



“Mahindra CIE Automotive Limited
Q1 CY2021 Earnings Conference Call”

April 30, 2021



ANALYST: MR. NISHANT VASS – ICICI SECURITIES LIMITED

**MANAGEMENT: MR. ANDER ARENAZA ALVAREZ – CHIEF EXECUTIVE OFFICER - MAHINDRA CIE AUTOMOTIVE LIMITED
MR. K. JAYAPRAKASH – CHIEF FINANCIAL OFFICER - MAHINDRA CIE AUTOMOTIVE LIMITED
MR. VIKAS SINHA – SENIOR VICE PRESIDENT, STRATEGY - MAHINDRA CIE AUTOMOTIVE LIMITED
MR. OROITZ LAFUENTE – GLOBAL BUSINESS CONTROLLER - MAHINDRA CIE AUTOMOTIVE LIMITED
MR. SWAPNIL SOUDAGAR – DEPUTY GENERAL MANAGER, STRATEGY - MAHINDRA CIE AUTOMOTIVE LIMITED**

April 30, 2021

Moderator: Ladies and gentlemen, good day and welcome to Mahindra CIE Q1 CY2021 Earnings 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 “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Nishant Vass from ICICI Securities. Thank you, and over to you, Sir!

Nishant Vass: Thanks Neerav. Good day everyone and thanks for joining us today for this call from the management side we are represented by Mr. Ander Arenaza Álvarez, the CEO; Mr. K. Jayaprakash, the CFO; Mr. Vikas Sinha, Senior Vice President, Strategy; and Mr. Oroit Lafuente, Business Controller. Now I would like to hand over the call to the management for the initial remarks. Over to you, Sir!

Vikas Sinha: This is Vikas. Good afternoon everyone and good morning to those who are joining from Europe. I welcome all of you on this call as also Arenaza Álvarez our CEO. As the second wave of the COVID pandemic rolls through our country we are all in a somber mood and we thank you for being with us in these trying times. I hope and wish that all your loved ones are taking care and are safe.

Let us now start with MCIE results for Q1 C2021 we will jump straight to page #7 MCIE India results for Q1 C2021 is on page #7. We can see that in this quarter we have continued with the trend of sales and margin improvement from Q4 C2020. Sales are 41% higher on a year-on-year basis compared to Q1 C2020, we are also happy to report that in this quarter we have not only exceeded the target of 15% EBITDA but we have also improved on our Q4 C2020 performance. The EBT is Rs.1116 million in this quarter and in percentage terms is about 10%. All our verticals are doing well and the focus continues on improving efficiency and customer satisfaction.

MCIE Europe results for Q1 C2021 are shown on page #8. The sales have steadily recovered. EBITDA is almost is at 13.9% which is higher by 3.4% compared to Q1 C2020 and 2% higher than Q4 C2020. Q1 C2021 EBT is Rs.922 million at 8.9%. We also have positive expectations for the second half of this year.

Now if we go to page #9 we will see the consolidated results which are a combination of regular evolution in both India and Europe. MCIE on a consolidated basis has achieved the sales in Q1 C2021 of Rs.20863 million 30% higher compared to Q1 C2020 and 12% higher than Q4 C2020. We have delivered EBITDA of 14.7% and an EBT of 9.8%. In absolute terms EBT on a consolidated basis for Q1 C2021 is Rs.2037 million or 208 Crores. All of these numbers are a result of the work MCIE management has done on reducing the breakeven point and other improvement activities undertaken during the preceding year of 2020.

On page #11, we have a special mention on the adjustments that we have done based on the tax amendments introduced in India via the Finance Act of 2021 the budget of 2021. Goodwill of a

business will not be considered as a depreciable asset and depreciation on goodwill will not be allowed as deductible expenditure effective April 1, 2020, in accordance with the requirements of Ind-AS we have recognized a one-time tax expense amounting to Rs.1425 billion, 142.5 Crores as the outcome of the difference between goodwill as for the books of account and its updated tax rate. This deferred tax liability is not expected to be a cash outflow in the future and its reversal it seems unlikely as the value of its associated goodwill is expected to be in use these changes will also not affect our tax rate going forward as was explained in the last call.

Our CFO, JP is on the call and any further clarification, questions can always be answered during the Q&A session, to reiterate this is a one-time non-cash expense and it is applicable to all companies who have been affected by the event.

On page #13 we have tried to explain the short-term perspective of the possible effect the second wave of COVID will have in India. Of course, there is some potential pushback in demand, but from our experience of the first wave, we do expect volumes to recover before the end of the year and now the demand is pushed back. Overall rural demand is expected to be good on the back of normal monsoon predicted by both IMD and Skymet.

On the supply side there could be some loss of production in this quarter at OEMs and suppliers due to the micro lockdowns and other constraints like steel and manpower. Currently all our plants are working full time. Of course we are taking all safety precautions as mandated by authority. We are also providing support to our employees for testing and vaccination and in case they fall ill, somehow some of our employees have been affected by this disease and positivity rate in the workforce is in line with what the overall rate is in the city where the plant is located, but yet we are providing all help.

Next a word about dividend, MCIE's dividend distribution policy was amended by the board. As per the amended policy which is available publicly, the company would endeavor to maintain a total dividend payout ratio of up to 25% of the annual consolidated profit after tax with the company. We recognize that the company has not paid any dividends to the shareholders till date, we have been conserving cash to fund our organic as well as in-organic growth; however, we also recognize the need to pay regular dividends while continuing to grow the company and the same shall be considered appropriately going forward.

