"Mahindra CIE Q2 Calendar Year 2017 Earnings Conference Call"

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MANAGEMENT: **MR. HEMANT LUTHRA – CHAIRMAN, MAHINDRA CIE**
MR. PEDRO ECHEGARAY – CIE REPRESENTATIVE IN INDIA, MAHINDRA CIE
MR. K. JAYAPRAKASH – CHIEF FINANCIAL OFFICER, MAHINDRA CIE
MR. VIKAS SINHA – SENIOR VICE PRESIDENT, STRATEGY, MAHINDRA CIE

MODERATOR: **NISHANT VASS – ICICI SECURITIES LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the Mahindra CIE Q2 for the Calendar Year 2017 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: Thank you very much. Hi, good afternoon, everyone. Thanks for joining us today for the Mahindra CIE Automotive Earnings Conference Call. From the management side, we are represented by Mr. Hemant Luthra – the Chairman of the company; Mr. Pedro Echegaray, the CIE representative in India; Mr. K. Jayaprakash – the Chief Financial Officer of the company and Mr. Vikas Sinha – the Senior Vice President, Strategy.

Now, I would like to hand over the call to the management for their opening remarks.

Hemant Luthra: Good afternoon, everybody, maybe Nishant will tell us how many people we have on the call and if it is in keeping with past practice and we have about a 100 people. Thank you for taking the time off when Reliance is making big news today. We are also making big news, but in a much smaller way.

The company is doing very well. Year-on-year, the EBITDA has doubled in India. Year-on-year in Europe, we have seen almost a 100 basis points improvement in margin. And year-on-year, on a consolidated basis, we have seen a little over 200 basis points improvement in margin. All of this is coming off, strong demand for tractors and two wheelers.

Our customers are asking us to increase CAPEX, which we have done. And there are other opportunities that we think will arise as customers get a little nervous about some of those other vendors whose balance sheets are not as strong, whose working capital capabilities have been stretched and are on the verge of one form of NPA or the other. So, you are now looking at a company where the net financial debt is down by almost Rs. 1 billion from the last quarter. The net financial debt to EBITDA ratio has improved and the return on capital employed is also improving.

I don't want to take any more airtime. All that I want to do is to turn it over to Vikas, who can summarize the results, and then we'll turn it over to Pedro, who can also help us answer your questions.

Vikas Sinha: Yes, thank you Hemant. Good afternoon and also good morning to those who are joining from Europe. I will present MCIE results for the second quarter of CY 17. Please refer to pages three and four of the investor presentation. They provide an overview of MCIE plant locations and products in India and Europe. I am sure most of you are familiar with this, but if anyone needs an explanation, please circle back to us, we will be willing to explain all over again.

We will start with India results on page five, which had an excellent performance in the second quarter in both revenue and profitability. EBITDA more than doubled as Hemant pointed out, when compared with the same period last year. The acquisition of Bill Forge in October last year has contributed a great deal to this. But even if we remove the positive impact of Bill Forge, the rest of divisions in India grew 10% versus 2Q 2016.

The sequential comparison of MCIE India including Bill Forge versus the previous quarter Q1 C '17 also shows an improvement in profitability while the growth is in line with the market. The main drivers of our growth in India have been the positive market evolution in UVs; tractors and two wheelers as well as the growth of our key customers. The demonetization effect on two wheeler market has worn-off and normal growth has returned. Based on the overall economic indicators in India and the normal forecast for the monsoon this year, we remain optimistic about the market in the next quarters.

Our European results for quarter two C 17 are shown in page six, where we continue with the improvement in our German operations after the cleanup done at the end of last year. The improvement in Germany remains steady albeit slow and there is an improvement both on a year-on-year and sequential basis. The European results show a dip in sales on a year-on-year basis, but that is largely because of translation loss due to currency rates. Without the currency impact, our sales in Europe would have grown at 3.5% on a year-on-year basis. This is again in line with the market. While the data for EU 27, the 27 countries who come under EU, for light vehicles shows a dip on a year-on-year basis; the total European market including those countries beyond these 27 has shown slight growth. The heavy commercial vehicle market has also shown single-digit growth. The European market as well as our internal operations remain solid.

