



“Mahindra CIE Limited Q2 CY20 Earnings Conference  
Call”

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

**Moderator:** Ladies and gentlemen good day and welcome to the Mahindra CIE Q2 CY20 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, 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 Rayo. Good day everyone and thanks for joining us today for the call today. From the management side, we are represented by Mr. Ander Arenaza Alvarez – the CEO, Mr. K Jayaprakash – the CFO, Mr. Vikas Sinha – Senior Vice President (Strategy) and Mr. Oroitz Lafuente – the Business Controller. Now I would like to hand over the call to the management for their 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 I also Ander, our CEO. Thank you for being with us in these trying times of the COVID19 crisis. I hope and wish that all your loved ones are taken care and are safe.

At the outset letters give you a quick update on the COVID situation at our plants; Europe by and large has stabilized and normalcy is past returning. In India the pandemic continues to raise and we have had approximately 40 cases in our plant, most cases are mild and many have recovered and come back to work but we have also had a sad fatality in our plant in Bangalore. The entire CIE and MCIE family stands together in offering heartfelt condolences to the bereaved family. MCIE has adopted protocols regarding safe running of plant in adherence with the post-COVID19 guidelines issued by relevant authorities in the geographies in which we operate. All plants have implemented safety and hygiene protocols like wearing a face mask, physical distancing norms and workplace sanitation to make sure that the health of our personnel is assured. Continuous awareness of these protocols amongst employees has been carried out. The protocols are being reviewed regularly and updated based on revisions and guidelines received by local authorities. We have had these protocols audited by a third-party to ensure that gaps are closed. Our crisis management group to handle the pandemic has been constituted at each plant to review the situation and react as warranted. We are also trying to ensure that personnel at our Indian plant feel safe. We have tied up with hospitals and ambulance services and empanelled doctors on a 24X7 helpline to help answer queries. All cases have been reported to local authorities and they have been satisfied with the response. Due to these actions all plants are functioning normally.

Before we talk about the result let me state Q2 C20 has been that most difficult quarter in the history of MCIE given the fact that the pandemic situation continues specially in India we are safer with a lot of consultancy going forward. At the same time the demand recovery in June and July has been better than envisaged and we still have a positive impact on our future results.

Let us now go through the results; on page #3 of the presentation we can see that over this quarter CIE's stake in MCIE has increased to 58.02% from the earlier holding of 56.2% and reiterate

our parent CIE's stake in MCIE. We start with Q2 C20 results for India on page #4, sales dropped by 72% year-on-year and EBITDA was negative at -12.8%. In this quarter as sales dropped to below breakeven point as the April and May were heavily affected by the lockdown. Restructuring actions have already been implemented to reduce our breakeven level at all plants, sales in June have already recovered better than our expectation and we did make a positive EBIT in the month of June.

There are two points that needs to be highlighted regarding MCIE India Q2 C20 results, one pertaining to Bill Forge Mexico which is part of the India result and the other to Aurangabad Electricals Limited. During the quarter the management has reassessed the functional currency of its subsidiary Bill Forge Mexico and changed rate to US Dollar from January 01, 2020 in accordance with Ind-AS 21, the effect of changes in foreign exchange rate. Due to this change the loan from Group Company in USA which was restated into Mexican Peso as at March 31, 2020 resulting in foreign currency loss of Rs. 418 million for the group for the quarter ended March 31<sup>st</sup>, 2020 has been reversed since the change is effective from January 1<sup>st</sup>, 2020 resulting the revision of the March 31<sup>st</sup>, 2020. That's the first point.

The second point regarding AEL; pursuant to the receipt of eligibility certificate under Maharashtra Government, Package Scheme of Incentives 2013 the PSI 2013 scheme by AEL the company has recognized grant income of Rs. 122 million for the quarter and 6 months ended June 30, 2020 in accordance with Ind-AS requirement. This incentive is in the form of refund from the Government of Maharashtra on actual VAP-SGST paid by the company from February 1, 2016 till date; the maximum limit of the incentive is Rs. 2522 million and can be drawn up to 2023.

On page #5 we have the results for MCIE Europe for Q2 C20; here too the lockdown has affected sales and was below breakeven for our business, sales fell 59% and EBITDA of -10.1%. Since the truck can off-road markets in Europe are experiencing significant downturn, we are taking restructuring actions that Germany and Italy which respectively cater to the trucks and off-road market. The Q2 C20 EBITDA for MCIE Europe is depressed by about Rs. 344 million on account of this restructuring cost. However in the month of June we were able to generate positive EBITDA if restructuring costs were excluded.

And now if we go to page #6 we will see the consolidated Q2 C20 results which are a combination of the India and Europe results explained earlier. Sales dropped by 55% year on year to Rs. 7113 million at a negative EBITDA of -11%. On page #7 we have the H1 C20 results for MCIE India, there has been a 41% drop in sales vis-à-vis first half of C19. The EBITDA was positive at 6.5% and EBIT was negative that -0.9%. The results are due to the double impact of GST transition related uncertainty in Q1 and the COVID situation in Q2. As mentioned earlier we have undertaken restructuring activities during Q2 and we are expecting that this will have a positive impact.