To end, we are focusing on the safety of our employees currently and on sustaining the efforts, the great efforts that we have made over the last year as mentioned earlier based on our experience with the first wave of COVID we are looking at the future with cautious optimism in spite of the fury of the disease and believe things will only get better from here on. Thank you very much and now we can proceed to Q&A.

Moderator:

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

April 30, 2021

Jinesh Gandhi: First question on our European revenues, can you indicate what was the European revenue growth in terms of euro basis.

Vikas Sinha: Ander can I request you to answer this.

Ander Arenaza Álvarez: Yes the growth in Europe in Euro basis was 11% approximately. That is the growth we have in Europe. In the different verticals we saw a different behavior. The passenger forgings performed quite well above 10%; let us say much better than the market. The Mahindra Forgings Europe the commercial vehicle forging we had a growth of 2% to 3% I mean so we were at the same level than in Q1 2020, and in Metalcastello where we had the biggest growth in the gears division we had the growth I think it was something like 50% or 54%, so that is the off-road vehicle market that is now growing again in mainly for the United States business. So that is the impact in Europe.

Jinesh Gandhi: So this is quite outstanding growth in fact not just in Europe, but also in India and we have grown ahead of industry in both the businesses. Can you throw some light on how much of I mean is this out performance even in the industry is driven by these the new orders which we have been talking about along with export focus or this is yet to start contributing to this topline so far there?

Ander Arenaza Álvarez: So all the verticals both in Europe and in India performed really well in the first quarter, we see the export rate from India to Europe or to USA is approximately at the same level that we were before approximately between 11% to 12% that is the export rate so that export rate will grow in the near future, but we are still in the first quarter we were at the usual rate so no a growth from that side I think we were really affected in the first quarter in 2020 due to the Bharat VI transition probably more than other competitors and more than the market, and now we are recuperating that growth. Also we saw certain movements from, in certain verticals like magnets of gears where we saw the movement of transition from Chinese suppliers to us to Indian supplies. So we see an important growth there and globally the last year new order book was higher than expected and we are doing quite well on that side so we expect an important growth for the next future. So we are quite optimistic we already told or expressed in my last call, we were talking about our optimistic view for the first quarter you can see that this optimism is now a reality and it is true that also for the future we are quite optimistic and I think that the second half of the year will be really strong in both regions perhaps the second quarter due to the COVID impact we could see certain slowdown, not yet we have not seen yet in April but probably in May, June we could see certain slowdown due to the impact of the CoViD in India and the semiconductor scarcity in Europe, but overall I think we can have the really positive view for the future and we are quite satisfied how we are managing the situation and I think and I would like to take the opportunity to give you some feedback that we received from our customers and most of them they are asking us to what capacity to be ready for the growth for the second half of the year and we received certain congratulations from them because we managed properly the growth in these last two quarters, they had certain supply issues with other suppliers and in our case they gave us congratulations because of the fantastic job done by the

team. So I think that the soundness of our companies is clear and we are well positioned in the market to continue growing.

Jinesh Gandhi: Certainly. So just a clarification on the European business given that 1Q the underlying market particularly on the passenger vehicle was quite weak because of COVID related lockdowns do you expect the 1Q run rate of revenues for us to sustain despite semiconductor scarcity or we will see some pressures there.

Ander Arenaza Álvarez: We already saw certain slowdown due to the semiconductor impact but it is not relevant I mean we can say that we are approximately affected from 5% to 10% in the market that is the global impact that we expect for the first half of the year. There is certain uncertainty but some customers they say that they will recuperate this lost demand or at least this lost production by the end of the year some others they say that they will recuperate in 2022 but my view is that there can be a certain slowdown now in this second quarter and good recovery and the order book is very solid for the end of the year so I am quite optimistic on this side.

Jinesh Gandhi: Got it sir thanks I will come back in queue for more questions.

Moderator: Thank you. Thank you. The next question is from the line of Nikhil Kale from Axis Capital Limited. Please go ahead.

Nikhil Kale: Congrats on a very good set of numbers. So just talking more about the topline performance, so generally talking there was a significant outperformance versus the underlying industry production so just wanted to understand is there also an element of say the commodity costs which have been increasing and you kind of pass through that to your customers. So what is, if you could just maybe give some color on the realizations and how much of that impact would be there in the top line growth and secondly you mentioned that all your operations or all your plans are operating right now, but specifically in India what is kind of the production levels right now also specifically for Q2 what kind of impact do you see where we hear that the production schedules by some of the OEMs especially on the two-wheeler side have also been lowered for say May and June so just some color on that. Thank you.

Vikas Sinha: Ander on the second question, can I just take that Ander.

Ander Arenaza Álvarez: Yes, I will answer the first question and you take the second okay. So regarding the first question the raw material increase impact in our turnover in the first quarter was approximately 4.5% so that is the impact of the raw material growth it is mainly in the steel and aluminum cost increase that as you know we pass through 100% to our customers. So that is the impact in India. Regarding Europe, in Europe we did not have any raw material increase or just minimum a raw material increase in the first quarter because the raw material increases is generally are applied from 1st of April. So you will see that impact in the second quarter of the year; so Vikas up to you in the second question.

