Transcript

Conference Call of Mahindra Forgings Limited

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Presentation Session

Moderator: Good afternoon ladies and gentlemen. I am Dennis, moderator for this conference. Welcome to the conference call of Mahindra Forgings Limited 4Q FY11 results. We have with us today, Mr. Hemant Luthra, President – Systech Sector, Mr. Sanjay Joglekar, CFO – Systech Sector, Mr. Deepak Dheer, MD – Mahindra Forgings Limited, Mr. Thomas Koerner, CEO – Mahindra Forgings, Europe, Mr. Burkard Rausch, CFO – Mahindra Forgings, Europe, Mr. Ajay Mantry, CFO – Mahindra Forgings Limited and Mr. Vikas Sinha, Strategy – Systech. At this moment, all participants are in listen only mode. Later, we will conduct a question and answer session. At that time, if you have a question, please press * and 1 on your telephone keypad. Please note this conference is recorded. I would now like to hand over the conference to Mr. Rohan. Over to you, sir.

Rohan: Thank you and thanks to the management of Mahindra Forgings and Mahindra Systech for taking the time for this conference call. Let us start by getting an update on the European team, following which Mr. Deepak Dheer and Mr. Ajay Mantry will give us an update on the Indian operations. Over to you Mr. Rausch.

Burkard Rausch: Thanks. Well, let me start. One year ago, when we discussed of what's happening in Europe and at that time everybody was wondering whether whole Europe is dying or how we are going forward. And last year, we produced tonnage wise roughly 80,000 tons of steel during the crisis. And when we budgeted it in 30% growth or recovery, there were a lot of rumors and doubts whether this is achievable. Now, looking backwards to the last business year, we see a recovery of 67% up to 134,000 tons and this exactly reflects in the sales figures of 256 million, compared to 153 last year. So, this is a very strong recovery story. And Thomas will tell you a bit about markets later on. But, this reflects the, especially the strong recovery in the truck market in Europe. Out of that, we managed to keep our stocks quite on a low level and protected this or brought this down to a contribution margin of 45.6%, that's even stronger than last year with comparable 44.3%. And personal expenses, which were up in the crisis to 33% of sales, now came down to 25% and that's even bit better than the old levels we saw before the crisis. So, this already shows that the cost reduction programs we went through in Europe, now brings fruit after the crisis, with high volumes. As a consequence out of that, we have realized an EBITDA margin of 23 million. 23 million is 8.8%, compared to last year's minus 2.6, that's an increase of more than 25 million euros. And so the European group is back to very profitable and strong position. And of course one of your questions later on might be, why only 8.8%? And herein we see one effect, that is the strongly rising scrap and alloy surcharges, which influence the revenue to customers, but do not reflect that this is completely neutral to any productive activities in the company. So, percentage is hit by roughly 1%, but absolutely we see the strong recovery. On EBIT level, we realized 5.2 million, compared to a loss of 22.2 last year. So, that's 27 million recovery in this level as well. And the depreciation is a little lower than last year, because of the quite low level of CAPEX over two years now, because of the crisis and because of the fact that we protected as much cash as possible. So all in all, we are back on a very good track. PBT wise, we see one very specific effect in Germany that is the so called BilMoG. And BilMoG means, that the former German GAAP has changed, as a one time effect to come much closer to IFRS. Therefore, there have been a number of specific changes especially in provisions for pensions and this hit has been taken as a one time effect, roughly 2 million. When we excluded on the European level, we would have positive figures. On a group level, it's already taken care for some years ago. So, on a group level, this effect is neutralized and here we already see this neutral effect on MFL level. So all in all, excluding this specific effect, Germany or Europe is back to black. And I already mentioned it half year ago that we refinanced the group together with two Indian banks SBI and ICICI and this strong refinanced structure having Schöneweiss now included in our group gives, from a group point of view a neutral effect, but now Schöneweiss is a legal part of the MFE group, which brings us some positive effect in structures and organization. And this is reflected in the single balance sheet in Germany. So all in all, even cash flow wise the European group has positive net cash from operating. Of course, there has been some effect purely on the European level of the refinancing, but from a group point of view that's neutral. So, taking all those effects into account, the only positive message is from Europe. And even Stokes, subject we discussed several times over the last years has a strong positive EBITDA of 1.2 million euros. So here closing Wallsal two years ago and closing the Hammer Forge or the biggest part of the Hammer Forge some months ago, now leads us to a positive development even in England. So, that's a short impression about European and German financials. Probably Thomas would like to add some aspects of markets and customers.