And now if we go to Slide 7, we will see the consolidated results for Q2 C 17, which are a combination of the positive evolution in both India and Europe. 15% growth in revenue and 37% growth in EBITDA, when compared with the same quarter of last year while the sequential comparison versus previous quarter shows improvements in margin.

Our half-yearly results are shown in pages #9, #10 and #11. On a half-yearly basis in India, our results are positive on the back of robust market growth, increasing RM prices and profitability improvement. We request you to note that the Jan to June 2017 numbers include Bill Forge numbers. Europe has seen margin improvement on the back of continued efforts of cost management and process improvement. These effects also show up in the consolidated numbers on a half-yearly basis.

Please note that we have mentioned on page 11 that we have done a CAPEX of Rs. 1,622 million on a consolidated basis. And a significant amount of this is growth CAPEX spread across many verticals, namely our Forgings business in Spain and Lithuania, Metalcastello, Bill Forge both in India and Mexico, Gears and Stampings verticals in India. Overall, we believe we are on the right track under the guidance of our CEO Ander, who is focused on improving the competitiveness of each of our plants.

And now, I will hand over the call back to Hemant for his final comments, before the Q&A.

Hemant Luthra: No, I don't want to make any more comments because the airtime is yours. Just a little light-hearted one that it's such a pleasure having a team which is so interchangeable that I can even ask Pedro to talk about Europe and India, I can ask Vikas to talk about Europe and India. And everybody is on one page with same strategy.

So let us get ahead with the call and we'll be able to get you with all the answers and questions that you have.

Moderator: Sure. Thank you very much. We will now begin with the question-and-answer session. We have the first question from the line of Ujwal Shah from Quest Investment. Please go ahead.

Ujwal Shah: Just wanted some brief about the Daimler order as well as the Caterpillar order that was going to be received and done from the Indian plants as well as the Bill Forge portion, which was supposed to be done from Chakan, if you can give some highlights about the same?

Vikas Sinha: So when you say which Daimler order are you referring to, if I may clarify?

Ujwal Shah: There was a portion of Daimler piece, which we were supposed to do from the domestic buy from Pune, if I am not mistaken.

Vikas Sinha: Okay. So you are talking about the transfer of some parts to India, that is number one. Number two, you did ask about what happened to the Caterpillar orders. And number three, your question was, what is Bill Forge and Chakan doing together? These three questions. So, okay. So number one, the MFE orders is yet in process. The Caterpillar order is on, both in India, as well as in Metalcastello. So that is starting this year. And it will over a period of the next two to three years, we are estimating somewhere around 15 million euros, that we could get out of that, split between India and Europe. As far as the third point is concerned, you know that again, it was the question of evaluating whether we can use the smaller presses in Chakan, that process continues. And as of now, no concrete decisions have been taken.

Ujwal Shah: Okay. And in terms of Bill Forge performance, can we say that it has returned back to its old growth rates, as well as in terms of margin, the 20% margin kind of a bet?

Hemant Luthra: We don't normally break it down by company because products are interchangeable, orders are interchangeable, the corporate entity is the same and profits go back up. But let's just say that, yes, they are on track to go where they were and there has been some margin improvement sequentially between last quarter and this one.

Ujwal Shah: Okay, sir. And sir, lastly on Mexico operations of Bill Forge, how are they positioned as of now? And any plans of getting additional CAPEX or additional line over there?

Vikas Sinha: The Bill Forge operations in Mexico are proceeding as per plan. In fact, we maybe a little ahead of our plans. So in terms of the tonnage of production, we are ahead and we may be asked to put in more CAPEX, but that would be subject to evaluation.

Hemant Luthra: Also anecdotally, we have some research papers in sight. It had been looked at by Vikas, which say that the American and the Mexican side of the borders, whatever happens on either sides is so tightly linked or, joined at the hip, that some of this building or the wall and what it will do is rhetoric. If you look at how seats are manufactured in the US, the metal work is done in Mexico and moves across the border. Next day the seats are put with foam, the third day it comes back and the leather is stitched on to the seat. I don't think we are going to see a significant change in that structure of the relationship. And therefore, our own read is that Mexico will continue to be a profitable business both for CIE and MCIE, is that right, Pedro?

Pedro Echegaray: Yeah, that's right.