April 30, 2021

- Vikas Sinha:** Thanks Ander. Your question was are all our plants running the answer is yes as Ander explained all our plants are running of course we are taking care and as I said the same level of illness that is there in a particular location is there in our plant so we have to take all kinds of precautions, second what is the effect on schedule Ander has explained this earlier currently in April we are not seeing any effect on schedules of course there will be issues around steel like oxygen supplies diverted and steel production may get affected but right now most steel companies have a certain inventory level so that is not affecting at this point of time plus a few OEMs have announced lockdown in May you know Hero announced between 24th April to 1st the Maruti between 1st to 9th and now Hyundai has announced from 9th to 14th, but at the same time, please remember that the inventory in the light vehicle supply chain, in the car supply chain, if you look at the dealer association data is very low for 10 to 15 days in March so it could be a combination of both lockdown plus buildup of inventory so we will have to wait and watch how much effect it will have on May it will certainly have some effect but on the one hand you will have lockdown second some steel issues, the steel issues could be there manpower availabilities could be there, but also on the other hand OEMs will also try and build up inventory especially on the light vehicle side so based on this we will have to see there will certainly be some impact how much we will have to speak but right now no impact so far in it.
- Nikhil Kale:** So in terms of the schedules you are not seeing any cutting there.
- Vikas Sinha:** The April not to say it would not happen in May, as I said we will have to wait and watch.
- Nikhil Kale:** Thank you. That is it from my side.
- Moderator:** Thank you. The next question is from the line of Sunil Kothari from Unique Portfolio Management Service. Please go ahead.
- Sunil Kothari:** Congratulations Mr. Ander, Vikas and the team for such wonderful results.
- Moderator:** Sunil sorry to interrupt to you, your voice is breaking. May I request you to come in a better reception area please?
- Sunil Kothari:** Sorry I will connect again.
- Moderator:** Sure sir. Thank you very much. The next question is from the line of Rajakumar V an individual investor. Please go ahead.
- Rajakumar V:** Congratulations for the good setup numbers. I have a couple of questions this is on your European operations. So you are mentioning that you are expecting I mean there is a positive expectation for the second half of the year. If you could give more color to that and also I want to know what is the update on your German forging operations because I understand those numbers are kind of drag on your overall EBITDA numbers for the European operations so if you could just give more color on that and the second one is on the impact of electrification in

April 30, 2021

automotive industry how it is going to have an impact on CIE operations in the medium to long-term and what medications you guys are looking at? Thank you.

Ander Arenaza Álvarez: Sorry I did not catch you, Vikas.

Vikas Sinha: There are three questions he has asked. First is we have said that we are quite upbeat about the second half of this year in Europe, so he is asking can you give us some more details on why you are so upbeat. Second what is the update on German forging operations because they are a drag and have we improved there and third what is the impact of EVs on MCIE these are the three questions.

Ander Arenaza Álvarez: So regarding the first question about the our view of a European market what we see is that the second half of the year will be much stronger that is the input that is giving us all the customers mainly because the COVID impact we are in Europe now in the fourth what we call the fourth wave and we are now let us say the COVID impact has been in Latin slowdown so we are in a positive mood in this moment the vaccination process is accelerating and we expect that by summer time by June, July majority of European citizens will be vaccinated. So, in that scenario we expect that all the lockdowns and all the restrictions will disappear by June, July, September in the right time of the year so from that point there will be a peak in the demand and in the economic activity in Europe. So that is what the general information that we receive from our customers. So they are asking us to increase our stock levels and to be ready to increase the production. So that is in certain areas we are already feeling that increase for example in Metalcastello as I explained to you we had this more than 50% of growth in the first quarter and the demand is really, really strong at the front we have our main customers are the Americans and they are pushing us a lot to increase our output. So we are working weekends and we are now quite tight even in now in today in April as I was yesterday making the follow-up of the business with the Managing Director. So the evolution is in my opinion it will be positive and it will be really a strong end of the year that is our view from Europe side. Regarding MFE in Germany we had also a certain increase in the demand so the commercial vehicles market seems that they are starting to grow again I mean we were in the last one and a half years we were in the low side of the cycle in the bottom side of the cycle now we see that the market is ramping up and this growth together with the restructuring activities that we accomplished last year gives us a quite positive situation I mean better than expected evolution and despite the margins are not what we would like to be the situation is improving and we have the company under control we do not expect any additional restructuring activities in 2021 because of the long and high demand and order books that we see for the next month so the situation is stable and we expect to keep the current evolution in the next quarters probably second quarter we will see a small decline mainly because in Europe the impact of the COVID is not important but also we have to add the semiconductor impact so we will shift perhaps certain decline but the expectations are high so that is the explanation about the European business and finally regarding the electrification we are working a lot in the electrification area because especially in Europe because you know that probably the electrification will come first in Europe and then in other regions in this moment the battery electric vehicles market share is approximately 5% of the market in

April 30, 2021

Europe and we expect this market share to increase to 15% in 2025 and to between 30% to 40% of the market share in 2013, so in that sense what we are now is working on changing the portfolio focusing more on in chassis component in aluminum forgings so we are making this transition to this and we are quoting to customers with several projects and we are working on that actively in regarding the short-term impact we do not see any certain impact I mean we do not see that the electric vehicle market will be an important they will have an important share in the next year but we are preparing ourselves to be ready for this trend that it is a clear trend in the market and I think that in Europe our impact will be limited and we will of course move our portfolio to other products as we are doing now and regarding in India, in India this electrification we think you will be much slower than in Europe we think and according to the experts that we conducted they are talking about in the four-wheelers in India probably in the 2030 there will be a market share of approximately 5% and the impact will be more in the two-wheeler and three-wheeler areas. So in that sense in our portfolio we have already a lot of components for the electric vehicles we are already working for different car makers on that and what in our opinion or in my opinion the impact for the next five to six, seven years of this trend will not affect at all in India to Mahindra CIE and in Europe yet in Europe we will have the more impact because the trend will be much more faster but we are doing our job to move the portfolio to different products and different technologies also. Thank you very much.