Thomas Koerner: Yes, good afternoon ladies and gentlemen. Thank you very much Burkard. Let me, before I start with the market situation right now and the expectations, let me make one statement and one comment. The Mahindra Forgings Europe organization came much stronger out of the crisis than they went into. And that has something to do, that we used this crisis to do our homework in our subsidiaries in Europe. We did a lot of improvement in processes, we invested in engineering, we invested in the technique on a very moderate basis of course, but we delivered these improvements which helped us to survive the crisis and which helped us to come out stronger than we went in. The market situation we had in the last twelve months was quite marvelous. Burkard has already explained the situation that the turnover and revenue raised by more than 60%. What we are expecting right now for the next twelve months, nobody knows exactly. We have to be a little bit careful. But, we are still planning with a moderate growth of the market. Fortunately, that is what we promised you during our last concall is that we received all the promised orders from our biggest customer which is Daimler for the new SFTP program, which is a successor of existing Actros. And even that is fortunately, the ramp up is even stronger and higher than we expected before. So, these new truck generations will be placed on the market beginning August and September this year. So, we will participate from the expected success of these trucks and we will at least double the turnover with Daimler for the next year and that has something to do with value added and that is exactly the strategy we decided to step in, not only talking about the raw forgings, we are talking about forgings, machining and at least pre-assembled parts. So, all the orders are in and the order books are completely filled up for the next six months. Of course, we had some issues during the last month in the production with some maintenance, we solved all these issues and will solve all these issues within the next eight weeks and I expect that we have at least all our forging equipments available at least in June-July. And we are looking very forward to the next twelve months. And the next information that was also part of our last concall, are the price increases with our customers, with one exception finalized and the last exception that is the price negotiation. We are still running on with Daimler and it seems to be that we will come to a solution concerning the price increases with this particular customer within the next days. So all in all, even from my side, we are back on track. The traffic lights are on green. And we started an internal program for improving margins, because we have some more ideas in the technique, we have some more ideas how to improve the cycle times of setting up the fresh lines and even in the machining department, we have some improvement action plans. And we are absolutely convinced that we will be quite successful in the next months.

Deepak Dheer: Hello. This is Deepak Dheer here. I will take you through very briefly about the Mahindra Forgings Limited here in India. In India, the growth in the auto industry has been very impressive during the FY11. Compared to FY10, the passenger car grew by 27%, utility vehicles grew by 29% and LCV grew by 29% and medium and heavy commercial vehicles by 38%. Now, our growth has been 15% over the last year and our EBITDA has been lower than last year, as we have some operational problems, which we are now fixing up. There is an integration program going on between MFE and MFL, where there is a Mentorship Program. Experts in each area are getting involved with India to sort out its problems on operational issues and we are going to fix it within the next few quarters. And the year FY12 looks good, but there seems to be slight decrease in the growth as seen in the first quarter. And the increase in the fuel prices and the interest rate are expected to impact the growth further, but however it is expected the FY12 growth will be around 10% to 12%. that's it from my end.

Rohan: We can maybe start the Q&A session please.

Question and Answer Session

Rohan: Maybe I can start off with the questions right now. Maybe you could just share your view on the transfer of dies that we had been doing in the India operations in the previous quarters, which actually was impacting the performance on a quarterly basis, so if that has been completed? And if so, then what would be the outlook on margins on the India operations going forward?

