“Mahindra Forgings Services Q1-FY13 Earnings Conference Call”

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Moderator Ladies and gentlemen good day and welcome to Q1 FY13 Earning Conference Call of Mahindra Forgings Service hosted by Anand Rathi Shares & Stock Brokers Limited. As a reminder for duration of the conference all participants' lines are in the listen only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this conference call please signal an operator by pressing '*' and then '0' on your touch tone telephone. Please note that this conference is being recorded. At this time I would like to hand the conference over to Mr. Nirav Bhatt. Thank you and over to you sir.

Nirav Bhatt And a very warm welcome to the management as well as participants to this call. Let me hand over the floor and Mr. Luthra for his opening remarks, over to you sir.

Hemant Luthra Good afternoon everybody and welcome to the call. We had a good quarter in India, the revenues have increased and as you have seen from the published results the EBITDA margins have gone up by 2% come on the back of reduction in rejection which we were concerned about when we last spoke to you. It has come from increase in operating efficiencies in the plant and it has come from an increase in the amount of machining that we do for our customers. Even though there seems to be some pressure going forward from the problem that Maruti has had and some slowdown that we have been seeing with Tata Motors. The management team remains fairly confident that this year we will be on track to improve the revenue and profitability significantly in FY13. Where we have got some problems which are still not yet over and are being resolved is in the case of Europe where some of the pressures that we are all reading about are starting to show and we expect that there may be compared to the 308 million revenue that we had done last year and the 23 million EBITDA that we have reported last year, there may be some pressure on volumes of Europe, 10 to 15% and we may continue to see some pressure on margins because we had some break down which had to be fixed so we are not carrying on this call to make excuses that it is only the market that is, so we had some internal problems which are in the process of getting fixed, presses were down, equipment was down and therefore we had to move work from one press to maybe another one that is suboptimal but we expect that by the end of Q2 many of these problems that we have will be over. We also are seeing that some of the impact that we had and most of you are worried about what's happening to the Europe so are we but not from the way you are looking at it but it is a different kind of pressure which is that in order to get Germany to prime the European economy, Government of Germany is encouraging owners to give more wage increases to labor because they have sacrificed a lot during the course of crisis and therefore we are starting to feel the pinch with respect to labor cost and therefore our focus is on productivity and we're going to put in some CAPEX which is without resorting to diluting of equity to improve productivity and what we have also seen is that in the last three years and I hope we have seen the peak of this is that the electricity prices have gone up because of Germany's shutting down its nuclear plants and having to buy electricity from other sources. Price I think over the last three years Burkard can correct me, our CFO can correct me if I am wrong has been about increase from about 6.3 cents to 11.2 Euro-cents and we have covered ourselves with some contract but the contract obviously don't have given us some benefits but they do cover the increases of this order of magnitude. So we think that FY13 in Europe will probably be stable, we think that FY13 in India will be significantly better but two may make up for each other but I'm not going to make a specific forecast that they will. The Indian team has taken on the challenge to see how much of the European downturn they can compensate. There is one other subject that all of you will ask me about later which is that we have said publicly that we will put all the businesses together forging, casting and create one Systech. Progress has been made on that, the marketing teams are one the, purchasing teams are one, the HR teams are one and there we have got in principle of approval now from all of the substantial shareholders of Mahindra Forgings and Mahindra Castings which is unlisted, Mahindra Gears which is unlisted and they have all agreed that based on some tentative swap ratios that we put on the table they would support consolidation of Mahindra Forgings, Mahindra Gears, Mahindra Castings, Mahindra Composites and Mahindra Stampings into one entity. The reason why it has been held up a little bit that you have seen publicly that we have split our steel and stamping business and steel business has been spun down into a 100% subsidiary, that subsidiary will have the benefit of 49% equity participation from Mitsui and Sanyo and that will free up Mahindra stampings to start becoming part of Mahindra Systech. I understand that something like this are court processes and can take six months or more but as far as the ability to move this thing forward we have had committed to you and we are on track to get that completed I hope, by the end of this fiscal year. That is the end of the introductory statement I am happy to take questions.

We have got KR as Managing Director of Mahindra Forgings, Thomas as CEO Mahindra Forgings Europe, Burkard is here as CFO of Mahindra Forging Europe, we have Ajay Mantri as the CFO of Mahindra Forgings Ltd, we have got Deven Kataria is the Head of Marketing and Vikas Sinha who is Head of Strategy so you have got 10 people in this room and Sanjay Joglekar of course who is the CFO of the Systech Group, so you have got 10 people here and happy to answer all of your questions on this call.