Vikas Sinha:

Thank you so much. Just to add to that sir, what we are also doing is we track electric vehicle orders separately internally. So we look at them very seriously of course as Ander pointed out we have certain, we have an order book in India which is small but we are working, we are an important supplier to M&M and electric vehicles, we are looking at some other EV companies Bajaj, Hyundai for orders, so we take it very seriously and we monitor it very closely but as Ander pointed out the pace in India is slow in Europe yes it will be much faster but we are taking actions to mitigate that and on the overall European thing just point that Ander just made yes we are looking at second half to be very good but due to you might see some slow down because of this whole semiconductor and other issues that are there in Europe at this point of time based on the centers. Yes please go ahead sorry I interrupt you.

Rajakumar V:

Thanks for this detailed explanation. Sir just one request, if you go forward if you could also give some metrics between EV and non-EV the sales numbers it would be I am sure you will be tracking it internally even for us if you could give that, it will be helpful sir.

Vikas Sinha:

First right now EVs are a very small part of this portfolio if we are talking about an 8000 Crores company it is not material as far as the other question I think what you mean is how much of our portfolio will potentially be affected by EVs I think we have answered the question in the past that any look at our share of power train and other related products on a consolidated business is anywhere between 20% to 25% so if you look at crankshaft for example there are important power train products so our power train products are somewhere say between 20% to 25% on a consolidated basis a little higher in Europe it is lower in India and so that is what we supply to IC engine parts but as Ander pointed out not all of it will be affected at one go of course in Europe the effect will be much faster and we are mitigating it I think in our year-end

investor presentation we had pointed out that we have a three-fold strategy to make sure that our capacity utilization in our forging plants in Europe remains the same in spite of EVs we are increasing share of business in crankshaft we are focusing on non-power trained products like metals and Ander talked about aluminum forging given now. So that was the steep on strategy that we had mentioned so as I said yes a strategy is in place we are monitoring it and yes we know about 20% to 25% of our businesses is in power train but all of it will not be affected at one go and as and when required we will keep replacing it with other we are a process company it is not as if we are wedded to a product like if required we will change our product portfolio in line with what the customer required, that is it.

Rajakumar V: Sir just lastly on the EBITDA number 14% for Europe is that a sustainable number or the one off for this quarter.

Vikas Sinha: Ander back to you is 14% Europe EBITDA number sustainable.

Ander Arenaza Álvarez: Yes, I think the providing the market continues with this trend we will be able to keep these margins I mean this is even our internal target to; we have our internal target to improve those figures even. So what we see is that we are now in the pre-COVID margins I mean in our original margins and we expect that if the market continues growing we will be able to improve those margins so yes I think they are sustainable and that is our task to do it.

Rajakumar V: Thank you Sir. All the very best.

Moderator: Thank you. The next question is from the line of Nemish Shah from Emkay Investment Managers. Please go ahead.

Nemish Shah: Congratulations for set of numbers. Most of my questions have been answered; I just wanted to understand any update on the integration of our Brazil, China plants that we were thinking about earlier any update on that.

Vikas Sinha: Ander before I hear some, Nimesh we are currently focused on last year was the COVID pandemic year in India it is again this year is the second phase is there so we are really focused on getting our house in order making sure that we do better and you are seeing that in the results that some of the efforts that we made in Q2, Q3 of last year when there was a lockdown that is reflected in the Q4 and Q1 results. So our focus is there so right now that is not our focus area but yes in terms of how we tackle that I will hand it over to Ander.

Ander Arenaza Álvarez: Yes this strategy that was fixed in Mahindra and CIE to transfer this forgings to the company is still there and we as Vikas explained that due to the COVID and the evolution of the businesses and the different tasks we had in this difficult period we did not accomplish it but it is something that we are now reviewing in our strategic plan that we are now starting with the preparation of the new strategic plan and we will come back to you when we have this clear timing plan for this integrations.

