"Mahindra CIE Automotive Limited Q2 FY'2015 Earnings Conference Call"

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PARTICIPANTS

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Moderator: Ladies and gentlemen good day and welcome to the Mahindra CIE Automotive Limited Q2 FY15 Earnings Conference Call hosted by ICICI Securities Limited. We have with us today Mr. K Ramaswami – MD - Mahindra CIE Automotive Limited; Mr. Pedro - Executive Director - Mahindra CIE Automotive Limited; Mr. Sanjay Joglekar – EVP and CFO Systech Sector; Mr. Vikas Sinha – Head-Strategy - Systech Sector;; Mr. Rekhiv Supekar – Finance Controller - Systech Sector; ; and Mr. K. Jayaprakash – Chief Financial Officer. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Sanjay Joglekar. Thank you and over to you sir.

Sanjay Joglekar: Good afternoon everybody and all of you must have seen the results as well as the press release that we give every time giving standalone as well as consolidated results. I do not want to comment much on that due to time constraint and I would straightway go to the questions.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Raghu Nandan from Quant Capital. Please go ahead.

Raghu Nandan: Good afternoon sir thank you for the opportunity Wishing everyone a very happy Diwali. The performance has been good and EBITDA margin has come in strong at 8.3% even for the overseas subsidiaries it has come above 7%, I was hoping you could elaborate and throw some light on how you are seeing that margin improvement trajectory going on in the European operations and how you are seeing the progress to reach that ultimate goal of a double digit margin in the next two three years.

Sanjay Joglekar: As you rightly guessed I think the European margins are around a little over 7% I think EBITDA of about 7.2% in Q2 what we have been talking since beginning is that this current year we are planning to have EBITDA margin of about 7% and we are well on target with that. Going forward what we are expected is that we will maintain this EBITDA margin but in the longer term we have a plan to improve that as well.

Raghu Nandan: Sir you are actually taking in several steps in terms of product rationalization, in terms of lowering employee cost, in terms of other productivity improvement measures. If you can elaborate on how those programs are progressing and like how you see things panning out or you could give us some timelines on how you see the double digit margins coming in that would be very helpful sir.

Sanjay Joglekar: The programs have been panning out well and the major productivity improvement which were planned in the big press have been done but the normal productivity improvement keeping in mind CIEs let say the way of working and plan management will be a constant ongoing process, about the double digit margin what we said that this company had been achieving this margin a few years before and we have been saying that over a period of about 18 to 24 months what we used to say, now six months are already over so I would say about 18 months or so we expect to reach those double digit margin. As I always caution that this is assuming at least a steady state market in Europe.

Raghu Nandan: I was coming to that sir like how do you see the European CV market that is especially your target market of heavy trucks and what is the feeling of the management or belief there as to how they see the end market or product segment which they target?

Vikas Sinha: If you look, our main segment is obviously greater than 16 tonnes of trucks there if you see between for the first nine months that is from January 14 to September there has been an increase, but that has been primarily because of the January to March quarter. In the last two months there has been a decrease and what is expected that it would either remain the same or decrease slightly over the next few months that is what the commercial vehicle forecasts are saying. I would say the next quarter would be probably the similar to what we are seeing this quarter. If you look at our revenues except for the January to March revenues of MFE which were say maybe in the vicinity of 75 million Euros all the other quarters starting from April to June last year all the quarters has been hovering between 65 to 68 million Euros and this quarter has not been different as far as so I would assume that this tendency would continue given that the market is not increasing this trend will be maintained.

Raghu Nandan: Sure sir. Sir in terms of like the cross selling opportunities I just wanted to understand whether like any progress or anything new that has happened in that area which you want to report and secondly there was some thinking on like bringing some of the forging related manufacturing parts to India so has anything progressed on that?