Moderator: Thank you. The next question is from the line of Mahesh Bendre from Way2Wealth. Please go ahead.

Mahesh Bendre: Sir, on international business, last two quarters, we have been hitting 125 million euros of sale per quarter. So is it a sustainable number one can expect over next few quarters?

Vikas Sinha: You know, like it is subject to cyclicality, of course, we are moving into the August holidays. So Europe does experience cyclicality of that kind, August almost three-fourths of August is shutdown. So we will see an impact on that. And similarly, there is impact of Christmas holidays. So Europe has that cyclicality issue. So it would be better to compare year-on-year rather than sequentially when it comes to revenue in Europe.

Mahesh Bendre: So second half should be a slightly weaker than compared to half because of the holidays and all this..

Vikas Sinha: But it will also depend on demand, which we do not know. So as I said, there certainly will be an impact of holidays for sure. But it is best to look at the trends from last year and one can make an estimate of what is going on.

Hemant Luthra: Since you specifically said something about 125 million, I don't think that number is under any kind of threat.

Mahesh Bendre: Sure.

Hemant Luthra: Also European customers have given us indication that we should be making some CAPEX, some customers have given us price increases. So maybe the volume suffers because of fewer working days, but there are other ways in which it is being made up and Ander and his team are doing a super job in bringing the German operations at least back up again.

Mahesh Bendre: Sure. And sir in the opening remark, you mentioned that we have reduced the debt byRs 1 billion sequentially. So what could be the possible absolute number in terms of net debt?

Hemant Luthra: I don't want to give that number until I have our CFO step in

K. Jayaprakash: So a specific number, I would think you should look at us retaining the number we had in December '16 going forward, because we had some good amount of CAPEX happening and the supply payments we had stretched. So I think we would end up in the debt somewhere around the December numbers.

Mahesh Bendre: Sure. And sir, last question, what kind of CAPEX we are looking for the next 18 months?

Vikas Sinha: So normally, we always talk about CAPEX in the range of 5% to 6% of our sales. And if you look at what CAPEX we have done for this half year, which is about Rs. 1,622 million, I think that's in that range.

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

Nitesh Sharma: Sir, wanted to check with you on the capacity increase, any new order wins that we have received or can you highlight more on which segments are we adding capacity, so you said Lithuania and Spain, we are adding some capacity. Apart from this, where are we adding more capacity?

Vikas Sinha: I had given a listing of the places. Of course, we are adding capacity in Lithuania very rightly, that is also there in the year-end annual report for the subsidiaries, you will see a mention of that we are adding capacity there. And also in Spain, which is a little lower. The reason is market growth as we have been talking about the Forging company in Spain and Lithuania have been operating at a very high capacity utilization, that is just to meet the normal market growth that we are talking about. The other area where there is some capacity addition that is happening is in Metalcastello and it is very clear why we are doing it, it is because of the Caterpillar order. Bill Forge, we have talked about that Bill Forge has a very strong order book especially in the area of exports. And therefore, they are adding capacity in India. And they are also in the process of like ramping up the Mexican plant. The other two areas where we have added capacity is of course in the gears business in India where the business out of our Pune plant is ramping up quite fast. And the other area is stampings, which is our Zaheerabad plant and that is to meet the M&M tractor requirements.

Nitesh Sharma: And sir tractors, we have been seeing strong growth by the OEMs. So at one point in time, tractors used to contribute 10% of our domestic revenues, standalone revenues. So what that contribution would be at the current juncture?

Vikas Sinha: It still remains at 10% even after the addition of Bill Forge. So you could see there is significant growth in the tractors business.

Nitesh Sharma: Wow. So on a standalone basis; it would be close to 17%-18%?

Vikas Sinha: Actually, we stopped tracking that. As Hemant pointed out for us, Bill Forge is an integral part of our business. So we look at it now with Bill Forge.

Nitesh Sharma: Got it, sir. And in Europe, we have seen strong performance as far as margin goes. Sir any color, if you could give in terms of where the margin stands for MFE?

Vikas Sinha: MFE has been making slow and steady improvement like it is a complex problem. And we have been making steady improvements there, which is reflected in the results. So whatever improvement in margins that you are seeing, there is a reflection of whatever is happening in MFE. Yes, it is a complex problem, so slow and steady improvement and that's the way it is going to continue. Pedro, you want to add something?

