"Mahindra CIE Automotive Q2 FY16 Results Conference Call"

October 21, 2015

MANAGEMENT: **MR. K. RAMASWAMI – MANAGING DIRECTOR, MAHINDRA CIE AUTOMOTIVE**
MR. PEDRO ECHEGARAY – EXECUTIVE DIRECTOR, MAHINDRA CIE AUTOMOTIVE
MR. SANJAY JOGLEKAR – CHIEF FINANCIAL OFFICER, MAHINDRA CIE AUTOMOTIVE
MR. VIKAS SINHA – VICE PRESIDENT STRATEGY, MAHINDRA CIE AUTOMOTIVE

MODERATOR: **MR. NISHANT VASS – EQUITY RESEARCH ANALYST, ICICI SECURITIES LTD.**

Moderator: Ladies and Gentlemen, Good Day and Welcome to the Mahindra CIE Automotive Q2 FY16 Results Conference Call hosted by ICICI Securities. 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 '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Nishant Vass – ICICI Securities. Thank you and over to you, sir.

Nishant Vass: Thank you Margret. Hi, Good Afternoon everyone, Thanks for joining us for the Mahindra CIE Automotive conference call. From the management side we are represented by Mr. K. Ramaswami – Managing Director, Mahindra CIE Automotive; Mr. Mr. Pedro Echegaray – Executive Director, Mahindra CIE Automotive; Mr. Sanjay Joglekar – Chief Financial Officer, Mahindra CIE Automotive and Mr. Vikas Sinha – Vice President Strategy, Mahindra CIE Automotive**.** I will hand over the floor to the management for the initial comments and then we can start the Q&A. Thank you.

Sanjay Joglekar: Sanjay here and good afternoon to all of you. All of you would have seen the results, I will just mention a couple of key points and then leave it open for questions-and-answers.

As you know in India overall business volumes not coming up is probably the key issue while at operational level the performance is good. For subsidiaries this time we have added specially as one extra column, have been good and it is in spite of the month of August which is a very lean month, as you know in Europe it is a holiday month. Rest of the things we can talk probably depending on your questions about the status of economy, the business, and the results. So Nishant, we can start with questions-and-answers.

Moderator: Thank you very much. We will now begin with the question-and-answer session. Our first question is from the line of Akshay Saxena from Credit Suisse. Please go ahead.

Akshay Saxena: Sir my first question is on your India business, on the sequential basis that is QoQ basis we have seen a 5% revenue decline, so is it largely attributable to the lower volumes of your key OEM clients or has been there some pass through of the lower commodities also so that impacts your pricing?

K. Ramaswami: It is mainly due to reduction in production volumes of our key customers.

Akshay Saxena: And you have also mentioned in the presentation that some diversification into new products and customers in India is progressing, so sir any particular development on these fronts during this quarter.

K. Ramaswami: We have finalized two action plans during the quarter, one is finalizing one or two new customers, I cannot reveal the name of the customers but the development product which is diversification of the product that means we are looking at diversification of customer as well as diversification of products, being focused on OEM and we do not have an aftermarket, we supply to OEMs. So it is going to take some time before we get into actual supplies, but we are making significant progress in quoting and finalizing deals for new products.

Akshay Saxena: And also we have stated in past that we would be looking for acquisition opportunities if they come up in Asia or India, so do we have any target on size and the kind of acquisition in any particular timeframe or it will be as and when it happens?

Vikas Sinha: Akshay, we have looked at a few candidates but at the same time I do not think we are in a position to say that we have progressed suitably ahead that we can talk about it. So at this stage it is all exploratory. But rest assured we are exploring the situation but we have not progressed to a stage where we can definitively say anything about it.

Sanjay Joglekar: Let's say Vikas any definite new things will be provided we are signing an agreement and which we are announcing to the stock exchange, correct, there cannot be anything definitive before that.

Moderator: Thank you. Our next question is from the line of Jinesh Gandhi from Motilal Oswal Securities. Please go ahead.

Jinesh Gandhi: Hi sir, a couple of questions. The subsidiary revenue growth or revenue growth of just 4.6% which you have reported on YoY, what that number would be on constant currency basis or in euro terms?

Sanjay Joglekar: For the sake of comparison we have converted the numbers at the same exchange rate, I think we have given a note also below the results.

Jinesh Gandhi: Right, so that is the common exchange rate of 70.98?

Sanjay Joglekar: Correct.

Jinesh Gandhi: And sir second question pertains specifically to CIE Forgings Europe that is Spain and Lithuania which is into passenger vehicle, any sense on whether their revenues will get impacted because of this Volkswagen issue globally, is Volkswagen a reasonably bigger customer for CIE Forgings Europe?

Pedro Echegaray: Well, Volkswagen at CIE group represents only 4% of our revenue. For Mahindra CIE it is lesser, that I do not exactly have the number but it will be definitely less than 4% and in any case we still do not have a quantification of what could be the revenue reduction if any because of this problem.

Jinesh Gandhi: So when you say 4% that is at the CIE parent level or for CIE Forgings Europe?

Pedro Echegaray: No, 4% is at CIE level, in the case of Mahindra CIE it is less than that.

Jinesh Gandhi: Even lower than that, okay. And this is including the other group companies of Volkswagen like Audi, SEAT and other players or just…?

Pedro Echegaray: Yes, that is Volkswagen Group including Audi, Volkswagen, and SEAT, yes all of them. So in the worse case they will not have any significant impact.

