“CIE Automotive India
Q3 & 9M CY2023 Post Result Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to Q3 & 9M CY2023 Post Result Conference Call of CIE Automotive India 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 "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Basudeb Banerjee from ICICI Securities. Thank you and over to you Sir!

Basudeb Banerjee: Thanks Raghav. First of all thanks to CIE Automotive India Limited management for giving us the opportunity to host the call. We have with us the top management represented by Mr. Ander Arenaza, CEO; Mr. K Jayaprakash, CFO; Mr. Vikas Sinha, Senior VP Strategy; Mr. Oroitz Lafuente, Business Controller; and Mr. Swapnil Soudagar DGM Strategy. Without wasting any time I would like to hand over to Vikas. Over to you!

Vikas Sinha: Thanks Basudeb. I welcome all of you on this call and also Ander, our CEO. I will present the Q3 C2023 results of CIE Automotive India Limited which was formerly known as Mahindra CIE Automotive Limited. At the outset we would like to bring to your attention that the sale of 100% stake held by CIE Forging Germany GmbH which we call CFG in its wholly owned subsidiaries is complete. It is to be noted that while the transaction has been completed this month the transfer of business to the seller takes effect from July 1, 2023. As a consequence we have restated the results of the European operations for Q3 and nine months for last year. So the Q3 C2022 and nine months C2022 results for Europe have been restated in this presentation.

We now start with the results of the India operations for Q1 C2023 on page 7. Sales was Rs.14393 million, EBITDA Rs.2405 million, EBIT Rs.1862 million and EBT Rs.1746 million, thus sales grew 1% year-on-year, EBITDA 12%, EBIT 15% and EBT 13%. EBITDA margin in Q3 C2023 was at 16.7% compared to 15% in Q3 C2022 and 16.8% in Q2 C2023. The year-on-year sales growth of 1% was more or less in line with weighted average market growth across the market segments we operated. There are some mitigating factors to consider here. The impact of declining steel prices was significant in this quarter, also please note that Diwali was in October last year while it is in mid November this year, the festive effect was felt more in Q3 last year while it will have greater impact in Q4 this year. Then there has been some delay in the ramp up of some of our orders and this has impacted sales growth, but that should be corrected in the coming quarters. Nevertheless, we are happy to note that PBT profit before tax grew by a healthy 13% in spite of the anemic growth this quarter in India. Our efforts to maintain our margin trends are bearing fruit. Overall we have positive expectations on growth and margins from all our verticals in India. The market situation in India continues to be optimistic with all the four market segments showing good sequential growth especially heartening is the sequential growth in the two wheeler segment and the festive season is expected to give a good boost to this segment. Tractors will continue to be steady on a high base with rural income showing recovery though the erratic monsoon this year could somewhat dampen the prospects a bit.

Now we move to the results of our European operations for Q3 C2023 on page 8. Sales grew to Rs.7262 million from Rs.6806 million in Q3 C2022, which represents a 7% growth year-on-year and is slightly better than the market growth. The impact of forex and steel price drop mostly cancel each other out in this quarter. The drop in sales sequentially between Q3 C2023 and Q2 C2023 was 15%, which is in line with observed seasonality as August has almost a three-week holiday period. Q3 C2203 EBITDA in Europe was Rs.1249 million, EBIT Rs.1009 million and EBT Rs.813 million. EBITDA grew 36% year-on-year, EBIT 42% and EBT 19%. The slower growth in EBT compared to EBIT is due to the higher interest costs in Europe this year, which is because of higher interest rates as you know interest rates have gone up in Europe. EBITDA margin in Q3 C2023 was 17.2% compared to 13.5% in Q3 C2022 and 19.2% in Q2 C2023. As explained in our last call the inflated margin in Q2 C2023 and the slightly depressed margin this quarter are due to the stock buildup in the month of July and are observed every year. Metalcastello is also seeing the continuing impact of a cyclical slowdown in its end used market. The market situation in the coming quarters is a bit uncertain with the continuing war in Ukraine and the tense situation in Israel, which are casting a shadow. The EV penetration in the European auto sales keeps increasing. Therefore, our attempt will be to be in step with the market while maintaining our margins.