Pedro Echegaray: No, exactly, as Vikas rightly said, other divisions or other plants in Europe are stable. So most of their growth or most of their margin improvement that you see in our European results are because of MFE steady improvement.

Moderator: Thank you. The next question is from the line of Nishant Vass from ICICI Securities. Please go ahead.

Nishant Vass: Sir, I had a couple of questions. First, regarding the thought processes that now because Bill Forge has been with in terms of the whole company and its being integrated. Just wanted to hear your thoughts in terms of how you have seen the company from a capability perspective. And what are the learnings that are getting incorporated from that because obviously it is a top class supplier which you acquired. And if possible, what are the learnings that are coming from Bill Forge to Mahindra CIE? And second part of question from a technology perspective, because there is so much disruption globally happening, what are the new technologies that we are looking at from product and segments perspective, both in India and in Europe possibly?

Vikas Sinha: Okay. So in terms of what have we learned from Bill Forge?

Nishant Vass: I think both ways I guess. What would have been brought by that?

Vikas Sinha: I hand it over to Pedro.

Pedro Echegaray: It's a long list of learning, you know, we have incorporated, they cold forging thing, either we didn't have in forgings India before. And we have entered two wheeler businesses; it is a completely different world. But yes to Bill Forge management team, we are learning how to do business with these new OEMs for the others divisions. But the most important learning I would say, it is their management system. They are really aggressive in commercial terms. They are exporting close to 20% of their revenue and they continue growing aggressively as I said exporting to the US and to Europe. The plant in Mexico, this is true together with CIE, it's a complete success, and it is even exceeding our expectations. And now, we are counting with the complete Bill Forge management involvement and participation in managing all our business, defining the strategy, identifying the opportunities, not only in Bill Forge, not only in forging technology, but in any other areas of our Indian market.

Hemant Luthra: Nishant, if I may add another thing, there is hard learning and there is soft learning. And one of the advantages of soft learning is that with Bill Forge margins being higher than what they were inside MCIE in India, some level of competitiveness has been spurred, and as a result of which, we now see a little bit of a reversal, which is that Bill Forge maybe marginally short of their budget and the rest of India is marginally ahead of their budget.

So, it is a nice little competition being set up.

The other learning or advantage that I am talking about not hard technology, which also I will come to in a second is that the CEO of Bill Forge, Anil Haridass, now says that, instead of having 50% cash and 50% stock, now seeing the advantages of synergy between the two organizations, he wishes he had taken 75% stock and 25% cash.

This is only a lighthearted thing, but, yeah his share price is up 25% since he did the deal with us.

He is becoming a salesman and an evangelist for other companies who may want to look to Mahindra CIE as a partner for their growth. And nothing speaks better than somebody who has experienced the CIE plus Mahindra CIE ecosystem. And we are using him as an internal salesman and an external salesman to get people buy into the vision and therefore, I think we'll have many more M&A opportunities of similar kinds. And also in terms of technology since you are asking, it's a very opportune moment to ask this question, because yesterday we had one of CIE's, key technology leaders make a presentation with the board on where the automotive component technology is going, where hybrids are going. This was a presentation to the full Board yesterday. And now we are going to figure out where we should open new frontiers, should we put a little bit more focus on composite, should we put a little bit more focus on some of the things that we don't already do. So, it has been a very useful two days, while we were celebrating these results.

Vikas Sinha: Nishant, in terms of technology, the auto industry is currently playing the Game of Thrones. The winter is coming. So we are all talking about, electric vehicles are coming and sharing is coming, light weighting is coming, emission norms are coming. So there is a whole lot of flux that is expected in the auto industry. And we really do not know in which direction it will go. So from a component perspective, we are preparing ourselves by diversifying and fortifying our sales from a profitability point of view as much as possible. So, we are looking at diversification within companies in terms of products and customers. And also trying to look for other areas, which we have mentioned in the past, which will be in line with CIE Global portfolio.