Vikas Sinha: As Pedro said we are around 4% both for CIE and probably a little less for MCIE, that is one aspect, so that is not a very large part of our revenue. Second, I think out of that revenue only the diesel part of Volkswagen is affected which is roughly 50% of their off-take, so really it is not 4% also the effective thing will be around 2%. And nevertheless, even if Volkswagen loses those revenues to some other customer in Europe they will most likely lose it to either Renault or Peugeot or Ford or GM and CIE Forge is strong in all these customers. So I think our risk of losing revenues because of Volkswagen issue we believe is very less, because even if Volkswagen loses those revenues it will go to a competitor with which we have strong relationship.

Jinesh Gandhi: And secondly coming to you have mentioned about, you gave update on new customers, new products, so while clearly you cannot share about the names and details but how has been your experience with respect to offering new products to existing customers specifically, I mean are customers asking for much lower pricing than what competition is offering or what is our USP from that perspective?

Vikas Sinha: I will start and then I will hand over to KR and Pedro because they are much more qualified on this. When you talk about new products for existing customers, our existing customers are TATA Motors and Mahindra's and as KR has pointed out in previous con-calls also, we are present on all the new models of both M&M and TATA Motors and in our last quarterly update we had talked about the kind of stamping products, the kind of casting products that we are supplying for Mahindra Jeeto which currently is doing quite decently in the market. As far as existing customers whatever we are doing I think we are well placed. So after these opening comments I leave it to Pedro first and then KR to talk about what they are doing with existing customers.

Pedro Echegaray: Well, we continue contacting our existing and potential new customers, offering the products in which CIE has a competitive advantage either technical or costing advantage in the rest of the region. But this is definitely a long-term strategy and for the current platforms or for current models they already have source. So we are going to consider for those new products in future models, so we are having some discussions, talking about models to be launched in 2018 or 2019 and we do not expect any impact on their P&L or in the revenues in the short-term, but definitely yes we are making progress.

Jinesh Gandhi: Actually my question was slightly different in the sense when you approach your customers for new products, how has been the response and what differentiates Mahindra CIE vis-à-vis the competing players?

Pedro Echegaray: Well, the response in general is good because they are key customers of CIE in Europe, Brazil or Mexico so they are very happy that CIE can offer to them the same products also offshore in India. The initial reaction is I would say positive or already positive, but converting that into new orders or new revenue that will take longer time. In India some European and American OEM's have not done well. They had planned for higher volumes and thus utilizations at their current suppliers is low. So even though the initial reaction is positive, translating that into additional revenue is going to take some time and it will depend on launching new vehicles and also in increasing the production and the demand.

Jinesh Gandhi: And sir last question pertains to Jeco, have you finally fully provided for closure of that plant or the negotiations are still pending?

Sanjay Joglekar: Your question was on the closure of the company in Germany, Jeco. The negotiations I would say are on the verge of completion, not really a very big surprise from what we have been talking and these things take usually a little more time than anticipated, that's the only thing.

Jinesh Gandhi: So provisioning will come in may be in coming quarter or so, the final provisioning?

Sanjay Joglekar: Yes, it would certainly because this is going to be the year end so we would certainly like to take care of if anything is definitively known.

Moderator: Thank you. Our next question is from the line of Priya Ranjan from Systematics Institutional Equities. Please go ahead.

Priya Ranjan: My question is first on Jeco, how much headcount reduction will it happen, because from the German press have seen the news article that probably you will be absorbing around 30, 40 guys to other plant. So whether the headcount reduction will be around 160 or it will be 140?

Vikas Sinha: See, it is like this that out of the 160 approximately around 30 to 40 will be absorbed, so that the net reduction will be about 120. But where this 30 to 40 are getting absorbed, I think if not all but to some extent even some temporary labor will go. That is to our advantage because instead of paying the permanent people you can get rid of temporary labor by shorter notice without paying.

Priya Ranjan: And has the forging plant or hammers, etc., has been shifted to the other Schoneweiss?

Vikas Sinha: Well, this will be within the plants in Germany.

Priya Ranjan: So has the equipment's, hammers, etc., has been shifted to other location or it is still waiting for the final negotiation to get over?

Sanjay Joglekar: That we will let you know the exact status, but the process has been started.

Priya Ranjan: And on this new product development side, I mean particularly on India I mean we have been talking since long and in which areas particularly if we can think of, I mean what kind of new products development can happen within the capacity and what can be leveraged on the CIE portfolio outside India into India?

Pedro Echegaray: Well, we are exploring opportunities in every commodity, in stamping for example we are exploring opportunities in brake boosters stamping parts, brake boosters where we have competitive technical advantage with plans in Mexico and in Europe. We are talking about also cross car beams, we are talking about rear axle suspension arms or suspension beams that are in the stamping area. Then in forgings among many others we are talking about wheel hubs and spindles, probably CIE Automotive is the largest manufacturer or machinists of wheel hubs in Europe and probably in the world. And in Brazil we also do machine and forge, internally wheel hubs and spindles and definitely this is a technology, this is a product that we want to bring to India and we are already discussing with customers about that. In other areas in machining in general we are considering using our gears plant in Pune to machine some other cast & forged products, for example electric power steering components or maybe even machining of Aluminum casting. We do not have Aluminum casting production in India but we would buy, meaning we would outsource the casting and we would machine internally. And in addition, but this was not organic this was the inorganic growth, we are looking at maybe an acquisition in the areas of probably plastics because this is a very strategic technology in the rest of the CIE regions. We do not have a thermoplastics injection in India and we are actively looking for an M&A transaction in this technology.

Priya Ranjan: Just taking that point further, I mean in plastics and aluminum or vice-versa whichever way, so we are open to any technology or any companies into that field which can complement our existing facilities, right?

Pedro Echegaray: Right, we are open and obviously our focus are those products and those technologies in which CIE has either a technical or cost competitiveness in other region. I know in which products we are more successful and those are the products which we are prioritizing to develop in India.