Moderator Thank you gentlemen. We will now begin the question and answer session. Anyone who wishes to ask a question may press "*" and "1" on their touchtone telephone. Participants are requested to use handsets while asking a question. Anyone who has a question may press "*" and then "1" at this time. We have a first question from the line of Sanjay Shah from KSA Shares and Securities. Please go ahead.

Sanjay Shah I have two questions, one was regarding the Indian operations since we are doing well in India and our percentage contribution is low compared to the Europe operation and as you have said Europe still will take time to improve since there are many problems in Europe, do we see any outsourcing possibility and how we are working on that?

Hemant Luthra When you talk about outsourcing possibility you are talking from Europe to India. The way we have structured the company means that we have got Europe as a 100% subsidiary of India. We have got all of our Europe Senior Management colleagues having stock options in the Indian parent. You have got the former shareholders of our European operations also as shareholders of the Indian parent so it's make it very easy for us to take economical decisions about what should be best made where. In the last year Deven can fill you in how much of orders have been serviced from our European entities?

Deven Kataria About €3 million of orders have been transferred, have been done in India from Europe.

Hemant Luthra And what about the other orders from Stokes? So just know you said what is anticipated for this? We have done about €3 million of orders of low margin parts that could have higher margins here and we expect that we should increase that by another 30% or thereabouts this year may be little bit more and the process has started and actually what needs to happen is that you have to get customer approvals and there's something called the PPAP process. We have every intention of maximizing profitability, I would not say moving products from one place to the other, I think, the answer is persuading customers at within their interest to help us maximize our profitability so it may also happen that some customers may not have been convinced in the past that towards lengthen the supply chain so much and however with the rupee having devalued about 10% to 12% against the euro and about 20% against the dollar many of these customers are happy to have a look again so I think you have seen this process being accelerated and the reason why you have got 10 people in the same room at the same time sitting in India after the AGM yesterday is exactly for the same purpose, what can be optimized in terms of production at what location.

Sanjay Shah Sir, you see good prospects in Indian economy as you said still Europe is lagging then what steps you have taken to ramp up the Indian operation of increasing the capacity or bring out more business from Indian entities?

Hemant Luthra I am asking KR to answer this question who is the Managing Director of Mahindra Forging.

K Ramaswami Last year, you would have noticed that our growth is far ahead of general growth in the auto sector so that we are not only keeping pace we are also slightly more than the growth in the sector. However, the current year because of all uncertainties that exist in the market we expect to grow in the range of 10% to 12% this year compared to last year but it could be more it could be less depending on how the market is reacting because market is actually in some sector growing negative so it is difficult to hazard a guess now.

Sanjay Shah So are you planning to service any other sector or even non-automotive sector?

K Ramaswami At this point I think, we have enough business in the auto sector to take care of and we have very limited non-auto sector business but we will stay focused getting more and more into export business directly exporting to customers either in Europe or US and that is the effort that we are initiating this year, we would expect the result of these initiatives in the next couple of years.

Sanjay Shah Do we expect any margin improvement here on in our Indian operation, already we have done well in first quarter, I appreciate?

K Ramaswami If you have to look at the first quarter as compared to the last quarter of last year the sales have actually dropped by 10 crores but still our EBITDA is not dropped so we are staying focused on operations and given the current market scenario where things are either slowing down or not growing, we think this is the best time to tune ourselves and be fit to face any increase in business as and when they come.

Hemant Luthra I think KR is being a little bit modest than he should be if you see you have 13% for a full quarter obviously the exit run rate in the last month will be better than what it was at the entry run rate at the first quarter so there are efficiencies that are being done and there are a whole lot of stuff in terms of balancing machining lines and making sure that there is a greater percentage of machine crankshafts and what are you doing now? You are doing something like 25% higher than what you were doing last year in terms of machined crankshafts so I think those are the things that give us a higher margin.

Sanjay Shah My other question is I would like to understand what are the synergies of this all making one entity Mahindra Systech of our gear division and for casting division and all can you throw some light on that?