Pedro: Yes, we continue analyzing the margins of products in all our plants and for those with a margin below the average we are analyzing which are the best alternatives. As a general strategy we tend to specialize our plans by product families so we can better adjust our production to whatever capabilities we have in each plant and this is probably what we are doing in the future. Because of that we expect that there will be some production transfer from Europe to India because right now India is probably the most competitive economy in the world for producing auto components so taking that into consideration we expect that in the medium and long-term there will be some production transfer to India, we do not think this is going to be the main driver of our growth in India, main driver of our growth in India continues to be a domestic demand growth but definitely there will be some transfer from Europe to India which will help us to optimize our efficiency and our profit margin. Anyway we have not yet finished, this is something ongoing at this moment we do not have any figure about how much will it be or when will it happen.

Sanjay Joglekar: So I think Raghu probably I remember this question comes from some background. We have been clarifying that we are certainly attempting it but all the growth projections or expectations that we talk about are not dependent on transferring the parts from Germany to India in a big way or in a way that can change your perception.

Raghu Nandan: Sure sir, thanks for that clarification.

Pedro: if I may add we have already explained right now our priority is to optimize the margins in Germany with whatever products and whatever volumes we have today so this is our focus, this is our priority and only after we have achieved this then we will know which are the final margins for which product and then it will be the moment to analyze which product should be transferred or not, but not before we finalize our productivity improvement.

Vikas Sinha: Raghu this is Vikas if I can just add on to whatever Sanjay and Pedro have been saying so essentially when we talked about that the margin is in the vicinity of upwards of 7% so the idea is to maintain and increase that margin without recourse to either product transfer and also to maintain that margin even if the volumes come down like in a moderate way if the volumes come down by say 50% then it is a different issue but some 5%, 10% decrease in volumes should not affect the margins as it is now, if you look at the German market as to follow up on the market question Germany as an economy is still expected to grow at 1.2% so of course there is some amount of jitteriness as far as Europe is concerned but it is really not a full blown crisis as we see it obviously Germany being an export oriented country and especially the commercial vehicle industry is very export oriented they have three main markets Brazil, China, and Russia out of which all three of them have their own problems; Brazil economy is slowing down, China has also slowed down a little bit and Russia is facing the Ukraine problem, so that is causing a little bit of export pessimism in Germany which is transferring onto production but what we are also hearing is that the OEM's are very conscious of any expected downturn in the market and they are managing the inventory quite well because if you remember the last crisis of 2008-2009 frankly half of that crisis was caused because of the inventory buildup. If I remember in 2009 our volumes came down by 60% in three months half of which was probably accounted for by the companies since they had built up the inventory they cut down on production so this time we are told there is more synchronization between the demand and the inventories, so therefore even if there is a drop, there probably will be a softer landing so to that extent we are not expecting a big problem and even if there is some 5%, 10% drop in the market I think the idea is to maintain those margins and similarly this maintenance of margins is not dependent on any outsourcing to India.

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

Hitesh Goel: Sir this is regarding the European operations again when you talk about Germany production basically your main clients are in Germany only or the production is also to other geographies in Europe so how should we see, it will totally linked to German economy or it goes to other European countries as well.

Pedro: We are exporting from Germany to almost most of the European countries of course main customer is Daimler in Germany but after that we are exporting to Volvo, to Scania, then we have MAN which is located also in Germany we have DAF in Holland and IVECO in Italy and Spain.

Hitesh Goel: But broadly 60%, 70% would be linked to Germany.

Sanjay Joglekar: Yes, like the German OEMs are largely present in Germany but they keep exporting to all over the world, the German OEMs are very export oriented.

Hitesh Goel: So when we analyze your numbers or when we analyze the CV the end-user industry we should actually look at the European Heavy CV market rather than only German market is that the right way to look at it?

Sanjay Joglekar: No, here is what I would suggest, if you look at German production German OEM production and European sales so the sales is linked to European sales but the production most of it is in Germany.

Hitesh Goel: So you should look at Germany production figures.

Sanjay Joglekar: Yes.

Hitesh Goel: You had also talked about employee reduction from September onwards in your European operation so in this quarter any employee retrenchments have taken place, have you let go certain employees in this quarter?

Pedro: Yes we do continue with our employment reduction plan I think I mentioned in the last call that we had already reduced 110 employees since October 2013 and we continue with the plan at this moment we cannot disclose any number but definitely we have more opportunities for additional productivity increases which will come together with effect on reductions.