Priya Ranjan: And in terms of customer concentration, like in India we are very much concentrated to two customers with around probably around 60% of the business coming from these two guys. So do we have any kind of target, like in next five years or next three years I want to bring it down to probably 40%, probably 30% or 25% something like that?

Vikas Sinha: Ranjan come again, what exactly are you looking for?

Priya Ranjan: I mean like most of the vendors or most of the auto ancillary companies have a target, like OEM concentration is roughly around 30% or 40% or 60% in our case is right now. So we have a target of next three years or next five years where I want to reduce my dependence on these two customers or these three customers by so much percentage while next three years or five years, whatever timelines you can have in terms of internal targets.

K. Ramaswami: Obviously we have been making progress in the last eight, nine months in looking at targeting new customers but we would like to continue to remain focused on the existing customers who are very important and we need to continue to serve them. The advantage that we have got is we can still look at diversification of our portfolio because there is some gap between capacity available and utilization. In the case of forging and foundry we have made headway and we have got new customers but to state exact percentages to what would be the percentage that would depend on existing customers growth, but I can only report that we have had very positive response in adding number of customers to our existing portfolio in the last eight nine months. But please understand that all this has to be viewed, whether it is new products or new customers has to be viewed in the context of the kind of products that we make. The kind of products that we make need validation, need development and we are only in OEM. So if we have success story today of adding a customer to our kitty, it is going to take some time before the actual numbers start getting in because you will need to go through the technical validation process because we are basically OEM suppliers, so it needs to be viewed in that context.

Priya Ranjan: But typically lead time should be around 18 month if I am not wrong.

K. Ramaswami: It could be six months, depending on the customer it could be three months, for an existing product it could be, for example we are not discussing products that are going to be introduced by our customers, say cars to be introduced in 2017. So even if we bag an order we could get the development. So it could be six months, it could be 18 months, depends on the kind of product and the customers you are looking at, it is extremely difficult for me to state that this is the lead time. For example there are customers who are developing 2017 model and then now they started sourcing and they say you are the supplier or crank shafts for example. Yes, we become the supplier of crank shafts but by the time we start supplying the customers must start producing and that would probably take 18 months. But if you are looking under existing product and that you get in, your validation cycle could be two, three months or maybe four months.

Priya Ranjan: So typically just to get a sense, I mean how much diversification OEMs does in particular product like if you are supplying a crank shaft, if you are a number one supplier then x percentage of the supply will be from you guys and if you are a number two or number three supplier then x amount of or x percentage of the suppliers…

K. Ramaswami: It varies from OEM to OEM, some OEM say that you have reached the minimum volume, then they go from single source to dual source. But it varies, I do not think there is a single rule that is followed by all the OEMs.

Priya Ranjan: And in terms of new development of products, do we need to ramp up our existing R&D capabilities or what is your sense on that?

K. Ramaswami: From a design capacity I think we have adequate knowledge inside and we also have the support of CIE when we need them and I don’t think that is a problem. In case of actual basic machinery be it casting, forging or stamping we may have the basic machinery, we might have to add on only the secondary machine or value addition machines that would be required to take care from a capacity perspective and so it would depend on the kind of new products that we getting in.

Given our track record I think we are having encouraging signals I must say from the customers when we go and talk to them about new products.

Priya Ranjan: In the last quarter call probably we have discussed about two client additions, so you have in your initial remarks probably you have said around two new customers, whether that is a new customers in this quarter or we are talking about first half of the year?

K. Ramaswami: In the last quarter we had started supplies to one new customer, the other new customer we have submitted sample and SOP should start any time now.

Moderator: Thank you. Our next question is from the line of Aditya Sundaram from Edelweiss. Please go ahead.

Aditya Sundaram: I have three questions. First I would like to discuss the structural growth in Europe both on the passenger vehicle and the commercial vehicles side, so if you could take me through that then maybe the passenger vehicle growth that we see structurally in India that would be my first question.

Vikas Sinha: When you say structural growth what exactly do you mean?

Aditya Sundaram: Basically industry growth, how do we see that panning out for the year?

Vikas Sinha: In India?

Aditya Sundaram: In India and abroad also for the commercial vehicle and the passenger vehicles in Europe.

Vikas Sinha: If you look at whatever we have put out as far as the India numbers are concerned we are really looking at what is happening at Mahindra & Mahindra and TATA Motors which account for a large part of our business, more than half of our business and then again in certain specific segments. So if you look at it, right now they are still in the negative zone, new launches have happened and we therefore expect a better uptick going forward, it will be better than whatever they have performed in Q2, how much better, we have to see. Because right now in Q2 in our relevant segments both these companies have de-grown by about 7.5%, so certainly we expect it to be better performance than that, but how much better we will have to see, that is as far as India is concerned. When it comes to Europe, in Europe we have noticed a certain phenomenon and most of us track the registration data in Europe and registration data is showing a very strong growth, but unfortunately production data is not readily available, the only place where I could find it was in Germany where the German auto industry association VDA publishes this data on a monthly basis. In Germany the production data is much lower than the registration data and that is all due to how the exports are behaving. Production growth in Germany was lower than growth in registration and in the range of about 3% to 4%, which is decent enough and we have been growing around that growth rate also.

Aditya Sundaram: So this is both for the passenger vehicle and the commercial vehicle?

Vikas Sinha: Yes.

Aditya Sundaram: My second question is on our margins on the standalone level for Q2 FY16, if I see basically our revenue has declined by 7% but margins have just gone down say about by 40 bps on a year-on-year basis. The large benefit here on the EBITDA would be the raw material prices or would there be something else, a mix to that maybe that is allowing us to be stable despite our lower growth on the sales side?

Pedro Echegaray: Well, raw material is pass through to our sales prices, so there will be no significant impact on our margins because any raw material for reduction will be pass through to sales prices or the margin would be the same.

