



## “Mahindra CIE Q3 CY18 Earnings Conference Call”

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**MODERATOR:** **MR. NISHANT VASS – ICICI SECURITIES**

**Moderator:** Ladies and gentlemen, good day, and welcome to Mahindra CIE Q3 CY18 Earnings 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 ‘\*’ then ‘0’ on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Nishant Vass from ICICI Securities. Thank you, and over to you, sir.

**Nishant Vass:** Thanks, Stanford. Good day, everyone. And thanks for joining us today for the earnings call. From the management side, we are represented by Mr. Ander Arenaza Alvarez – CEO; Mr. K. Jayaprakash – CFO; Mr. Vikas Sinha – Senior Vice President, Strategy; and Mr. Oroitz Lafuente – Global Business Controller. Now I would like to hand over the call to the management for their initial remarks. Over to you, sir. Thank you.

**Vikas Sinha:** Thanks, Nishant. Good afternoon, everyone. On behalf of the MCIE management, I welcome all of you and wish you on the auspicious occasion of Durga Puja and Navratri.

So at the outset, I would like to point out that the MCIE board in its meeting yesterday approved a proposal to close the Stokes operation in UK. The closure is proposed to be done within the next two years. As part of this exercise, we are in discussion with our customers to shift most of the existing business to India.

A few words on the performance of Q3 C18, which is outlined in the investor presentation, which has been put up.

On page #4 of the investor presentation, we have the Q3 C18 results for the India operations. Our sales increased by 20% when compared with the same period last year. This is higher than the growth of our customers in this quarter because of new orders. Similarly, compared to Q3 C17, EBITDA grew by 26%, EBIT by 37% and EBT by 49%. The EBT numbers for the quarter were bolstered by the FOREX gain of roughly Rs. 90 million on account of FOREX gains in Mexico. EBITDA margins for the quarter in the India operations was 15.2%, thus we can see the positive trend in growth and profitability has been maintained in this quarter.

The nine months YTD C18 results for MCIE India are shown on page #5, and they account a similar story of growth and improvement in profitability. In this period, MCIE India has grown by 23% compared to the same period previous year, and this is higher than both the market growth and growth at our key customers. Similarly, EBITDA has grown by 39%, EBIT by 57% and EBT by 60%. EBITDA margins are at 15.3%, an improvement of 1.7% over the same period last year.

Our European results are shown on pages #6 and #7. On a quarterly basis, MCIE Europe has grown by about 26%, but that includes a positive effect of 10% on account of currency translation. Compared to Q3 C17, EBITDA grew by 22%, EBIT by 28% and EBT by 29%.

EBITDA margins are at 12.2% compared to 12.5% in Q3 C17. This small decrease is mostly on account of stock reduction necessitated by the August holidays.

In the first nine months of C18, MCIE Europe grew by 15% after adjusting for currency translation, which is much higher than the market growth. These growth triggers have been achieved on account of the new orders in Gears Italy and Forgings Lithuania, and the market growth in Trucks. Similarly, for the period nine months C18, the first nine months of C18, EBITDA grew by 29%, EBIT by 37% and EBT by 41%. EBITDA margins are maintained at 13.1%, similar to last year.

And now, if we go to slide #8, we will see the consolidated results for Q3 C18. Sales grew by 23%; EBITDA, 25%; EBIT, 33%; EBT, 39%. Consolidated EBITDA margin for Q3 C18 is 13.5% compared to 13.3% for the same period last year.

Slide #9 shows the consolidated results for the first nine months of 2018. Again, sales grew by 26%, EBITDA by 34%, EBIT by 47% and EBT by 52%. Consolidated EBITDA margin for nine months C18 is 14.1% compared to 13.3% for the same period last year. Consolidated EBIT margin has crossed 10% and is at 10.4% compared to 8.9% for the similar period last year.

Last thing that I would like to mention is that on page #9, we have mentioned a CAPEX of Rs. 4,215 million for the first nine months of 2018, and this has been necessitated by the growth that we are experiencing.

So, this is all that I had to say. And we will quickly now go to the Q&A. So here you go.

**Moderator:** Thank you very much, sir. Ladies & gentlemen, we will now begin the question-and-answer session. The first question is from the line of Ronak Sarda from Systematix. Please go ahead.

**Ronak Sarda:** A couple of questions. So if we look at CY19, how do you see growth panning in Europe? If you can just give some business wise update for CY19 for erstwhile MFE, the CIE Forging business and Metalcastello?

**Ander Arenaza Alvarez:** Okay. Let's say that we cannot disclose our figures for next year because they are not yet approved by the board. But we are preparing our budget for 2019 right now, we will approve those figures in our board in December. But just to give you my view, my feeling about what will be our trend, I think we will continue our current trend of growth, especially in India where we are winning new businesses and we are investing in capacity, as Vikas explained. And regarding Europe, the European market is also growing but, of course, the growth is smaller than in India. We are talking about 1% - 2% of the market growth for the next year. But we are still seeing that we have room for growth. You know that in our Metalcastello plant we have this new program that we got from the customer, we are in a ramp-up process and we will continue growing. In Italy we will continue growing also in our Lithuanian plant where we installed a new crankshaft forging line, and we are also ramping up this capacity. So we expect

some growth there. And in MFE, let's say that we are now in the top of our capacity because we are fully loaded and this is the real situation of our German factories. We are at 100% of our capacity. So we expect to be there or a little bit less, that would be the situation. What I can disclose is that our order books for the next six months are at the same level as now. So we expect that the next year will be a positive year for us also.