Sanjay Joglekar: So, Pedro to put it I think a large part of reduction was done and secondly what we are planning to do is mainly out of temporary labor because permanent labor we did the reduction, we took the redundancy cost already.

Hitesh Goel: Sir on this operating leverage question so whenever the CV market recovers in Germany what is the kind of fixed cost to sales in your European operations at current levels?

Sanjay Joglekar: I think they are in the range of approximately 35% to 37% at the moment which are high and which is what we are planning to reduce further. We have said that our level of contribution margin now is fairly good with this productivity improvement and reduction in rejections but below contribution, I think still some more rationalization will be done in the cost.

Pedro: In fact in order to reduce our fixed cost or to cover fixed cost and the variable cost we continue analyzing for outsourcing opportunities, some low value added operations that currently are being executed internally. We will outsource them of course at the same cost or less but the main advantage is that instead of having a fixed cost it will become a variable cost.

Hitesh Goel: Finally on the standalone operations if I look at other expenses to sales it has been going up even in absolute terms in the last three quarters other expenses have gone up, despite topline coming down from 98 Crores in fourth quarter to 94 Crores, so what is happening on other expenses can you give some color?

K. Jayaprakash: When you say the fixed expenses have been going up continuously I do not know where you are looking at, but since September 2013 it has moved from Rs. 15.57 Crores it has come down to Rs. 15 Crores for this quarter. It has grown vis-à-vis the last quarter by about Rs. 50 lakhs, it has come out of two expenses, one is the repair cost to the building which had to be undertaken and this quarter being the AGM conducted quarter, there were some expenses related to that. They are more one time expenses and I would not think it will move from this level.

Hitesh Goel: Is there any scope to improve gross margins at the India level or it will come mostly from other expenses, control of other expenses to improve margins to 20%, which you have been saying you can potentially reach that? In Indian operations like you said right long term focus is to reach 18% to 20%, but how will that be reached. Are you happy with the gross margin level or you further reductions will come from control of expenses or it is linked to topline?

K. Jayaprakash: It will be largely linked hereafter to the topline.

Hitesh Goel: So other expenses to sales will come down with respect to topline growth?

Sanjay Joglekar: It is like this when we talk about the margin with constant productivity improvement there is always some scope because I believe the forging plants are doing fairly well at the moment. What we are missing is the full capacity utilization because of the market if we are at say 65% of achievable capacity and if we can achieve 35% more when you keep the contribution margin same this cost will increase only marginally not in the same proportion much lower than the proportion in revenue increase that is what will cause a good increase in EBITDA. Forging basically in India is more dependent on volumes and how the market grows, internally we have done our job and we are just ready now to take on if the market comes back.

Moderator: Thank you. The next question is from the line of Amelie Thevenet from Jupiter. Please go ahead.

Amelie Thevenet: Good afternoon thank you for taking my question. In relation to the currency what do you think is the impact of the Euro depreciation on your Indian results?

Sanjay Joglekar: Forging if you look at it from the perspective of imports and exports, it really does not affect us much of the Indian operation because the exports in forgings are still very little.

K. Jayaprakash: Our export is about 8% to the extent of that 8%, it does impact, but it is very little as compared to our total revenue.

Amelie Thevenet: Do you keep it open or do you hedge anything?

K. Jayaprakash: We keep it open.

Sanjay Joglekar: But JP I think there is a forex policy and depending on exports at time to time we take a call whether hedging is necessary or not and going forward as we will have this combined entity in the merged entity we will have the opportunity to see the exports in all companies like in our casting magnetic products we have a large exports, so we will be able to see a combined exposure and handle it probably more effectively.

Amelie Thevenet: My second question was on the timing on the merger, can you comment on likely timing?