Nishant Vass: Sir, I had one small question if I can add, because Hemant sir made an initial comment on suppliers having stretched balance sheet facing a lot of problems, which are bringing some new customers. So, just want to get a sense from you sir, what is your thought process on this even if this process takes some time, would we possibly see significant share of those customers in the next 12 months?

Hemant Luthra: See, that always has to go through a PPAP. Yes, if you are asking me for a 12-month horizon, something like that will happen, okay. On the other hand, there are some customers who are feeling threatened by the lack of liquidity of some of the suppliers and some of their working capital problems. And we hear about the fact, I am not at liberty to share it in any more detail, we hear about the fact that some customers are actually going out and buying these units of these suppliers and then inviting strong vendors like ourselves, to run those units under the new dispensation after they have bought them out from the old owner. I think there could be some opportunities there, but those are binary. So, I won't bank on it, but just to give you a feel, that there are all kinds of disruptive things going on just now in the industry.

Moderator: Thank you. The next question is from the line of Sandeep Baid from Quest Investments. Please go ahead.

Sandeep Baid: Vikas, I had two questions. One in Europe, despite a decline in PV production, you are saying that if we take out the impact of currency, we grew by 3% to 4%. So that would mean that we have taken away market share from others?

Vikas Sinha: Just to clarify, those numbers are for EU 27 countries. So if you look at Europe in totality especially the Eastern European countries that are included, and that is something I tried to clarify in my opening remarks, that the entire Europe has actually grown a bit. And therefore, you're seeing a lot of activity in our Lithuanian plant also, because of growth on the Eastern European market. So it would be wrong to say that the market has declined. So therefore, we were at pains to clarify at this point, the car market has grown, albeit maybe by a single digit or whatever and so has the commercial vehicle market. We would say that we are in line with that and we are not exceeding it to a great extent.

Sandeep Baid: Okay. And secondly, on the standalone business, which is India business minus Bill Forge and minus Gears, the margins more or less remained the same as it was last year. So, when do we see improvement in margin for the standalone business?

Vikas Sinha: Before JP jumps in and gives you a detailed clarification, let me point out that the RM prices have gone up. So if the margin percentage has remained the same, so there has been an improvement. So it is not whether it is commensurate, whether it is enough, is a different question. But given the increasing RM because the denominator keeps going up and if the margin remains the same, there has been improvement. I'm just pointing that out and I'm handing it over to JP.

K. Jayaprakash: Yeah, I think the margin improvement should come in when we were working on castings and forgings in India. These are the two areas where we expect the margins to get better as we go along.

Sandeep Baid: And the increase in the raw material cost is not getting passed on to the customer?

Vikas Sinha: It gets passed on, that is the reason why we don't make any money on the raw material. So therefore, just because of the increased raw material prices, the sales number gets inflated while the…

Sandeep Baid: Yes, in percentage, it still remains the same, so we have improved a bit?

Vikas Sinha: Yeah.

Moderator: Thank you. We have a follow-up question from the line of Mahesh Bendre from Way2Wealth. Please go ahead.

Mahesh Bendre: Is it possible for us to share some growth outlook for European business and the Indian business over the next two years?

Vikas Sinha: In terms of growth outlook, we would refer you to publicly available information; say for example what CRISIL has been talking about. I think CRISIL has been talking about of around 9% to 10% growth for all segments of the Indian auto market, except for the commercial vehicles. So we are talking about tractors, two-wheelers, cars, UV's, not so much, even LCVs, but not so much MHCVs. As far as Europe is concerned, we would be low single-digit growth is what we are expecting from the market on both the car, as well as the commercial vehicle side.

Hemant Luthra: I don't know, Mahesh, this is Hemant Luthra here, if your question was related to, what is happening in the market or what is likely to happen to CIE and Mahindra CIE, okay? Vikas has pointed out what's happening in the market, but..

Mahesh Bendre: Yeah, actually that was my question, I mean that since we have a strategy in place, what kind of growth outlook for us as a company, I mean obviously, you will try to take a market share away from the competitors and grow. So just wanted to know what is there with…

Vikas Sinha: Mahesh, just to clarify, we do not focus on taking away market share from our competitors within without any platform change, because you know that can entail reduction in prices, which we do not want. So it does not happen at every second quarter, we are thinking of whose market share to take. So we are more focused upon getting a good market share, when a platform is being built or a platform is being changed. So it is not in a running platform that we are running after the market share, market share number. So we are not looking at that. As far as our growth outlook is concerned, again, I will refer you to the CIE vision document that is there on their website and it is dated 26th May of last year. And I think in that certain growth and profitability targets have been mentioned and we will be following those as far as 2020 is concerned.