Ajay Mantry: Yeah, there is a structural change in the operations which we have undertaken within the Mentorship Program in terms of whole lot of processes which we do out here, including and very importantly the die management process. Now, this program is still on and we expect the program to start yielding results in the next two quarters. So, right now the benefits of that we see coming only after further two quarters or so.

The first question comes from, Mr. Kunal Bhatia from Dalal & Broacha.

Kunal Bhatia: Yes, thanks for the opportunity. Sir, just wanted to know what is the kind of situation currently in case of our European business and what is the outlook going forward? If you could just specify a bit on the segment wise, as in the passenger vehicles and that is the CV industry please?

Thomas Koerner: To answer your question, our development in the next twelve months is part of the growth and part of the new products in the commercial vehicle industry. So, we are right now focused on CVs, but we still have some further developments for premium cars. So, for the new S-Class for example, for Daimler we have some parts which we will deliver. And further more for the A-Class and the B-Class, we are still supplying steering knuckles for these particular cars. But, we are focused only on premium cars, because we are looking for margins and we are looking for value added. And for the high volume cars, the value added and I am talking about machining, the value added is inside the OEMs. So, we are trying to get these niche products out of these OEMs, in order to fulfill the requirements, our own requirements to increase the value added, but only in these particular areas.

Kunal Bhatia: And sir, how about the CV industry?

Thomas Koerner: The CV industry, at least 30% of the products are still machined or pre-assembled. And we are in discussion with the OEMs, in order to increase this share.

Kunal Bhatia: And sir also related question on your competition. How is the competition, competitive scenario there in Europe currently as far as we are concerned?

Thomas Koerner: Current now the situation is very comfortable, because our competitors, as we are, are at least fully booked right now. And even after the crisis, our competitors have the same problems we have. So, we have all the competitors and we as well, we are focused on high margin parts. And that has something to do, that we and also our competitors are very specialized in some products, that means for example, our subsidiary in Hagen, which is Schöneweiss is strongly focused on I beams. And there are only two I beams suppliers in Europe, one is Bharat Forge and one is Mahindra Forgings Europe. And we share the market between us. And of course, we have competitors, but at the time being we have the competitors under control.

Kunal Bhatia: Sir, what would be our market share currently?
Thomas Koerner: Our market share is around 15%.

Kunal Bhatia: Okay sir, it will be in line with Bharat Forge, is it? Or, they would be having higher…?

Thomas Koerner: The market share of Bharat Forge in Europe is lower than our market share.

Kunal Bhatia: Alright sir. So, next year also, do you believe that business would give you a plus 20% kind of growth?

Thomas Koerner: We planned for the next year a moderate growth of only 5%, because of the situation we were facing in 2008, when we had an expectation of growth of 20% and more and then the crisis came up. So, you see we are a little bit conservative in our planning for the next year. And what we are still doing right now, we are in the process of taking out some parts with low margins, some customers with low margins and replacing these capacities with new customers and with new products with high margins. So, we are at least more or less in an intermediate process in order to increase our margins.

Sanjay Joglekar: Hello Thomas, Sanjay here. Just to inform everybody, I have recently logged in.

Sanjay Joglekar: I think just to say further about, Thomas is saying about is, he is talking about a moderate growth of 5%, since our focus is not top driven, but on the bottom line and the margins and we are focusing more on the EBITDA. So, since we will take out some low margin products and then thereafter the growth in revenue will come. So, net growth he is talking, which will be about 5%. If the situation is much better, it may go up to 10%.

Kunal Bhatia: Okay sir. Thank you for the opportunity. Thank you.

Sanjay Joglekar: You are welcome.

Moderator: Thank you sir. Next we have Mr. Aniket Mahtre from Standard Chartered.

Aniket Mahtre: Sir, can you please give us the utilization levels at the India operations as well as the European operations?

Sanjay Joglekar: India level utilization at present is around 50% and Europe level is approximately 65%-70%, is that right Burkard?

Burkard Rausch: 70% roughly, yeah. 75 is expected.

Aniket Mahtre: Sorry, Europe would be?

