	8,321	31.2	1,249	15.01%	20.3
DCM	U200403	174	29.2	-	2,711	3.3	20	0.73%	9.4
EL Forge	200403	66	19.7	-	502	14.0	13	2.58%	17.3
Electrost. Cast.	200403	162	295.4	18.8	6,721	20.3	737	10.96%	5.7
Ennore Foundries	200403	68	(2.2)	-	1,851	7.8	42	2.26%	7.4
Gontermann. Peip.	U200403	789	(23.1)	-	3,207	12.9	(614)	-19.14%	-
Inv. & Prec. Cast.	200403	6	297.3	35.2	302	26.9	51	16.88%	4.5
Jaipan Inds	U200403	61	15.8	-	108	6.0	3	2.77%	-
Jayaswals Neco	U200403	427	7.5	-	6,465	6.8	(421)	-6.51%	-
Kalyani Forge	U200403	36	99.6	19.9	1,025	20.1	108	10.53%	3.5
KIC Metaliks	U200403	37	45.6	-	1,153	9.7	26	2.25%	3.5
MM Forgings	200403	30	155.3	16.9	1,039	19.9	70	6.73%	5.8
Magna Electrocra	200403	46	20.6	-	228	18.8	26	11.40%	4.6
Pradeep Metals	U200403	106	(10.5)	-	186	11.0	-	-	-
Simplex Casting	U200403	60	33.2	0.7	750	9.5	1	0.13%	5.1
Steelcast	200403	36	24.0	-	300	8.2	9	3.00%	6.1
Tayo Rolls	200403	55	59.0	14.3	865	13.5	46	5.31%	5.0
Titagarh Inds.	200403	124	35.3	-	313	(0.4)	(68)	-21.72%	-
Uni Abex Alloy	U200403	20	4.3	-	203	16.1	17	8.37%	1.7
Vybra Automet	U200403	42	10.2	-	354	21.1	48	13.55%	1.5
Ind. Composite		3466			44,541	17.2	1,470		12.9

Source: Capital Markets Issue (July 19-Aug. 1, 2004) and Capital Markets Issue (June 7-June 20, 2004). The data for the Company for the above table has been sourced from Capital Markets Issue (July 19-Aug. 1, 2004). Company related data with respect to other tables mentioned in this section have been sourced from the auditor's report. It may be noted that the methodology of computing results by "Capital Market" may be different from the methodology used by the auditors in case of Bharat Forge Ltd.

From the above industry table, it is reiterated that Bharat Forge Limited is the industry leader on the basis of revenue, and profitability. For the fiscal year ended March 2004 the Total Sales, PAT and the EPS of Bharat Forge stood at Rs.7,831 million, Rs. 1,249 million and Rs. 32.28 respectively which is higher by 31%, 54% and 56% respectively compared to fiscal 2003.

Bharat Forge Limited has the highest export sales amongst the auto component manufacturers as per ACMA. Bharat Forge Limited has the highest sales, highest net profits and highest return on net worth amongst its Indian peers. Hence, the Lead Manager and the Company are of the opinion that the offer price of Rs. 560 is justified.

Information as required by Government of India, Ministry of Finance, Circular No. F2/5/SE/76, dated February 5, 1977 as amended vide their Circular of even number dated March 8, 1977 is given below:

1. Working Results of the Company

Unaudited financial results for the quarter ended June 30, 2004

	(Rs. million)
Total Sales	2,567.90
Other Income	41.60
Total Income	2,609.50
PBDIT	732.00
Interest	78.70
Provision for Depreciation	123.20
Profit/(Loss) Before Tax	530.10
Provision for Tax (Current plus Deferred)	190.10
Estimated /(Loss)Net Profit	340.00

While announcing our quarterly audited results for the quarter ended June 30, 2004, we have informed the Stock Exchanges that we have recently won two major long term contract for material heavy duty diesel engine crank sharp from leading global engine manufacturers. These orders will help us gain entry into global power train business.