Mahesh Bendre: Sure. And sir during the quarter, the margins are very healthy for both the operations. So do you think these margins will be sustainable or there is a scope for further improvement going forward?

Vikas Sinha: So as I again would say, the CIE vision document that we are referring to requires us as MCIE in both India and Europe to be achieving an EBIT number of roughly improvement of I think 3% in Europe and 4% in India by 2020.

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

Priya Ranjan: My question related to European business. We were talking about some business losses, which we have suffered last year to get back those business losses. So is our numbers now reflecting those back businesses as well, recovered business?

Hemant Luthra: Yeah, I think I will get Vikas to and Pedro to handle it, if they want to dig deeper, but if you look at it, some of those customers because we have solved those problems, they have given us some price increases, they have given us some more orders. There is an improvement in the area that we said, but is it all done, I don't think so. Can you look forward to something better, I think so for sure.

Priya Ranjan: So I am just being specific. We have lost around 15 million business off at JECO if I am not wrong and we have been talking about probably we will get back around half of the business back with the new renewed terms and whatever. So is the current quarter numbers is already reflecting those or it's yet to come?

Pedro Echegaray: Priya Ranjan, some of the business is already back, but I don't think whatever business we will gain in the future will be significant at a group level, okay? We may have some additional orders or projects to return from those that we lost last year, but I don't think it is going to be relevant for the Group.

Hemant Luthra: Also, if you look at it and I know all of you're concerned a little bit about this, but as Vikas pointed out right in the beginning, okay, it's not that Europe has not grown. The fact is that because of the currency translation losses, okay, Europe appears to have grown a little bit less than what it actually has.

Priya Ranjan: No, my thinking was that if the growth can be accelerated in future?

Hemant Luthra: I think the growth is going to, as Vikas just now mentioned that the Caterpillar order, Metalcastello has got. I think I mentioned that Daimler has given some price increases. Now to put a specific number and say that will we get a growth of another 5%, 10%, 15% in the next quarter, I am not going to go down that path, okay? We are pleased with the momentum, we've seen 100 basis points increase between this time last year in Europe and now we have seen about 40 basis points increase between last quarter and this quarter. So Ander is comfortable that the situation has turned around. And then remember that, Europe is not just MFE, okay?

There is another part of Europe, which is Metalcastello, where Caterpillar orders are coming in and they talk about increasing capacity. There is Legazpi, there is Galfor, there are others. So let's not focus only on MFE Europe. And then as I said, that there may be parts of somebody's business that might migrate to us, okay, if that other competitor is not liquid or has something around, but these are binary decisions.

Pedro Echegaray: And then this is a good point what Hemant raised. The major growth in revenue terms in Europe will happen in Metalcastello because of the Caterpillar order that we have already discussed. Other than this growth in Metalcastello, we are moderately optimistic, but as Vikas already mentioned, we think that it could be a low single-digit growth rate for the next couple of years, in other businesses except Metalcastello.

Priya Ranjan: And just one point, in Volkswagen strategy, they are actually consolidating their platform and they are also reducing the number of suppliers, I think their target is to reduce their platform by one-third and their number of vendors they are cutting by around I think by 100 or so. So do you foresee any in terms of acceleration in business there with Volkswagen and so?

Pedro Echegaray: Well, we have an excellent commercial relationship with Volkswagen. I think Volkswagen; it is the second or largest CIE customer globally. We do business with Volkswagen in Europe, in Mexico, Brazil and China, important business with them in China also. Definitely, we are participating in all their newest platforms. So there is not a single platform or new model launched by Volkswagen in which CIE is not participating. And definitely we are one of those selected suppliers that will remain doing business with them in the long-term.

Priya Ranjan: So in most of the products which we are supplying, are we the number one supplier, number two supplier?