Sanjay Joglekar: 70%-75%.

Burkard Rausch: 70%-75%, but specifically just to add one aspect, when we look at it from a technical point of view, there is some space for improvement. But, what Thomas already mentioned, extra hours in Germany, in Europe in general are quite expensive. So, we take care to have a balance between utilization on one hand, but not pushing it too much to the expensive times of production. And that's Saturday's for example are very expensive. So, that's something we manage very carefully.

Hemant Luthra: Okay Burkard, Thomas, Deepak, Ajay, I am on the call.

Burkard Rausch: Well question answered?

Aniket Mahtre: Yeah.

Sanjay Joglekar: Yeah, yeah, just go to next question.

Aniket Mahtre: And in terms of India operations, how would that ramp up? How can we expect the ramp up going next year?

Sanjay Joglekar: Ajay, would you like to answer this?

Ajay Mantry: Yeah, right now as we indicated we are going through in the midst of a Mentorship Program, where we are ramping up and developing the operational capabilities and efficiencies as per the international standards. In the immediate future, we are looking at around 60% to 65% of utilization going forward. And further we have our plans further down to go up further.

Aniket Mahtre: 60% to 65% sir, can we expect by next year?

Ajay Mantry: The benefits of the program should accelerate from Q3 onwards of this year.

Hemant Luthra: Let me try and answer that, because maybe some of my colleagues are being a little bit more circumspect than they should. The Europe operation has been very satisfying, to use the understatement of the year. They have done better than what we thought that the European economy would do and Burkard and Thomas have already explained what their, that is holding firm for FY12. In India when the demand is strong, we are disappointed with the fact that the equipment has not behaved as well as it should and therefore our German colleagues and us are working together. There are teams, seven-eight teams in terms of quality and so on, which I assume has been explained and if it is not, then I will ask somebody else to do so. The idea was that, in the last year because the demand was so strong, we were running, trying to satisfy everybody and making frequent changes in dies and frequent changes in product mix, to keep every customer satisfied and not doing enough of preventive maintenance. Not that the team did not know that preventive maintenance is needed to be done, but somehow the fact that we have been handicapped by the age of the equipment, which is now being fixed permanently. So, when you say that the capacity will go up from 42% or 45% to 65%, I don't think it will happen in one calendar year. But, it will certainly happen in eighteen months. And for that purpose, now we are saying that instead of just having a team come from Germany, once in a while we are getting a full time technical assistance from one of Thomas's key understudies, who will be here full time for two years.

Sanjay Joglekar: Sanjay here, to put it more straight, I think the growth of about 20% can certainly be expected.

Aniket Mahtre: Sir, consolidated or for India operations?

Sanjay Joglekar: No, no, we are talking about India operation just now. The question was for India operations.

Aniket Mahtre: Right, right. And for Europe?

Sanjay Joglekar: Europe, we said already that we are now more focusing on the margins rather than the revenue. And we are taking out some low margin products, so net growth may vary between 5% to 10%.

Aniket Mahtre: Sure, okay. That's it from my side. Thanks a lot and all the best.

Moderator: Thank you sir. And the next question comes from Mr. Kaushal Maroo from Religare.

Kaushal Maroo: Hi sir. My question was on the European operations. You are looking to supply to the new truck platform in Daimler, so is there any update on that?

Sanjay Joglekar: Thomas, can take that…

Thomas Koerner: That is exactly what I said before, so Daimler will bring this new platform on the market in August and September and we participated from these new programs more than expected, so we have received all the orders for the new platform. And the ramp up, it's faster than expected. So, we are now in production, in serious production for the first truck which will come out in July-August. And we received all these orders, that will bring us in a wonderful situation that we will increase the margins inside Daimler, because lot of parts are machined and some parts are even pre-assembled. So, we are looking very forward to this new platform.

Kaushal Maroo: Okay. And sir, regarding the capacity, we said that we are not fully servicing the demand, because the manned capacity currently in European operations is slightly lower. So, have we been able to bring employees on board in this quarter already?