Now if we go to page 9 we will see the consolidated results for Q3 C2023. Sales were Rs.21655 million, EBITDA Rs.3654 million, EBIT Rs.2871 million, and EBT Rs.2559 million. The consolidated EBITDA margin for the quarter was 16.9% versus the 14.5% in Q3 C2022 while sales grew by 3%; EBITDA grew by 19, EBIT 23% and EBT 15% respectively. The YTD September nine months results for the India operations are on page 11. Sales were Rs.41375 million, EBITDA 6928 million, EBIT 5303 million and EBT 5045 million and PAT Rs.3685 million. Sales grew 6% compared to the corresponding period in C2022 higher than the YTD weighted average market growth. While sales grew 6% PAT grew by 15% year-on-year and this was achieved by expanding our EBITDA margins in India to 16.7% compared to 15% last year. The YTD nine month results for Europe are on page 12. Sales were Rs.25486 million a 14% increase over the corresponding period. Last year EBITDA was Rs.4592 million, EBIT Rs.3776 million, EBT Rs.3262 million and PAT Rs.5877 million. Margins have recovered to levels seen before the energy crisis as power costs have stabilized. Please note PAT includes 3356 million of profit from discontinued operations that is CFG. This profit includes a onetime impact of approximately Rs.1100 million of settled insurance claim and others. PAT also includes Rs.2090 million of foreign currency translation reserve which is non-cash credited to P&L on sale of German business. Normalized EBITDA over production value is at about 17%. The recurring PAT is Rs.2521 million while YTD sales grew 14%; recurring PAT in Europe which is taking out all onetime value grew by 26%. The consolidated YTD nine month results are on page 13. Sales were Rs.66861 million that is roughly 6700 Crores and 9% increase over last year. EBITDA was Rs.11520 million, 1152 Crores, EBIT Rs.9079 million, EBT Rs.8306 million, and PAT Rs.9562 million that is 956 Crores. As explained in the previous section PAT includes 3356 million of profits from the discontinued operations excluding that consolidated PAT for nine months YTD September 2023 was Rs.6206 million that is 620 Crores and we are on track to have the highest PAT in our history in C2023. It is to be noted that while YTD consolidated sales grew by 9% the recurring PAT grew by 20% recurring PAT which is without any onetime, nonrecurring profits from the discontinued operations, so therefore to conclude in spite of hiccups on the topline we are on course to deliver an impressive improvement in earnings per share without any onetime factors. So thank you very much. We can proceed to Q&A.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Jinesh Gandhi from Motilal Oswal Financial Services. Please go ahead.

Jinesh Gandhi: Hi. Quickly if you can share what was the impact of steel price decline or the commodity cost decline in the India business?

Oroitz Lafuente: It has been an impact of almost around 3% of decrease.

Jinesh Gandhi: For the European business it seems the euro revenues in euro terms have declined by about 5%, is that correct and is that largely because of steel price pass through impact?

Vikas Sinha: You are saying Europe revenues have..

Jinesh Gandhi: Euro revenues constant currency basis seems to have declined by about 5%.

Vikas Sinha: But there is also a steel impact there, so the forex impact and the steel impact are actually cancelling out in Europe in this quarter, so what you see is the rest of it, it is actually declining.

Jinesh Gandhi: Got it and the outlook for Europe business given that?

Ander Arenaza: In fact as the exchange rate impact and the raw material impact are canceling each other the reality is that our business in Europe grew more or less at the level of the market so our growth of 7% is in line with the market, but slightly below because we have the impact of Metalcastello as Vikas explained in the script Metalcastello is suffering a little more because we are selling big percentage to the US and the US market is going down because of the higher interest rate there. So the off highway market is negatively affected by this impact but we think that the recovery will come during 2024 so there is a certain decline and Metalcastello will recover during 2024 that is our expectation.

Jinesh Gandhi: Got it and can you update us on the EV order wins in the European business, what is the salience of that now for us, EV in the European business order book?

Vikas Sinha: Jinesh as we have explained we are looking four major orders two in Metalcastello which are expected to start ramping up, some small bits have already started but they will start rank ramping up next year in Metalcastello that we have talked about 28 to 30 million these are two orders and then we have orders both at CIE Forgings, steel plates, aluminum forgings like right now they are small but what is happening in Europe is that EV sales per model is very low at this point of time. So even though the penetration looks high the sales per model is small so the ramp up is a little slow, but we expect all these four orders or four or five orders to start ramping up from 2024 onwards and we will see good results there.

Ander Arenaza: So just as a summary of the new project allocation, the new orders that we are getting in Europe for example you can see that 74% of our new orders this year, everything that we got 74% of what we got this year are for electric vehicles, so you can see that the move and the launches in Europe are concentrated in EV so this is good news for us because we are in line with what the market is doing. In Metalcastello all the businesses that we are getting from all these baskets 50% is also for electric vehicles so in this year so that means that we are also well aligned with the future and in India that you know that the electrification is coming but it is slower and at lower pace at a lower speed than in the rest of the regions. Approximately 10% of our new orders are for EVs. So let us say that our new order portfolio is perfectly aligned with the market evolution, so I think we can be comfortable with this transition to happen and of course the key thing for us will be how to manage this transition for example in this moment most of our EV programmes that we are waiting for to start are being delayed by the customers because of different reasons some lack of batteries or certain market difficulties that our customers have but they will come for sure. So during next month we will see these new players starting and ramping up okay so overall we can say that the evolution of the new orders is pretty exciting and also that we will see the new projects starting and ramping up soon as our customers promised us.

Jinesh Gandhi: What is the net debt at the end of quarter at consolidated level?

Jayaprakash: It is Rs. 1.1 billion.

Jinesh Gandhi: This is after considering the cash at German operations, right?

Jayaprakash: Yes.

Oroitz Lafuente: The cash at German operations will be received during the month of October so in September the sale was not yet secured, it was secured in October so this is without including the German operation so that will be reduced by the amount that we will get from the German operation sale.