**Vikas Sinha:** So Ronak, just to clarify, the order book is looking good for us so far. But as you rightly pointed out, the markets are quite choppy, both in India and Europe. So, we will have to look at that. But the order book looks good for us.

**Ander Arenaza Alvarez:** September was a really strange month due to several changes in the automotive market in Europe, especially due to the change of the emission testing procedure at WLTP. This is a new method that was implemented from 1st of September. And that created some problems to some of the carmakers because they have no time to validate or to evaluate all their engines in the new procedure. This is being sold, and according to their order book they will recuperate in the next month. So let's say that even though we see some non-clear market situation, the order book is firm. I can confirm you that we will have strong sales in October that is a much higher than September. So, this is something that we will see. I mean, we will see how the market will change with these regulation changes.

**Ronak Sarda:** Just to follow up on MFE then, you indicated that we are operating at almost 100% utilization. But if we look at your EBITDA margin performance, it has come off sequentially. I understand the August month impact would be there. But despite, I mean, do you think we have the potential margin profile in MFE? Or there is some more room left if your estimated orders are much more profitable than the older ones?

**Ander Arenaza Alvarez:** Okay. You know that this MFE business was one of our worst divisions in terms of profitability. We had very big problems, 2015 and beginning first half of 2016 where we had some internal management problems and that created some issues with deliveries with the customers, and we suffered a lot. But after that, we started the consolidation process, we changed the management and the company started to work perfectly. I would say that now the company is consolidated, even though the margins are lower than our standards. We have a very strong action plan to slightly increase these margins that right now are not the margins that we would like to have. So we see room for improvement and we are working for that improvement. Rather than growing the business in terms of the profit, we want to grow the business in the margins. That is our main task now because the capacity is fully loaded. That is our task now.

**Ronak Sarda:** Sure. And second question is for Vikas and JP. So if you can just explain the corporate structure in which you had announced last month, the subsidiary has now moved from Mahindra CIE level to CIE Forgings level. How does that change cash and how does that change the standalone cash position?

- K. Jayaprakash:** Okay. So nothing changes in the consol, P&L or debt position, Ronak, because it is within the growth. All that happens is from Europe, cash moves to India. So that is what we are trying to do. And it is not completed yet, it will happen, we have some RBI clearances we are awaiting, and it would happen probably in the next two, three weeks hopefully, if the RBI approval comes.
- Ronak Sarda:** Okay. And what is the quantum? And have we transferred the entire cash from CIE units or there are still some inter-company deposits at CIE level, CIE Lithuanian level?
- K. Jayaprakash:** What is the question?
- Vikas Sinha:** Ronak, when you say have you transferred all the cash...
- Ronak Sarda:** Sorry, what I meant was there was some cash balance at CIE level, which was deployed in terms of they were given to other CIE units as an ICD.
- Vikas Sinha:** I would think the whole thing would come here, nothing will remain there.
- Moderator:** Thank you. The next question is from the line of Shyamsundar Sriram from Sundaram Mutual. Please go ahead.
- Shyamsundar Sriram:** So broadly, of the €230 million revenue of CIE plant, what would be our exposure to diesel passenger vehicles in Europe? And post the WLTP transition, what is the outlook for the remaining part of this calendar year? And how does that look for the next year? You briefly mentioned the outlook, but if you can throw some color, that would be very helpful sir.
- Ander Arenaza Alvarez:** Yes, the diesel proportion, I cannot give you the detail now. It can be something like 20%, that would be there, rough figure, we will check and we will come back to you with the exact figure. But what is going on in Europe with the diesel is that the percentage of the diesel is going down and the percentage of the gasoline engines are going up. So the key point here is to have this balanced portfolio with diesel and gasoline so you will have the loss of the diesel parts, but you will win the growth of the gasoline parts. And I will give you one example, you will understand perfectly well. Supply in K9K diesel engine for Renault in Galfor, in our forging plant in Galicia in Spain. But at the same time we are producing the H5 crankshaft for gasoline for Renault also. So K9 is going down, H5 is going up. So, in fact, the total revenues that we are having now in Galfor are at the same level or above then we have previously. So we are not at all concerned with the diesel change, at least in our Mahindra CIE business, this is not impacting us negatively.
- Shyamsundar Sriram:** Okay. Sir, in the last call you had mentioned that Renault could see some impact, we could lose one or two weeks of production impact. That, along with this holidays, how does it all tie up during the quarter?
- Ander Arenaza Alvarez:** Yes, you can see that if you look at the European figures in this quarter you will see some slight, let's say, reduction of the sales and of the EBITDA due to this effect, mainly because we