On page #8 we have the H1 C20 MCIE Europe results; sales fell 45% year-on-year to Rs. 13,184 million but EBITDA was overall positive at 3.3% and a negative EBIT at -1.2%. In Europe as well the difficult market conditions were further compounded by the COVID crisis. Again as

mentioned earlier restructuring actions have been taken and we are happy to state that the EBT excluding restructuring cost is positive.

On page #9; we present the consolidated H1 C20 results of MCIE in H1 C20 and CIE sales dropped 44% year-on-year Rs. 23,147 million at an EBITDA of 4.7 and an EBIT of -1.1 which an EBT of -2.6%.

We will move on to page #11 where we have the balance sheet position for the half year ended 30<sup>th</sup> June, 2020. The ratios have been badly affected by the ongoing crisis but we should highlight that our net financial debt to EBITDA remains under control at 2.7. On page #12 will see the cash flow situation as of 30<sup>th</sup> June, 2020, net financial debt has increased to Rs. 14,541 million largely due to currency FOREX exchange fluctuation between Euro and INR which gives an impact of Rs. 840 million which is included in others and there is also an Ind-AS exchange rate impact. Without these two impacts the net financial debt would have been stable despite the negative business environment and a ratio of debt to EBITDA would be even healthy.

On page #13 we have tried to specify the strategy and actions that MCIE is taking during this time; a comprehensive program has been drawn up to improve profitability by emulating CIE's model of manufacturing excellence. We aim to grow significantly faster than the market and aim to profit from the opportunities that the crisis is throwing up, mainly resourcing from struggling suppliers and opportunities as OEMs de-risk their China exposure. All teams have been tasked to acquire new customers and increase export. Greater scrutiny of CAPEX proposals will be made and new capital will be committed after great deliberation. The immediate focus is to restore the pre-COVID margins at all our verticals.

In conclusion, we would like to repeat what we have stated in earlier conversations that every crisis is also an opportunity. We are looking inwards to improve ourselves by taking various measures, focused on profitability improvement in making our businesses more competitive and we are looking outwards at the same time to continuously shore up our order book as we believe that the crisis will throw up any new opportunities. We assure all our stakeholders that MCIE continues to remain calm, optimistic and confident amidst all this turbulence. Thank you very much and now we will proceed to Q&A.

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

**Jinesh Gandhi:** First thing with respect to this incentive for Aurangabad Electrics is this for entirely for prior period or there is some portion pertaining to 1H CY20?

**K Jayaprakash:** The large part I would say this is an accumulation upto June '20 from 2016, so almost 90%-95% would be pertaining to the previous period and going forward in the next two quarters we can expect another 20 million. So that's a proportion you can make out for CY20.

**Jinesh Gandhi:** So CY20 would be close to about 30 million odd, would that be fair to say?

- K Jayaprakash:** Yes, let's say 40 because we are expecting 18 to 36 million is what we can make for CY20.
- Jinesh Gandhi:** And second question pertains to we have talked about growing ahead of the market, so what gives you confidence in terms of, can you talk about few things which we are doing which will lead to this faster growth than market in near to medium term and in the long-term?
- Vikas Sinha:** I will request Ander to take that but before he takes this let me say that confidence came from the work that we have been doing since Ander took over in September 2016. I think his focus has always been to improve our plants to a level where we can able to serve customers globally anywhere. So that gives us the confidence and therefore we are going out getting newer orders. There are enough queries that we are seeing, of course the situation is so uncertain that we don't know how much of the queries that were coming out of the resourcing opportunities or from China or from elsewhere will actually fructify that will happen when things settle down. But our confidence came from the fact that we are now more sure of our plant capabilities to be competitive. With that I will leave Ander to answer the question.
- Ander A Alvarez:** As Vikas mentioned before we think that this crisis situation is a good opportunity for companies like us. Our perception is that we are a solid company and during all these years we have been working on the internal efficiency improving, quality improvements and also we have implemented all this time CIE manufacturing model in our verticals in India. So during all this period we have improved a lot of our reliability as a supplier. So what we're getting now is that we are been nominated and we have been awarded with several projects for exports in the recent months, so we are quite optimistic on the growth of our export rate that we can be now about 10% to 15% our production is to export, in the future we will grow this percentage and we are already getting new businesses and we have been awarded with some big customers from Europe and from USA. So, this is a fact. Also we see that the problems in some of our competitors will bring us a consolidation in the market, so we are already getting some of the production from our distressed competitors and I think this is in also an opportunity to consolidate the market and to grow the business and in this sense we are receiving news everyday and yesterday for some product we got some important business from one of the competitors for our aluminum company AEL, Aurangabad Electricals and we already launched all the activities to start the production of this component in 3 months. So we are talking about is not a big business but we are talking about a Rs. 350 million of turnover that will come immediately. So this is in my domain and on top of that, we have the Chinese import reduction, so we think that the localization of their production in India will be a fact in the next few months. We are already receiving certain businesses from our customers for example in the Gears division and also in the magnets in the magnetic product division so this is the fact that it's already materialized and it's a reality. So with those expectations together with a recovery of the market we think that the next quarters we will see improvement in our margins and our internal target as Vikas mentioned is to come back to their previous pre-COVID margins by the end of the year or at least we will say in the couple of quarters we should be close to those margins. So that is our expectation that is our aim. I think the team is 100% motivated and committed to these figures and to these ratios, so we feel not comfortable because this is not the word I mean we are worried because of the situation and the situation is tough for all of us because we need to accomplish all that restructuring jobs and