Hemant Luthra If you look at the Mahindra experience and I will ask Deven to step in from the marketing point of view but if you look in the Mahindra experience and experience of every customer OEM worldwide, they want to rationalize and reduce the number of suppliers, they want to have one stop shops and sometimes what happens is when we go to a customers and the customer says I'll give you so much of stamping and I will give so much of casting orders, provided you reduce the price in gears and I'll give you some increase price in stamping and do something for me which makes the whole basket of products more competitive. Because today you have got different businesses with different shareholders you cannot take such arbitrary decisions and once you have them as one legal entity your flexibility with respect to the customer will be higher and Deven will talk to you about how we are actually marketing.

Deven Kataria I just wanted to add a couple of points clearly one is as customer rationalize their supply base but the other place that we see this is around are trying to make our sales process more efficient and being able to cross a lot of products the same customer, if we are selling forging to one, to go in when castings, to go in with gears and we're starting to do that already informally through our sales teams because we are coordinating more and more of activities. Also it brings more common negotiation and business approach with our customers where we can come up with more consistent business practices and sort of reduce the frictional cost of doing business with the customer. If you know how to do business with them for casting then you're predictable when you go to forgings as well. Both things are starting to pay off for us as we look at new projects coming with customers we are when we look at programs coming down 3 to 4 years down the road we are now able to take a view with the customer on the platform and say listen I would like to have crankshafts and I would like to have exhaust manifolds and these are coming from different technologies. Customers who buy cast crankshafts or forge crankshafts we can offer them the entire portfolio of products that we have.

Moderator Question is from the line of Srinivas Rao from Deutsche Bank. Please go ahead.

Srinivas Rao First you mentioned about the issues in terms of breakdowns and could you comment as to what is the largely taken care of now and should we expect to fully be resolved by the end of second quarter that would be my first question. On the second question I think you mentioned you still remain optimistic in the Indian part of your business but the way the automotive sector is going do you think it is a bit too optimistic at this stage to expect the Indian operations to kind of grow in the reasonable fashion or let me put it this way, why do you expected it to grow?

Hemant Luthra I think KR already answered the question if you are listening in and he said even though the sales have dropped from 115 crores in Q4 FY 12 it is Q1FY13 the EBITDA had gone up or we have been able to maintain it at pretty much at the same level. And therefore that is reflective of the increase efficiencies. Secondly I cannot say make any forward-looking statements on the call but when we set our budgets and the budgets are set quite aggressively. KR and his team saying that regardless of what happens to top line they will meet the bottom line that is music to my ears as far as I am concerned. Deven can talk to you I will turn it back to him why we remain optimistic about the Indian market and then I will turn it over to Thomas and you can talk to him about how they have fixed some of the problems and other problems are work in process.

Deven Kataria From an Indian market standpoint I think we have a long-term perspective we are clearly bullish on the market we think this is the market that have lots of room to grow this is stuff you can see instead of other economies going through as well so there is this 14 to 15% long-term growth trend over there. In the short term obviously with maybe an inventory correction and in the farm sector with some other pressures in the economy, some of the passenger car vehicles obviously have declined, even medium-heavy have declined. But we think some of this sector are starting to come back I think they're starting to see some positive indication on the agricultural side that has a role to play with that but our feeling is as we go through maybe in the last couple of quarters of the year will start to see some of that business starting to come back. We are also aggressively trying to find new business opportunities with the customers it will take some time to convert those but given that we have a fairly wide and diverse customer base the teams out there trying to get new business as well. The other piece that you have to remember is, if you like within the automotive industry the utility vehicles have held up pretty well so far and so even if there is a down take on the passenger car side we do find the utility vehicles kind of holding it up for us. Now different businesses move differently in case of Mahindra Forging you will have some of the corrections happening in Tata Motors they do not know how Suzuki will shake out in the last few days but we think that there is enough room to feel positive still.

Hemant Luthra Also I would like to add that whether you've been following the story, during 2009 when there was a panic about where the automotive market will grow funny things had happened to Mahindra share price for a few weeks it fell to 300 or 400 before coming rapidly back to 700 at that time Mahindra had been gracious enough to say that Systech being a part of the group would see the benefit of a larger share of wallet if necessary obviously there is arm's length pricing and there is no cross subsidies but if the SUV holds up and if some other pieces of it goes down we can bank upon Mahindra to not subsidize us but certainly give us a greater share of wallet. Thomas you want to talk about breakdowns and you want to talk about how the market there is shaping and why you think things are starting to improve from Quarter 2?