Vikas Sinha: You know that as I said, CIE is a very diversified company, so it is very, very difficult to talk on those lines, but you know like CIE does have very large series productions in Europe as you are aware; crankshafts, there is substantial amount of Crankshafts that CIE makes more than 2.5 million crankshafts which is a substantial number. Similarly on wheel hubs, it is perhaps one of the largest wheel hubs machining in the world. So they have very large series businesses with most of their customers, but it is also much diversified. So both of these phenomena operate at the same time. And therefore, there is some ability to pick and choose products, some ability; I'm not saying great, some ability.

Pedro Echegaray: Yeah, for 99% of our projects, we are seeing resource, and definitely, we are among the top three suppliers for every family of products in which we are doing business.

Priya Ranjan: Okay. And our exposure is more towards gasoline or their diesel portfolio?

Pedro Echegaray: We are equally participating in both petrol and diesel.

Vikas Sinha: And across OEMs, so it is not just for Volkswagen, even with Renault the same situation. So I think we do not foresee that as a very big problem for us.

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

Hitesh Goel: Can you just tell me what is the growth rates in the Bill Forge business, because we only get Bill Forge and Gears India and we don't get a Y-o-Y kind of picture right now. So just wanted to get a sense, how is the performance of Bill Forge?

Hemant Luthra: I think I gave you some input because they had done something which was in the neighborhood of 19%-20% EBITDA when we acquired them. And then they had a little hiccup in the fourth quarter. They started to recover in the first quarter. And they continued that recovery into the following quarter. So I don't know how much more to say because when I get back into a specific number of Bill Forge, it means that did they do any work for Chakan, did they do any trial work for somebody, and I can't give you that just now. But yes, the continued improvement is there and yes, I think in the next quarter or so, we'll get back to the assumptions that we made when we would buy the company.

Pedro Echegaray: The only thing I can add is it is that Bill Forge continues growing strongly. They have a very large order book, which will ensure the sustainability of this growth in the long-term, that's all.

Hitesh Goel: And what would be your Mexican revenues right now in Bill Forge, on a quarterly basis? And how does it ramp up over next year?

Pedro Echegaray: Well, it is not representative because we are in a ramp-up situation. We started our Mexican operations three months ago, ahead of schedule. So revenues and production, it is not yet representative, but our expectation, it is that once we reach the stable production with existing capacity, we have the expansion that we are studying; the revenue will be around US $20 million.

Hitesh Goel: And that will ramp up mostly next year right?

Pedro Echegaray: Yeah, yeah, first half next year.

Hitesh Goel: And another question on the Indian operations, we have seen a good improvement in the margins over last two quarters. So, is this margin sustainable at 9.5%-10% or there is further scope of improvement given that we are still with a major part of revenues coming with M&M and Tata Motors. So just want to get a sense, this 9.5%, 10% EBITDA margin kind of trajectory is sustainable?

Hemant Luthra: You're talking about India as…

Hitesh Goel: India, without standalone, without Bill Forge.

Hemant Luthra: If you are looking India standalone, the way I see it here is a 100 basis points improvement sequentially over the quarter. And I see almost 220 basis points improvements over the same quarter last year.

K. Jayaprakash: And it is sustainable, the Indian..

Hemant Luthra: I would imagine that it's sustainable and I would imagine that till these guys get to where near Bill Forge is, their egos will not be satisfied, the Bill Forge does not exceed what they promised us, their egos will not be satisfied. I have kept saying this again and again on the conference call that the internal competition is as much about reflecting the CIE philosophy of plant managers being their own bosses and their P&L, and so I don't see why it should not be sustainable particularly because we are pleasantly surprised with what is happening with respect to gears and machining in India. We are not surprised, but tractors is happening. And the Mahindra, the small commercial vehicle seem to be doing much better than even they had anticipated.

Hitesh Goel: Basically just a clarification. You're saying on Q-on-Q basis, there is an improvement in margin. But when I look at standalone business numbers like what you have given to exchange, I am not talking about the PPT; the margin improvement is only 20 basis point on Q-on-Q basis?

K. Jayaprakash: No, what Hemant said was including the gears numbers, you are right, on standalone basis, it's more flattish. So getting back to your question, whether it is sustainable at 10% plus? We believe it is and the answer from Hemant is what you should take when the benchmarks are set for all businesses.