have this holiday period where we stop our facility during two, three weeks, this is a standard in Europe. And at the same time, our customers, they took this time to change their product portfolio. Due to this regulation change, changing from the old exhaust measuring system to the new measuring system, they have to adapt deadlines. So they took, for example, Renault took one week more of vacation in September due to prepare the lines for the new procedure test norms. So that is what happened, and that is why the revenues went down. We are selling also to some German carmakers like Volkswagen or Daimler or BMW, and the drop for BMW group, Audi, has been the biggest one. But at the same time, as they knew that in September they were not able to sell cars, they sold much more in July and August, because they advanced and they sold all their stock previously. So the real impact in this quarter has not been huge. And what they are saying us in this moment is that they will recuperate and the order book for the next month is quite strong. So, let's see, I mean, with the changes in the market, we are looking at them carefully and we are prepared to immediately react to these changes. And that is where we are now. But overall, I think that we are managing that perfectly and the impact. As we are really well diversified, the impact is not relevant.

**Shyamsundar Sriram:** Okay, sir. If this is a standard shutdown, last year same quarter also we would have had this kind of a maintenance shutdown, or I mean a holiday shutdown. But we did not really see any, even in Euro revenues we did not see any impact last year. So the impact that we saw this quarter was largely because of the slowness in the end customers. Is that the right way to look at it?

**Ander Arenaza Alvarez:** Okay. If you look at the 2016 figures and you go back to the 2016 third quarter, you will see that we had this drop. In 2017, you are right, we did not have a drop but it was mainly because our MFE, our German forgings were running at the full rate. And that was because mainly we were recuperating from the backlogs from the previous months after we solved our internal problems. So, in 2017, the sales in the third quarter were very, very high or higher than usual, mainly because German forges were running at full rate. This year, even though German forges were also running properly and well, the average was a little less than one year before. But this reduction in revenues in the Q3 in Europe is standard. So we will see that every year because even the carmakers, Renault, Nissan, Daimler, BMW, they stopped at least two weeks in August time.

**Shyamsundar Sriram:** Okay. So the quarterly run rate should normalize from the next quarter onwards, or from this quarter, October, November, December quarter onwards? Is that a fair assumption?

**Ander Arenaza Alvarez:** I think so.

**Shyamsundar Sriram:** Okay. Sir, Europe margin has come off all sequentially. You had mentioned something related to the stock down. If you can please explain that part?

**Ander Arenaza Alvarez:** Yes, in fact, what we had been, due to this shutdown period in August we reduced our production, so our revenues, our internal revenues were lower than the sales. So we produced less. So we consumed our internal stock during this period. That was the main reason of losing

some margins. So, if we take the percentage of EBITDA against the revenues, we would be at 12.5% - 12.6%, so the drop-off almost 0.5 point is due to this effect of producing less than the sale. I do not know if you catch me, you understood?

**Shyamsundar Sriram:** Yes, understood, sir. So the margin should normalize again going forward?

**Ander Arenaza Alvarez:** Yes, that is what we expect. Once we recuperate the production in normality without a shutdown period, we shall recuperate the margins, yes. That is what we expect, yes.

**Vikas Sinha:** The only thing you have to remember that we have December in this quarter again. So these signal variations will be there. So you have August in Q3, you have December in Q4. So these kinds of variations you have to keep in mind from quarter to quarter.

**Ander Arenaza Alvarez:** Yes. It is true but in December, let's say, we have one week holiday instead of two, three in August, so the impact is much less. And that is the situation. So, yes, we expect to recuperate and let's say our feeling and our view of the business is that we are running in the same way that we were doing till now and we will keep in this pace.

**Shyamsundar Sriram:** Okay. Sir, in terms of our top three customers who are in the passenger vehicle business, Renault, VW and FIAT, what would be the contribution to the PV business, sir, if you can help us understand that?

**Vikas Sinha:** No, you are asking how much would the top three customers for our car forgings business account for, only for the car forging?

**Shyamsundar Sriram:** Yes, sir.

**Vikas Sinha:** Out of that €230 million, how much is accounted for by the top three?

**Shyamsundar Sriram:** Yes, sir.

**Vikas Sinha:** We will have to get back on that.

**Shyamsundar Sriram:** Okay, no worries. I will take it offline from here, sir. Just one last question, in India business RM cost as a percentage of sales has been increasing over the last three quarters. Is it because we are not getting price hikes on time, or is there a situation wherein because of competitive intensity we are not able to take price hikes? What is the situation there, sir?

**Vikas Sinha:** So, RM by sales percentage going, and this you are looking at it as the standalone numbers?

**Shyamsundar Sriram:** Yes, sir.

**K. Jayaprakash:** So we get compensated, there is no place that we don't get compensation for this. But it is pure mathematics. As we keep climbing, the percentage will go up.