Jinesh Gandhi: Got it. So this will probably become net cash post this receipt. Last question from my side any thoughts on repaying debt at the European operation level given the sharp increase in interest cost considering we have cash in which is parked with the parent?

Jayaprakash: Jinesh we are looking at our cost of borrowing and the income we get in the cash pooling so we have some arbitrage there so to the extent we have a positive arbitrage we will continue. Until we have some real need in the business for the cash instead of netting it off.

Jinesh Gandhi: Got it. Great thanks and all the best. I will come back in queue.

Moderator: Thank you. The next question is from the line of Nitin Arora from Axis Mutual Fund. Please go ahead.

Nitin Arora: Thank you for taking my question. Just on the Europe production side though when we look at your nine months production versus your sales, you are pretty much in line with what market production is, but just wanted to take a heads up from you when we look at Q-on-Q production have really declined very significantly in Europe can you throw some light is something transitory in nature or you think this pressure will continue on the production, if you can throw some light on that and then I will take up the second question?

Vikas Sinha: So you are talking about Europe sales in this quarter as to Rs.62 million versus the previous quarter, right?

Nitin Arora: So basically when you give the market update in your presentation you talk about production, right which is down 17-18% July to September versus April to June you have given in your presentation Europe results so I was just trying to understand is that because Q-on-Q optically will go down because of the summer season, but this time the fall is quite drastic. When we look at your nine months production data of Europe versus your sales it is pretty much in line 14% growth but we are trying to look that it is something you are looking more this production run rate to continue or there is some improvement is coming in Europe as far as production is concerned for your clients?

Vikas Sinha: Q-on-Q that drop of 17 or 15%, the market has dropped 17 we have dropped 15 which is very much a factor of seasonality in August almost three weeks are off, so three weeks out of 12 weeks is off like in a quarter so you see that kind of drop in the sales and in Q4 also please bear in mind in December one week is off so obviously in Europe H1 is always better than H2, in India it is the reverse because we have the festive season in the second half so this is very much in line with seasonality, the market is what it is, there is no panic in the market, there is no demand drop in the market this is pure seasonality.

Nitin Arora: Every year there is seasonality but we do not see that much drop it is fine I will take it offline that is fine. Second is when we look just on the India business especially on two wheelers because one of your large clients is still ramping up on exports which we are not seeing that much ramp up happening but generally on the two wheeler side you are seeing production ramp up happening that is one from your let us say large clients and few other clients and second in terms of margin improvement from here, we are seeing that few of the OEMs are clawing back margin, they are not giving easy margins out to the ancillaries and down the chain can you throw some light on that as well as far as margins are concerned just those two questions?

Vikas Sinha: On the two wheeler side you are right, the exports has not recovered as much as we had thought. On the YTD basis two wheeler exports are down about 20% overall and you are right one of our strategic anchor customers Bajaj is very dependent on exports and of course we suffer accordingly but the point is that domestic market is certainly looking up. If you look at the retail sales data from the dealers association FADA you will see there is some good news there. Yes, it is slow growth but it is coming back. So on two wheelers we do think that the festive season will give a little bit boost to the two wheeler numbers in India. To your second question on margins from OEM that is the constant dialogue that we have with our OEMs. Yes the OEMs are always interested in optimizing their margins. We are obviously interested in optimizing our margins. We are partners and this dialogue continues.

Nitin Arora: My question was that is it something 16-17% is somewhat we will try to maintain or you see further from synergies though you have articulated earlier also that maximum synergies have been taken in, but do you see further scope from here of improvement?

Ander Arenaza: That is a pretty good question. In fact what we think is that we still have room to improve our internal efficiencies that is our main fight in our operations. We have all the verticals doing great job to continue improving and we think that we will be able to continue this journey and the room for improvement is there and we have already identified the gaps. So my answer is clearly yes also this market growth that we expect and business growth that we allow for the next quarter will also support us on this margin improvement. We have a lot of projects in the pipeline that are delayed as I explained before and once these projects are ramping up, we will see certain improvements also. So overall I would say that the margin improvement is a never ending story. We need to continue improving. Always we said that the gap compared to our European or Mexican operations is still high in India. We think that we can do our production even better. So that is what we are doing trying to be really competitive in India and get the appropriate margins for the company. So my answer is very clear to you is just we need to improve the margins. We think that we can do it.

Nitin Arora: Great. Thank you so much team. All the best. Thank you.

Moderator: Thank you. The next question is from the line of Nitish Rege from ChrysCapital. Please go ahead.

Nitish Rege: Hi, thank you for the opportunity. I have a few questions. The first question being you have mentioned new project ramp up in the PPT could you please elaborate on those are these large projects and which segments are we targeting for this?