April 30, 2021

- Nemish Shah:** Sure that is helpful. Just one last thing sir what will be the effective tax rate for us going forward, Sir.
- Vikas Sinha:** This time that it would not affect that in the last quarter also in spite of everything we had talked about the tax rates would not get affected but I will hand it over to JP he will tell.
- K. Jayaprakash:** No we should be around 26%, 27% consolidated.
- Nemish Shah:** That is it from my side. Thank you.
- Moderator:** Thank you. The next question is from the line of Basudeb Banerjee from Ambit Capital. Please go ahead.
- Basudeb Banerjee:** Congrats for good set of numbers. Three aspects one as you earlier mentioned 450 basis points of raw mat inflation so should one look at it that the part of the revenue growth also that driving revenue reported by 450 basis points.
- Vikas Sinha:** Basudeb come back again you are saying since 4.5% in India is the raw material inflation and the question is.
- Basudeb Banerjee:** Will it be right to assume that is also contributing part of your YoY revenue growth by the same quarter.
- Vikas Sinha:** Yes.
- Basudeb Banerjee:** Second thing sir, as you highlighted on the EV aspect just wanted to understand what percentage of AEL being a major supplier for the client being Bajaj, how much is exposed to engine transmission under AEL as of now.
- Vikas Sinha:** Look as I said overall in India we are maybe roughly around 20% in India and maybe a little higher in Europe and so that is what it is and AEL is in line with those estimates you know the exact estimates we do not have but I think AEL is in line with that. I think AEL makes crank cases that is the one big engine part AEL makes but other than that I think maybe a bit, maybe some turbo housing also so these maybe the two parts but then other than that they are mostly in non-powertrain.
- Basudeb Banerjee:** And can you highlight at current juncture what kind of EV component initiative AEL is taking for future years as you also highlighted that two-wheeler electrification will be faster.
- Vikas Sinha:** Look AEL is working closely with Bajaj on this issue Bajaj has now planned you know about the plan currently eChetak and so on, which is a major model so they are working closely with them at this point of time so that is what AEL has been doing and other verticals are also doing the same. Bill forge is also talking to some EV manufacturers and as I said we are we are suppliers

April 30, 2021

to M&M EVs to many of their good models that they have so we have an EV order book very small at this point of time given the number of vehicles that are sold in here, but yes, we are looking at some of these and maybe we also expand this one.

Basudeb Banerjee: So basically if all these new big bang announcements whichever coming on media by emerging e-two-wheeler players. So you are not participating in any of those supply chain process as of now.

Vikas Sinha: As I said and like whatever I have talked about are those where we have an order book that is not to say that we are not looking at other players. So whatever I have told you are where we are dealing with. So, as I said yes, we will look at the two-wheeler transition very, very carefully and yes, we will try and participate in whatever new players come up we will make an effort to towards that whether it happens or not of course.

Basudeb Banerjee: And last question sir as the initial comments as you highlighted because of the change in union budget this time that you cannot take the as benefit because of amortization down the line will it be possible any scene of any write-off of intangibles as such from current size?

Vikas Sinha: Write-off of goodwill.

Basudeb Banerjee: It would be write-off any requirements in next four to six quarters because of the things.

K Jayaprakash: No, no, we do not see any such write-off required businesses are doing well and we do not see any need for it.

Basudeb Banerjee: That is great Sir. Thanks.

Moderator: Thank you. The next question is from the line of Jay Daniel from Entropy Capital Advisors. Please go ahead.

Jay Daniel: Sir earlier you had mentioned that your breakeven point for Europe was around Rs.5.5 billion and I think for India it was around 3.5 for India it kind of went up because of the sudden surge in demand in the second half of last year. So what is the current breakeven point for Europe and India and the gross margins or the contribution margin in both these geographies?

Vikas Sinha: JP, the gross contribution on breakeven in India and Europe.

Oroitz Lafuente: Yes, this breakeven in India and Europe as of now is Rs.5 billion of sales and in India Rs.3 billion. So, we can see at the global picture is a sales level of Rs.8 billion per quarter.

Jay Daniel: I could not hear that properly I mean if it could do some.

Ander Arenaza Álvarez: Yes the current breakeven point is Rs.8 billion for full marking of CIE and the split is the more or less Rs.5 billion in Europe and Rs.3 million rupees in India.

Jay Daniel: And the contribution margins.

Vikas Sinha: Now contribution margin is dependent on how you look at it the variable cost how you define variable cost whether labor costs are variable or not so I think it will not be comparable so I think let us stick to the breakeven point at this point of time because contribution depends on how you, some of the labor cost is variable some is not, in Europe we see it variable cost and labor cost differently than in India and so on.

Jay Daniel: How does the company define it; I mean it is as per your computation calculations.

Vikas Sinha: JP or Oroitz can you explain what is the, how do we define contribution margin.

Oroitz Lafuente: For the contribution margin usually we consider our variable cost such as all the consumables raw material energy and also all the part of the workforce which is variable which is totally into production this means direct labor entirely and our contribution margin depends but it could be at around 20%.

Jay Daniel: It is around 20%.

Oroitz Lafuente: 20%, 25%.

Vikas Sinha: Now but please remember as Oroitz pointed out direct labor is part just to get it part of variables.

Jay Daniel: Yes, I understood that, so 20%, 25% for the company as a whole.

Vikas Sinha: Yes.

Jay Daniel: And you are at the moment an 8000 Crore company internally when do you see you doubling sales getting to become a 16000 Crore company considering the outside dynamics that are in place as of today.

Vikas Sinha: As Ander pointed out we are rethinking our strategic plan let us go through that because that is a very, it is a very long-term question so let us look at that separately let us go to our strategic exercise and then we will come back.

Jay Daniel: But you would essentially be looking at, at least a 15% compounding over the years.

Vikas Sinha: As I said, you know let us look at that at least.

April 30, 2021

Jay Daniel: So you are not any numbers at this time. So your German operation has always been a pain point and kind of drag down the performance of the company as a whole would you at any time look at closing down your German operation and would pension liabilities be a reason for continuing with the German operation.

