"Mahindra CIE Automotive Q3 FY16/ 9 Months CY 15 Results Conference Call"

February 23, 2016

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Moderator: Ladies and Gentlemen, Good Day and Welcome to the Mahindra CIE Automotive Q3 Financial Year 2016 and Nine Months Calendar Year 2015 Conference Call hosted by ICICI Securities Limited. As a reminder, all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Jeetendra Khatri. Thank you and over to you, sir.

Jeetendra Khatri: Hello, and Good afternoon everybody. Thank you very much for joining us today for the Mahindra CIE Automotive Conference Call. From the management side we are represented by Mr. Hemant Luthra – The Chairman, Mr. K. Ramaswami – Managing Director, Mr. Pedro Echegaray – Executive Director, Mr. Sanjay Joglekar – Chief Financial Officer and Mr. Vikas Sinha – Senior Vice President, (Strategy). I would now like to hand over the call to the management for initial remarks.

Hemant Luthra: Good afternoon, this is Hemant Luthra and I do not want to hold up time with respect to questions because there will be many and I know that the latest quarter results are "not what they should be", Disappointing, but as somebody who has always seen the glass as half full and never half empty, we believe that now that Mahindra and Tata, particularly the Mahindra product launches have shown that there is potential upside with the new products that they have, we should get both their volumes back. Particularly in stampings which has been a concern for us. We also hope to get some overdue price increases from them. This is not a promise, this is something that we expect will happen. And in Germany, I am actually quite pleased with the fact that we are taking this one-time charge, actually what it means is that you are reducing the number of plants and you are letting 200 people go and swallowing the bitter pill once. So from our point of view in terms of the prospects of Mahindra CIE, nothing changes, we are still aggressively looking at M&A options both inside the country and outside. Several opportunities have shown up, some public and some not public. We continue to manage our costs in a manner that as soon as the volumes come back from the automotive industry we will be back on track.

The Board had approved options and incentives which is public knowledge. To tell you the truth, the options are at Rs.150 for all of us, our bonuses are tied to the company's growth being significantly higher than what you might anticipate off this base. So I do not want to say anything more. But shoot in terms of questions, you are more than welcome, start wherever you like.

Moderator: Thank you. Ladies and Gentlemen, we will now begin the question-and-answer session. Our first question is from the line of Basudev Banerjee from Antique Finance. Please go ahead.

Basudev Banerjee: As you rightly said, this quarter seasonally is a good quarter for the tractor business and also TUV got launched so Mahindra's automotive volume was also pretty much on the higher side, despite that for standalone business we see revenue being only flattish QoQ. And second thing is, gross margin in the standalone business also came down by almost 100 basis points, so can you highlight what are the reasons behind these two, sir.

Hemant Luthra: M&M volumes are starting to come back, so I think what is happening is that M&M volumes are coming back and that is a leading indicator. The bookings have started and the shipments should follow. As far as the standalone margins are concerned, I have already mentioned that, even though the breakup is not available in the public domain but we keep looking at it ourselves. We have had no problem with forging, we have had no problem with gears. It is in stampings where there are some problems and that stamping problem is related to the volatility of scrap prices. The way we deal with our customer is that we buy steel at a price, we convert it, we have scrap, that scrap gives us a certain revenue which the customer takes into account while he fixes prices, because of the volatility of those prices and the fact that they are corrected every quarter, there may be a lag effect which we hope will be made up in the coming quarter and thereafter. So there is nothing in the long-term that makes any difference to us.

Basudev Banerjee: And sir for standalone business for last almost three quarters we are seeing depreciation moving up every quarter, so with no major CAPEX requirement as such, so where should we see that consolidating, how to look it for next year as such?

Sanjay Joglekar: The standalone depreciation, basically you know the law had changed to componentization of the machines and equipment and we carried out that exercise in the quarter October to December, so there is an extra effect of depreciation in this quarter.

Basudev Banerjee: And sir at Germany level, what was the quantum of the write-offs you accounted this quarter?

Sanjay Joglekar: The quantum I think we have given, it is about Rs.778 million. This is I would say almost 95% of it is in Germany.

Vikas Sinha: Basudev, you talked about M&M volumes going up, volume is not going up in commensurate production levels, yes the production levels at least for M&M has gone up significantly for this quarter, but you have to remember that RM prices are coming down therefore the full reflection in revenue is not there.

Basudev Banerjee: So it is the metal deflationary impact you are saying as such?

Vikas Sinha: Yes, there is also a little bit of impact on that count and also because of that you have to remember the commodity prices are coming down, the scrap prices are against us, so that also is reflected in our margins.

Basudev Banerjee: So basically I was asking, seasonally tractor volumes were pretty much strong this quarter… So that is fine. Thanks sir.

Moderator: Thank you. Our next question is from the line of Nitesh Sharma from PhillipCapital. Please go ahead.

Nitesh Sharma: Sir, my question pertains to the Jeco plant movement, so are the one-off impact behind us or would we see more impact on our margins in the coming quarters as well?

Pedro Echegaray: Yes, there is a slight delay in our overall plan to close down Jeco. Most of the extraordinary expenses have already happened in third quarter, there will be some additional extraordinary exchanges in fourth quarter but by the end of this quarter, by the end of March the complete process will be finished and beginning of April we will be back to normal and stable condition without any extraordinary impact.