- Shyamsundar Sriram:** Okay. So the percentage has no major issues?
- K. Jayaprakash:** There is no slippage there, we are able to improve our bottom line.
- Moderator:** Thank you. The next question is from the line of Priya Ranjan from Antique Stockbroking. Please go ahead.
- Priya Ranjan:** First, a question for JP. What was the net debt number for quarter?
- K. Jayaprakash:** About Rs. 7.5 billion.
- Priya Ranjan:** Rs. 7.5 billion. And why this is going up because of the restatement of the European debt in Indian rupees?
- K. Jayaprakash:** It has come down vis-à-vis the opening number, no?
- Priya Ranjan:** Net debt I am saying, after releasing the capital.
- K. Jayaprakash:** Yes, Rs. 7.5 billion. So it has come down vis-à-vis the beginning of the year.
- Priya Ranjan:** Rs. 7.5 billion overall?
- K. Jayaprakash:** Yes.
- Priya Ranjan:** And the second question is on the growth outlook across the market. I mean, the new customer, which we are talking about in the Metalcastello and domestic business and even in Mexico, what time line we see that all this ramp-up will be at the peak level of utilization? And maybe one year down the line, two year down the line kind of time line. And second part is on the Bill Forge expansion which you had done last year, so where are we in terms of the utilization of that? Like, Forgings where we have expanded. So what kind of utilization we are generating there?
- Ander Arenaza Alvarez:** Regarding Mexico, we are getting new businesses also right now with additional customers. And we are adding some more machinery to fulfill the demand during the next year. So, the SOP will be mid-2019 of these new programs. And we expect by the end of next year we will be at the peak. The current customer is also ramping up, and we expect also to be middle of next year in the peak of the volume. So, what we expect that we will have, during 2019 we will have an important growth in our Mexican plant. In fact, we are, today, a little bit below our budget because there is a delay from the customer. That is the situation. And regarding the Bill Forge in India, you saw that we have huge growth, organic growth this year also, let's say, about 20% - 25% organic growth. That means that all our capacities are full and we are adding some new CAPEX in Bill Forge in India in order to continue growing. And we have the huge demand, this year we added Rs. 282 million in investments for cold and warm forging so that the company continues growing. So the development of the company will continue given the opportunity to grow because we are doing, Bill Forge is doing fantastically with a nice margin



and with a very, very huge success in the commercial side. So, we will continue taking this opportunity to grow our business for the future.

**Vikas Sinha:** And similarly for Gears Italy, same situation. I think by the end of next year, the ramp-up will be fully achieved. So we are actually investing, even at a peak.

**Priya Ranjan:** And on the domestic front in terms of the new order wins, etc, which, I mean, we have talked in the past, on SOP, etc. So have we started supplying or we are yet to start supplying now?

**Vikas Sinha:** So in India we have started to supply. If you look at our nine months results as we talked about, refer page #5, our growth is roughly 23%. And if you look at our key customers and do a weighted average, our growth is higher than that. Our key customer growth rate is 15% and we have grown by 23%. So, the new customers that we have talked about, they have started hitting our P&L and they have started affecting our P&L and they are providing us with a little bit of extra growth that you are seeing.

**Priya Ranjan:** And in terms of the growth, when we talk about 23%, so how much is the pricing because commodity has also moved up. So what is the volume and pricing mix if I...

**Vikas Sinha:** This is a very rough thing that we could talk about. RM would account for roughly maybe 3%, 4% of that.

**Moderator:** Thank you. The next question is from the line of Ujwal Shah from Quest Investment Advisors. Please go ahead.

**Ujwal Shah:** Of late we have been hearing a lot about global OEMs lowering their growth targets, even China is seeing some kind of a slowdown. We have seen a very good auto growth across the globe for quite some time. Anything that you are hearing from your set of customers on growth numbers for the CY19? Are there any concerns that they are looking at?

**Vikas Sinha:** So, as Ander pointed out, of course, there has been a lot of changes that have happened in September. So, there has been, as I said, the growth of the market has been quite choppy as far as definitely Europe is concerned. But we do expect a lot of that growth to recuperate in the next few months. So, to that extent right now our order book looks absolutely okay. So there is no problem. Of course, the growth rate, as far as the passenger car market is concerned, has dropped down compared to previous years. I think the growth this year is for nine months. So the PV market in Europe has grown anywhere between 0 to 0.5% for the first nine months. But as we have pointed out, our growth in this market is because of the new order and not because of this market growth. So, the market for cars in Europe has, you are right, has slowed down. So it is between 0 to 0.5%. If you take EU, the 27 countries that form the EU, it is roughly 0.3%. If you take, including Eastern Europe, then it is only about 0%, there is hardly any growth there. So, that is there. But as we told you, our growth will be because of these new orders. As far as the truck market is concerned, I think the commercial vehicle market has been doing better than the car market and that is why Ander talked about growth in MFE, our

German plants. I think the commercial vehicle market, we don't have production numbers, but the registration numbers for the first half of this year, it has grown by roughly about 4%. So there is growth in the truck market so far. But yes, as we pointed out, we are keeping an eye on the market, it is very difficult to predict, frankly.