Vikas Sinha: One I will of course ask Ander to talk about this, but it is not as if the German operations are loss making no, on a net profit basis you may leave out last year which was a special year as we all know but they are not negative PBT of that kind. So yes they are lower than other verticals in our business they are not up to our CIE internal standards for sure but they are not negative now let me just clarify that is number one, number two we do think that we can make improvements in that business and that is the reason that they are there so it is not about whether pension liabilities or not yes pension liabilities are what they are you know it is a rule that is specific to their money and of course all of us have to follow that so I think the reason why it is not there it is an important part of our portfolio it provides us diversification in terms of being present in the truck market in Europe so it is a significant diversification level for some of the OEMs that we work with are a big names there we have worked with almost all the major truck OEMs in Europe so we do think it is an important part of our portfolio yes it is, it is not up to mark, but now I will turn it over to Anders for his views.

Ander Arenaza Álvarez: We are not planning to close the activity in Germany our strategy is to continue improving the efficiency of the activity and what we are doing now is to make this downsizing of the business eliminating the loss-making components and keeping only the best margin products. So we have been doing this restructuring in the last years especially last year due to CoViD we had to speed up a little bit restructuring and we did it and now we are in a positive breakeven position so the view for the future will depend on how we continue improving the margins and the business, if we are not able to improve or we see a worsening of the situation we will have different measures and we will decide later, but now in this moment what we are doing is we are focusing on the improvements in the company and as you can see we are able to get at least a reasonable figures and that is our aim for the near future for the long-term we will decide according to the evolution of the market and evolution of our company.

Jay Daniel: Thanks a lot Sir that is fine. Thank you.

Moderator: Thank you. The next question is from the line of Gautami Desai from Chanakya Capital Services. Please go ahead.

Gautami Desai: I would like to ask this question to Ander being a native of Europe Ander eve before COVID we were talking of slowdown in Europe because of various reason like maybe we could be shared modality or is it that there is no growth happening there so leave along the COVID part that after us like and we have been two years after that after we started witnessing the slowdown and accepting the slowdown and two years after that so now do you think that not, I am not talking about this resurgence after COVID still are there any behavioral changes in the auto industry among

the consumers in Europe which could make us revisit or probably that has caused you to increase your optimism on Europe.

Ander Arenaza Álvarez: What we see in Europe is that this COVID pandemic has reduced and keeps the people at home and reduce the expenditures in different areas not only expenditure in the cars but also in other sectors like hotels or travels and so on. So I think once the virus has gone that we expect that we will start living normally again after summer that is our expectation and that is what everybody is now talking especially in Europe I mean because we are all at the same pace of vaccination so from that point of view we will see a recovery of the market and expenditure and the economic activity in all the regions that is what we see so we will come back to a normality it is true that with the EV transition and the new trends there is a little bit of uncertainty in the buyers so the market is expected to grow slowly in the next year mainly because of this uncertainty and this change of trends but I think that also we need to consider that after this big crisis there will be a consolidation in the market, so the best performers will continue will take and will consolidate the business and some of the weaker players in the market will disappear. We are already seeing this, we feel this and that is why we are quite optimistic because we feel that we will be one of the survivors and the winners in this consolidation process so that is the reason of our positive view and that is also one of the reasons of why our Q1 was so strong in India also because we performed well we performed better than competitors in certain areas we were able to deliver the customers we keep our customers satisfied with our delivery rates with our efforts all the factories were running let us say 24 hours a day during Saturday, Sundays to fulfill the demands so that is the key point from our side we will continue improving efficiencies we will continue improving our competitively and our service to the customers. So those are the parameters why we consider that we will be in the market even stronger in the next future so that is the view all these new trends that are coming like the electrification on the shared mobility all these activities will come but we think that we will continue being one of the preferred suppliers for our customers so we expect to be to continue growing in the near future yes.

Gautami Desai: Great answer Ander. Thank you so much.

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

Bharat Sheth: Hi congratulations Ander and team I mean on good performance. See Ander I mean earlier we were talking of with BS in India BSVI coming our content per vehicle increasing that is one and second thing now we are seeing that consolidation is happening and we are winning more so first both are the separate questions so in while we are winning market share because some of the, so do you think this is a permanent I mean market share gain I mean those who have lost will not be able to come back or once the COVID will be now post COVID thing will normalize and third how do even Europe also on the CV side we were gaining I mean some market share so if you can elaborate on that.

April 30, 2021

Ander Arenaza Álvarez: Just regarding the consolidation in the market yes but we think that this consolidation will continue in especially when the situation is complex like in this moment in India let us say the best prepared companies with the best procedures with the safety procedures for the workers as we have let us say with massive tests done to all our workers let us say that all the companies that are well managed will continue because they will continue supplying to the customers, in my interactions with the customers they told us that in 2020 let us say in the second half of the 2020 calendar year they lost production because lack of supply so the market could have been much better than it was and the main reason was that the suppliers were not ready to supply with the required volumes and in this sense we see that they are coming to us and they are pushing us to continue producing more and more because some other small businesses they cannot manage this situation this the complexity of the current situation so even for us that we buy a lot of small components to small suppliers we had to doing to add our capacity in-house because our suppliers were not able to deliver the required parts, so this is just an example of why the good man with the well-managed companies can continue and will continue growing and consolidating the business and this is I think the trend that we will see in India in the future where the professional companies will continue strengthening his position and the less professional will some of them will disappear or will be added to other groups so that is my feeling and regarding the German and the commercial vehicle trending in Europe what we see now and because we are receiving the forecast from the customers with six months of advance mainly because of the lack of the difficulty to get the steel some months ago so now they give us much more visibility on the future so we see till October, November the order book and it is really healthy so perhaps in the short-term we could have some reduction because that the order books are changing every week but the visibility that we have is really strong so what we think we are not gaining market share on this business what we see is that we are growing together with the market. Our main customer is Daimler, the Daimler is the truck division of Daimler and they are doing really well in the last month and they expect to do it strongly in the next quarters and we have the long-term or at least mid-term visibility with a strong demand so that is my view is quite optimistic on this market.