Sanjay Joglekar: I would put like this, what we have put as a onetime cost, that part is over. Pedro is mentioning that when such a process is going on, indirectly a lot of other costs keep on coming and that is what probably to some extent will continue in this quarter January to March.

Nitesh Sharma: Sir, and any color as to how much was the impact because of this plant shuffling in Q3?

Sanjay Joglekar: It is difficult to quantify, I mean except exceptional we have already given you which is I think out of 778 almost 650 or so is due to this Jeco plant.

Nitesh Sharma: And this 778 was entirely below EBITDA, so I wanted something above EBITDA what was…

Sanjay Joglekar: You can take everything about EBITDA if you wish, but then if you are saying those indirect costs which are coming in the cost structure, it is very difficult to quantify.

Hemant Luthra: Instead of quantifying them like Sanjay is saying, let me try and qualify them. What happens is that that Jeco shop which has hammers and it is now being moved to something more sophisticated in another facility where we uses presses. Jeco was in the middle of a town, we could not work before 8 in the morning or after 6 in the evening, the town had grown up around Jeco**.** And therefore this whole process of transferring the product from hammer to presses requires going back to the customer, making new dyes, getting them certified and the process has taken a little bit longer because the entire set of dyes had to be replaced from hammer dyes to press dyes. Once that process is over, and sometimes even what happens is that if the customer has an accelerated demand which we may have under estimated, some of the work may even have to be done outside and we believe that at the end of this quarter we should be behind us. And I will try and find out for you, if my CFO permits to try and quantify, since you are looking at it how much was above EBITDA and see whether the degree of granularity I could provide. But we have to make sure that everybody has the same degree of granularity, we will try and see what we can add to the website if possible, we take your question in the right spirit.

Nitesh Sharma: Sure sir. Sir, also you had previously mentioned that post the shifting of Jeco plant is over, we would see as high as 200 bps margin accretion from the new plants because this was primarily a loss making kind of a unit, so are we still standing with our guidance that our market improvement is on-course because of this change in shift of plant?

Pedro Echegaray: So Jeco plant has labor cost of roughly €8 million per year, that cost we will not have any more.

Sanjay Joglekar: But some of the employees are transferred, so what we should say is like this, that there are about overall Jeco and others around 200 people have been reduced, the cost pertaining to them has been booked in this year, so employee cost related to that should come down.

Hemant Luthra: I will also add that whenever there are questions over here, nobody gives specious answers without thinking, so if somebody has said 200 basis points let me check again, but nothing has changed to change that forecast, is somebody gave it to last quarter we do not keep revising numbers, but I do not remember the 200 basis points, I will check for you and will get back to you.

Moderator: Thank you. Our next question is from the line of Priya Ranjan from Systematix Shares & Stock Brokers. Please go ahead.

Priya Ranjan: First a housekeeping question, I mean what was the revenue for Metalcastello this year, I mean for nine months?

Sanjay Joglekar: I think at the moment we are staying on between the standalone and the subsidiaries, when we will come out with our annual report we will talk about company wise details.

Priya Ranjan: I mean any indicative number.

Sanjay Joglekar: See look, indicative number and real number cannot be much different, so if I were to give I will put it on website.

Pedro Echegaray: There are no changes; Metalcastello is performing well in line with the plan.

Priya Ranjan: So in line with the plan, but last year revenue was around 3900 something, 390 crores or so, so the run rate is similar even this year?

Hemant Luthra: I will tell you what we have been doing, and therefore Sanjay has a little bit difficulty in answering the question. We are pursuing higher margin and therefore there is a product cleanup, so if you are asking me that is Metalcastello likely to be more profitable this year, yes. If you are asking me is the volume going to be the same, I do not know because I do not have it on the tips of my fingers but certainly Metalcastello…

Priya Ranjan: I am talking about nine months – I am not talking about current quarter but nine months I mean last year run rate was maintained.

Sanjay Joglekar: We already have, but it is not in public domain, we will come back to you.

Priya Ranjan: So just moving to other question, just on the entire 8 million onetime expenses was for full year number, I mean for employee cost which we have given to the separation for Jeco, right?

Sanjay Joglekar: Sorry, which number you said?

Priya Ranjan: Rs.80 crores.

Sanjay Joglekar: So 80 million you said is for?

Priya Ranjan: For full year.

Sanjay Joglekar: Yes, it is for the period April to December, you are right.

Priya Ranjan: Yes, April to December but I mean the impact, the separation cost might be for one year, right, if you hand over the separation cost then it will be for one year?

Sanjay Joglekar: One year exactly?

Priya Ranjan: I mean you have to give the employee around one-year compensation.

Management: That is what has been discussed there as per the law, discussion with the union negotiations and accordingly it has been paid.

Priya Ranjan: So 80 crores is roughly for the full year I mean that will be the impact?

Sanjay Joglekar: I would not say a year; it has been paid as per the German law.

Priya Ranjan: And out of that 150 was from Jeco, if I am not wrong, out of 195, then the rest of 45 employees has been reduced from other plants in Germany?

Sanjay Joglekar: Look, why do we not talk about MFE as a whole rather than plant wise, because there would have been even internal transfers and for your purpose or my purpose it would not make any difference, we are not going into that granularity just now.

Priya Ranjan: Sure sir, just wanted to gauge, I mean what kind of operational improvement can come going forward?

Sanjay Joglekar: You will see them quarter-on-quarter.