Aditya Sundaram: But on the standalone side we still see the margins being pretty resilient, so I just wanted to know what the factor there that is playing out is?

Sanjay Joglekar: See, the question if I understand correctly is that the revenue is down 7% but EBITDA margin is down only 0.4%, correct, that is what you are saying?

Aditya Sundaram: That's the question, yes sir.

Sanjay Joglekar: Which is actually a good performance and this is broadly speaking as you know that whenever we keep on seeing the industry trend and we try and control our cost accordingly. Secondly there is to some extent contract labor which is variable, we also monitor that very regularly with the fall in margins, and we keep on reducing the contract labor.

Aditya Sundaram: I just have one last question, what would be our CAPEX target for this year and the next year and what is our current utilization level, maybe if you could give me the overseas and the India number separately for utilization as well as our CAPEX split between these two.

Sanjay Joglekar: Broadly we have been saying there are varying levels of capacities available, but on an average in India it could vary let's say between 20% to 30% and in Europe it varies between different plants in Italy, in Germany, in Spain, Lithuania but there it is between about 10%, 15% to about 35%. The essence of my saying is that if we have let's say in India, even if we get year-on-year growth of 8% to 10% which all of us are waiting for we really do not need any significant capital expenditure for next couple of years, it can be some low cost automation, some machining which is directly linked to the orders, which is something we can do. Similarly in Europe also no significant capital expenditure needed, so if you look at it on an average a capital expenditure comes roughly to maintenance CAPEX and such low cost automation around 4% of the revenue or on a consolidated level in the range of around 2,500 million that is 250 crores to 300 crores a year at a consolidated level.

Aditya Sundaram: And could you just tell me the utilization currently in India and in Europe, 20% to 30% was that number, the headroom you were available you were talking about?

Sanjay Joglekar: Yes, exactly. So we can grow that much without significant capital expenditure.

Aditya Sundaram: And you said we have headroom over 35% in Europe?

Sanjay Joglekar: Varying in the varying plants.

Aditya Sundaram: Okay, how much will that be then?

Sanjay Joglekar: Around 20%.

Moderator: Thank you. Our next question is from the line of Mahesh Bendre from Way to Wealth Securities. Please go ahead.

Mahesh Bendre: I have question on operating margins, on international subsidiaries last two quarters we have seen our margins have declined on QonQ basis, I mean in Q4 FY15 we had EBITDA margin of 13.1% which declined to 11.7% in Q1 FY16 and this quarter it is 11.1%, so we have lost around 200 bps in last two quarters, so what could be the reason for this?

Sanjay Joglekar: I think Q4 if I remember we explained at that time that it was a bit of exceptional quarter, volumes were good, we have sounded off that this kind of margins quarter-on-quarter will depend on volumes to some extent.

Mahesh Bendre: So going forward I mean what do you think, there is a scope for improvement or they will stabilize where it is now, 11.1% or nearer?

Sanjay Joglekar: There is definitely a scope for improvement as we have been saying, if you are talking about subsidiaries, we have in detail narrated our plans for improvements in margins in Germany and Italy, whereas in Spain and Ruthenia we are at a very steady state good margin levels.

Vikas Sinha: Mahesh, to your question why Q4 was 13, yes Q4 was 13 but if you remember in Q4 we had an exceptional volume growth and the subsidiaries of about 23%, so that was timing that exceptional margin and we had cautioned that this volume growth is not sustainable and we saw that in Q1 the volume growth was muted and the reason why was some inventory correction that was going on because if we look at Q4+Q1+Q2 you will see that it is more in line with the market. So Q4 was an exceptional quarter because of margins and between Q1 and Q2 I would urge you to be patient simply because Q2 includes the month of August where in Europe where Metalcastello and CIE Forge almost half the month is not working, so that is the reason why you are seeing the difference between Q1 and Q2. To your next question as to whether this is the stable margin, no we do not want this to be the stable margin, we are endeavoring to improve this, and how fast we can do that is the challenge for us.

Mahesh Bendre: And just last one question, I mean last two quarters the European car market including Germany is doing okay, I mean they are growing in maybe anywhere 7% to 10%, but our growth has been matching with those numbers, I mean what could be the possible reason for that?

Vikas Sinha: Mahesh, if you look at the presentation that we have put out and that is the question that I have tried to address, so if you look at our presentation on page six and page seven of our presentation, on page six we present the registration data which is the most popular data that is available because it is readily available and there you clearly see that in Q2 FY16 the passenger vehicles grew by 10.1% which is what you are talking about. But if you look at the next slide and this is where we have done a little bit more investigation, if you look at the German car industry where data for registrations, exports, productions, imports everything is available, now this is only for Germany, the registration data is for the 27 countries of the EU while the page seven is only around Germany. But what you can notice in the German data is that the registrations are much higher than the production growth and that is because exports behave differently, because production includes both registration and exports. You have to remember that Europe is an exporting region as far as cars go. So if you look at only the domestic market and not look at the exports it does not matter because exports can be very higher to the extent of 60% in the case of Germany. So clearly you see that in Q2 FY16 even though the production was same as registration but in Q1 it was much lower. So those conundrum is there, the production data is a little lesser than the registration data so therefore what we believe is we have grown with the market growth because our growth is more correlated with production data rather than registration data. So whenever you look at registration data, I would urge you also to have a look at production data as much as possible, you will get a better idea of our revenue growth.

Mahesh Bendre: No, I am just asking because last quarter also we had reported a decline in our subsidiary sales where sales had declined 7% to 8%, so I am just wondering why it is not matching with overall sales in the Europe and…..