Thomas Koerner: Yeah, that is what we have already done, but we are doing this right now with lended or borrowed workers to have the flexibility, because nobody knows what the market is going to be in the next six or twelve months. So, our target is to keep the flexibility inside the companies and that is the reason why we are only working at the time being with lended workers.

Kaushal Maroo: Any rough guidance on the increase in head count in percentage terms we expect in FY12?

Thomas Koerner: Before, let me give you an example. Before the crisis, we were in Europe at least 2050 employees. During the crisis, we dropped down to 1400 and right now we are back to 1630. So, you see we increased a little bit, but we are still quite careful.

Sanjay Joglekar: Just to clarify, Sanjay here. This increase in employees is, I would say only in hired labor, in temporary employees.

Hemant Luthra: As Burkard said, we are going to change the product mix and therefore and as Thomas said that, we are only going to be looking at, not so much at volume. Volume could be combined volume between India and Europe. Europe has to focus on improving its EBITDA and they have done a great job in 2011 and they expect to do better in 2012. So, the other commitment that we have is that, as we go from 150 million to 260 to 270 million and then we grow back up to closer to 300 million, we are trying to make sure that the headcount and personal expenses remain somewhere, keep coming down. Last year they have come down from about 30% to about 26% I think, if I remember the numbers right and we will continue to keep driving this down to 25%-24%-23%. So, don't look at the number of people, look at the specific target that we have taken for ourselves that the EBITDA margin must go up by about 2%. And that can come from the headcount managed in such a way that, as a percentage of sales, it is continuously being driven down.

Burkard Rausch: I would like to point out one subject during our presentations and your questions, we always talked about either Europe or India, but during the last months, we had lot of specific activities preparing Chakan to deliver parts to Europe. And the first part is now landed in Europe, quality wise, absolutely okay. So, our commitment that we gave half a year ago or a year ago to ramp up that volume, this year will be very fruitful and we see significant volume now being produced in India and delivered to Europe.

Kaushal Maroo: Should the margins of these products which we are supplying from India at least be at par with what we are doing in Europe at this point?

Burkard Rausch: Again, please.

Kaushal Maroo: The margins of products which we are supplying from our Indian facility to German customers, I know eventually we should be making more margins from them. But, at this point, are we making as much margins as we would be making on our German supplier?

Burkard Rausch: The background is that those products have not been very high margin products producing them in England. And so the improvement for the whole group will be positive. But, we will more see it in India than we will see it in Europe, or otherwise we would have been in a position to stop production in Europe. For those have been parts, in the past with low margins in Europe.

Hemant Luthra: The short answer to the question is that we are moving the parts that don't get enough margins to free up capacity in Europe. Those parts have been produced in India. And once they have been produced in India and shipped to Europe, inclusive of all the shipping cost, the total margins are accretive.

Kaushal Maroo: Okay sir the last question from my side. We are looking to reduce supply of low margin products as you said, so what percentage of our total revenue or volumes would be these low margin products which you are specifically targeting to reduce supply of or shifting back to India?

Hemant Luthra: I don't think you can look at and I will get Burkard and Deepak Dheer to look at the specifics, it's always relative. So, if you have got a facility that has been doing 100 million euros revenue per quarter at its peak and it is now doing

70 million or say 67 million per quarter, then as long as even one product makes a margin of 1%, it is value accretive. Now, when you pull out some products, you will pull out products from customers in Europe and start servicing from India. Again, as long as it is value accretive. This might release some capacity in Europe and then you will start adding some new products in Europe. So, I don't think it is mathematically possible to say what is the total volume of product that you will look. If I get higher volume products in Europe and I am running out of capacity in Europe, then I will have to say no to somebody. But just now, even if I get more high value products in Europe, I still don't have full utilization in Europe and I still don't have full utilization in India. So, without incremental CAPEX, we can continue to add customers and products and keep adding to margins. I don't know if I am making sense.

Kaushal Maroo: You are right. You are right, sir.

Burkard Rausch: Absolutely right.