Hemant Luthra: I will tell you what kind of operational improvements can come going forward without violating anything. We have said this before and you will see the difference between Mahindra CIE consolidated and Mahindra CIE standalone is a couple of or maybe more percentage EBITDA difference. The idea that we have is that you have to benchmark yourself to best in class and you have to benchmark yourself to whatever it is the best that you have achieved before. So both these numbers are in the public domain, best in class, CIE forging is ahead of what I can see of Bharat Forge in terms of their overseas operations. You can see the numbers from the last year consolidated and you can see the numbers from this year consolidated. If you look at best that we have done historically, which will hold our feet to the fire for all the operating people, you will see that during its best days Mahindra Forging, different plants in Europe were doing between 8% and 10% or 11% EBITDA, and yes we will have to push them to get back to the same place. Maybe we will have to push them even to get back to where CIE forgings is. So make an estimate and say that maybe we have promised and we promised one year, maybe it will take two, but the benchmark is easily available.

Vikas Sinha: And Priya Ranjan, those 200 workmen that we are talking about have been separated, the benefits of that will be accrued in this calendar year starting this quarter.

Priya Ranjan: So if I do the backward math, then probably the 11% targets would be hitting now just because of the employee cost, if I am not wrong?

Vikas Sinha: We will leave that to your judgment Priya Ranjan.

Hemant Luthra: You are saying 11, but we are not saying 11, aapke muh me ghee shakkar, what else can I say.

Priya Ranjan: I mean if you just…

Hemant Luthra: There is not tightening, I have told you I think on the call last time that there is a very healthy competition between all of us, so KR who is doing a fantastic job at forging has got a benchmark, Ramesh Kaul who has done a great job on composites and on gears and we have a whole bunch of people in Germany doing something which is with the European plants that they inherited from us and their own plants. So it is a nice healthy competition and the best in class is what we target ourselves for.

Priya Ranjan: And just on the gear business, the gear business we have mentioned in the presentation that we have done lot of product changes so that now it is more tilted towards the passenger car and other categories rather than tractor which was earlier the case. So just can you throw some light on that? And the second question is on the foundry business, foundry has been a pain point because particularly because of lot of rejections and all, so where are we now standing in that?

K. Ramaswami: If you look at the financials of the foundry in the last five, six years, there has been significantly turnaround in the foundry in terms of operations and operating profitability. Well, I cannot share the numbers; I can tell you that over the last five years we have turned around increasing the profitability of the foundry business as such. In the last one year, the foundry business profitability in terms of cost controls and contributions have remained more or less stable, however we have had one or two setbacks when the government withdrew the export incentive for export, we do 30% of whatever business we do, we export to Europe and US and to that extent our products, like the question was in terms of rejection, the product is recognized internationally because 30% of our parts get exported. Coming back to the point, while on cost control and contribution, we are on track and improving year-on-year. There is setback because of the incentive withdrawal has put us slightly behind, but the biggest thing that has happened in the last one year in foundry business is that the general market condition is not very conducive for foundry business. If you look at the foundry business and automotive, it is more or less going into tractors and off highway vehicles and the tractors market in the last three months as you know including Mahindra has not been doing very well. Therefore, the utilization has been the key concern and we expect the utilization to pick up significantly in the next two quarters because foundry business also supplies quite a bit to the commercial vehicles segment and that segment is expected to grow. So the last quarter if you look at, the main reason has been because of lack of significant volume growth because tractor market has been down, but we expect the market to pick up since we have adequate control on cost and we have significant reputation on our product quality, given the fact that we do 30% of whatever we export to Europe and US. We have fairly positive sentiments for growth of top-line in the future.

Priya Ranjan: Just one thing, you have mentioned couple of product new launches and you have also mentioned that it is not able to ramp up those, I mean to increase the volume from those in the foundry side, so can you throw some light on that.

K. Ramaswami: I do not recall any ramp-up issue on the product as such, I do not know if you are referring to anything particular, I can elaborate on that.

Priya Ranjan: Like turbo manifold and all, these new products which you have developed, why the growth is not so great?

K. Ramaswami: Fortunately, turbo manifold is something which we have developed, but the customers are not really introducing it as their product, it has been one of the complex designs and one of the technological breakthrough for developing turbo manifold but it is not ramping up because our customers are not really using it that much more.

Priya Ranjan: But can it change after BS-IV norm next year?

K. Ramaswami: There will be significant changes in terms of turbochargers and kind of turbochargers that we use when we get these new emissions norms. The manifold material also might change but I cannot tell you whether the customers will go really for turbo mini which is a combination of the manifold and the turbocharger housing as such. At the moment it is not clear but there would be changes in terms of material, temperatures because of the new norms, we will have to wait and see but we are abreast with the customers in terms of developing parts for them.

Priya Ranjan: So that will basically boost, I mean that way?

K. Ramaswami: Yes, it will be a boost but if we took financials of the foundry as such, it is a top-line that needs to grow and we are also trying with the government to get back the incentives that we had on exports but we will have to wait and see, cross fingers.

Priya Ranjan: And just another question on the balancer shaft, why the volume is not picking up, because it is as of now used by only one OEM and that is only for one engine?

K. Ramaswami: Yes, it is developed for one engine balancer shaft, customer had some teething problem in introduction of the vehicle and so they have delayed the introduction. They are producing it but in very-very limited volume, but we have a full line set up, that is part of the business risk we take but we expect the balancer shaft volume to pick up in the second half of the next financial year at least to the volumes that we have invested in.