2. Save as stated elsewhere in the Letter of Offer, there are no material changes and commitments, which are likely to affect the financial position of the Company since March 31, 2004 (i.e. last date up to which audited information is incorporated in the Letter of Offer)

3. a) Week end prices of Equity Shares of the Company for the last four weeks on the BSE are as below:

<u>Week ended on</u>	<u>Closing Rate BSE (Rs)</u>	<u>Closing Rate NSE (Rs)</u>
July 16, 2004	675.00	676.75
July 9, 2004	667.55	666.95
July 2, 2004	644.35	644.40
June 25, 2004	606.25	604.15

b) As per the notice no. 20040714-13, issued by the BSE, the transactions in the equity shares of the Company would be done on an ex-right and ex-dividend basis with effect from July 20, 2004. The closing price of the equity shares of the Company on the BSE on July 20, 2004 was Rs. 657.30 per equity share (ex-right price).

c) Highest and Lowest Price of the Equity Share of the Company on BSE during the period June, 2004 to July, 2003 (for the last year):

	<u>Market Price</u>	<u>Date</u>
High	Rs. 860.00	January 12, 2004
Low	Rs. 331.70	July 1, 2003

DEFAULTS IN THE PAYMENT/REFUNDS OF DEBENTURES, FIXED DEPOSITS, INTEREST ON FIXED DEPOSITS, DEBENTURE INTEREST AND INSTITUTIONAL DUES

There are no defaults, non-payment/overdues of statutory dues, institutional/Company dues and dues towards holders of debentures, bonds and fixed deposits and arrears of preference shares, etc, other than unclaimed liabilities of the Company, its subsidiaries, its other ventures, promoters, Group companies and companies promoted by the promoter.

PARTICULARS REGARDING LISTED COMPANIES UNDER THE SAME MANAGEMENT WHICH HAVE MADE ANY CAPITAL ISSUES DURING THE LAST 3 YEARS

There are no listed Companies under the same management within the meaning of Section 370(1B) of the Companies Act, 1956, which made capital issues during the last 3 years.

MECHANISM EVOLVED BY THE COMPANY FOR REDRESSAL OF INVESTOR GRIEVANCES

The Company's name has not appeared in Press Releases issued by SEBI regarding maximum number of complaints received from the investors.

Status of complaints received from SEBI

As of the date of this Letter of Offer, no complaints were pending with SEBI.

Overall status of Investor Grievances

Opening balance of the pending complaints as on April 1, 2003 was Nil. Total number of complaints received for the period from April 1, 2003 to March 19, 2004 was 4. 4 complaints were attended to and no complaints were pending for more than 15 days of receipt as on March 19, 2004.

The transfer and other related work is handled by our in-house Secretarial Department. The Secretarial Department actively interacts with shareholders for expeditious redressal of investor grievances and takes care of complaints received from statutory bodies such as SEBI, Stock Exchanges, Department of Company Affairs, etc. The name of the Company has never appeared in fortnightly press release on investor complaints of SEBI.

The Company's investor grievances arising out of the Issue will be handled by Intime Spectrum Registry Limited, Registrars to the Issue. The Registrars will have a separate team of personnel handling only the post issue correspondence of the Company.

Investor grievances are settled expeditiously and satisfactorily by the Company. The agreement between the Company and the Registrars will provide for retention of records with the Company for a period of atleast one year from the last date of dispatch of Letter of Allotment / Share & Warrant Certificates / Refund Order to enable the Registrars to redress grievances of investors.

All grievances relating to the Issue may be addressed to the Registrars to the Issue giving full details such as folio no., name and address of the first applicant, number of shares applied for, Application Form serial number, amount paid on application and the Bank Branch where the application was deposited, along with a photocopy of the acknowledgement slip. In case of renunciation, the same details of the renouncee should be furnished.

The average time taken by the Registrars for attending to routine grievances will be 15 days from the date of receipt. In case of non routine grievances where verification at other agencies is involved, it would be the endeavour of the Registrars to attend to them as expeditiously as possible. The Company undertakes to resolve its investor grievances in a time bound manner.

All investors are hereby informed that the Company has appointed a Compliance Officer who may be contacted in case of any pre-issue/post-issue related problems.