Vikas Sinha: To answer your question of course Ander will add to whatever I say and you have to understand in India we have been making growth capex of about 200 to 250 Crores, like 2000, 2500 million for the last two to three years so a substantial growth capex close to I would say if you take from the year 2021 to now and even one more year ahead if you look at it, we would be in the range, as I said average of 200 to 250 Crores every year. So all of this is against committed order so some of these orders have not ramped up to our satisfaction but they will ramp up because we know that there is growth in the market. When this ramp up you will see better growth results also not just margin results but better growth results in India that was the point we were making. In terms of what are those for example we have a new plant at CIE Hosur, we have had expansion in the aluminium EV four wheeler space at our aluminum plant, we have made investments in Mahindra's EVs new models which are in the course of ramp up, new tractor models are coming in from Mahindra so there is a whole lot. As I said in India we have been investing across the board in almost every vertical. Every vertical we expect growth. Some of this has been delayed and therefore we are saying growth will come. We have been caught up in this quarter at a bad time other than that we do expect all of this to ramp up.

Nitish Rege: The next question being is there any update on the sunroof strategy for India business?

Company Speaker: No there is no news at this moment on this. The sunroof business in India is doing well, is growing and we will analyze internally and come back to the Board and of course then to the market.

Vikas Sinha: So right now we have not taken a decision. We have noted this. I think you know even in the past this has been asked, we have noted this. We will come back to you with an answer give us some time on this.

Nitish Rege: Just one more question the last one. So as per my calculations we will be ending with around 500 Crores of cash this year so any thoughts on M&A?

Vikas Sinha: M&A is an integral part of our day-to-day operation. We keep looking for stuff so we are looking for stuff. At this stage we are not at any advanced stage that we can talk about but yes we are looking for opportunities in India. We are not looking for opportunities outside India. We are looking for opportunities in the areas where adding customers, adding new ways of doing business, so different segments like aluminum, four wheelers. We are looking at our new customer base, etc. So we keep looking for it but one thing I must say that we will not do an M&A just because we have cash. We will do M&A if we think it is appropriate for us that is something like please bear that in mind.

Moderator: The next question is from the line of Nikhil Kale from Invesco. Please go ahead.

Nikhil Kale: Thanks. My first question was on Metalcastello. Can you just help us understand what was the decline in Metalcastello revenues for Q3 and also for the nine month period?

Ander Arenaza: In Metalcastello we have a decline because of the market evolution in US of approximately from 15 to 20% in this Q3 and Q4 okay that is what we expect for the next quarter. Then what we are told is that in next calendar year there will be a recovery okay so the situation is that now we have this 15 to 20% drop and then we will see perhaps in Q2-Q3 next year we will see the revamp again on this business. However, also we have the new programme for the electric vehicles in US that we are now launching and preparing everything. So the ramp up will start. So we will be able to compensate this drop anyway with this electric vehicle business.

Nikhil Kale: Just the number that you mentioned 28 to 30 million kind of order wins for Metalcastello that will take a couple of years to kind of ramp up to peak revenues will that be correct?

Ander Arenaza: Yes it will go ramping up gradually during next year. It will depend also on the introduction of these vehicles in the American market so the expectation is that we will see let us say a smooth growth during next year.

Nikhil Kale: Got it and just secondly I think IHS is kind of expecting production to be broadly flat for Europe car market next year but then given your commentary on the orders kind of ramping up fair to assume that you would outperform the end market production growth?

Ander Arenaza: Okay that is our interest and our intention but it is true that IHS is saying that the European market will be flat in the next four or five years at around 17 million cars that is why together with the electrification, we will see a very challenging scenario in Europe. However let us say new project allocation that we have had in the electric vehicle field, I think we will be able to let us say overcome this situation and of course gain market share that is our interest, yes.

Nikhil Kale: Got it. Thanks. I will get back in the queue.

Moderator: Thank you. The next question is from the line of Vimal Jamnadas Gohil from Alchemy Capital Management Private Limited. Please go ahead.

Vimal Gohil: Yes Sir. Thank you for the opportunity. Sir my question is on the India business you commented that you spent almost 500 to 750 Crores on growth capex with committed businesses from customers. Now just trying to think aloud as to why will the customer not go ahead despite the market seeing good signs of growth if you look at the new models, they are flying off the shelf right now so where exactly is the challenge the orders potentially should have come and why should there be a delay in the first place?

Vikas Sinha: They depend on specific projects Vimal. You are right, the markets are not doing badly especially for four wheelers, two wheelers is not doing well, some of the models that I talked about are EVs, so we talked about the aluminum four wheeler EV production so there are specific areas. Of course in general the markets, especially for light vehicles, doing well no doubt about that so some of this is for exports. In specific areas the ramp up has not been as fast as we thought but it will happen so you are right. I am not saying there is a market problem and that is why this thing is happening. No, it is just a delay it will come, no issues.

Vimal Gohil: So what you are saying is these are newer models which are taking time to ramp up maybe the customer is focusing on the existing model is that understanding correct?

Vikas Sinha: Look at the EV models for example this year on four wheeler EVs there has been some slowdown in some model areas I am not saying customer is doing this or that this is general evolution of new models, sometimes it gets delayed, a project gets delayed by two, three months, four months, six months that is normal.

Vimal Gohil: The signs of revival are we already seeing it or is that a few months away still?

Vikas Sinha: Revival of what?

Vimal Gohil: These projects ramping up?