Priya Ranjan: And then probably gear business.

Vikas Sinha: Yes, gears business, I think your question was, are we diversifying, if you can recount the question please.

Priya Ranjan: You have mentioned in the presentation that there has been a significant shift from the tractor side to the passenger car side.

Vikas Sinha: That is correct and what you want us to elaborate also, but yes that is a statement of fact, we have diversified away from tractors, tractor has not been growing, if you look at gears business two or three years back it was completely dependent on tractor, we have built a plant at Pune, one of the main reasons was to look at the auto customers, so we have started looking at auto customers and we have also started exporting quite a bit, so diversification has come from both these sources.

Priya Ranjan: So how the new plant in Chakan is, how is that working and the utilization level is still at lower level or how is it?

Vikas Sinha: It is ramping up, but yes it is not at full utilization, that is correct. But we are very comfortable with the gears business as we stand today.

Priya Ranjan: And just one question on MFE, I mean the European business.

Vikas Sinha: German operations?

Priya Ranjan: Yes, European operation. So that was related to Metalcastello, I mean there has been talk in the earlier calls as well that the facility will gradually move towards more of a machining apart from whatever we are doing as of now, I mean the gear business. So where are we there in terms of diversification of that plant?

Vikas Sinha: If you look at Metalcastello, yes that is part of our strategic plan, strategic plan of course is to move away from off-road, because if you look at the data and we have tried to fish out some data on the agri machinery market of Europe, you have seen two straight years of drop, almost 5%, 5% drop each. So the market is in a bad situation, so we need to move away from just off-road market and for that we are targeting newer industries like Auto and defense and then we are also looking at machining. So as far as the machining bit is concerned, we have not made much progress but on the auto and defense side we are actively looking for new customers and we are in talk with new customers. Pedro, if you want to speak about it.

Pedro Echegaray: Yes, both Metalcastello and Gears, India we have been integrated in CIE machining division because we think that using both CIE technical and commercial expertise on customer contact we cannot develop the machining technology both in Italy and in India. But as Vikas said, we have contacted already most of our working customer, now Metalcastello and India are being concerned as potential suppliers of machining, but so far we have not got any orders yet but we are quite optimistic that we will get some orders in the short-term.

Hemant Luthra: Just the thing is that, I think you should perhaps mentally stop thinking of Mahindra Forgings in Europe as it is distinct from CIE Forging, because the true success of this is going to be that if there are the product, the processes and so on are fungible and product moves to the facility that is nearest to the customer or there is most efficient and so on, so yes it is useful to ask questions about Mahindra Forging, the erstwhile Mahindra Forging in Europe because it is aspiring to the same standards as CIE forging brought to the table, 15% EBITDA and so on. But as you go forward, the two facilities should become fungible and as you go forward maybe that is our hope that not only will those two facilities become fungible but India will also reach the point where the quality of product and processes are such that much more outsourcing can be done from here.

Priya Ranjan: So related to that question only, there has been talk about product rationalization or product rationalization at MFE, so where do we stand at this point of time?

Hemant Luthra: You are seeing part of it already happen, so you are seeing that we are shutting down one plant and we are moving product from one plant Jeco to something else. We do not want to try everything simultaneously, so those estimates that we have, those products that have been serviced by plant which is other than Jeco and it has been serviced by a plant which is other than where the Jeco assets are being transferred because there is a lot of work going on there, we are receiving queries from our European marketing team and they direct the queries to where we think that the maximum value can be extracted. So it is all work in process.

Pedro Echegaray: One new activity that we have started, it is quoting crank shafts for commercial vehicles from MFE. You will recall MFE is not manufacturing crank shaft while CIE is very strong for passenger car crank shaft. So using the idle capacity in 12,000 ton press in MFE we have started quoting commercial vehicles crank shafts.

Priya Ranjan: And that is just because of the excess capacity or we will be moving some of the front axle beam to some other location?

Pedro Echegaray: That is also possible, as you know in Schoneweiss we have a fully automated 12,000 tons which is best for high volume production, high volume from axle beams. So one of the options we are considering is moving to Galfor we have hammers which are more adequate for low volumes forging of front axle beams, low volumes from Schoneweiss But this is still under analysis but initially we will use the existing idle capacity and if we think it makes sense then we might move some from axle low volumes from Schoneweiss to Galfor.

Moderator: Thank you. Our next question is from the line of Ashwin Shetty from Ambit Capital. Please go ahead.

Ashwin Shetty: First question is from the European revenue side, so you have given the production levels and European CV market is growing by close to 8% in fourth quarter and PVs also in positive, but in euro terms the revenues have declined by 2%, so just wanted to understand this anomaly between the market growth and the growth of our European operations.

Vikas Sinha: That is right, and we have also mentioned in Europe right now we are not gunning for growth, we have shown the market but right now especially given that in the last quarter we were in the process of closing down Jeco, we are not gunning for growth and we have explicitly mentioned that and that would be the case going forward also, we are gunning for profitability.

Ashwin Shetty: So we have actually dropped out of few low margin products, is it?

Vikas Sinha: Yes, and we have explicitly mentioned that we are doing a product portfolio review at German operations, as for Italian operations we have already completed this task, so we are not chasing growth per say.

Hemant Luthra: I am going to qualify what Vikas is saying, growth is not for growth sake from existing operations, but there are handful of M&A opportunities that are cropping all over the world and growth is coming from there and our five-year strategic plan has an aggressive, aggressive growth target of doubling both revenue and profits.