Thomas Koerner When the breakdowns are concerned we have almost fixed 90% of the breakdowns in Germany and at the time being we have only 2 forging lines which are still under refurbishment and we expect that within 6 weeks 2 forging line I will assume the next two weeks so keeping a mid of August is expected that at least 100% of the capacity is available. What the market situation in Germany and Europe is concerned right now and we have that has been a secret we really have an uncertainty what is going on with the Europe and especially what is going to happen and what is going to happen in the south of Europe. In our budget when you are following the numbers carefully we have still a reduction in our demands getting from the customers but we started to redevelop, we have started to accelerate the research and development processes so Mahindra Forgings Europe will come up in the autumn and of course in the winter season with some new developments, with some new products for the Euro-5 and Euro-6 programs in order to follow the way of light weightening parts and in order to follow the high demands of special engine parts in order to fulfill the requirements for Euro-6 so lot of basket of new products is under development and a lot of products will come into serious delivery in the fourth quarter of this financial year.

Srinivas Rao Could you give me what is the current share of Mahindra for the Indian business that is number one, number two again if you can highlight obviously Daimler and other European truck manufacturers are transitioning into Euro-6, will you maintain your wallet share or is it likely to go up as the transition program so as to ramps up from what we hear from OEMs by end of fourth quarter?

Hemant Luthra KR what is the share of Mahindra business form Mahindra Forgings in India?

K Ramaswami Around 30%.

Hemant Luthra And the other question you had was what is happening to the new products like Daimler that is one of the reasons why we are seeing some kind of pressure on our margins is that a typical contract in Germany would want year-on-year efficiency increases and the way customers negotiate with suppliers that they will let us have a larger margin at the beginning of the business which compensate for the fact that we are going to give them some kind of efficiency increases as we go forward. Now if the old products continue to have a larger share of the products mix of the customer then there is an adverse kind of a variance because your giving efficiency increases before you are starting to pickup orders with the high margins for the new products so we are suffering a little bit from that Thomas will talk more about it and we are working with Daimler to see whether even some of the old price increases can be pushed through because of what is happening on an exceptional basis with respect to labor and electricity. Thomas was talking about?

Thomas Koerner In Germany and in Europe we are quite have an issue with the implementation of the Euro-6 program because everybody knows that that truck is at least €10,000 more expensive than a truck using Euro-4 and at the time being is not clear if you can get a special bonus from the particular governments in Europe in order to cover these €10,000 so unfortunately the expectation of the implementation of the Euro-6 program with Daimler has shifted by a couple of months and of course there we expect what Hemant mentioned before the expected number of the Euro-6 trucks in 2012 was reduced from coming from 25,000 units down to 14,500 units and that has a negative impact on our contribution margin of course what we are doing right now especially with Daimler we are in special negotiations in order to find a solution positive solution for your organization to skip the next bonus which has to be given in 2013. So we are still in negotiation with the customers and not only Daimler is part of the Euro-6 program even Volvo, Renault, Duff & Scania now trying to ramp up with a new Euro-6 program and we are participating from this development.

Srinivas Rao In general can we make an assumption that as the Euro-6 program ramps up if not this year next year one would have a positive impact on the margin on the European operations of Mahindra Forgings?

Hemant Luthra Yes.

Srinivas Rao And would like to suggest any order of improvement what kind of margin differentials typically happen when you have a new program coming online?

Hemant Luthra I will not say anything on margins all that I have to tell you is since my CFO and the legal team is breathing down my neck the only thing that we look at in addition to margins is the return on capital. What we need to do all the time as remained focused is how is the return on capital exceed WACC and if you

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want to know look at our return on capital look at the WACC in Germany and yes we, it is our intention to keep moving ROC up and get it beyond WACC. I would love to be able to share our budget with you but we are little… One more input that I can give which is that there have been some concerns from different analysts about what is our exposure in Germany to Spain and Italy and some of the companies that are in trouble and my understanding from Thomas is that the shipments to these countries are less than 2%.

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Moderator The next question is from the line of Sai Anjali from Capital Markets. Please go ahead.

Sai Anjali You said shipment is less than 2% of which countries?

Hemant Luthra Spain and Italy, these are the PIGs countries is not what we should be, referring to them on a public conference call but.

Sai Anjali Also could I have the consolidated numbers if available?

Sanjay Joglekar Consolidated numbers for Q1 we have given the basic numbers of Revenue, EBITDA and PAT, I think we have given a press release yesterday, you can have a look at that but the consolidated revenue is about 597 crores for Q1 with EBITDA of about 42 crores and then there are further details explained in the press release.