Bharat Sheth: And with BSVI in India I mean content per vehicle increase in content per vehicle.

Ander Arenaza Álvarez: Vikas you can elaborate on that?

Vikas Sinha: Yes Bharat Bhai. It was in certain specific areas for example in gears very clearly, the gears for BSVI is much more complex so there which we had gained. There were a few on the engine components side from some engine part but by and large for example BSVI has no effect on things like stampings or composites, so yes, it is specific even in casting so the castings forging maybe we had some effect there has been forge but other than that as I said in those areas, we gained from this.

Bharat Sheth: Now last question I mean on the capex side since Ander stated that customers are pushing I mean to supply more and more and last year we did not invested so much so how much capex that this year are we planning.

April 30, 2021

Ander Arenaza Álvarez: We are planning usually between 5% to 6% of the turnover in the capex this is our standard capex in 2019 we invested Rs.4.1 billion and this year we expect to be there or even more depending on the customer requirements probably and that is also important to say that we are investing importantly that in the first quarter we invested I think it was about Rs.1 billion rupees and so we are at the base of 4 billion per year and probably they will in the second half of the year we will increase this rate because of the new order that we are getting and also as I mentioned and you will correctly said the customers are pushing us to increase capacities so yes we are planning that we are doing our review of the capex plan for the next months, but we are in this line of 5% to 6% and in September with us could be a little bit more.

Bharat Sheth: Ander when we said that there is a consolidation in India so how many new customers have, we won or with existing customer and new components or that development if you can highlight.

Ander Arenaza Álvarez: In last year we explained that we got approximately was something like 25 customers and new products and regarding the consolidation, the consolidation means that we are producing certain components now that were produced by others mainly the same kind of products that we are doing right now for different platforms different cars different tractors this is what we are consolidating so that is the view I do not know perhaps because you can elaborate a little bit more detail.

Vikas Sinha: Yes, so 2019/2020 as Ander pointed out about 25 new customers were added between 2019 and 2020 spread across verticals but more importantly if you remember if you go through the transcript of our Q2 C2020 call where we had talked about how given the dynamic situation that prevailed at that point of time similar suppression prevails now I think we had said OEMs will put more faith in companies that have stability in their business model and that exactly is what has happened and therefore to your questions whether they will go back well the answer is that Ander pointed out at the very beginning that he has received a lot of congratulatory messages from many OEMs for supporting them during the second half of last year. So that is something we strive to do we strive to win the confidence of our customers and as pointed out there is that last year around the same time the same thing prevails the situation is dynamic it is not easy so suppliers which will manage cash to manage safety quality they will continue to do well and even in categories which are existing product categories. So yes 25 new customers both in existing and new product as I said we are not a product company so more than saying if we added this new product we actually do what the customers have asked us to do so I think adding customers and winning the favor of existing customers both of them are equally important and we have done that as you know especially on the tractor side the growth of immense so we have supported our customers there so we hope to keep winning this the confidence of our customers.

Bharat Sheth: And in this first quarter because of now your sales growing substantially higher so whatever efficiency side we took the measure is reflected in the margin so still there is a room for improvement in margin with higher business.

April 30, 2021

- Vikas Sinha:** Ander is yet, he will never say no to that. As people reporting to him we may want to say no but he will not allow us to say that.
- Ander Arenaza Álvarez:** Yes.
- Bharat Sheth:** So I mean realistically how much margin we expect I mean if 2021 and 2022.
- Vikas Sinha:** Yes, let us not need to make forward-looking statements for us guys, but yes we do expect to improve our business again answer your question directly there.
- Ander Arenaza Álvarez:** Yes, as reference we already told in other calls we thought previous you know that CIE margins globally it is approximately at 17% to 18% EBITDA so our target, our range and the CIE is pushing me to get those margins also in our Indian business so that would be the long-term strategy to be there. I think that it is possible of course we need volumes and we need to continue our efficiency improvement of course we have a lot of room for improvement and we are doing that globally but step-by-step we are getting this you can see in the results in the last quarters that we have accomplished this improvement and we see already in our P&L and approximately we can say that we had an internal efficiency improvement of 20% so approximately in the last year and we still think that we have an opportunity to continue with the automation processes and also what we call industry 4.0 I mean with the new management strategies I think we can continue improving our factories so yes this is my task and improving the margins and I hope that we will see a better margins in the future.
- Bharat Sheth:** Thank you very much all the best Ander and team I mean and Vikas I mean wish you all the best I mean look forward for a CIE kind of margin by 2023. Thank you.
- Moderator:** Thank you. The next question is from the line of Nishant Vass from ICICI Securities. Please go ahead.
- Nishant Vass:** So I had a couple of questions Ander you mentioned about the export strategy so could you shed some more light in terms of how is the strategy playing out between external customers and also sourcing from CIE increased sourcing from CIE and the second question is on Bill Forge, Mexico can you share some update on that where is the progress.
- Ander Arenaza Álvarez:** Yes regarding the export strategy we had this growth strategy we are now at approximately 12% as I said before and we expect to grow this rate to 20% that is our target in the next years we have already been awarded for several export projects so we are industrializing we are investing and we are launching those products and some of them go directly to our customers in Europe or in the States but also we are going to produce for example forgings or gears from India to our companies in CIE in Europe to be finished and delivered to the customers so this process is also there and we have big businesses to be produced in India so we are taking care of this of this process and the this strategy is still there and the second question was...