**Ander Arenaza Alvarez:** Yes, our commercial team is checking and asking our customers continuously to see if there is any movement in the demand or any reduction or slowdown in their expectations. And 100% of them, they confirmed us that they will recuperate and they confirmed us that the orders and the volume. So, yes, we are vigilant, we are really intense on that because we see that something is moving in the market. But all the feedback, and I will say you that 100% of the feedback we received from our customers is that they will keep their figures. So let's see. We are waiting and we are prepared to react if something is moving.

**Vikas Sinha:** We share your concern about the market, really.

**Ujwal Shah:** On Stokes transfer, sir, that you said the business might come to India. So, any margin impact that we might see positively for the Indian business? And any onetime cost for this closure of Stokes that we need to look at?

**K. Jayaprakash:** In terms of costs, onetime costs, we are talking about €4 million to €5 million. Yes, that will come in. And we would think over next six to seven months the transfer. And as a response to your question, has there been margin improvement, I think we are still in talks with the customers, we are trying to figure out how much will get transferred and what pricing, I do not think we can really comment on it at this point of time.

**Ujwal Shah:** Okay. And lastly, on Bill Forge Mexico, last time Ander did mention that company is doing a lot in terms of improving efficiency over there to match standards of CIE. So, where are we positioned as on date in improvement on efficiencies in Mexico? And what could be the peak revenue and margin potential from the Mexico plant?

**Ander Arenaza Alvarez:** Okay. In Mexico right now, we have one forging expert team there. There they are working inside in Mexico since the last month and they will continue there another six months, minimum. And they are implementing the different technologies and improvement system to get more efficiency and less downtimes in our production. We are improving a lot in this moment, and the trend is positive. You know that we have one transfer press already running and second vertical press that is going to start the production beginning January. And a new press that is already arriving now, we will set up this and start production also beginning next year. So the company continues growing. We have the new programs from additional customers that we will start during 2019. So, let's say, that the evolution is positive. We are still below our standards. We are not reaching yet our technical standards. But the improvement is there and the my expectation is that I am quite optimistic with the evolution of this company in the next months. So that is the situation. And yes, it is important company for us to improve because we expect to grow and to have an important margin from Mexico in the next years.

- Ujwal Shah:** And by 2020 what would be the peak revenue that Mexico unit can reach, sir?
- Ander Arenaza Alvarez:** Yes, depending on the new programs that we are receiving we could be at \$30 million more or less. That will be the target that we have right now. And if we succeed with additional businesses that we are now quoting, probably more.
- Vikas Sinha:** This is annual.
- Moderator:** Thank you. The next question is from the line of Nikhil Vaishnav from VD Investments. Please go ahead.
- Nikhil Vaishnav:** I would like to know in this quarter, we have seen some decrease in promoter stake from 69.83% to 67.76%. Can you give some clarity on this, why it has decreased?
- Vikas Sinha:** On the promoter stake, basically both CIE and M&M are designated as promoters. So CIE's stake remains at 56%, roughly around 56%, a little bit more than 56%. I think the M&M stake came down. They are now at 11.5%. So what you are talking about is a decrease in M&M's stake
- Nikhil Vaishnav:** Yes, so why it has decreased? Like why they have decreased their stake?
- Vikas Sinha:** No. So MCIE is a CIE company, it is run completely by CIE. M&M is very valued partner, but they provide us guidance. But the day-to-day management and the strategy of the company is in the hands of CIE. So what M&M is doing is best asked from M&M, and we will not be in a position to comment on that. But as far CIE is concerned, it is absolutely committed to MCIE, in fact, CIE has increased its stake from roughly about 51% to 56% in this calendar year.
- Nikhil Vaishnav:** Okay. And next I would like to know on consolidated basis quarter-on-quarter, I am talking about quarter-on-quarter, the sales have decreased. So what is the reason? Is it due to like European unit, which has shut down in this quarter?
- Vikas Sinha:** Yes, that is right. It is two to three week shutdown that Ander talked about, that is why the difference between Q2 C18 and Q3 C18 in consolidated numbers you will see.
- Nikhil Vaishnav:** Can you help me out, how much it has impacted, like shutdown we have seen, so how much it has impacted?
- Vikas Sinha:** No, that will be hard to quantify. It is almost half a month of sales. If you want to talk in very rough terms, it is half a month of sales you are talking about here.
- Nikhil Vaishnav:** And also incoming quarter in December, we will see the same situation, it will be shut down for two weeks.
- Vikas Sinha:** It won't be shut down for two weeks. It will be shut down for a week. So as I said, that is the normal pattern of business.