Vikas Sinha: I think in the last con-call we had explained, in Q4 we grew by 23% which was much higher than what the market grew by, so in Q1 we grew lesser. So what I would urge you, you look at our Q4, Q1 plus Q2 numbers, the whole YTD calendar year numbers and if you compare that on an YTD calendar year basis, our subsidiaries have shown about 6% growth rate even if you look at on euro terms. So on a YTD basis between January to September our subsidiaries have shown a growth rate of 6% which is I would say much in line with whatever the production would be showing, the registration are a little higher but as I have been telling you the registration numbers are a little higher than production. So a 6% growth rate on an YTD basis is probably in line with the market so that is the sales that we have, unfortunately it has been skewed across quarters, Q4 was exceptionally good, Q1 was bad and Q2 is okay.

Mahesh Bendre: And sir my last question is, in Annual General Meeting of the company management highlighted that India is possibly going to become an important destination for manufacturing of forge components for trucks, so if that is the case than what is the role of Mahindra CIE because I do not think we export anything tangibly.

Vikas Sinha: No, Mahesh when you say that we are highlighting that it will become a destination for forge components for trucks, that anyway Bharat Forge is exporting a lot of forge components for the truck market so it is already the case. But as you have rightly pointed out, we do not have the equipment to service the truck market in India, so whatever be the case Bharat Forge is servicing the truck market. We are not going to be in a position to service the truck market in the forging space as of now with our current equipment that is very clear.

Mahesh Bendre: May not be now but maybe over next two three years are there any plans on such initiatives?

Vikas Sinha: No, that would require substantial investment and we have been saying so that at this stage we do not plan to make any assessments.

Sanjay Joglekar: So it is like these trucks or whatever, as we have said always that our first aim is financial consolidation, we have explained in detail what are our financial targets, one of the requirements in India is also that the market should come up without which really those targets are not achievable. We have the capacity as I mentioned just now. Now we are constantly watching, I mean we are not averse to growth, that growth could come by way of investment in -house, it can come by way of acquisition as we mentioned earlier on the call, we have to really watch the time and then go accordingly. So we are not averse to growth, our both promoters CIE and Mahindra have enough financial muscle and the assurance that given the good business case, investment will not be a constraint.

Mahesh Bendre: And sir my last question is, what could be the net debt on the consolidated basis?

Sanjay Joglekar: Net debt now on a consolidated basis I think it is in the range of around 1,400 crores.

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

Hitesh Goel: Sir basically you have been highlighting that the subsidiary revenue growth you should look at from a three quarter perspective, so what is the outlook for second half of this year, we should see the same 5% to 6% growth, can you give some guidance on that?

Vikas Sinha: Hitesh, we will not give any guidance but what we are suggesting is that we will be in line with the market but more in terms of production. As I was at pains to point out when Mahesh was asking the question, unfortunately for us the more accessible data is the registration data which does not take into account a large section of production which goes into exports. So what we believe is that we are more or less in line with what the market is growing and maybe we will continue the practice of presenting the production data at least from Germany for all to see as to how we are faring. So our belief is that on a steady state basis, on a YTD basis we have done 6%, we believe that is in line with the market and whatever the market grows by I think we will grow in line with that, I think that is what we think we will do.

Hitesh Goel: And you had also highlighted in the previous calls that the new products will start contributing from FY17 onwards, for the new products that you have won with customers, is that still holding on, I meant the new product momentum will start from FY17, right?

Vikas Sinha: No, in terms of new products for existing customers when we are talking about our Zahirabad plant for stampings, so that is already happening because we have started to supply for the new model of Mahindra which is Jeeto. But for other new products, yes, it takes a bit of anywhere between 12 to 18 months after we have developed that product when the revenue comes through. So it depends on what part of the cycle we are in. So in terms of some of the new models like Mahindra Jeeto, of course the revenues are on the books already but for the other products that

I think Pedro highlighted in response to the question earlier in terms of brake parts or EPS and all that, that will take even longer than 17 in our view.

Sanjay Joglekar: I mean you have to say considering the current market situation, and Hitesh you are right but I think for last 12 months everyone is expecting Indian market to come up, now we have to really see when customers also launch their own models. In the meanwhile we are of course going ahead very aggressively in the process of plant approvals.

Hitesh Goel: And my final question, you had also won large orders on crank shafts for Renault on the diesel engine side, now my discussion is that Bharat Forge also said that they have won a 100% order on the Renault Kwid, so that is only on petrol side. So Bharat Forge is focusing more on the petrol side on Renault and you are on diesel side?

K. Ramaswami: I cannot really comment about what Bharat Forge is doing but we are supplying the Renault crank shafts.

Hitesh Goel: That is on the diesel engine or both petrol and diesel?

K. Ramaswami: It is for the petrol engine, I mean it is basically engine that they are using like Kwid is a very-very different class of vehicle as compared to the K9 engine which Renault produces.

Hitesh Goel: So basically for Kwid Bharat Forge is there, so for Kwid you are not supplying right, so you are supplying mostly on the…

K. Ramaswami: I cannot comment on what Bharat Forge is doing.

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

Sreenath Krishnan: In your Annual Report Schoneweiss revenue for CY14 had improved to about 9% from 3.4%, but for GS and Falkenorth margins were still at around 5%, 5.5%. So wanted to understand can this move towards the Schoneweiss level and what would be current level of Schoneweiss revenue in terms of margins? And secondly, post this Jeco shutdown so would our steady state run rate in margins move to about 12.5%, 13%, just on the margins sir. And also you mentioned that fourth quarter was an aberration last year, but if I look at absolute euro revenue that you had in the subs it was about 125 million euros in the last quarter. I am just looking at the margins, so we are still around those levels, now this quarter I think would be around 123 and last quarter was 130. So with current euro levels what can be post the shutdown of Jeco would we move towards the steady state 12.5%, 13% of margins?