Ashwin Shetty: And my second question is, just a clarification, Mr. Pedro mentioned that currently Jeco has an employee cost bill of something like €8 million, so this pertains to 200 workers or 160 workers?

Pedro Echegaray: In total the headcount reduction in Germany has been 195 workers in total, not only Jeco.

Management: We said approximately is 200 what I said.

Ashwin Shetty: So the 8 million pertains to 195 workers, correct?

Sanjay Joglekar: 8 million?

Ashwin Shetty: Mr. Perdo mentioned that the current labor cost at Jeco plant, basically before closure is close to €8 million. So I just want to clarify, this €8 million is a figure that he mentioned, that is correct or what was the employee cost?

Sanjay Joglekar: Only for employees?

Ashwin Shetty: Yes.

Management: Yes, the 200 people would be approximately €8 million.

Ashwin Shetty: And lastly if I can squeeze in one question, on the domestic side just wanted to understand the new products in stampings and casting, are we supplying it to Mahindra's UVs like TUV and KUV?

Vikas Sinha: Yes, we are.

Ashwin Shetty: Because in the presentation it is only mentioned stampings for Jeeto and castings for…

Vikas Sinha: No, no those are new products that we have developed, that we have developed on our own.

Ashwin Shetty: So are we supplying the two Mahindra'a recent launches?

Vikas Sinha: Yes, every launch.

Hemant Luthra: I think you should also remember, I am harking back to a period where I do not know how many of you were on this call, during the Lehman crises when other volumes fell off Mahindra stood behind Mahindra Systech, Mahindra is a shareholder of Mahindra CIE, 20% shareholder, there is complete arm's length pricing, but all things being equal we will be given a crack at the best opportunities.

Vikas Sinha: So Ashwin just to clarify, in the note, we have said that we are participating on all new models of Tata Motors and M&M, so that is in terms of we are on all launches. But we have developed new products, we are showcasing our product development skill, for Mahindra Jeeto we have built those cargo bodies etc., the entire year transmission gear package for Mahindra Jeeto and some parts for Mahindra Supro. But those are new products that they have developed, that is for product development, but participation is on all new models.

Moderator: Thank you. Our next question is from the line of Chintan Vohra from Value Quest. Please go ahead.

Chintan Vohra: On the subsidiaries front, I wanted to ask that the difference your EBIT and PBT which EBIT is at 38 crores and PBT is 31 crores, right, for the current quarter, the difference is 7 crores which could be attributable towards the interest cost. But if I see in the previous quarter the difference is of 21 crores, 71 crores is EBIT and PBT is 50 crores, so why that number has gone down?

Hemant Luthra: Looking at the presentation can you tell us which page you are looking at?

Chintan Vohra: I do not know the page number, but the presentation what you have given for the quarterly financials, in that EBIT number is 38 crores for the current quarter, right? I am talking about subsidiaries.

Sanjay Joglekar: Subsidiaries is 38 crores.

Chintan Vohra: And PBT is 31.6 crores, right?

Sanjay Joglekar: Okay.

Chintan Vohra: The difference is 7 crores which could be attributable towards the interest or the other cost, right?

Sanjay Joglekar: Yes.

Chintan Vohra: But for the quarter two the difference between EBIT and PBT is 21 crores, so wanted to understand why that number has gone down from 21 crores to 7 crores.

Sanjay Joglekar: That will be on account of reduction in interest which is continuously happening and the debt which has been repaid and if you see that there is a large amount, we have been talking about that, we will do factoring of receivables in Europe, factoring of receivables if cash and debt is repaid and the cost of factoring is very-very low. Now we have done factoring of approximately €50 million or Rs.350 crores, and if you see the balance sheet you will find also ac considerable reduction in the debt.

Chintan Vohra: Right, the debt has been reduced by 460 crores in the nine months.

Sanjay Joglekar: Correct.

Chintan Vohra: But that was more towards the later part of this quarter in this quarter?

Sanjay Joglekar: Yes, the factoring was more towards this quarter, I mean October to December quarter which is then resulting in saving and interest.

Chintan Vohra: And the other thing I wanted to understand, what is the steady tax rate in the standalone business and the subsidiary business?

Sanjay Joglekar: I cannot clarify the tax rate which I think in all our previous quarter talks we have said I cannot clarify the tax rate because then you are almost talking about future projection.

Chintan Vohra: No, not that but the volatility, the number is going from as low as from 26% to 48% in the standalone business and for the subsidiary it is as good as more than 60%, so wanted to understand what could be the ideal state tax rate, for the full year I am saying, not for quarter-on-quarter but for the full year.

Sanjay Joglekar: Tax rate is something that depends on the taxable profits and not on book profits, so at the moment I cannot really clarify on that, maybe we can talk more after our annual report is published.

Moderator: Thank you. Our next question is from the line of Mahesh Bendre from Way2wealth Securities. Please go ahead.

Mahesh Bendre: I was looking at the same page that you mentioned in the presentation, page number 20. In subsidiaries during this quarter we have reported EBITDA OF 73 crores, so does that include any one-offs or is it a clean EBITDA?

Sanjay Joglekar: No, I think what we did this time, and good you asked this question, we have just put all the numbers clean, that is without including any exceptional items so that comparisons become clear and the exceptional items have been shown below.

Mahesh Bendre: So actually EBITDA will be what, I mean will that be 150 crores if I add exceptional back to….?