- Nikhil Vaishnav:** And the next question, Lithuania, Metalcastello and Mexico, so can you have some clarity what is the status of this? How much of the ramp up have we seen till now?
- Vikas Sinha:** So, Ander explained that just to a previous questioner, so I am trying to summarize what he said. He will add if there is anything more to be said. So as far as Italy is concerned, so by 2020 we should be in our ramp-up situation, we should be fully ramped-up. We are still investing in Italy. Bill Forge India also we have been investing, as he pointed out. Again, next year we will see growth there. Bill Forge Mexico, he already pointed out that by 2020 we will be reaching a figure of \$30 million on an annualized basis, and it could be more if some more programs fructify. The other area where we are ramping up is in Lithuania, which is our crankshaft business order, again, by 2019 we should be in a fully ramped-up situation. So, this is summary of what the four main areas of growth. Other than that, the India business, other than Bill Forge, is also showing good growth as you have seen. And so this is in summary what is happening on the growth front.
- Nikhil Vaishnav:** You said in Italy we are investing some like some further ramp-ups, so can you guide me with an amount like how much we are investing there?
- Vikas Sinha:** So, again, that was roughly Rs. 282 million from the first nine months of this year.
- Nikhil Vaishnav:** And how much we are investing? Like, how much we will be doing the whole year?
- Vikas Sinha:** That was not right. That was for Bill Forge India that we have invested Rs. 282 million. Gears Italy would also be roughly in the same range, roughly about Rs. 300 million.
- Nikhil Vaishnav:** And for full year, how much we will be investing?
- Vikas Sinha:** Take the same run rate, please.
- Nikhil Vaishnav:** And I would like to know any new order win or new customer added in this quarter like new orders?
- Vikas Sinha:** So, as I said, we have pointed out our new orders have been ramping up. So these capacity expenditures are for the orders that are already with us. And so these capacity CAPEX that we have done is for orders that we already have, so it is not for any new order. We continually work for getting newer orders. We have talked about in the past that we are talking with Hyundai and Kia in India, ZF in India. So we are talking with some of them and we expect orders to fructify from them.
- Moderator:** Thank you. The next question is from the line of Bharat from Quest Investments. Please go ahead.
- Bharat Sheth:** Question is mainly for Ander. Have we seen any impact of this renegotiated trade which has been finalized with Mexico and USA on our Mexico unit?

**Ander Arenaza Alvarez:** Okay. I have been repeating this message in my previous calls and my meetings in the Board here in Mahindra CIE and with all the different investors. What we saw from the beginning is that the Mexican activity wouldn't be affected by these renegotiations of the NAFTA agreement. In fact, what we see is that the new NAFTA agreement is really positive for the Mexican part manufacturers. You know that the previous NAFTA agreement required a local content of the products of 62.5%. And now this local content has grown up to 75%. That means that more local content is required from now on. This is one important point and that would be really positive for us and for, let's say for the manufacturers located in Mexico. Additionally, there is another requirement, it is a bit tricky. They require that 40% of the car need to be produced with salaries above \$16 per hour. That is, of course, that means 40% of the cars will be produced in the States, because Mexican salaries are much lower than that. So what this rule is looking for is to maintain the assembly of the cars and the assembly of the engines in the States rather than in Mexico. But the part manufacturers that, as we are a parts manufacturer, are not affected at all by that limitation. So overall, our view is that more parts will be produced in NAFTA, more parts will be produced in Mexico. So we will have higher opportunities to continue to growing business. And in fact, what we see right now is, as you saw that we are investing in Bill Forge in Mexico is that we expect to continue developing the business there. So let's say that we are happy now with the new agreement.

**Bharat Sheth:** Okay, great. And second, now with the changing European market, I mean, passenger vehicle going from diesel to gasoline, so when will it have any impact in the content for the vehicle from our side? See, if you are supplying say forging worth of €1 in a €100 car, will it change any significantly if it is going from diesel to gasoline?

**Moderator:** This is the operator here. The lines of the management has dropped. Mr. Bharat, may we request you to repeat your question, please.

**Bharat Sheth:** Ander. See, now in Europe, diesels are moving out and more of gasolines are happening. So do we see any impact on the content per vehicle changing for whatever we are catering to European gasoline manufacturer car?

**Ander Arenaza Alvarez:** Okay. Yes, I explained this also in a question before. I mean, what we usually have is we have a balance of the different products that we produce either for gasoline, either for diesel. And what we see right now, our portfolio is well balanced, what we are perceiving now is that the diesel components are reducing importantly, but the gasoline products, for example, the crankshaft that I explained before, the diesel crankshafts are going down and the gasoline crankshafts are going up. That means, in average, we are not feeling any impact. And this mainly is the main reason of not having this impact is that we are in loser engines but also in a winner engines, so we can offset that. So in terms of our Mahindra CIE business, we do not see any negative impact on that.

**Bharat Sheth:** Okay. And on India side business we are seeing some slowdown from September. So do we expect that India business may see some softer trend going ahead?