Vikas Sinha: Sreenath you have asked quite a few intelligent questions. So first we will start that Schoneweiss has improved margins, GSA and Falkenorth are lagging behind on margins. Will they move to the same levels…?

Sanjay Joglekar: I mean let's put it like this, basically as you know that Schoneweiss was a low-hanging fruit but also a serious case because of the 12,000 ton press which is giving around 55 million of revenue out of EUR250 million of revenue in MFE and that is how it was focused there first, the margins have come up. It is not that in other plants the focus is not there but now that the Schoneweiss turnaround is already done, the focus has shifted to other companies. And as we have said earlier that our first step target is to reach overall margins in MFE Germany to what it was achieving earlier, that is to the extent of about 11% and that target is on, we are on track.

Sreenath Krishnan: And in terms of post closure of this Jeco plant, what would be when the full benefits are reached what would be the steady state margins we would be at?

Sanjay Joglekar: See when we talk about improvement in margins we had explained quite a few steps, I mean you know it already so I do not want to repeat. This Jeco closure is also one of the steps, I have not identified this step by step but we had given you three to four steps which will…

Sreenath Krishnan: Sure sir, but the benefits of Jeco are not seeing yet or perhaps it already…

Sanjay Joglekar: The benefit of Jeco that process is still on, we have also said that we still have to take the balance hit of the redundancy cost that would come. After the closure and after the shifting if you see we are already in October, so full year effect we were expecting in any case in the next calendar year, I cannot quantify at the moment.

Moderator: Thank you. Our next question is from the line of Gagan Thareja from Comgest India. Please go ahead.

Gagan Thareja: To reconcile the dilemma of your subsidiary's sales growing less than the registration number you say that we should look at the production data, the production data is available only for the passenger vehicle and not for heavy commercial vehicles where registration data in Europe is fairly high. And for you in your subsidiaries bulk of the revenues would be coming, I mean a good chunk would be coming from the heavy commercial stream. So if you could reconcile that as well?

Vikas Sinha: Yes, I understand your question, yes a bulk of our data does come from the heavy commercial stream but unfortunately we do not have production data. Even for Germany the production data is available only for light vehicles that is the LCVs as well as the cars. So it used to be available earlier but now it is no longer available so it is difficult, I really cannot give you an answer like for passenger vehicles in Germany we can give you an answer what is the difference between registration and production data, all that we are saying is that the registration data only gives directional trends as to where the market is behaving, if the registration data is increasing we can be rest assured that the market is buoyant but it will be difficult to compare and correlate the exact revenue numbers with the registration data, that is all we can conclude. The heavy commercial registration data is doing double-digit percentage that is very evident. But what exactly is the production data we do not know, but given the fact that the production data in Germany is lower for passenger cars than registration data, we can probably use the same analogy for HCVs and in HCVs the export is even higher than in passenger vehicles out of Germany. So the difference between production data and registration could be higher but this is all surmise, since we do not have data all that we can say it is different.

Sanjay Joglekar: But then Vikas, I may be asking also but will give answer also, when the data is not available clearly this quarter-on-quarter sometime shifts which also occur due to lag in production and sales, is it really that that important because what one has to see over a period of time, if the concern is that because one quarter… because concern is that in one quarter if let's say the sales are less it does not mean that we have lost business share with the customer.

Gagan Thareja: No, no sir it is not for one quarter, I mean if you study the last two or three quarters I mean even the last quarter the production data or the registration data in Europe versus your sales growth similar sort of gap was there and it was explained by you saying that in the previous quarter you would build in heavy inventory and subsequently gets ironed out in the next quarter. But now this is the third quarter running, so it is not the question of one quarter, even if we were to agglomerate the data over nine months and look at the gap between registration data in heavy commercial vehicles versus your growth in heavy commercial vehicles, I would presume it would still be fairly significant and therefore I was trying to understand…

Vikas Sinha: I will answer your question, Gagan registration data is only domestic sales data and production is equal to domestic sales plus exports minus imports and imports are not as significant as exports and exports are very significant, so it could be to the extent of 50%, 60%, it is not like India where the export is only 10% so you can look at the domestic market. So registration data gives you directionally where the market is growing, so that is number one, so there is a difference between registration data and production data, that is one simple point that we have to look at. Number two, on the question of aggregation, if you look at aggregation and that is in our previous question also I had explained, on an aggregate basis from January to September our subsidiaries have grown by 6%, that 6% is certainly lower than what the registration data is showing but then 6% is what we believe in trend in line with the market because the registration data would be showing higher growth. the way our subsidiary revenues have grown is 23% in Q4, (-6)% in Q1 and 5% in Q2 and then the aggregate is around 6%. So to your second question that on an aggregate basis how we have done, we have done about a 6% growth which we believe is fairly decent and in line with the market. So there are two parts to the questions that you are asking, that registration data is much higher than whatever our growth rate is, we accept that, that we believe is because of the difference between production and registration data. The second question you said that, there is a lot of difference between the three quarters, again we accept the point that you are saying but if you look at it on an aggregate basis it comes down to around 6% which we believe is in line with the market that is why we are urging you to aggregate the data and also look at the production data, those are the two questions that you have been asking.

Gagan Thareja: At ballpark perspective how much of your revenue contribution is dependent on HCVs right now?

Vikas Sinha: Now if you look at in Europe we have EUR270 million odd at MFE, we have about EUR190 million odd at CIE Forging and about EUR50 million odd at Metalcastello. MFE is largely dependent on trucks, about 85% of the revenues are dependent on trucks, CIE Forgings about 90% is dependent on cars and Metalcastello is dependent on off-road vehicles which is essentially farm equipment and construction equipments like Caterpillar and CNH New Holland. So these are three different segments, so one is trucks, the other is cars and the other is off-road, out of which the truck market has shown a lot of cyclicity in the growth, the car market has been steady and the off-road market has actually shown negative growth, Metalcastello is actually in a negative zone as far as the market is concerned. So these are three different segments and overall if you look at it across these three segments we have grown by 6% on an YTD basis in this calendar year.