Hemant Luthra It is on the website.

Sanjay Joglekar And also on the stock exchanges.

Hemant Luthra Why don't you do one thing which is that if you have any problem you can get back to Sunil Rane or Ajay Mantry and you can call them care off my secretary at 24915143.

Sai Anjali Can I have a breakup of in who are your top customers in India their contribution to the sales?

Hemant Luthra I will give you the feel for the top 10 customers but I don't think, I want to give a breakup of contribution to sales and profitability because typically competitive information. So as I think, we mentioned that Tata, Maruti and Mahindra are the three basic bigger customers and in Europe you have got Daimler, MAN, Scania and Volvo who are the major customers.

Sai Anjali If I take Tata, Maruti and Mahindra together how much do they contribute to your sales?

Hemant Luthra About 90%.

Moderator The next question is from the line of Nirav Bahtt from Anand Rathi. Please go ahead.

Nirav Bhatt Few questions from my side sir, what is the headcount at the movement in Europe and in India? And how is it panned out as what was it last quarter and have you made any changes?

Hemant Luthra The European headcount was 2000 at the peak during the 2009 crisis when the volumes dropped 70% it came down to 1300 so we were running originally about 100 million a quarter and at that time we had 2000 people than it went back down to 30 million a quarter during the crisis we had something like 1200 people and now that we are doing about 75 million a quarter and we have about 1500 people. India is about 1000 people and both companies are working hard to improve productivity and reduce headcount and you will start to see the impact of that if in India the market doesn't improve in Europe in any case there are some specific actions that have been identified.

Sanjay Joglekar They both include temporary workforce in Europe and as well as in India.

Burkard Rausch Roughly 15% of this work force in Europe, it is on the temporary basis, this gives us a lot of flexibility and whatever would happen in the markets.

Nirav Bhatt You did mention in release that there have been delays in new launches in terms of OEM launches so could you give more light on that where has it hit us?

Hemant Luthra Presumably you are talking about Europe, right?

Nirav Bhatt Yes.

Hemant Luthra Thomas will answer.

Thomas Koerner Of course we are still working with the ramp up of new asset New Truck program in Daimler and especially I was in New Truck program called P2685 that is the new truck generation coming from Volvo Renault and even Duff is implementing and ramp up with a new car which is coming because of the situation this Euro-5 so at least we are working for the ramp up for three different truck programs and Scania has already launched its new truck programs so we are participating at least from all these truck manufacturers in Europe.

Nirav Bhatt But we haven't seen any delays in launches from them?

Thomas Koerner There is a delay with the Daimler truck program that is **SFTP** program that is what I mentioned before they reduced their numbers from 25,000 that is expected number in 2012 down close to 15,000 trucks and we are expecting that even the ramp up for Volvo for example will come a little bit later but not far later.

Deven Kataria Just to clarify little bit, normally when you launch a new vehicle you have several launch acceleration because you don't start building at rate right away. So the customer ramps up and that is what is going slower so they might be launching on time but the movement towards full volume is slower.

Nirav Bhatt And as of now when you say you have an outlook of around 15,000 truck will Daimler still contribute around 50%, I mean, will it still be a 50% revenue contributing customer?

Hemant Luthra Daimler is not 50% I think, there is something wrong. Daimler is approximately 25%.

Nirav Bhatt So in terms of capacity utilization, at what level is it in Germany and as well as in India?

Hemant Luthra If Daimler's plan gets delayed and I have got and that your two questions are related and if Daimler's plan get delayed, yes they will drop below 25% because some other customer might come up faster.

Thomas Koerner Not a whole lot because we have also the old trucks.

Hemant Luthra And your second question was capacity utilization presumably it's related to whether we will be or will not be not required to make some CAPEX, I will let KR answer the question with respect to India and Thomas with respect to Europe.

K Ramaswami We can produce about 500 tons more than what we are currently producing with full capacity utilization.

Hemant Luthra I think, the way we are looking at it is that, what is the present capacity utilization and how many tons..?

K Ramaswami Last conference also be discussed this, percentages can vary.

Hemant Luthra How many tons we are producing?

K Ramaswami Around 3000 tonswe are producing and we can go up to 3500.

Hemant Luthra So what KR is saying that given the fact that we are doing 3000 tons we could probably go to 3500, which is about 20% and I think, the other piece of it is that you can go much more on machining?