DETAILS OF ADVERSE EVENTS AFFECTING THE COMPANY SINCE THE LAST FINANCIAL

An incident took place on February 16, 2004 in the Hammer Shop at Mundhwa Plant of the Company. The failure of a compressed air pipe was identified as the primary cause of the incident. Unfortunately, few employees sustained injuries, and two of them succumbed to injuries. Pursuant to injuries and death caused to certain employees at the Mundhwa Plant, ('Plant') a show-cause notice was issued to Mr. G. K. Agarwal as the Occupier of the Plant, asking him to show-cause as to why proceedings should not be initiated against him for breach of the provisions of Section 7-A (2) (a) of the Factories Act, 1948. Mr. Agarwal has appropriately replied to the show-cause notice. Thereafter summons have been served on Mr. Agarwal by the Court of Chief Judicial Magistrate, Pune. No amount is ascertainable for this dispute.

This incident caused hammer shop to remain shut for a period of about 3 weeks and has since commenced operations. The affected area accounts for less than 10% of the total turnover of the Company and as such, the impact was not significant. Except for the disruption in the above area, all manufacturing operations of the Company were functioning as usual.

Other than the above, no circumstances have arisen since the date of the last financial statement that materially adversely affects / likely to affect the trading or profitability of the Company or the value of its assets or its ability to pay its liabilities within the next twelve months.

MATERIAL DEVELOPMENTS

Save as stated elsewhere in this Letter of Offer, there are no material developments after the date of the last financial statements. The Issuer and the Lead Manager note to keep the public informed of material changes, if any, till the listing and trading commencement, including to the extent possible updating this Letter of Offer.

AUDITOR'S REPORT

The Lead Manager confirms that the auditors report containing inter-alia the notes to the accounts and significant accounting policies have been verbatim reproduced in the Letter of Offer. Please refer to Auditor's Report on page 97 for the notes to the accounts and significant accounting policies.

ISSUE EXPENSES

The expenses of the Issue payable by the Bank including brokerage, fees and reimbursement to the Lead managers, Registrars, printing and distribution expenses, publicity, listing fees, stamp duty and other expenses are estimated at Rs. 30 million and will be met out of the proceeds of the Issue. The following table gives a break-up of the estimated issue expenses and contingencies

Particulars	Rs. million
Lead Managers fees and out of pocket expenses	13.25
Advertisement Budget	2.00
Postage, Printing and Stationery	4.00
Legal Advisor's fee	1.25
Registrar fees	0.4
Others & Contingencies	9.10
Total	30.00

EXPERT OPINION

Except for the tax opinion obtained by the Company from M/s Kunte & Vaidya, Chartered Accountants, the Company has not obtained an expert opinion.

OPTION TO SUBSCRIBE

The Company has not given any outstanding option to subscribe for any Equity Shares of the Company.

MATERIAL CONTRACTS AND INSPECTION OF DOCUMENTS

The following Contracts (not being contracts entered into in the ordinary course of business carried on by the Company or entered into more than two years before the date of this Letter of Offer) which are or may be deemed material have been entered or are to be entered into by the Company. These Contracts and also the documents for inspection referred to hereunder, may be inspected at the Registered Office of the Company situated at Mundhwa, Pune 411 036 from the date of this Letter of Offer until the date of closure of the Subscription List.

A. MATERIAL CONTRACTS

1. Engagement Letter dated March 11, 2004 received from the Company appointing JM Morgan Stanley Private Limited, and dated March 12, 2004 appointing DSP Merrill Lynch Limited, Enam Financial Consultants Private Limited and ICICI Securities Limited to act as Lead Managers to the Issue.
2. Memorandum of Understanding dated March 15, 2004, entered into with the Lead Managers to the Issue.
3. Engagement Letters dated January 21, 2004 received from the Company appointing AZB & Partners (erstwhile known as CZB & Partners, at the time of filing draft Letter of Offer with SEBI) to act as the Legal Counsel to the Issue.
4. Letter dated May 22, 2004 received from Intime Spectrum Registry Limited offering their services to act as Registrars to the Issue and the Company's acceptance dated May 26, 2004. Copy of the agreement executed with Intime Spectrum Registry Limited.
5. Underwriting agreement dated July 27, 2004 between Promoter and JM Morgan Stanley Private Limited and Enam Financial Consultants Private Limited.