- Vikas Sinha:** Bharat, if the market comes down, obviously, we will have an impact. And you are right, we are seeing some impact in the four-wheeler segment for sure. But the two-wheeler segment remains robust, so does the tractor segment and the LCV segment. So, we are hoping that all in all, it will work out for us. But you are right, there are signs that the four-wheeler market is softening a little bit.
- Bharat Sheth:** Okay. And recently we read that Maruti is working on consolidating their vendors. So how do we stand there?
- Vikas Sinha:** We have been working very hard as far as Maruti is concerned. But as we have always talked about in the past, they have got a very good supply chain already in place. So we are working very hard with them, wherever there is an opportunity we are trying to see if we can work that opportunity out for them. So, yes, we are speaking with them.
- Bharat Sheth:** Okay. So could it be a positive or negative when will we understand?
- Vikas Sinha:** If it is positive, then we will probably talk about it. So you can rest assured of that.
- Bharat Sheth:** And what is the CAPEX guidance for next year?
- K. Jayaprakash:** We can go with the 5% that we have been always talking about.
- Vikas Sinha:** So 5% to 6% of sales, so roughly that would translate to about Rs. 4 billion - Rs. 4.5 billion that we need.
- Bharat Sheth:** Okay. And Ander, there was once upon a time a plan to bring all forging under the Mahindra CIE. So where do we stand like Brazil, China and one more we have plant?
- Ander Arenaza Alvarez:** Okay. The project to bring all these forgings to Mahindra CIE is still there. So we will probably make this step in the next, I would say, in the next quarter, next year. We have three forges, one is in China that we own, CIE owns 50% of this forging. Then we have the forgings in Mexico, that is Forjas de Celaya, that belongs 100% to CIE. And we have also additional forging plant in Brazil that belongs also 100% to CIE. So, the plan to incorporate those forging plants to Mahindra CIE is still there. So we will accomplish that. We are preparing the budget for next year and then we will prepare our strategic plan, and we would like to show and to present this strategy plan beginning next year.
- Moderator:** Thank you. The next question is from the line of Sreemant Dudhoria from Unifi Capital. Please go ahead.
- Sreemant Dudhoria:** While you have shared detailed on the European passenger car market and how the OEs are now expecting for the better months ahead, especially we do not expect a better October. For clarification's sake, just wanted to check, if Mahindra CIE plants in Europe are at similar utilization levels as they were before September, the current utilization levels of the plant?

- Ander Arenaza Alvarez:** Yes, yes.
- Vikas Sinha:** Yes, we do plan that. As we talked about, we have great investments in Italy, so we do plan same, at least we have not seen a softening of our order book and so we do plan the same levels of utilization.
- Sreemant Dudhoria:** Okay, great. Sir, secondly, wanted to check how meaningful is scrap metal usage in the overall raw material mix both in, say, in the India operations as well as the European?
- Vikas Sinha:** So on scrap, if you look at page #10 of our investor presentation, which I have not talked about in my opening remarks but we give it, which gives you the Q3 CY 2018 number, the other operating revenue line would largely be scrap.
- Sreemant Dudhoria:** Yes. But in the raw material mix, do you use scrap, more of scrap, more...
- K. Jayaprakash:** No. We use only in foundry a little bit, that's all.
- Moderator:** Thank you. The next question is from the line of Sunil Kothari from Unique Investment Consultancy. Please go ahead.
- Sunil Kothari:** Sir, my question is to Mr. Ander. So what right things we are doing in the European market? The market is growing at 3% - 4% somewhere, passenger vehicles is just less than 1%. And we are growing at around 15%. So how sustainable these are? And what we are trying to do which can sustain these things, please?
- Ander Arenaza Alvarez:** Okay. This is a good question. In fact, let's say, you know that we have three thrifths of business in Europe, and we can divide them. One is off-highway gears production in Metalcastello, then we have the passenger car forging components and then industrial vehicle forging components, that is German business. I would say that in Metalcastello, we got a huge order from our customer, Caterpillar, and we are now investing and ramping up this to produce and to sell this new order. That is one of the reasons for the growth. And this growth will continue because we are still adding capacity and we will be receiving two new machines by January and those machines will be ready to produce by April, May to start the production. So, this is something that is going on, this is a good point to grow on that and we will continue growing on that. In our Forgings, let's say CIE Forgings passenger car, what we opened was a new crankshaft production line in Lithuania and we got new businesses for this plant, and we are doubling the sales on this plant. That is the vision of our growth in the passenger cars. The rest of the business is growing also, the rest of the plant, but at a normal pace of 5%, 6% to 8%. But in Lithuania we are doubling the sales due to this additional line we started last year, and the new orders we got from our customers. And finally, in Germany, we are at full rate in this moment and we do not see growth expectation in this division. So, Germany will remain as it is or perhaps we will reduce a little bit. Because right now, we are working 24/7 days and that pattern is creating us some production stresses and quality issues and these kinds of things. So

we will probably reduce a little bit our exposure to Germany, and we will continue growing in passenger cars and in the gears production.

**Sunil Kothari:** Great. And sir, this German operation can achieve double-digit EBITDA or is this far away?

**Ander Arenaza Alvarez:** Which one?

**Sunil Kothari:** German operation.

**Ander Arenaza Alvarez:** No. MFE is far away yet to this double-digit EBITDA, but this is our target, yes. This is what we consider double-digit EBITDA is what we consider a minimum EBITDA to be sustainable to be able to renew the machinery, to invest and to be in the market in the long term. So, yes, we are looking for that double digit. We are not yet there yet.