Sanjay Joglekar: Well yes, this is something unfortunately in the last couple of quarters have been commenting on the likely timing which becomes unlikely from time to time, but there has been a very good progress in the sense that all procedures to be completed like the report of the auditors, the regional director, the official liquidators and so was completed well in time and our actual appeal was supposed to be heard on October 10, it was listed for hearing, but somehow I think the first some items took longer time and it did not come for hearing. On October 10, then the court goes on Diwali vacation for about 20 days and next available date is October 31. We are very hopeful now because I think our matter is listed and it should be among the first in the queue. If it is approved on October 31, then there is roughly a four week process that we have to complete before we make the merger officially effective. It becomes effective when we file it with the Registrar of Companies, but before that we have to go back again to SEBI, take SEBI's confirmation that all the observation raised by SEBI have been completed and everything has been completed, but still the process has to be followed and it does take two to three weeks time, so I would put it if it is approved on October 31, then merger will be effective on November 30.

Moderator: Thank you. The next question is from the line of Ronak Sarda from Axis Capital. Please go ahead.

Ronak Sarda: Sir my question is on the standalone operations if I just analyze your results quarter-on-quarter your gross margins have expended 100 basis points, but majority of the 300 basis points margin decline is largely would have fixed expenses. What kind of revenue level do you think fixed expenses start coming down as a percentage of sales?

K. Jayaprakash: Currently we are doing about the same level as we were doing last year, so we have not really grown this year and this quarter it has come down a bit. I would think something like we are doing about 30 Crores for a month, something like 35 Crores would be our fixed cost coming down, so another 10 to 15% topline growth is what I would think we are seeing our fixed cost coming as a percentage.

Ronak Sarda: The key reason for decline in sales would be on the tractor side because UVs have recorded a growth this year, or is there something else?

K. Jayaprakash: Our major customers are Mahindra and Tata Motors apart from Maruti, and Mahindras have not been really growing and even Tata so we expect them to start growing in the coming quarters, but as of now the sales to them are affected.

Sanjay Joglekar: JP it is not due to tractor, it is due to automotive.

Ronak Sarda: Second question is on the European side if you can just highlight how your product is doing after the Euro VI norms kicked in, the volumes and the pricing on the new products, is it favorable or the margin expansion is largely due to the new products or is it more from the cost efficiencies.

Pedro: I would say that in terms of margin there is no significant difference between Euro V and Euro VI products. I would say it is similar. It is true that Euro VI will have a slightly higher content per vehicle than Euro V, but it is also almost negligible I would say all of the improvement in the margin it is because of internal productivity.

Ronak Sarda: So do you expect that to kick in because of the newer products or as it mainly the cost has also gone up in that proportion that we do not expect it to come down, any color you can give over a longer term, maybe next 12 months or it would be the same scenario like this quarter?

Pedro: No, it is not all because of the introduction of the new products, as I said it is only mainly because of internal productivity improvements, but we think that we still have room for improvement, we think in the next 18 to 24 months we will implement additional improvements which will take our EBITDA margin to this level.

Ronak Sarda: Anything on the domestic side on the new order anything which you would like to highlight; are there any clients or orders which we have won?

Sanjay Joglekar: We may not be able to give names.

K. Ramaswami: On most of the new platforms that customers are introducing we have got ourself nominated. We have also started supply of crankshafts to Renault and that we expect to grow in future. If you look overall there is significant nomination of our company for supply of crankshafts and these platforms would probably start by end of the current financial year and really ramp up in the next financial year.

Ronak Sarda: Okay so this would be largely with the help of CIE as well obviously, CIE relationship as it purely?

K. Ramaswami: The CIE is helping us in terms of improving our operations in terms of automation and in terms of improving our maintenance and all that, but that would take quite sometime may be another 8 to 12 months because these are long drawn processes, you just cannot do that overnight, but the new orders that we have got are entirely because of the expertise that we already have in India on manufacture of crankshafts.

Ronak Sarda: So I think relationship would be additional?

K. Ramaswami: It would only help us get businesses for example the car seat belts, especially the European cars in India, we expect once we gear up to that level we can probably get into that kind of businesses as well in addition to whatever we have.

Ronak Sarda: Just small clarification for this Renault order; is this for their Chennai plant or is it also for some export side for European operations?

K. Ramaswami: At the moment it is for the Chennai plant. They are requesting other alternatives because once we establish we expect other opportunities to throw up as well.

Moderator: Thank you. The next question is from the line of Srinath Krishnan from Sundaram Mutual Fund. Please go ahead.