Vikas Sinha: Yes it will ramp up. Yes we are looking at it. In the next, next few months, yes.

Vimal Gohil: Right so as we speak, we are seeing signs of these orders coming back or ramping up.

Vikas Sinha: No these orders have not gone away. It is just that those introductions are just taking more time that is all.

Vimal Gohil: Understood Sir and Metalcastello we have a very large exposure to off highway vehicles is that understanding correct and which is why we experiencing deep cyclicality?

Vikas Sinha: Yes that is right.

Vimal Gohil: Sir the revival should be sharp right because if the slowdown has been bad so the revival should be equally sharp has it played out similarly in history and can that we expect in the future as well?

Ander Arenaza: Yes. We expect that yes we will see the revamping of this business in the next months okay probably not immediately, not in the Q4, not in the Q1 but meet next year we will see this recovery for sure and as I told you before we will have additionally all the entrance of the electric programs that we have got for US for another customer so with these two effects we will see that our sales in Metalcastello will come back to the normality and we will see growth again okay but yes we need to as we are now in the bottom side of the cycle we need to suffer this drop in the next one to three quarters that is our expectation but we are optimistic and we have everything prepared to go up and to ramp up again soon.

Vimal Gohil: Just one followup there the 28 to 30 million orders is in the passenger vehicle vertical for Metalcastello?

Vikas Sinha: That is right. For Metalcastello yes for the US market light trucks.

Vimal Gohil: Light trucks?

Vikas Sinha: Yes.

Vimal Gohil: EV light trucks okay.

Ander Arenaza: That is right.

Vimal Gohil: Understood. Alright. Thank you so much and all the very best.

Moderator: Thank you. The next question is in the line of Harini from Sundaram Alternates. Please go ahead.

Harini: Good afternoon Sir. Sir just one clarification so always our goal was to grow in as far as the market grows we at least tend to or have a target of growing more than 5% to 6% higher than the industry growth line for the markets where we cater either in India or in Europe, at least from the past two quarters we have been seeing a bit of slowdown on that front so how do you see it coming forward in the next one to two years, do you see that expectations to be coming back in place?

Vikas Sinha: Yes no that is what we have said. Some of our ramp up has been delayed but yes you are right. Our aim in India is to grow 5% and plus higher than the weighted average market. We have different segments in which we operate. You have to take a weighted average. Yes in the medium term since you are asking a question over two to three years yes that is our intent. That is also our intent in Europe and as I just mentioned that Europe the market is flattening but even there we want to grow higher than the market through all these new orders that we are looking at so over a two year period whatever we have said in the past holds. This quarter as I said it is a specific case of ramp up not having happened so let me put it simply. This quarter is not representative of what we are planning to do when it comes to growth numbers in India.

Harini: Understood Sir. Another portion if you could just give out so generally we have the new customer orders contributing to around 25% of the growth so are we in the same track going forward, how is the thing on the new customer additions, are we somewhere on track in that?

Vikas Sinha: No is the question madam is that are we making new customer additions is that the question?

Harini: Yes Sir.

Vikas Sinha: Just to put things in perspective. I think in India we have almost 50 customers with more than sales of 10 million per annum okay so out of this almost half would have been added in the last two to three years so customer addition is an important part of our strategy so it includes increasing our buying from our selling to our existing customers, trying to grow our middle customers and adding new customers. All three aspects we are looking at and we will continue to look at and that is what I am saying we now have 50 customers in India with more than 10 million sales per annum okay.

Harini: Understood okay Sir thank you.

Moderator: Thank you. The next question is from the line of Pratik Kothari from Unique PMS. You may please go ahead.

Pratik Kothari: Good afternoon and thank you. Vikas again on India growth sorry multiple questions have been asked but again in the first nine months we have grown at the 6%, industry volumes have grown at 6% but on a sales basis industry has grown at 15% to 20% Mahindra, Bajaj, Ashok Leyland, and Tata are major customers the major OEMs which have reported numbers and what is expected so I understand that new platforms are taking time to ramp up and this is incremental growth which needs to come in but for existing models and for existing products and existing industry which itself is growing at say 15% in this nine months or maybe Maruti has grown at 25% in the first nine months or is expected to grow at 25% in first nine months there our growth is only say 6% on a sales basis how do we reconcile this number?

Vikas Sinha: I do not think like if you look at the production numbers the weighted average production growth for YTD nine months is about 4% if you look at it and we had a very good Q1. If you remember Q2 and Q3 we have been like Q2 was around 5% for us and the weighted average market growth was 1% there are different numbers that are reported but if you look at the production numbers of various OEMs then you can clearly see the weighted average growth for YTD nine months is roughly around 4%.

Pratik Kothari: But then we are comparing industries volume growth to our sales number?