Sanjay Joglekar: I think the question was dependence on the trucks, and if we take the statistics that you said, out of the total revenue of about EUR500 million in Europe roughly 200 to 220 million is trucks.

Vikas Sinha: Yes, around 40% to 45% of our European revenues would be trucks.

Gagan Thareja: Coming on to Metalcastello, I presume there was a plan to do something about revamping sales there, maybe adding new customers or new products. I think we have some indication in the presentation that defense and aerospace would be looked at as sectors where Metalcastello can add new revenue streams from. So any developments worth noting or worth filing here?

Pedro Echegaray: You are right, we are trying to develop a product in Metalcastello for new customers and also new segments but as per CIE strategy always we think the auto industry. So right now we are very much dependent as Vikas said on off-road vehicles so we are trying to develop some products either for passenger cars or for trucks where Metalcastello has almost no presence or no participation at all. And another segment it is also defense, we already have some orders for some defense vehicles which we already had in the past, in the past the segment was relatively important and because of the crises and because of the budget on expenditure reduction from the government, this business almost disappeared and now slowly is coming back, we already have some orders right now, not too much significant revenue but it is growing and we expect it will grow in the future. But aerospace, no we do not have any plans to diversify into aerospace or other non-auto segments.

Gagan Thareja: The final question on margins, again taking back from your explanation that 1Q volumes grew by 20% for you and therefore the margins sort of shot up, but would it not be logical to sort of surmise that from 4Q of last year to 2Q of this year your volumes would have stabilized or grown and therefore your assets would have sweated more and consequently your margins should at least have remained where they were rather than falling?

Vikas Sinha: No, you are talking about our standalone or subsidiaries?

Gagan Thareja: No, I am talking about the subsidiaries, gentlemen previously asked you that the subsidiary margins in Q4 of last year hit north of 13% and from there they are down to…

Vikas Sinha: Yes, from 13.1% in Q4 it was 11.7% odd in Q1 and about 11.1%. Yes, so as far as Q4 is concerned we did say that there was growth of about 23%, though in euro terms it was muted. In between Q1 and Q2 you have to give us a little bit of leeway because of the August month, because in August about 15 days there is no production that is the reason why Q2 typically will be sequentially lower than Q1 in Europe, but if you look at Q2 on a year-on-year basis we have still improved the margins.

Gagan Thareja: No, but from Q4 to Q1 your production volumes would have grown, wouldn't they have?

Vikas Sinha: I think previously Shreenath asked the question, have we stabilized at these margins, the answer is no. We are targeting improving these margins even in the subsidiaries, so this is not what we are targeting. You know the CIE, the four major financial parameters that they look at where the EBIT margin is around 9% to 10%, so that is our ultimate goal that we are targeting and that should be both for subsidiaries as well for India business. But that EBIT of 9% to 10% is what we are looking at a time frame of about CY17, at the end of CY17.

Gagan Thareja: In just statistic if you could provide, I mean not an accurate number but an indicative one, from Q4 of last year to Q1 of this year how much would the volume have changed for your subsidiaries, production volume?

Sanjay Joglekar: I think we will have to see and talk later to get into this data right now.Or we go to the next question, in the meanwhile Vikas will try to find out and come back if possible.

Gagan Thareja: Which is the margins, can it be completely attributed to a volume shift, that's it, is it or there could be…?

Sanjay Joglekar: Why don't you wait, let him look at the numbers, we do not want to give an answer in the air.

Moderator: Thank you. Our next question is from the line of Chintan Seth from SKS Capital and Research. Please go ahead.

Chintan Seth: I just wanted to get an update, you did mention about you are exploring few acquisition candidates, what will be the ticket size of your acquisition if you can…?

Vikas SInha: At this stage there is no point in talking about this, ticket size is an important consideration but more importantly we look at the products and customers of the target company, which is a more important criteria for us, let us not talk about ticket sizes at this stage.

Chintan Seth: But quantitatively how much bandwidth you will be flexible enough to spend for the acquisition?

Sanjay Joglekar: Let me step in here, I am sorry, see this kind of statements which are futuristic and something uncertain we just cannot make.

Chintan Seth: Sir, further revising on the registration and production, we had a long discussion earlier also, so I just wanted to understand the reason behind the lag, is it a lag effect between the registration and production figures not reflecting the registrations. There is a lag in it or what is your understanding from the figures?

Vikas Sinha: No, of course between registration and production there is always a lag, what is skewing the data in Europe is not just this lag between production and registration but is also what happens on the export side, registration is just domestic sales and exports are very substantial part. For example in the German car industry exports is actually 60% of their production, so that makes all the difference. So for example in India exports is just 10%, 12%, so there you can talk about lag between sales and production because more or less it is matching, but where the number is about 60% that skews it. But yes, registration data is still very valuable because it gives you the market sentiment, so that is where we were talking about this thing.

Chintan Seth: So again coming on the utilization, you did mention the headroom for both in India and overseas, given the fact that we have still spare capacity and given the outlook you think that next one or two years that headroom will get absorbed and you do not need to add capacities aggressively?

Sanjay Joglekar: We do not need to add capacities is true, I think if you are talking particularly about India, well I mean all depends on the market growth.

Chintan Seth: So your current guesstimate about the demand outlook gives you fair rate of assessment that the given headroom will take at least a year or two, two years time to get absorbed fully before you have to plan for the new capacity to get extended in India?

Sanjay Joglekar: Yes, that is right.

Chintan Seth: Is that a better way to understand that?