Sanjay Joglekar: Yes, so you are on quarter or you are on…?

Mahesh Bendre: I am taking about the quarter, October to December 2015 and EBITDA is 729 million, 73 crores.

Sanjay Joglekar: Correct, and the exceptional cost is about 78 crores.

Mahesh Bendre: So if I put that back, so it will be around 150 crores, is it right?

Sanjay Joglekar: What is 150 crores, it is only 5 crores if you minus.

Mahesh Bendre: No, exceptional item is give below that, right?

Management: That is 778.

Sanjay Joglekar: No, you take it 73 crores and 77 crores or 78 crores, so 73 and 78 the difference is 5 crores.

Mahesh Bendre: Okay, I got it. And sir, we have closed down one facility in Europe, are there any further plans of major restructuring going forward?

Sanjay Joglekar: See, as we have said we will keep on doing such improvement, but at the moment there is no such major restructuring plan on hand.

Mahesh Bendre: Sir given the natural soft performance in last two, three quarters, we had set some targets regarding achieving certain margins in 2017, achieving some growth or achieving certain capital employed, so are we still maintaining those targets or is there anything change in the long-term plan?

Pedro Echegaray: No, what you have seen in third quarter is just a onetime exceptional cost and we maintain the same profitability and the same revenue projection that we have in the past, there are no medium or long-term changes, it was only last quarter and as I said maybe during this quarter by the end of March all exceptional costs will happen and we will start April with a total clean situation and no extra ordinary cost

Mahesh Bendre: So you are trying to say that from April onwards there would not be any major extraordinariness?

Pedro Echegaray: Correct.

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

Jinesh Gandhi: Continuing on the same question for Jeco, would it fair to say that the entire benefit of this closure of plant will now reflect only from 1Q and there were no major benefits in…?

Pedro Echegaray: In financial year we will show some improvement in fourth quarter, January to March we will see some improvement, but the full improvement from these cost reductions we will see starting first quarter financial year 2017.

Jinesh Gandhi: And secondly with respect to European operations or rather the subsidiaries operations, you indicated that we have been focusing on profitability and hence divested some non-profitable or relatively less profitable products, but if I look at subsidiaries margins they have eroded quite materially almost 200 basis points on YoY basis, how should we comprehend that, were there any one-offs in that, I presume these were adjusted margins so can you throw light on that?

Vikas Sinha: You are referring to Q3 FY16 margins.

Jinesh Gandhi: Q3 FY16 versus Q3 FY15.

Vikas Sinha: Yes, that is right, and as Pedro has been pointing out, Q3 FY16 because of migration at Jeco, if you refer to page 23 and under that you have the second bullet point under the subsidiaries, so if you refer to that and I will read out that note itself for you , ".. because our production has adversely affected in Q3 FY16 due to costs associated with migrating parts from Jeco plant to the other plants, the Jeco plan was closed with effect from 30th November, 2015, the migration plan is under implementation and the cost associated with this are transitory, they are not permanent cost but they are very difficult to separate out as onetime cost, that is the reason why we cannot separate it out." And that is the reason why Pedro is at pains to point out that Q3 is a one-off quarter itself, it is not that there has been any structural change in a cost structure that has resulted in this margin going down, and as he has pointed out April onwards we will be back on track with the improved margins.

Pedro Echegaray: I think in the slide number 21 you will have a better view which is year-on-year and you will see how subsidiaries have improved the EBITDA margin from 9.1 nine months 2014 to 10.4 nine months 2015.

Vikas Sinha: And this is after including the Q3 performance. So as we reiterate, there has been absolutely no change in the structure of costs per say or in the structure of business, it is just because of this migration of parts from Jeco to the other plants, it is part of a restructuring operation.

Jinesh Gandhi: Second question pertains to the India business, we have indicated that some costs pressures we were not able to pass it on and we also alluded to the fact that we might try for price increases, so were cost pressure the only reason for pressure on margins or there were some other issues as well?

K. Ramaswami: Overall India business, nine months to nine months' comparison you would have found that there is not a significant growth, it has more or less remained at the same level in terms of revenues, so that of course is a pressure on the bottom-line. The good news is that we are going to participate in all the new models that are coming in for Mahindra, and Mahindra as you know has introduced a lot of new models both in stampings, gears and as well as in forging and to an extent in foundry as the ramp up of Mahindra volume takes place in terms of automotives our business will improve, so that is a good news. Tractors, we hope to have a good monsoon but that is anybody's guess, but at the moment it is down. So the main pressure is on the top-line and the top-line is expected to grow in this quarter in some of the areas like forging we are looking at new businesses which will pick up in addition to the Mahindra's new vehicle business. As far as cost pressures are concerned, there has been some cost which we cannot pass back to the customer, for example, the movement in scrap price on scrap that we generate as part of the process in forging, the general steel prices is down and the scrap market is going down in terms of prices. So we cannot really pass it back to the customer, but this is something which we find other ways of cost reduction or adjustments in terms of steel prices to compensate for this loss, but it has been very significant in the last quarter I must say because scrap prices has significantly come down. Again the good news is, we expect the scrap prices to pick up and it has already started showing some sign, but it is anybody's guess. We have taken adequate actions in terms of costs, if you look at last quarter definitely margins have suffered because of unfavorable movement of scrap prices and as I was saying earlier, also due to withdrawal of export incentives by the government. But it is old story, no point in talking about it, as of today we see are coming back to real quickly in the next two quarters.