Srinath Krishnan: Good afternoon sir. Thanks for the opportunity. My question is to Mr. Pedro. With new Euro VI emission which came in early this year, OEMs have mentioned that they have not been able to pass on the cost due to the challenging environment they are operating in. In terms of our new components that we supply for the Euro VI vehicles have we been able to get the pricing increase cost, have we been able to pass on the cost to the customer and secondly sir over the several quarters you have spoken about the levers of cost reduction that we have on the tables and CIE took up, so from here from 2% to 2.5% you have moved to 7%, so from here what are the levers that we have on the table?

Pedro: The Euro VI parts were different parts from Euro V, so it is not exactly that we have to pass through sales prices the additional cost, they were different parts, so we have new requests for quotations and definitely in the new quotations and the new cost we consider already the additional cost and of course there was a one negotiation but, from the beginning the new configuration or the new cost of the products were taken into consideration. At the moment of the negotiation and before CIE assumed the management of the company because of some commercial pressure, some of the products were taken with lower than average margin and that has been corrected early this year, but those were just few products it is nothing, but what I can say is that right now all Euro VI products that we are producing for our customers in Europe have the appropriate margin.

Srinath Krishnan: What is the further leverage?

Sanjay Joglekar: I can say briefly that one is that already we talked the temporary labor will be reduced further, it will be in two ways, one by way of some small productivity improvement and see the outsourcing that we have been taking about and clarifying again that outsourcing will be within the region there and not somewhere else. Second lever will be the product rationalization as Pedro clarified already that we constantly keep on evaluating the margins and try and improve the margins in various ways. If however there are some products left with low margins then we can think about relooking them and replacing them with some other suitable products.

Srinath Krishnan: Since employee cost is about 25% to 30% sometime in FY'13 which and we were sharing the financial like the breakup of expenditure, 25% to 26% was the employee cost, so is that another option that you have or that is done in terms of reducing?

Sanjay Joglekar: With this people reduction it will reduce, you may not see so much of effect in the current year because A) it has happened gradual and B) the redundancy cost have also been taken, but going forward you will see the effect that there will be like it is around 30% which will come down.

Srinath Krishnan: Currently we are at around 63 million Euro for the European entity, so back in FY'13 if I look at the numbers since the FY'14 breakup of subsidiaries just not available like 60% was the raw material cost and I am assuming that another 10% is variable, so if we move that 68 to 70 with an Euro mark can we get to that 9% to 9.5% margins?

Sanjay Joglekar: Which are the numbers you are referring to?

Srinath Krishnan: This was from the subsidiary annual report of Mahindra which where you had provided the cost breakup back then. So I am just trying to understand similar to Hitesh question, so at 68 to 70 million Euros, so the margins that you would be having because the operating leverage could be higher is not it?

Sanjay Joglekar: Yes that is true say that if volumes go up, certainly with this advantage of this leverage and we do not expect the fixed cost to grow, will grow very, very marginally that is absolutely right.

Srinath Krishnan: In terms of variable cost totally at current juncture, how much would be the variable cost?

Sanjay Joglekar: Variable cost the way we have been talking about just now, we have been talking about the contribution margins in the range of about 45% to 46%, but we may in future reclassify like the direct labor at the moment considering the personal fixed cost if you shift it above then this contribution margins will be less, of course EBITDA will still remain the same, so it depends which way you look at it, but you can take I mean following the current practice in the range of around 45% and then we expect to maintain it with some productivity improvement and product rationalization, the margins can also go on.

Moderator: Thank you. The next question is a followup from the line of Raghu Nandan from Quant Capital. Please go ahead.

Raghu Nandan: Thank you sir again. I just wanted to understand that in the standalone business what would be the contribution of the top 3 customers?

Sanjay Joglekar: Sorry we cannot give you the customer wise contribution.

Raghu Nandan: In the line items employee cost seems to have gone up on a Q-o-Q basis, any specific reason sir on that?

K. Jayaprakash: Yes we had a wage settlement in the last year coming up

Raghu Nandan: So it is the general wage inflation that is all.