Sanjay Joglekar: Yes, certainly true, yes.

Chintan Seth: And sir, just was surprised that you were not in an aftermarket segment, so what is the reason and any plan to venture into that? I was surprised that you are not into the aftermarket opportunities.

Vikas Sinha: We are not into the aftermarket because we cannot be in the aftermarket, we supply complex parts. To be in the aftermarket for crank shaft the product has to fail in the market.The kind of products that we supply they do not fail.

Chintan Seth: So it is tactically not possible for you to being in the aftermarket?

Vikas Sinha: Yes, that is right. So if you are looking at forging we supply crank shafts, crank shafts do not fail, if we are in castings we supply turbocharger housing and then differential housing, they are not supposed to fail, in stampings we supply panels, they are not supposed to fail, in gear we supply transmission gears.

Sanjay Joglekar: Like if you talk about ball bearings for example which are supplied, which are definitely high tech product but they do fail and there is a huge aftermarket over there. But in our kind of products, there is no such demand.

Chintan Seth: And any plans for the acquisition you will be looking for the products which are into aftermarket , you will stick to the OEM exposure, OEM business you are currently focusing into in the acquisition part?

Vikas Sinha: As a rule, what CIE also does we prefer to be in complicated parts where we can provide value engineering services to our OEM customers.

Chintan Seth: But sir given the margin profile, even the complicated or technical parts you supply it does not fully reflect in the margin profile of the business, so I was wondering whether you would be looking forward for any products which have some exposure in after markets, to skew a little bit away from the OEM market.

Vikas Sinha: We would want to do complicated parts so that we can partner with our OEMs, so it is unlikely, even though we cannot rule it out that we will be in the replacement market, your question whether the margins are fully reflected, yes that is a fair question but again I would urge you to look at the returns rather than just the margins because even when we do panels in stampings the margins maybe lower but the asset turnover is higher so it depends on the returns rather than just on the margins. So we would prefer to do complicated parts and not venture into stuff which may require replacement market and so on.

Chintan Seth: Thanks for answering my questions. Thanks and all the best.

Vikas Sinha: Now I will go back to Gagan, Gagan had asked a question before we just close,. Gagan your question was what was Q4 versus Q1 revenues, in euro terms the Q4F15 revenues in euro terms were EUR124 million compared to Q4F14 revenues of Euro100million, the Q1F16 revenues were EUR131 million approximately and Q2F16 revenues for the subsidiaries were about EUR123 million if you take the exchange rate into account.

Gagan Thareja: Yes, so sir I listened to your explanation and therefore again, I mean my inference is this that if you move from EUR124 million in Q4 to EUR131 in Q1 of this year, unless it has something to do staggeringly with sales mix I would presume there is volume growth as well in which case your margins should not drop operating level, it will remain or it should grow, is it not the case?

Vikas Sinha: You are right and if you remember our Q1 call we had referred to the fact that there was a mix in product portfolio especially at Metalcastello and that accounted for a little bit of the fall in margins, so you are right on that account. But what we will say that Q4 was an exceptional period, so if you look at the EBITDA margins on a sequential basis for our subsidiaries, Q3 FY15 was 7.8%, Q4 FY15 was 13%, Q1F16 was 11.7% and Q2F16 11.1%. So depending on the local product mix there is a certain change that happens and we had warned that Q4 FY15 was exceptional in terms and if you remember Sanjay actually talked about this in the result conference call. Our endeavor is always whatever the volume is, whatever the product mix be; keep increasing the margin, that is what our endeavor is going to be.

Moderator: Thank you. We will take one last question which is from the line of Raghu Nandan from Quant Capital. Please go ahead.

Raghu Nandan: Thank you sir, my questions have been answered.

Moderator: We will move to our next question which is from the line of Hitesh Goel from Kotak. Please go ahead.

Hitesh Goel: My question is on the standalone numbers, if you look at EBITDA to PAT conversion actually just wanted to check what is the tax rate in subsidiaries, is there some tax benefit because the tax rate is low?

Sanjay Joglekar: Which quarter you are saying now?

Hitesh Goel: Even in first quarter and second quarter, so I mean if you look at depreciation on a subsidiary basis it is 40 crores per quarter right, and your EBITDA is 100 crores average for a quarter but you are reporting a PAT of 50-odd crores. So just wanted to check the tax element there.

Sanjay Joglekar: Sorry, tax what?

Hitesh Goel: What is the tax rate in subsidiary?

Sanjay Joglekar: Tax rate you should take from the difference between the EBT and your PAT is the tax.

Hitesh Goel: No, no Sanjay what I am saying is that you have say 97 crores of EBITDA in second quarter and there is 40 crores of depreciation every quarter, so if you subtract that 97 minus 40 it is 57 crores and there the interest expense is of 15-odd crores, so it should be 42 crores PBT, you are reporting a 45 crores PAT. So where is the tax here?

Sanjay Joglekar: Not getting you, now this is you are talking about the Q2 of subsidiaries, correct?

Hitesh Goel: Yes. Even first quarter, I am not able to understand what the tax rate in the subsidiary is; do you have any tax benefits there?

Sanjay Joglekar: No, there are no specific tax benefits, it might be due to some quarterly provisioning, but Hitesh, point is well taken, let me assess.

Moderator: Thank you. Ladies and Gentlemen, that was our last question. I would now like to hand the floor over to the management for closing comments.

Sanjay Joglekar: So thank you very much for all of you for this continued interest and I hope we have been able to satisfy you. I do not think KR and Pedro are still online because they had to catch a flight, but thanks to them also. And if anyone has any further questions as usual please feel free to get back to Vikas.

Vikas Sinha: We are available we will be very happy to answer any follow-up questions.

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

Note: This statement has been edited to ensure quality