Hemant Luthra: It's only when I have reached 100 million a quarter, then I have to choose, should I drop a product? Should I move it to India? But, just now we are just looking at saying, that there is one technical team that is reporting to one technical person. There are two Managing Directors who are working closely with each other. There is one finance operation that is monitoring with harmonized costing. Our first, lots of our competitors have said that you can set up shop in India and turn on a switch and you can start producing products and be accepted by Europe, no. What happens is, you have to qualify the steel, you have to qualify the facility, you have to qualify the parts and once that virtuous cycle starts and European customers start accepting India, then there will be a snowballing effect.

Moderator: Thank you sir. Next question comes from Ms. Grishma Shah from Envision Capital.

Grishma Shah: My question has already been answered. Thanks.

Moderator: Thank you ma'am. And the next question comes from Mr. Aniket Mahtre from Standard Chartered.

Amit Kasat: Hi this is Amit Kasat here. Sir just wanted to recheck.

Hemant Luthra: Welcome Amit, old friend, welcome again.

Amit Kasat: Thank you sir. On the Europe, I think in the earlier questions you had addressed that you are looking at 5% to 6% revenue growth. But, against that what is the expectation of the cost increases in FY12?

Burkard Rausch: Cost increases will be on one hand for steel. The next month will show what the discussions about energy costs will bring out of the nuclear discussions. The whole world is intensively discussing right now. But we have protected our electricity costs for the next two years already, so that's covered and fixed. Of course, there will be some improvement or some increase in wages and salaries after the crisis. But all that in consequence with the shifting of the quality of our business will be more than covered and we expect a significant growth in absolute margins.

Amit Kasat: Okay. Second I think in FY11 the utilization at the European facility is almost close to 75%. And my understanding is that in the industry where we are or the segments where we are, 80-82 is what the peak utilization can be there. So, what will be the CAPEX which you would be looking at in FY12 for outside India and the other thing for India also, because still we are at 50, so is there any CAPEX which has been earmarked for FY12-FY13, an amount?

Burkard Rausch: To start with the European side, there are only very specific CAPEX things for new products and for some sustenance and specific machining but in general we will not have very high amounts of CAPEX for the next year.

Hemant Luthra: Amit you have understood this business for a very long time. You have been personally involved in it. I think if you drop by to the office or ask Sanjay to give you…or any of you on this call…I am not being partial to one or the other. There have been patented processes that have been developed. There are videos available on those processes. And many of those processes can probably give a revenue of…I was told by…Burkard correct me if I am wrong…it was about 5 million CAPEX which had revenue of 16, 17 million and a payback period of 18 to 24 months…am I right?

Burkard Rausch: Something like that.

Hemant Luthra: We can give you some of that stuff. If a customer places a specific order for something that gives you a payback period of 18, 24, 36 months, of course we will look at it. But if the payback period is much longer than we have got other priorities as an MFL organization…MFL, MFE organization which is…where is the margin going to be increased the most and where is the biggest bang that we are going to get for your buck. So even inside Mahindra as you know we compete for capital. Inside Systech the company competes for capital to get the best returns and inside Mahindra Forgings in Europe and India they will compete for capital to get the best return. So when somebody sets a benchmark that I will be able to do so with an 18, 24-month payback period, I don't think too many questions will be asked. But if somebody says the benchmark is 60-month payback or 48-month payback then I think a number of questions get asked.

Amit Kasat: Sure, absolutely. Sir, one more question to you if I get the liberty and if you were to answer that question…

Hemant Luthra: I know what's coming.

Amit Kasat: Basically I think we have been talking about creating one Systech for a long time now and the investors also want to exactly know what is the status of that and what is the process, what's the update on that…so if you can throw some light on that?

Hemant Luthra: Yes since we have discussed it often and it is no secret, we have got executive approval if I can use the word to put it all together. We have started our discussions with investors who are in the private unlisted companies as to what these ratios will turn out to be when they are all together. We had a positive feedback from them and I have said this before that subject to the approval of the respective Boards of these companies with respect to the final exchange ratios, I don't think it is unreasonable to assume that we will see some solid progress including maybe bringing this all to a close in the current fiscal year…including court approvals and so on.