Moderator: Thank you. The next question is from the line of Priya Ranjan from Phillip Capital. Please go ahead.

Priya Ranjan: My question is regarding any sense on the business expansion particularly the European region where the content for vehicle through new products launches, etc., is there a possibility out there? In Europe, can you add additional products out there or we can have some more value added products out there? Is it a possibility in near term?

Sanjay Joglekar: This question needs to be seen in two parts, we are not planning any expansion in Europe, but at the same time in Europe also we have got about 20% capacity available and that available capacity can be used for any additional or new products and not only the existing product range and that is what we are constantly trying, in fact one of the norms is also that every company should try and get a certain percentage of their business every year about say 15% or so by way of new products, so that is the ongoing process.

Priya Ranjan: Just on the Indian business in the forging side can we move with the current facility on the CV side or we are still catering to the passenger vehicles?

K. Ramaswami: Currently on the Indian business we do not have major participation on the heavy vehicles as such, so we are already in the car segment as well as in the light commercial vehicle segment and SUV segment that is our business profile today, so we are hardly there in any heavy vehicles.

Priya Ranjan: Yes that is the case right now, but are you thinking on those lines I mean to expand the business to, you are serving Daimler in European operations, so you can have some kind of relationship here as well? Let me rephrase the question I think what is you are saying is that if you have capacity available, can the current capacity be used to supply for CV also.

K. Ramaswami: Yes this would require different capacities in terms of press tonnages and all that and we feel that there is adequate capacity in the Indian market for us to go for an investment because we think the prices will be significantly lower if you are putting in a new investment. I think there is enough capacity available in this segment and also given the kind of product that we made the volumes of these businesses in India continues to be low relative to Europe.

Priya Ranjan: Okay sir cross pollination at this point of time is very difficult?

K. Ramaswami: I think we have adequate capacity in Europe for example all our facilities have got adequate capacity in this range of products, so it might make sense because today like people who have setup facilities here from Germany are continuing to import some of this because the parts that we make are very, very critical in engine applications and the volumes also do not justify separate investment here.

Priya Ranjan: Just on the European side, I mean we are talking more about German operation, how is Stokes which is UK where we have actually taken a charge on diminishing value of the investment so how is that operation faring up?

Sanjay Joglekar: See that operation as we said is around 15 million Euro equivalent and it is fairly well they are self sustaining, but we do not have at the moment any growth plans there and you know the market there so there are no growth plans, but they are self sustaining.

Pedro: They are in a stable situation they are profitable, main customers are Ford and Jaguar Land Rover, we do not see any expansion or significant expansion, but going back to your previous question in India yes we are planning to expand our product portfolio, but we are seeing the passenger cars or SUV segment, as KR already explained we would need new equipment to increase our sales in commercial vehicles and for that reason is that we are planning to bring new products to India for passenger car or SUV which currently are being manufactured by CIE as part of their strategic product and here we are talking about for example connecting rods, common rail, tulip port or other components for constant velocity joints, wheel hubs etc., etc.

Priya Ranjan: Any timeline when we can do that?

Pedro: This is long term, because right now we are in the process of contacting the customer presenting to them the new technical capabilities that we have in India together with CIE. So we expect during 2015, we will be able to get orders as part of these commercial activities, so start of production will be in 2016 at the earliest.

Priya Ranjan: In JLR as I mean there is a significant ramp up in capacity, so suggest coming back to the Stokes question, the capacity ramp up is quite significant at JLR rate, so can we expect volume or the topline growth over there?

Pedro: The capacity is limited and the dependency we have in Stoke with Jaguar Land Rover is very small and also those are steel parts and the products from Jaguar Land Rover which are really selling much better are most aluminium for which we do not supply.

Priya Ranjan: Any thinking on the aluminium parts or the plastic parts in India, which is one of I mean the expertise or at the CIE level globally?

Pedro: Yes it remains as part of our long term plan, but at this moment we do not foresee any investment either organic or M&A in these technologies in the next two years, we want to first consolidate our operations in India, second reduce our debt level and then we will start our expansion in plastic, aluminium or other technologies.