**Sunil Kothari:** Sir, last question, just now previous question you replied about this merger of other CIE's forging units in this in Mahindra CIE. So the time line you have given is next year or next quarter?

**Ander Arenaza Alvarez:** Next year, yes.

**Moderator:** Thank you. The next question is from the line of Shyamsundar Sriram from Sundaram Mutual Fund. Please go ahead.

**Shyamsundar Sriram:** Just broadly in Europe, in terms of Europe we have done about 10% revenue growth. How does the volume and price mix there? Perhaps what we have indicated 1H we had about 1% kind of RM price hike that we obtained. So how is it now in 3Q?

**Ander Arenaza Alvarez:** Okay. The point is in the Q3 there is no price update, I mean, the price update was done in Q2 and so we compensated all the amount lost in the Q1. So from Q3 there is no additional change, there is no additional movement. I would say that also in Q4 the raw material will continue flat. And then for the next year, we do not know yet what will happen.

**Shyamsundar Sriram:** Okay. So of the 10% Euro revenue growth, how much would be volumes, sir, 8% - 9% of volume growth?

**Vikas Sinha:** No, I think if you look at our nine months figures for MCIE Europe, I think we have grown by 29%, out of which the impact of the exchange rate is about 14%. So, the real Euro term increase is roughly about 15%, Out of that some part of it, roughly 3% - 4%, again, would be impacted by the raw material price increase, and the rest would be volume.

**Ander Arenaza Alvarez:** Yes. I would think that from the growth 3% or 4% is coming from the raw material price increase and the rest, I would say, then 11%, 12% is volume growth.

**Shyamsundar Sriram:** And then how does same thing look for India?



- Vikas Sinha:** India, and I am talking again nine monthly results. So you have 23% growth, again, if you take out 3%, 4% of raw material again here and out of that 20%, 21% growth, roughly 15% is coming from our key customers. And the rest is coming from other customers, new customers and smaller customer growth.
- Moderator:** Thank you. The next question is from the line of Priyanka Mehta, an individual investor. Please go ahead.
- Priyanka Mehta:** I had a question regarding the Mahindra Bill Forge and Mahindra CIE. When do you expect the approvals to get through?
- K. Jayaprakash:** You are speaking when the merger will come through?
- Priyanka Mehta:** Right.
- Vikas Sinha:** See, we would expect it to come in about six months' time, but you never know nowadays and NCLT is really chopped up because of these IBC cases. But I would think six to eight months would be what I would expect.
- Priyanka Mehta:** All right, okay. Another question was, last call we had discussed that you would disclose the roadmap of 2020.
- Vikas Sinha:** Yes. We had said that we will probably do it by the end of this year. But we are rethinking and reworking on it and we will perhaps do it sometime next year. Yes, we have promised we will do it sometime later this year. My apologies for that, that we are not doing it. We will do it sometime next year, but we will do it.
- Moderator:** Thank you. The next question is from the line of Bharat from Quest Investments. Please go ahead.
- Bharat Sheth:** Stokes which we are closing down, so what will be the impact? I mean, currently are you earning any revenue and are you incurring profit or loss? If you can give me some color on that.
- K. Jayaprakash:** See, if you look at out of the total turnover Stokes was about 1.5%. And on that, a very significant EBITDA and bottom line. So I do not think it's going to be very material.
- Bharat Sheth:** So are we earning or making a profit or is it a loss making unit?
- K. Jayaprakash:** Marginally loss.
- Bharat Sheth:** And do we have any plan to shift machinery or anything, or it will not be?
- Vikas Sinha:** No, as I talked about, we are talking to customers to shift the business. As far as the machinery is concerned, I think that also we will take a call on whether we can shift it to other plants.

- Moderator:** Thank you. The next question is from the line Manish Chanakya, an individual investor. Please go ahead.
- Manish Chanakya:** I would like to know that the Lithuania plant, when we do the expansion of crankshaft, what kind of revenue do we expect to be generated, additional revenue?
- Vikas Sinha:** Ander did mention that the Lithuania plant is doubling its revenue from now to 2020, so it would be going from €20 million to roughly about €40 million.
- Manish Chanakya:** It will be annual, sir?
- Vikas Sinha:** Annual, yes. Sorry, we are talking annual, my mistake. I should have said that.
- Manish Chanakya:** And what about in Italy, whatever ramp-up you are doing that?
- Vikas Sinha:** So Italy, if you look at last year we were roughly around €50 million and that €50 million, you can expect a growth of about 20%, 25% on that.
- Manish Chanakya:** And both these growth will be coming in CY20?
- Vikas Sinha:** Some growth this year, some growth next year.
- Manish Chanakya:** So CY19 then?
- Vikas Sinha:** CY19, you will see growth and CY20 also, you will see growth.
- Moderator:** Thank you. Ladies and gentlemen, that was the last question. 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*