K Ramaswami We can go on another 20% to 30% on machining, we have a plan of small CAPEX balancing additions with that from our current level of 20,000 we will go up to somewhere around 24,000-25,000 by the end of the year in terms of crankshaft machining.

Hemant Luthra The small CAPEX is that was about 5-6 crores?

K Ramaswami Yes.

Hemant Luthra Yes, so the answer is about there is head room of another 500 tons in the Chakan plant plus there is another head room of about 20% more on machining in the Chakan plant.

K Ramaswami We are also looking at technology improvement in terms of doing some certain special operations on the crankshaft bringing in some new technologies and we would add another 8 to 9 crores CAPEX in this, which will give us an advantage for the future years in terms of supplying superior machines crankshafts.

Nirav Bhatt And on Germany?

Thomas Koerner In Germany we are driving with the capacity utilization of around 80% right now.

Hemant Luthra Just to give you a feel, if we were doing about 100 million a quarter and they are running at about 75 million a quarter just now that is pretty much what we are talking about so again there is head room there for more growth without having to go for CAPEX. Part of the CAPEX you will do some CAPEX with respect to tools and dies, you would do some CAPEX with respect to efficiency increases, so you will do some CAPEX for automation but none of this is expected to dilute equity.

Moderator The next question is from the line of Sunil Jain which is the follow-up question from Nirmal Bang Securities. Please go ahead.

Sunil Jain How much debt we have at the end of June both India and Europe?

Sanjay Joglekar Debt on a consolidated basis is around 660 crores.

Sunil Jain Apart from this sir, you said that supply to European other countries which are part of it is around 2% but that will be the direct supply which you are talking?

Deven Kataria That's right.

Sunil Jain But there could be a lot of trucks which you may be producing Germany and sold over they have been in the other countries?

Deven Kataria That is indeed possible.

Sunil Jain But is it possible to get any feel like how much could that be a percentage?

Deven Kataria I think, like you guys, we rely on automotive industries data so there is ACEA in Europe which is the European Association of Vehicle Manufacturers and we typically look at them to give us some sense but again also remember that the product that we are supplying in Europe can also end up in Eastern Europe and they can end up in Brazil or in Australia so it is not such a clean assessment that says if you sell in Europe it ends up only in Europe.

Sunil Jain Sir, one more question is related to, are we in talk with or are doing something for Benz in India for new product development?

K Ramaswami We have already developed crankshaft for Daimler and we are also supplying three parts for Daimler in India.

Sunil Jain And these supplies will start or already started?

K Ramaswami We have already started but some of these models are just under initial build and ramp up so we may not have significant sales but all the parts are developed.

Sunil Jain But over a period this can become a good business for….

K Ramaswami Yes, it will become depending on how Daimler grows in India.

Moderator We have a next question from Rakesh Surana which is again a follow-up question from Indus Capital. Please go ahead.

Rakesh Surana It is a question regarding the growth plan for the Indian operations and the 1st Quarter is almost flat compared to the last year's 1st Quarter and Q-o-Q it has degrowing by 10% so how do you see that growth in coming balance three quarters? Another question is, whether any major CAPEX is planned on Indian operations like moving to the other **out of the way** something like that?

K Ramaswami The 1st Quarter remained almost flat as compared to the significant growth that we have achieved during the last financial year, this is mainly due to depressed scenario at our customers end. At least two of our major customers have not shown positive growth, in fact some of them are having a negative growth and it is directly related to customers declining production.

Hemant Luthra I think as KR is being ultra careful in defending in customers name but yes there is a degrowth not because we have a problem or there is a degrowth because about the current problems at Maruti and there is some problem of Tata Motors.

K Ramaswami And the advantage we have got is that we can always build the customer base in the next 5-6 months or so. And we have already started activities to look at export business and also look at other customers in India, we don't expect significant growth in 2nd Quarter because this depressed scenario production will continue but between 3rd and 4th Quarter we should show growth.

Rakesh Surana My next question was any major CAPEX plan for the Indian operations?

K Ramaswami I was saying that we are increasing capacity of machined crankshaft as well as other forge parts which will give you better value addition so we have planned the CAPEX in terms of increasing machining capacities. We are also looking at augmenting capacity in forging sometime during the end of this financial year or early next financial year to take care of future growth in export business.

Rakesh Surana So machining capacity will go from which to what table?