Vikas Sinha: We have to also take into account the steel impact which is not there. We did mention steel impact in this quarter was about 3% so if you take that steel impact 6 + 3 roughly is 9% versus a weighted average market growth of 4% so but like steel is you have to keep it aside because at the end of the day growth is what it is and to your specific question on different OEMs different OEMs have done differently. Mahindra Auto continues to do exceedingly well there is no doubt about that. Mahindra Tractors on a YTD basis may be a little lower than on a YTD basis. Maruti and Bajaj again maybe similar. Bajaj might be a little lower. If you look at the production numbers you have to understand Bajaj is 50% exports so that is the situation so we do track the market and this is our reading on a weighted average basis about 4% we have grown 6% without the steel impact. Steel impact has been substantial this year but as we have said in the past that is something which is part and parcel of the business so when you talk about the YTD results this is how we look at our results and going forward things will be better.

Pratik Kothari: Correct point taken but by only limited point was steel also impacts the OEMs when they sell right so OEMs are growing at 15% on a sales basis and our growth is like 6%?

Vikas Sinha: No we look at numbers the production numbers not like their sales numbers we do not track. We look at their production numbers and what we are talking about when we compare the market, we compare the production numbers. For us that are what is important whether how they pass on the sales, etc., we have not looked into that. We have not analyzed that for the OEMs but whenever we talk about the market we talk about production numbers not even sales domestic sales. Production numbers includes domestic sales and exports and the effect of inventory, etc., that they have so that is how we look at the market.

Pratik Kothari: Sure fair enough sure and second on margins first of all a commendable job in margins we have come all the way to 17, our aspirations are even higher so given your process engineering company it is commendable what we have done hearty congratulations on that just a question on that given we are not a product company and a process engineering company so how is it that our customers the OEM they also would be looking at our numbers the margins that we report how do they allow us to make this kind of margin and given our attempt to keep margins at such a high level and this might be one of the best in the industry in terms of competition, etc., does that not hamper us given the margins that we are changing?

Vikas Sinha: No our customers are our partners so we are not in competition with our customers so as long as we meet the requirements and based on our efficiency level that is to us so when Ander speaks about margins he talks about efficiencies but that does not mean we will not meet the requirements of the customers whatever they are so as long as we meet the requirements it is okay and if they ask us for price reductions, etc., that of course we will have to work that out. That is a constant dialogue our customers are our partners. They are not in competition with us and I said earlier they optimize their margins and we optimize our margins. Our focus when it comes to margin improvement in India remains efficiency. In fact you had asked the question in the last call when Ander has given a long answer on what we are doing to improve margins. If you go back to that answer it has nothing to do with pricing, it has nothing to do with customer requirements, they are all internal. If you recall it was automation, it was production per person, input and output ratios, and layouts. These were the things that we talked about last time and that is the focus for us so therefore whenever we talk about efficiency improvement in India there is a long way to go on the engineering aspects itself. After that of course whatever the customers ask us we will try and meet the requirements as far as possible. They are our partners. They are not our competitors, okay.

Pratik Kothari: Correct so lastly the efforts that we make internally for improvement efficiency productivity largely is for us to keep and not that we have to share it with the customer?

Vikas Sinha: No therefore we did the arrangements there. They might have their own requirements. All that I am saying is our margin improvements in India we do think that from an engineering aspect we still have room to improve. How much we share with our customers and what we share with our customers is different issue. All that we are saying is we do see lot of prospects for improvement on the engineering site in India still. That is where we are at this moment.

Pratik Kothari: Great. Thank you and all the best.

Moderator: Thank you. The next question is from the line of Priyaranjan from HDFC Asset Management Company. Please go ahead.

Priyaranjan: Thank you. So just one thing if I am not wrong I think because you have mentioned about 6% growth have a impact of say 9% of adverse impact of commodity so for a YTD basis is it fair to assume that the volume growth was 15% is this what you wanted to say?

Vikas Sinha: No the weighted average volume growth of the market was 4% on a YTD basis in India.

Priyaranjan: Yes that I understood but for you because you had a 9% adverse impact of commodity of steel price so your volume growth was 15%?

Vikas Sinha: Not 9% 3% of decrease.

Priyaranjan: So 3% for this Q3 for YTD?

Vikas Sinha: For YTD we have to work it out. We will have to work it out but you take this as representative that is what we were talking about.

Priyaranjan: So the volume growth probably will be three plus whatever YTD?

Vikas Sinha: It is not that we do not have growth. Yes the steel normally when the market is growing very high the steel impact does not matter as much but right now because of tractor growth and two wheeler growth which is a little like Bajaj, Mahindra Tractors and even Maruti is on a YTD basis 0, 0 so when you see this then the steel starts having an impact but having said this that is part and parcel of our business. We cannot like keep talking about it so it is what it is but yes when our ramp up happens elsewhere I think you will see better growth numbers.

Priyaranjan: Understood and any thoughts on the two technology which we have been talking in the past particularly on the aluminum forging side as well as the plastic in India any thoughts on that when can we start because aluminum I think because of the electrification in Europe we might have to put some plant or some whatever changes it might have to do in the plant so how soon or how fast we are in that process?