Jinesh Gandhi: And continuing on the India operations, the new products which we are launching, would those products come at better profitability or there would be some pressure due to this new product launches on profitability going forward?

K. Ramaswami: Obviously any new product that is going to come is going to be very competitive because Mahindra is competing with so many other customers, so for example we supply to Renault, Renault is competing with so many customers. So in terms of price, yes they will be lower, they will be competitive, so I cannot say that we will expect much better margin than the existing product. What we are trying to do is protect the margin similar to the products that we are already supplying by keeping adequate control on cost and improvement in processes and that is the only way to do it. I would not say that we will make more profit or more, I mean profitability will not be more. And also the other thing that we are looking at is continuing to add value, we are giving a lot of value add parts in the last four, five months we have started developing parts in fully machined condition both in casting and forging so that the profitability does not get adversely affected despite competitive prices.

Jinesh Gandhi: And last question over a longer period, the India business margins currently are roughly about 9% on nine months' basis, do we expect margins to converge with about 16% which CIE makes globally or that would be…

Hemant Luthra: Which margins are you talking about, 9%?

Jinesh Gandhi: India, standalone margins at about 8.8% to be precise.

Sanjay Joglekar: See, as a part of our strategy we always say that 9% is definitely not the adequate margin and expectation or our plan is definitely to go up, in India it can be 16, it can be 18 but we have always clarified that India while operational improvement and new products will play a role, major role will be the market volumes which are to come back. And as Hemant also pointed out earlier that we have now, or KR mentioned that operationally now we are placed in a situation in a very efficient way and if the volumes come back then automatically there should be a good improvement in margins. We stay on the plan; our plan does not change because of the current situation.

Jinesh Gandhi: So two to three-year time horizon for that margin improvement is a fair time?

Sanjay Joglekar: For a significant improvement, it is usually around three years; I mean we would not claim any miracles in six months or one year

Jinesh Gandhi: And sir lastly, CAPEX guidance for this year and next year?

Sanjay Joglekar: CAPEX guidance by and large remains the same, because we said around 250 crores to 300 crores a year for consolidated level, unless there is some significant expansion or some significant project to be taken up which current situation is we have idle capacity available in almost all plants, we do not envisage that.

Jinesh Gandhi: Even for FY17 around similar number, 250 crores to 300 crores?

Sanjay Joglekar: Yes.

Vikas Sinha: CY16, we are on calendar year.

Hemant Luthra: Since some of us are more conservative and others less all I can say something about margins is correcting to the CIE levels and I have already alluded to the practice of targeting best in class achieved in the past. I do not think anybody in this room or in Germany or in Spain is willing to accept that it will take two to three years. Our budgets are tighter than that but given what one can say about forward-looking information, our budgets are significantly tighter.

Moderator: Thank you. Our next question is from the line of Raunak Sarada from Axis Capital. Please go ahead.

Raunak Sarada: Sir, if we look at the standalone revenue growth, it has been flattish for nine months, I am talking about nine months here. But if you can just highlight what would be the volume growth in that period for the standalone entity, because the deflationary impact…

Hemant Luthra: I am sorry, I cannot hear you.

Raunak Sarada: So quickly, the standalone revenue has de-grown by 2% in nine months but can you highlight what is the volume growth in that period because the raw material deflationary impact is now about to end, I mean it would be in the base from next quarter so we can just incorporate what could be the growth as and when it comes in and obviously all the new launches from Tata and Mahindra would be coming up for production. So just if you can help us with that number.

Vikas Sinha: Of course it is very difficult for us to quantify the volume growth for our business, all that we can say is that the production growth at M&M and Tata Motors combined was about (-)0.8, if you refer page 12 we have presented M&M plus Tata Motors, this includes sector numbers by the way. We present it quarter-on-quarter and they are our main customers in India.

Raunak Sarada: So the production was also flattish?

Vikas Sinha: Yes, on an April to December level, but October to December quarter has been good, especially for M&M.

Raunak Sarada: And just a clarification, because all the questions have been answered, if I refer your slide 24 where you have highlighted the CIE numbers, the EBITDA margin profile if I look at ex-Mahindra Europe that means the standalone business of Mahindra, the Systech companies of Mahindra CIE basically?

Vikas Sinha: As I have put in note number three, Mahindra Europe comprises the CIE plants in Germany, UK, Italy, Spain and Lithuania, ex-Mahindra Europe consists of all the other CIE plants in Europe that is the stamping plant, the machining plant, the plastic plants etc. So that is ex-Mahindra Europe means CIE without Mahindra Europe.

Raunak Sarada: And Asia would have the Systech group of companies, basically all the standalone companies?

Vikas Sinha: Yes, the erstwhile sister group of companies.

Raunak Sarada: That will form part of India and China one?

Vikas Sinha: Yes.

Raunak Sarada: But if you can just help us out, from the Asia contribution what would be our contribution to CIE and what will be the China contribution, if you have the number?

Vikas Sinha: China is a very small business; you can say it will be largely India, maybe about €50 million or so China on a calendar year basis.

Raunak Sarada: And are we disclosing the CIE Europe plants which are merged in Mahindra CIE now or the revenue and EBITDA numbers or that would be available from an annual perspective only?

Hemant Luthra: The difference between consolidated and India is the CIE forging number.