K Ramaswami We are doing several parts in machining, one of the part we machine is the crankshaft and as I was saying we will go from current level of 20,000 to around 25,000 by the end of this year per month. 20,000 crankshafts per month to 25,000 crankshafts per month by end of this year.

Hemant Luthra I just have a little bit more discretion to put my foot in my mouth which I tend to do, so when you're talking about major CAPEX, the machining as I mentioned earlier on this call was about 6 crores, given the forecast that they are making about kind of growth that could come back if Maruti settles its problems and if the rainfall comes back again might mean another backup press of a larger capacity and that could come in next year and again I'm qualifying it by saying that given where we are with respect to debt-equity and so on, we do not see any reason to dilute the equity base or just saying that again and again because everybody who ask this question typically related to how much CAPEX, how much more dilutions, how much more shares and so on so that will not happen. We are just focused on improving ROCE and we are focused on trying to improve our return to our shareholders.

Rakesh Surana Just to check on that how the capacity is building with may be the internal accruals, etc., just to see that how you are consolidating versus the competitions in India?

Hemant Luthra We know that competition has bought one of the companies got Nepal, we know that competition has put in a 12,000 tons press, in Ramakrishna we know that competition is being thinking of putting a 12,000 tons press, I believe at

Amtek I am not sure. We have also looked at those possibilities and our own judgment and our own best judgment are best ROCE is not to duplicate what they are doing but our best is to use our German colleagues and their access to some of the equipment vendors and so on and get the best possible deals for ourselves and get the equipment at the best possible price but it does not have to be me-too strategy of what Nepal is doing or what Amtek is doing or what Ramakrishna is doing.

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Moderator We have the next question from the line of Jay Daniel from Corporate Database. Please go ahead.

Jay Daniel Last year your consolidated staff expense was around 423 crores, how do you see it panning out in the current year?

Hemant Luthra Consolidated expense for personal cost was 423 crores last year and you are saying how do you pan out now? First of all you're not going to predict how you can pan out but given the fact that you have to live with some cost increases because you are in the Pune Belt and you have to live with some cost increases because what is happening in Germany. The one of the rules that we try and follow inside the company is that how much of your contribution is being eaten up or consumed by fixed expenses that the ratio that we try and keep track of and we are assuming that even if there are some upward wage pressure in India and even if there are some upward wage pressures in Germany, by consolidated mix of rationalization of people and by a mix of improving margins and productivity. How much gets eaten up I am trying to look for more elegant phrase but how much of the contribution is eaten up by fixed expenses, we're trying to go and see it is maintained at the same level.

Jay Daniel So what was your contribution margin last year for the company as a whole and how does one get a feel of this?

Sanjay Joglaker Last year in FY12 the contribution percentage was 40% on a consolidated basis.

Jay Daniel How would this breakup between Europe and India?

Sanjay Joglaker India was around 19% and Europe was 44%.

Jay Daniel And what was your fixed cost below this, I mean, your staff cost as I said was 423 crores, what would be the other fixed cost?

Sanjay Joglaker Below personal cost there are fixed cost and after considering the fixed cost the EBITDA percentage comes out 10% for MFL India.

Jay Daniel And for Europe?

Sanjay Joglaker For Europe it was 8%.

Jay Daniel How is the contribution margin moved in the last couple of years, has it been going up or coming down?

Sanjay Joglaker I think, this kind this kind of a thing we need a separate call, this call is basically for the Q1 results and to understand the economy scenario, if you want to a detailed analysis then we will have separate call, we won't mind that.

Hemant Luthra We don't have a problem doing one-on-one because I think there are some other people lined up.

Jay Daniel What should I do to get one-on-one?

Hemant Luthra Dial my secretary 24915143 ask for Ajay Mantri or Sanjay Joglaker or Sunil Rane or Vikas Sinha and welcome to join us for a one-on-one because I think what we need to do is put a sheet in front of you and so on so that there is no ambiguity about what we are saying, there is no hiding of the numbers but we are happy to do this on a one-on-one with you.

Moderator At this time I would like to hand the conference over to Mr. Nirav Bhatt, thank you and over to you sir.

Nirav Bhatt Thank you operator and a big thank you to the management for this conference call and all the best for the future.

Moderator Thank you. On behalf of Anand Rathi Shares & Stock Brokers Ltd that concludes this conference call. Thank you for joining us, you may now disconnect your lines.