Amit Kasat: Okay. My last question is to Mr. Joglekar on the balance sheet size. Can you just give me what is the consolidated debt as well as the cash equivalent by the end of the year?

Sanjay Joglekar: I think the consolidated debt is around 700 crores and what was your next point?

Amit Kasat: Cash at the end of the year in the balance sheet?

Sanjay Joglekar: Cash at the end of the year…I don't remember it right now, but…around 18 t to 20 crores.

Amit Kasat: This is on a consolidated basis right?

Sanjay Joglekar: Yes consolidated. See our networking capital on a consolidated basis is approximately 230 crores.

Amit Kasat: Okay.

Hemant Luthra: And also Amit, I think Burkard will point out for the benefit of those of you who may not already know that the vehicles that were used to make the LBOs have now been merged into the operating companies in Germany and the German companies are happily able to sustain both the LBO debt and the LBO business, so…

Burkard Rausch: I have already explained it in the beginning.

Amit Kasat: Sanjay one more question to you…was there any translational gain in terms of your European Operation because of the currency?

Sanjay Joglekar: Yeah, yeah that is usual but I did not mention it this time Amit because it is something like 7-8 crores. So when we did drop 176 crores, I thought it doesn't matter.

Amit Kasat: Okay. Thanks and best of luck to the whole team for the future quarter.

Moderator: Thank you sir. The next question comes from Mr. Samir Desai from Finco

Samir Desai: I just wanted to ask you…you mentioned about the Systech's likelihood of all the companies being merged with Mahindra Forgings; do you think the ratio of mergers will be favorable or unfavorable to Mahindra Forgings.

Sanjay Joglekar: This is Sanjay here; I think this is a question we cannot answer now as Hemant already said it is a question for relative valuation.

Hemant Luthra: I will answer the question. I think Mahindra is not the kind of company which is going to fudge the ratios. The ratios will come out as determined by independent valuer. I do not want to be accused of making forward looking announcements that…so it is the intent for us to do so. It will be subject to the approval of the Board. It is not something that I can take and report to the stock exchange just now because I don't…it is an idea in our head it has happened before. But most important…Mahindra does not fudge the ratio. So at this point of time, before the negotiations with people have been completed, I have no idea whether the ratios will be favorable or unfavorable. But if you know Mahindra, there is no step child in this family. So the gears business is doing well, the castings business has got more customers than it can cope with, the forgings business in Europe has recovered, so that will be a fair exchange ratio, that should be value accreted. I am not going to try and favor the Mahindra Forgings at the cost of Mahindra Gears or Mahindra Gears at the cost of Mahindra Forgings. So I think you can rely on Mahindra's governance standards to make sure that it will not going to be what some of my competitors in business have done that I need to improve Mahindra's holdings so therefore I will fudge the ratios in a certain way. I don't need to do any of that.

Samir Desai: I just want to ask you what's the vision going forward…say 2015 vision or something like that... Do you have any vision there…?