Priya Ranjan: So we not use the composite facility for plastic or we have to completely set up a new?

Pedro: That is definitely one of the options, definitely equipment is completely different, application of the parts is similar. The difference is their volumes, whenever you have small volume you use composite, when you have higher volumes we use thermoplastics because that reduces the part cost.

Priya Ranjan: Just going back to capex what is the level of capex we are expecting to incur for FY’15 or FY’16?

Sanjay Joglekar: We have been saying this that there are no great expansion plans expected and it depends on the question is for which entity, the forging entity in India?

Priya Ranjan: I meant all inclusive?

Sanjay Joglekar: If you talk about all inclusive including India, Europe, CIE forging companies, our statement has been that the capex will be in the range of about 250 to 300 Crores a year for let us say when we talk about a turnover of about 5500 Crores and there will be some expansion capex included in this numbers I am saying in gears, stamping or some low cost automation and the remaining will be all maintenance capex.

Priya Ranjan: So how much will be the maintenance out of this 250 to 300?

Sanjay Joglekar: Maintenance is typically around 3% to 4% Pedro. Around 3% may be around 150 to 175 Crores and balance will be others 125 Crores.

Priya Ranjan: On the stamping operations what kind of productivity increase can happen?

Pedro: Our stamping operations in India most of them already are automated, they are not yet fully automated because we require to transform and adopt the tooling for an automated production so we have a transformation plan which will be completed by second semester of 2015, but in terms of capex I would say most of the capex is already done for automation.

Priya Ranjan: So there is still very good room of productivity improvement, I mean that will translate into margin?

Pedro: Definitely same as in other areas, but stamping is subject to productivity improvements and for which last week we had a team from CIE who identify more in detail which are the opportunities and which are the action plans and as part of that action plan we are planning to send team from MUSCO stamping to CIE stamping plants in Spain, a couple of months ago we already sent a team to Mexico for some specific study, so this is an ongoing activity, but definitely there are significant opportunities for productivity improvement in stamping.

Priya Ranjan: You have the dilisted Autometal, so any timeline or thinking to include those forging operations as well to this entity which will be stepping up in sometimes?

Sanjay Joglekar: Autometal is delisted that is fine and I think that is something we said that we will think about it over a period of may be two to three years. The reason that we did not want this Indian entity to be very highly leveraged. Indian entity actually very comfortable, but as you know we have high debt in Europe and so we want to be first comfortable on the financial norms and then we will integrated those companies.

Pedro: Anyway both technical and commercial synergies are already being exploited. We are all part of CIE Group. We are exchanging commercial and technical information on a weekly basis and for example yesterday we received support from Brazil Forging about a new quotation for connecting rods.

Moderator: Thank you. The next question is from the line of Ronak Sarda from Axis Capital. Please go ahead.

Ronak Sarda: On the translation gain other than on the revenue side, are there any major balance sheet items like debt or on the monetary assets and liabilities which get translated, or have a major impact on the financials?

Sanjay Joglekar: Not really as you know the Indian company in fact does not have any debt, whatever debt is there is the only sales tax defferrel loan which is interest free.

Ronak Sarda: Because the European operations I mean the revenue obviously get converted in the Indian rupee, but is there any other balance sheet items?

Sanjay Joglekar: Well if you are talking for the consolidation purpose the balance sheet will be always the consolidated at the prevailing exchange rate.

Ronak Sarda: What I wanted to understand is there any major impact because of the balance sheet item?

Sanjay Joglekar: No it does not there is no impact on operations or the results here.

Ronak Sarda: So it largely just on the revenue side?

Sanjay Joglekar: Revenue cost both are affected so if you see in terms of percentage margins, percentage margin you can still take as a same because it is affecting both sides.

Ronak Sarda: Just on because understanding the revenue growth how it would tone that.

Sanjay Joglekar: I think in the press release we have clarified that how much is due to the exchange difference.

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

Hitesh Goel: I just wanted to ask on the merger of the CIE forging plant that you have been talking about but it will happen only once you bring the debt in the Indian operations lower, the current operations lower because you know CIE makes 17% to 18% kind of ROC in your global operations in automotive operations, so how come the debt in those plants are really high, just wanted a sense on that, why the debt is quite high?