Vikas Sinha: Aluminum forging is in Europe that is what we are doing. We have already started to do it in a small way. There have chassis parts and big parts that we have in Europe and where we have said same machines being used but the process is slightly different. You need to do heat treatment. Aluminum is a soft metal so some process parameters would be different so in Europe we have already started doing it. In India right now the need for aluminum forging is limited. Whenever it happens we can do it as I said we are doing it at Galfor so we can bring the knowhow to India on the process side not a problem at all. As far as plastic is concerned I think we have always said that we will go the M&A route for plastics. We already have composites which are doing very well by the way. Composites when we talk about EVs in India we normally do not talk about three wheeler EVs but three wheeler EVs in India is a success story. It is a very big success story especially Mahindra three wheeler EVs. It is that division of Mahindra is doing very well and we are big suppliers to them and our composites division is doing well so that will hopefully continue to do well. On the plastic side otherwise we will do through an M&A what we have always said the inorganic root and that depends on opportunities. Right now we have nothing in the pipeline but yes we keep looking for it.

Priyaranjan: Understood and lastly on the strike in US so any impact potential impact in the 4Q numbers because of the strikes at various OEMs in US?

Ander Arenaza: So till now the impact of the American workers strike in Ford, in Stellantis and in General Motors is very limited okay. In fact I am talking about impact for CIE was very limited in September and probably we cannot have in those customers an impact of 10% till now in October so it is not relevant and coming back to CIE India we have only certain impact on our forging activity in Mexico where we supply to GM through Tier-1 and we are seeing certain minor impact there so till now the impact of this strike is not relevant. Okay we will see what is going on in the next weeks but till now the situation is completely under control.

Priyaranjan: Understood. Thank you.

Moderator: Thank you. The next question is from the line of Jigar Shah from Svan Investments. Please go ahead.

Vishal Shrivastav: Thank you team for taking my question. I am Vishal Shrivastav here from Svan Investments. I have few questions. Most of my questions have got answered. I have a few questions regarding European operations just wanted to know is there any trigger left in the margin improvement in the European operations from here on in CY2024 and CY2025 and if yes where this improvement will come from, will it come from the mix of new orders which you have already bagged the kind of product mix improvement or value addition improvement through that can you throw some light on that please?

Ander Arenaza: Okay the margins in our Europeans operations were negatively affected last year during 2021 and 2022. We were negatively affected because of the energy price increase and the steel price increase and also we have a third reason that is the big inflation that we have been suffering and during 2023 we have been able to first the reduction of the energy prices the energy electricity prices have gone down to stable levels at around €100 per megawatt that is where we are now so this reduction in cost has allowed us to recuperate certain margins. Also we have negotiated with the customers all the steel and energy update systems so most of our customers have accepted that these cost drivers need to be indexed so that has been done so we have recuperated the margin that we lost and finally we have the inflation where we are negotiating with the customers and okay that is much more difficult issue to discuss but overall what we have done is we have been able to recuperate the margins that we had before the crisis. Then for the future we expect to keep our margins, to keep our business profitable and it will be very complex in this flat scenario to continue improving okay so the businesses are really stretched and optimized and the further improvements are not easy to get, but overall I would say that our aim is to maintain our margins in the current situation once we have recuperated them from the last year drop.

Vishal Shrivastav: Fair Sir thank you. Sir one more question regarding the new orders which we have got in Europe Sir are these orders are through replacement of the existing programs or these orders are new programs which will lead to our market share gain?

Ander Arenaza: Most of the products that we are getting in Europe are for electric vehicles that will replace the current internal combustion engines okay so we can expect that the electric vehicles will replace the internal combustion the current programs so this is a clear substitution okay. The good point or the good news for us in regarding this new programs that we are allocated now is that approximately exactly 74% of the total new orders are for electric vehicles okay so that means that in the future we will see more and more electric vehicles in Europe and we will have a growth important growth in that segment so that is the message but coming to your question yes I think that there will be a substitution from the electric vehicle substituting the internal combustion engines.

Vishal Shrivastav: Just last question if I can squeeze in Sir as our mix towards these execution of these electric vehicle programs improves I think is this understanding right that in that case our probability of margin improvement will be more as our value addition becomes higher in those kind of platforms?

Ander Arenaza: Okay it depends on the product but if the value added that we are getting is improving of course we will have the opportunity to improve our margins. In the case of Metalcastello for example when we are talking about these electric vehicle components that are much more complex component yes we expect to improve our margins as the added value and the complexity of the product is growing. Also I can tell you that in India we are doing also the same process. We are increasing the added value of our components and growing in the complexity that means that we will be able to continue growing. Perhaps I missed this point in my previous answer when we were talking about the improvement on internal efficiencies but also the change on the portfolio and the increase of the complexity of the products will give us room for this margin improvement. Of course we need to take the risk of making more complex product and that is also additional effort from our engineers and from our production people but that is the trend and that is exactly what we are doing in Europe and also in India. In both regions we are with the same path.

Vishal Shrivastav: Fantastic Sir. Sir thank you for taking my question Sir. Thanks and all the best team.

Moderator: Thank you. The next question is from the line of Bharat Sheth from Quest Investment Advisors. Please go ahead.