Hemant Luthra: I also wanted to just mention to you that even though we do not follow the philosophy of saying to a customer that we will give you a discount on the stamping if you give us a huge price increase on gears, okay? Subconsciously, some of that may happen. So looking at a piece of India versus looking at consolidated India, okay, it is perhaps not the correct way of doing it. We don't trade-off between one plant's profitability and the other, but sometimes in the customer's head, it may say I am giving you a basket of 50 products, 25 in gears, 25 in stamping; I am looking at what the total price may be.

Moderator: Thank you. The next question is from the line of Jinesh Gandhi from Motilal Oswal Securities.

Jinesh Gandhi: My question pertains to European business. The margins which you have reported about 40 basis point improvements Y-o-Y, does this now fully reflect benefit of JECO in this or we should see further benefit of JECO coming through in coming quarters?

Vikas Sinha: Jinesh, no further benefit from JECO, it will be that steady normal improvement that happens in any plant.

Jinesh Gandhi: Okay, sir. Entire JECO closure benefit has come through in this margin?

Vikas Sinha: Yes.

Jinesh Gandhi: Secondly, in terms of India business, India excluding BFL, you indicated that the topline growth has been about 10% Y-o-Y. Any sense on what kind of margin improvements you would have seen or margin changes we would have seen excluding BFL?

Vikas Sinha: No, Hemant just alluded to that in the previous..

Jinesh Gandhi: My line got disconnected during that, so..

Hemant Luthra: Yeah, it was 100 basis points.

Jinesh Gandhi: 100 basis points excluding BFL on Y-o-Y basis?

Hemant Luthra: No, sequential.

Jinesh Gandhi: Sequential, understood.

Hemant Luthra: Y-o-Y basis is about 210 basis points.

Moderator: Thank you. Well, as there are no further questions in queue, I would now like to hand the conference back to the management for any closing comments.

Hemant Luthra: Okay. Gentlemen, thank you very much. Gentlemen and ladies if there are any; I haven't heard any questions from them. All that I wanted to tell you was that after our Board meeting and our Strategy meeting, we had an impromptu unplanned partyto toast to the members of the team and to our stakeholders and investors who have had the confidence in us. And we expect that we should continue to deliver. I think there are huge opportunities for us.

I am not using my words, I am using the words of an eminent Independent Director who was present and said that if we look at the universe of companies which have the greatest opportunities going forward, while very well respected Bharat Forge has focused on forging, Mahindra CIE has got a whole product portfolio.

Motherson Sumi is a much respected name; we have great admiration for them. They are doing a great job. So we want to try and benchmark against what they are doing, they are in a different field altogether.

And then there are the other unlisted entities in South India. There is Indo-Asahi Glass.

The point I think our Independent Director was making to us was that given the improvement in performance in Europe, given the fact that the team in India, has settled down with the successful ongoing integration. MCIE should be more aggressive about both inorganic growth. And aggressive organic growth. The demand is great and as we have already said that we have put in some CAPEX, which should feed capacity going forward.

So all that I can say is watch the space for some more action.

Vikas, Pedro, you want to add anything?

Vikas Sinha: No, thanks. So if anybody has any follow-up questions, as you know, we will be most happy to answer any.

Hemant Luthra: I think Pedro wants to say something.

Pedro Echegaray: I just want to say that this has been probably my last results conference that I attend physically from India. My role as CIE Representative, I think comes to an end because now Mahindra CIE is an integral part of CIE. So I don't think it makes sense anymore to have a person doing something that has already been accomplished. It has been really a pleasure to work with you. I have learned a lot from you and what I would like to say is that, I will remain available to any of you and of course, I will continue if necessary working together and supporting Ander, Hemant, Vikas, JP everybody here. I will always be even far in distance; I will be close in spirit and always willing to contribute to this great project. Thank you very much.

Hemant Luthra: I didn't dare mention what the toast was all about, but the fact that CIE announces that Pedro come home and do the same job somewhere else, and it must mean something about their confidence on what's going on here. So, thank you again everybody.

Moderator: Thank you very much. On behalf of ICICI Securities Limited, that concludes this conference. Thank you for joining us, ladies and gentlemen. You may now disconnect your lines.

Note: This statement has been edited to ensure quality