Nishant Vass: Bill Forge Mexico.

Ander Arenaza Álvarez: Okay yes and Mexico is you know that we two, three years ago we had certain difficulties to launch the activity and we have the, it was lower and there is slower pace than what we wanted but now the company is performing really well I mean the team has been fully trained we have reinforced the team and the plant is producing perfectly with the proper quality and the customers are really satisfied we got a new customer and we got new businesses from our customers and in fact we are now adding capacity because we are launching new products to start from September, October and ongoing so the evolution of the company is positive and we have good expectations in Mexico in the near future we are adding this new press investing we need to expand the building so the business is doing really well.

Nishant Vass: Understand. Thanks a lot Ander if you could put some data point around where is Mexico's revenue structure today and would you believe the profitability has reached where you would expecting it to reach and in terms of your investment size in Bill Forge Mexico could you shed some light in terms of what kind of expansion you are thinking.

Ander Arenaza Álvarez: We are expanding the building because we are adding a new transfer press in the next we will receive it in summertime so everything is ordered so we will receive the machine we are talking about an investment of approximately €4 million that we will accomplish in the short-term in Mexico and the evolution of the companies is really good regarding the margins we are not yet where we expect to be but we are already in the breakeven situation and in the future we will have the same or even better margins than we have in our forgings in Europe and in India so that is the situation of the company.

Nishant Vass: One last question if I can squeeze in is you see you answered many questions at MFE and congratulations on MFE improvement you after including the restructuring and the market revolution if I put it in context over say like five year period since CIE took over this entity where initially long-term targets were at double-digit margin if I have to make that the restructuring behind you and with market evolution looking positive where do you see the medium-term margins kind of stabilizing for MFE.

Ander Arenaza Álvarez: Yes this double digit margin that we still have in mind and as our internal target proves difficult to obtain at least in the last years and we have mainly because of the reduction of the volumes and in this moment we are not yet on those figures but we are much better than a couple of years ago. So we were able to improve slightly the situation and what we see this year this business will be at €170 million, €180 million turnover in that branch that is the trend that we have in this moment and probably in the future it will be a business of €150 million that can be the size of this business in the in the future so we accomplish the reduction and in a more efficient way if we are able to reach close to this double-digit EBITDA that would be the target in the future.

Nishant Vass: Alright thank you and beset of luck.

- Moderator:** Thank you. The next question is from the line of Nikhil Kale from Axis Capital Limited. Please go ahead.
- Nikhil Kale:** So this is more from a long-term and a strategic perspective so you have mentioned that we are a process company for start orderings also going forward how is the Mahindra CIE and maybe even CIE automotive the parent looking at maybe diversifying out of automotive into some of the other industrial segments right so for example Bharat Forge has done it at a pretty successful way so how is the way towards direct spending improve non-automotive also on their industrial leading segments.
- Ander Arenaza Álvarez:** We continue thinking that we are an automotive company with our knowledge and our main experience expertise is based on automotive and we think that we will continue working only for automotive so automotive is our main business and we will stick to this strategy we are not thinking of diversifying another other activities.
- Nikhil Kale:** Thank you.
- Moderator:** Thank you. The next question is from the line of Jay Daniel from Entropy Capital Advisors. Please go ahead.
- Jay Daniel:** Yes sir last year CIE increased its stake in Mahindra CIE would it look at increasing its stake by a similar magnitude in the current year also.
- Ander Arenaza Álvarez:** This is a shareholder matter but the CIE's commitment to this project is really strong and we continue thinking that let us say that the best of CIE in India will continue growing in the future so I cannot answer you with the bigger or answer, but I can tell you that it is highly probable to continue growing this best on the share.
- Jay Daniel:** Okay thank you sir.
- Moderator:** Thank you very much. Ladies and gentlemen that was the last question for today, I will now hand the conference over to the management for closing comments.
- Ander Arenaza Álvarez:** Yes perhaps you can also make a comment but yet some words from my side so thank you for your questions and interest shown on our company and really clever and well directed questions. Thank you for that. I hope we answered correctly and you perceive the strength and solidity of our company and we continue our drive towards efficiency competitively and profitability despite of the peak of the second pandemic we will continue being optimistic for the near future. Let me share with you that most of our customers acknowledge our good performance and efforts to deliver with quality and on time and I have achieved recognition personally and I feel immensely proud for the team that did all these jobs. Thank you to the team for this fantastic job. My last words well to all the people that is suffering due to the second wave of the COVID

April 30, 2021

in India and my fullest support and best wishes to all of them. Finally, thank you for your trust in our company and take care. Thank you. Good bye.

Moderator:

Thank you very much. On behalf of ICICI Securities Limited that concludes this conference. Thank you for joining us. You may not disconnect your lines. Thank you.

Note: This statement has been edited to ensure quality