Bharat Sheth: Thanks for the opportunity. The question is for Ander. Ander Vikas has given some color on this aluminum forging so whereas we have aluminum forging in Europe and aluminum casting in the India side so how are we seeing and when do we expect that really aluminum forging can really emerge for a big business like aluminum casting in India and what are the challenges difference between these two processes and if you can give little more color as well as the end user?

Ander Arenaza: We will see the aluminum forging coming to India soon for small applications probably in two wheeler sector we already have certain aluminum forging components and for the four wheelers forged aluminum is let us say premium car component okay. That is why the volumes that we can expect in India for aluminum forging are lower than other technologies mainly because of these premium cars that they use this kind of aluminum forgings. In Europe we are getting these new programs this aluminum chassis component for premium cars. We are talking about premium cars like Jaguar, Land Rover or Mercedes or BMW. Those are the companies that they use this chassis component in made in aluminum very expensive components and that our bet for our European business and if this trend is coming to India and there is these premium cars being produced in India in the future we will be ready to do that okay so my view in this moment is that this aluminum chassis component will be produced in Europe at the first stage and for the two wheeler in certain small components will be also producing in India okay that is the answer to your question.

Bharat Sheth: Fair and second question Vikas when we are saying this two wheeler is down we understand is largely export whereas in domestic how are we seeing because in our presentation we have said that CRISIL is anticipating 7% of a growth in two wheeler post FY2024 and then going so how do we really read this and what is on ground things are happening?

Vikas Sinha: Who is saying 7% growth in two wheeler market in 24?

Bharat Sheth: CRISIL statement which we have published in CRISIL research.

Vikas Sinha: CRISIL research okay.

Bharat Sheth: 9% to 10% to 11% in FY2024?

Vikas Sinha: CRISIL publishes sales data we are talking about production data so when you are looking at those sales numbers they are domestic sales so domestic sales is recovering in India as we talked about. Export sales have yet not recovered. I think the latest data suggests that exports in India on YTD basis I have said this earlier in this call itself was 20% down so you have to look at both but yes the good news is the domestic market for two wheelers in India seems to be recovering but it is recovering slowly. It is not as if there is a huge recovery so I think that trend will continue.

Bharat Sheth: Secondly on the tractor how do we see really see on the ground there was a concern on the monsoon and September was a good rain so how are we seeing?

Vikas Sinha: So on tractors?

Bharat Sheth: Yes.

Vikas Sinha: Now tractors I do not think at least for the next few quarters we think it will be stable on a sequential basis. That is our expectation of the tractor market so you are right so the monsoons unfortunately in India was like a sinusoidal curve so June was very bad, July was extremely good, August was extremely bad if you remember the driest August in 25 years and September was decent so now that has its own impact. An agricultural expert will tell us that that has its own impact the water bodies, etc., and all that so we do not expect tractors to grow too much in the coming months. Of course there is a festive season that will have some impact but tractors are expected to remain stable. If you look at the tractor numbers I think Q3 numbers was negative year-on-year but we do think it will remain stable at the sequential level. That is our reading if we are proven wrong we will be happy about that.

Bharat Sheth: Last question to Ander see in Europe also we have seen some decline in Q3 and Q4 also will remain softer whereas in India also our volume ramp up has not been in line with our expectation so how much operating leverage do we have to again apart from our internal efficiency to improve the EBITDA margin?

Ander Arenaza: As I mentioned before we are continuously working on the internal efficiency improvement okay. We are following our internal metrics on productivity on let us say cycle time reduction, cost reduction on the maintenance cost reduction, all these kind of things we are doing in order to improve our margins. I can tell you that most of our verticals are well prepared to continue improving so we all have certain room for improvement all verticals and let us say that we have strong action plan in each one in order to continue improving. That means that if we can be also more competitive in certain components and gain more market so overall our approach is to be really efficient in order to be in the market with the proper margins. Also I mentioned before that the new products that we are launching are much more complex products than the products that we were producing before so with this new products we have a higher investment and of course higher added value and this requires higher margins in order to get the return on investment okay so everything is linked but the company's evolution in the last years has been really good. You can see that our EBITDA margin grew from some 2016 we were at 10% and now we are hitting this 17% with the important growth and we expect to continue growing and matching CIE margins our parent group margins that were the ultimate target that we have okay so overall the room for improvement is still there. It is true that if the market helps us and there is an additional jump in the market we will have easier job to improve the margins. If the market continues let us say has a little bit decelerated as it is now we will be struggling but we will be working in order to get this half a point more or 1% more to our P&L so the room and the actions are clear. Everything is identified. All the verticals has the opportunity to improve so in that sense I am optimistic and that my main job at this moment because the new orders are also being acquired at a very good pace so we need to launch and to wait that our customers succeed with the launch of this product.

Bharat Sheth: Fair and thank you and all the best team.

Moderator: Thank you. We will take that as our last question. I would now like to hand the conference over to the management for closing comments.

Ander Arenaza: As always I would like to thank you all the participants for their well directed and clever questions they made. Thank you for supporting and trusting our company and also I would like to say thank you to all the CIE India team for their hard job and the good results they are getting. Thanks to this effort and in these difficult times. Thank you very much everybody.

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

Note: This statement has been edited to ensure quality