Vikas Sinha: They are part of the subsidiary numbers. The separate accounts will be available with the annual report like last year.

Hemant Luthra: Again come back to the same thing, we use the CIE forging numbers in Europe as a benchmark of where we want to go, but these two are fungible, there is no borders drawn, they are under the same management, you move product around, you buy steel, you sell scrap to optimize the combination of what was Mahindra Forgings Europe which means Germany, England and what is now CIE forging. So you can look at the numbers as an aspirational number that we want to get to.

Raunak Sarada: No, my concern for more from the revenue number perspective that has been answered. Thank you.

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

Srinath Krishnan: In the past you have spoken about Mitsui, Sanyo, CIE Gestamp relationship leveraging the 10 Asia, if you could give us a clear update on, you have mentioned in the past you would like to leverage this relationship in Asia and Southeast Asia so that we could see some benefits as a result, so any status of any development in that front?

Hemant Luthra: Let us say we should just move on to another subject which is probably time to go to now which is where does the future growth comes from, non-organic or inorganic future growth? We are mostly in Western India; all inorganic stuff that we are looking at is in Chennai and north-India. We are servicing Mahindra and Tata, without reducing the volume of what we ship to Mahindra and Tata we want to reduce their share in our share of wallet and therefore we will look at inorganic opportunities which are giving us a different set of customers. And now I come to your specific question which is that how do we leverage this? We have got CIE bringing to us the benefit of all other European customers and therefore we can use CIEs relationship with European customers in India. CIE uses a relationship with Mahindra for Mahindra CIE India and CIE uses what was Mahindra Forging to get into truck business in Europe. What is missing in our portfolio is either capacity swap or an equity swap with a Japanese Tier-I, Tier-II supplier. We are working diligently on that and many of these things are binary, so we are exploring opportunities, some are a little further along than the others but when I said that general philosophy which is consistent with a dream that I had when we started the business we said it will be a billion dollar revenue and market cap, yes it is a dream that this billion dollar business should become $2 billion ,yes it is a dream that the profitability of this business should more than double organically and should more than triple inorganically. When that happens, I do not know, but the fact is that we are actively pursuing that dream and we are not used to letting dreams become mirages, we are used to making sure that the dreams happen. As far as Gestamp is concerned, they have no arrangement with them which says that there are some products that are off limits. As far as Mitsui is concerned, we are leveraging their automotive business to see whether we can reach out to the Sumitomos and the Yamahas and the Daihatsu's of the world. As you may not know that Mitsui owns a piece of Toyota and Mitsui owns a piece of Yamaha. Toyota does not have a small SUV in India; they are looking at ways to build that SUV in India. Mitsui is helping us to reach out to enroll the Daihatsus and others as customers, we have started working on Japanese RFQ's. So I do not think you are going to be in for a disappointment, and hopefully during the course of the calendar year 2016 you would in for a pleasant surprise.

Moderator: Thank you. Our next question is from the line of Kunal Nopany from AUM Fund Advisors. Please go ahead.

Kunal Nopany: I just heard a management comment that while you are making your plants in Europe more fungible you are also looking at outsourcing, could you please elaborate on the outsourcing piece.

Pedro Echegaray: Our labor cost, mainly in Germany are relatively high as comparison with other small companies, so we are considering outsourcing some non-core low value added activities, mainly related to finishing operations in the forgings, but it will be only non-core low value added activities.

Kunal Nopany: So is this outsourcing within Europe or is this outsourcing from India?

Pedro Echegaray: At this moment we are considering outsourcing to Europe, closer locations.

Hemant Luthra: There is a process in forging called fettling, now fettling need not be done at a highest cost in Germany but if there is a customer of a German product and is sitting in Italy or sitting in Poland or Czechoslovakia then you can use a local fettling guy to do something there. When I talked about outsourcing I think I was mentioning it that if you are shutting down a plant and you still have to meet customer requirements, particularly when you are shutting down the plant we chose the time in December, so that is the time when things slowdown little bit, but if all of the work cannot be done in the new plant where people are being shifted in day one, you will outsource some activity. So there is a combination, what Pedro said about low value add outsourcing and there is a combination of some outsourcing that may happen in last quarter or may happen in this quarter as a function of the fact that we are shutting down one facility and we do not want to have unhappy customers.

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

Hemant Luthra: If there are more questions we are happy to take them, but if there are none then…

Moderator: Sir, no more questions in the queue.

Hemant Luthra: There are no more questions, okay. I think I have said my piece about the dream of doubling the revenue and profits remaining intact. CIE has a similar dream which the parent also is looking to double revenue on profits, it is a nice healthy competition and without trying to make commitments for which SEBI will put me in jail. The levels of patience that we have to reach the kind of numbers that would make you happy and that would make us happy because we have historically achieved those numbers does not allow us to sit back for two or three years. We have to do it faster. Similarly, we are very focused as to where organic growth and inorganic growth will come from. You had a question about CAPEX, I think where KR and company have done a great job in stamping, forging, casting is to ensure that hold the margins up in spite of the low volume I believe there may be a headroom or 20%, 30% more in terms of before you think of CAPEX. So it is not something that will worry us just now.

So that is it, and as usual, for those of you who want to have a more detailed conversation, you have Vikas and Sanjay and Pedro and Myself available for anything that you want to do one on one. And of course there is KR to host you at factory visits.

Vikas Sinha: Thank you for your time. We can now close the call.

Moderator: Thank you, members of the management team. 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