Hemant Luthra: Sir the vision always has been…and I am glad that you are asking these questions because it gives me a chance to put the thing into perspective. There are certain areas in which India is competitive and there are certain areas in which India lacks technology. Whatever technology we wanted, we have locked in the Forgings, Castings, and so on with thanks to our European colleagues. We want to be the Number one component company in the country, but not by volume. I think we want to be the number one component company based in India, a global company which might have it's head quarters in India but as you can see most of its revenues from different parts of the world. Our focus is going to be how much value can we add to our products. So today we may be inching up the curve with respect to EBITDA margins, but we are still even if I hold the mirror upto myself, we are still much more in commodity products than we would like to be. So what we are now, you will see happen this year is there is a center of excellence being formed. The head of technology for Germany…Dr. Mike Muckelbauer is going to partner with his colleague in India, Prashant Kamat who will be head of Mahindra Engineering Services and we are going to see how we can move up the value chain. If it is crank shaft there will be machined if it is axle, beams and Europe, they are already machined, but why not full axels if it is stamping that are being made for the automotive business which is A, B, C, class Stamping which is outside surface, inside surface and on the road components; how many of the forged components can be replaced by a sheet metal component and reduce the cost. How can casting move from further, further into the turbo charge business? So I think the focus is going to be on value addition and leveraging what Germany has in terms of R&D capability, what India has in terms of low cost engineering and all of what Mahindra has put together and Mahindra Research Valley in Chennai. So if you want my take on the vision it is to be not just India's leading component company, it is going to be a global leader in terms of value addition that we can bring to customer. If that means the EBITDA margins of the business as a whole did not increase, and I am not taking a light number by a 100% in the next 5 years I would be disappointed. We are benchmarking ourselves against the best and if you look in different parts, and I am 100% is, is a stretched target by any means and may be we won't get through 100%, but I would be very truly disappointed if we could not improve our EBITDA margin by 50% in the next three years and 100% in the next five. Thomas do you want to add anything or Deepak you want to add anything?

Sanjay Joglekar: Sorry Hemant but just to caution you, what you are talking about is an absolute amount and not percentage terms.

Samir Desai: Right. Just one other question…true Mahindra Forging is on a turnaround path. Do you have any target of net profit to sales ratio either as a consolidate or return on capital employed or ROE target…next three years, two years…what's your…?

Hemant Luthra: Yes we have targets and everywhere the target is going to be that….see Anand has asked us to do something called 10X because Mahindra market CAP has gone up, everything has gone up so he is saying 10X is an euphemism or how can you make a huge step change in the business? So when I talk about an increase in margins, I am saying it from the wish list, I cannot say that it is on the budget that I can show to you. Similarly ROCE because we have been through a tough time, I know we will not add shareholder value unless our ROCE is greater than our WACC. So every business has got a target that we have to make sure that ROC has to become great than WACC within a specified period of time. So…what else can I say? I can't tell you the ROCE is going to be…

Sanjay Joglekar: I will explain it. ROCE as you rightly said is a question of how much we invest further. We are just now in a wait and watch situation going forward in a year's time, if we decide to invest in a 12,000 Tonne press then obviously ROCE will go for a toss for a year or two, but barring such things, we should go to a good ROCE level and comfortably above the WACC.

Samir Desai: What is the weighted average cost of capital now currently as a company?

Sanjay Joglekar: It will be different in Europe and India. Ajay what is your WAC just now…?

Ajay Mantry: Our WACC for MFL as a whole is around 14%.

Sanjay Joglekar: Europe will be…

Hemant Luthra: What about the ROCE this year in MFL India Opertions?

Ajay Mantry: Around 7% this year.

Hemant Luthra: And in Europe what was the ROCE Burkard?

Burkard Rausch: Something about 5.5%.

Sanjay Joglekar: That was interest rate so in general I think your WACC will be higher than that may be 7%, 7.5%.

Samir Desai: So your weighted average cost of the company as a whole consolidated is 14%, what I understand…return on capital employed is…

Sanjay Joglekar: Hold on for a minute…we can't really give you an exact number from this call. That is too futuristic, so I think you should be happy to note that we have plans to have ROCE which is sustainable and comfortably above the WACC.

Hemant Luthra: Your question has to be answered in another way. No project gets approved inside Mahindra Forgings or Mahindra Systech until on paper there is a payback period of less than 36 months and there is a 5% higher than WACC on the basis of what we estimate on this. That's the hurdle that they have to cross when presenting a project. And for those of you who need more time one-on-one we are more than happy to sit down with you.

Sanjay Joglekar: You are absolutely right.

Moderator: Thank you sir. There are no further questions. Now I hand over the floor to Mr. Rohan for closing comments.

Rohan: Thank you and thank you to the management for taking time out from their busy schedules to attend this conference call. Thank you gentlemen and best of luck for the future.