B. DOCUMENTS

1. Memorandum and Articles of Association of the Company.
2. Certificate of Incorporation of the Company dated June 19, 1961.
3. Resolution of the Members of the Company passed at the Annual General Meeting held on July 15, 2003 re-appointing Mr.B.N.Kalyani as Managing Director with effect from March 30, 2003 to March 29, 2008.
4. Copy of the resolution passed at the meeting of the Board of Directors held on January 19, 2004 approving this Issue.
5. Consents of the Directors, Company Secretary, Auditors, Lead Managers to the Issue, Legal Counsel to the Issue, Bankers to the Issue and Registrars to the Issue, to include their names in the Letter of Offer to act in their respective capacities.
6. Letter dated July 12, 2004 from M/s Kunte & Vaidya, Chartered Accountants confirming Tax Benefits as mentioned in this Letter of Offer.
7. The Report from the Auditors dated July 14, 2004..
8. The Certificate from the Auditors dated July 16, 2004 regarding the fund already deployed till date.
9. Annual Report of the Company for the last 5 Financial Years.
10. Copies of the initial listing application made to the Stock Exchanges.
11. Copies of the in-principle approval from the Stock Exchanges
12. Letter No. CFD/DIL/UR/10115/2004 dated May 18, 2004 issued by The Securities and Exchange Board of India for the Issue.
13. Letter No. CO/FID/864/10.1.02.01.06/2003-2004 dated May 12, 2004 issued by The Reserve Bank of India for the Issue.
14. Resolution of the Committee of Directors authorized by the Board of Directors approving the Letter of Offer on March 12, 2004 and the Letter of Offer on July 10, 2004.
15. Due Diligence Certificate dated March 29, 2004 from JM Morgan Stanley Private Limited.
16. All statutory approvals, as mentioned on page 1 of this Letter of Offer.
17. Bipartite Agreement dated May 5, 2004 between Bharat Forge and NSDL for offering depository option to the investors.
18. Bipartite Agreement dated May 11, 2004 between Bharat Forge and CDSL for offering depository option to the investors.
19. Application from the Company to NSDL and CDSL, respectively, to admit the shares offered in terms of this Letter of Offer into their depository system.
20. Letter of intent for subscribing to rights entitlement and unsubscribed portion received from the promoters.
21. Copy of facility sanction letters dated July 23, 2004 from each of Bank of India and Bank of Baroda for External Commercial Borrowing ("ECB") for upto USD 15 million each.

XXIII. DECLARATION

The Board certifies that the disclosures made in this Letter of Offer are true and correct. All the relevant provisions of the Companies Act, 1956, and the guidelines issued by the Government or the guidelines issued by the Securities and Exchange Board of India established under the Securities and Exchange Board of India Act, 1992, as the case may be, have been complied with and no statement made in the Letter of Offer is contrary to the provisions of the Companies Act, 1956, or the Securities and Exchange Board of India Act, 1992 or rules made thereunder or guidelines issued (including the SEBI (Disclosure and Investor Protection) Guidelines, 2000), as the case may be.

Yours faithfully

For **Bharat Forge Limited**

Signed by Directors, Chief Executive Officer and Chief Financial Officer

Sd/-

Shri Baba Kalyani, Chairman and Managing Director (Chief Executive Officer)

Sd/-

Shri Puranam Hayagreeva Ravikumar, Director

Sd/-

Shri Pratap Bhogilal, Director

Sd/-

Shri Sharatchandra Shreepad Marathe, Director

Sd/-

Shri Padmakar Ramchandra Latey, Director

Sd/-

Shri Anil Dattatraya Rege, Director

Sd/-

Shri Shobhan Madhukant Thakore, Director

Sd/-

Shri Sudhakar Dinkar Kulkarni, Director

Sd/-

Shri Gopal Krishan Agarwal, Executive Director (Through his Constituted Attorney Mr. Vineet Joshi)

Sd/-

Shri Prakash Chandrashekhar Bhalerao, Executive Director

Sd/-

Shri Amit Babasaheb Kalyani, Executive Director

Sd/-

Shri Sanjeev Gajanan Joglekar (Chief Financial Officer)

Place : Pune

Date : July 28, 2004

Encl. : Composite Application Form