Sanjay Joglekar: There is some misunderstanding the Indian company debt is not high.

Hitesh Goel: I am talking about the total Mahindra CIE right now, I am talking why if other CIE forging plants do they have high debt and why is that the case because your automotive ROCEs are quite high in CIE?

Sanjay Joglekar: That is why I am saying Hitesh there is some misunderstanding. I talked about the Mahindra CIE if you take it at a consolidated level the debt is high and the leverage is high. The CIE forging company debt is not high, but if we want to take these companies into Mahindra CIE as a process of merger then there will be obviously some payments, some swap ratio something will have to be done for that we do not want to take any additional debt at the moment and that is how we did it in the first step in the merger, but on business side we do not want this to suffer all are working as one company as Pedro already clarified.

Pedro: I would like just to remind that as part of this merger process we are already integrating two forging companies in Spain and one forging company in Lithuania because we are competing with Mahindra CIE Forgings in Germany, so in order to avoid any conflict of interest we decided to integrate those forgings now at the moment of the merger. The remaining forgings from CIE which are not being integrated under Mahindra CIE at this moment are one forging company in Brazil, one forging company in China and one new Greenfield which is being built in Mexico.

Hitesh Goel: Also I wanted to just understand, if I we look at the inventory turnover ratio basically the Mahindra Forging business, consolidated business it is pretty high, it is around 132 days if I look at as compared on raw material days, so why it is so high, I have not seen such high inventory turnover and will it come down whatever steps taken on that because other ratios are pretty good, greater creditor and Debtor turnover that is fine, that is what we have understand on the inventory side what is happening? See if I look at the inventory turnover in terms of days inventory divided by the raw material cost in 365 days it is pretty high, so it is around 130 days or so in FY14 I am talking about Mahindra Forging business currently?

Sanjay Joglekar: One thing is that if you divide by raw material then it will come high for the inventory like finished goods and work in process which has a lot of value addition, we generally calculate this with reference to the cost of production, two kinds of inventories and accordingly I think this is around 50 days.

Hitesh Goel: It used to be even if I look at that way also, it used to be lower in FY'09, FY'10 and it has gone up, so any plans to reduce it what happened actually because of it which has gone up?

Sanjay Joglekar: In Europe if you see in particular generally speaking I have been seeing inventories around one and half months so that comes to about 45 days, 50 days, our target is to bring it down to around 35 days. Now this has got two implications that you are having shorter batches, but then your setup cost goes up vis-à-vis if you hold a inventory with longer the batches your cost of production goes down, so that is something under analysis now which is more beneficial, secondly I think also due to some kind of sales slowdown also in India the inventories have gone up to some extent now if the market picks up there will be automatic reduction in inventory in addition to what I am saying.

Hitesh Goel: Any color on the stamping, potential stamping operation, potential from new Zaheerabad plant what can it approve to your stamping operation?

Sanjay Joglekar: I think we will address it separately.

Moderator: Thank you. The next question is a followup from the line of Raghu Nandan from Quant Capital. Please go ahead.

Raghu Nandan: Thank you sir. Just a small query on the debt part, like if I remember previously the debt was around 1600 Crores, has it come down or is it broadly at same level for the combined entity?

Sanjay Joglekar: For the combined entity the debt level has come down, it was around 1700 Crores if I remember earlier and talking about the complete include the European operations, I would say it has come down by about not in a big way may be around 100 to 150 Crores.

Moderator: Thank you. As there are no further questions I would now like to hand the floor over to the management for closing comments.

Sanjay Joglekar: Well first of all I would like to wish a very Happy Diwali, Happy Prosperous New Year to all of you and many, many thanks for taking interest in the company asking these questions which educates us as well. We have from management always welcomed interaction outside the calls also please feel free to talk to us, meet us and I think most of you know Vikas Sinha is our head of investor relations and he is in constant touch his mail id, phone numbers are available. So please feel free to contact and we will be pleased to give any clarification that you need.

Moderator: Thank you on behalf of ICICI Securities Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.