that we are doing in all the divisions not only in Europe but also in India we are doing this restructuring jobs. But the expectations in the future we think that can be good for the quarter, so that's our thrust. Those are our targets of improving our margins and been able to consolidate the market in Mahindra CIE and be a winner after this crisis passes. So that is a general view that we have about revolution of our company.

- Jinesh Gandhi:** Lastly with respect to CAPEX, so any guidance on CAPEX for India and Europe?
- K Jayaprakash:** Right now I think on consol level we have about 1.4 billion spent already, out of which a lot was already committed. So I think for the balance year we can commit would probably be able to restrict it to a billion.
- Ander A Alvarez:** Regarding the CAPEX in the last year, we have been executing the projects that we launched during 2019 and previously, so we decided to go on with all the committed investments with the customers with the new projects with the new plants. We are building new plants in Hosur in Bill Forge we are building also new plant in Aurangabad, so we decided to continue with those already launched investments. Regarding the future CAPEX in the last 3-4 months we have of course stopped the new expenses. We decided to take care of the future but we think that the investments that we are doing now, they will be giving and they will bring us the required profitability in the mid-term. So the company will continue with our growth strategy and of course with most advanced technologies and automatisation and efficient production lines and that is our strategy and we will keep this strategy even in this difficult time.
- Moderator:** The next question is from the line of Sreemant Dudhoria from Unifi Capital.
- Sreemant Dudhoria:** Question again on the Aurangabad Electricals the incentives that we have recieved, so is the understanding right for CY20 it is 36 million and we will continue to get this incentive for the next few years?
- Vikas Sinha:** Yes.
- Sreemant Dudhoria:** Till what time period is this?
- K Jayaprakash:** The incentive gets accumulated up to 2023, it's a 7 year incentive and it will come in under the cash as the coupon applies. The GST that we pay, the State GST that we pay, the maximum of 2.5 million is what we are entitled to.
- Sreemant Dudhoria:** I missed your statement
- K Jayaprakash:** I was saying this is a 7 year incentive, so it started from 2016 it lapses after 2023. It is a refund of the state GST that AEL will pay during this period. As of now we have a accrued receivable of about a billion and it comes into the P&L vis-à-vis the depreciation that you charge on the asset got under the schemes.
- Sreemant Dudhoria:** And you are saying the maximum incentive is capped at 2.5 million a year?

- K Jayaprakash:** 2.5 million is what our eligibility that we talked about over the 7 years.
- Sreemant Dudhoria:** Secondly, so there was also this 34 crores of restructuring cost in Europe towards restructuring what was this related to and how will this impact on the financials going forward questions?
- Ander A Alvarez:** These restructuring costs are mainly coming from dismissals, you know that in Europe the cost of the lay-offs is very high and we set certain social plan, we implemented a social plan, with this social plan you agreed the lay-off of certain people according to certain parameters and we have already executed the social plan in MFE in our plant in the State GST and we already also implemented the social plan in Metalcastello. The amount of this Rs. 344 million is already accounted in our P&L in the month of June and we will execute the lay-offs during the next 3 months. This is mainly the explanation of the restructuring cost. The impact of these lay-offs of course we will have a big reduction on approximately €4 million per year. This is €4 million per year of cost reduction thanks to these lay-offs. What we are doing the main logic behind all these activities is that what we see is that the markets have dropped in the last year, not only because of the virus but also because of the market cycle evolution specially in the commercial vehicles and in the off-highway production problems, I mean the agriculture and big machinery. So what we did is we reduced our breakeven levels with these fixed costs reduction. That was the logic, so our aim is to get back to the previous margins despite the drop of the market.
- Sreemant Dudhoria:** Is there more restructuring cost to come in the coming quarters or are we done with this?
- Ander A Alvarez:** We are now waiting on how the market will behave because we are not sure that the revamp of the market will come in the next months but in Metalcastello we have already done, we have finished, we don't see any more social plan or reductions. In GSA we are also opening the activities perhaps in the north of our plants in Schoeneweiss we can't have additional lay-offs to manage in the future but right now what we are now preparing the plan looking at the market and within to see if we need to accomplish additional lay-offs but for only in the Schoeneweiss plant. The rest of the plants are already finished.
- Sreemant Dudhoria:** So if you could comment on the current utilization levels both in the India business as well as the Europe business?
- Ander A Alvarez:** The utilization levels are quite low especially because of the virus impact you know that in April the utilization level in India was close to zero because we were in complete lockdown in our Indian plants. In May we could be at 20%-25% more or less and in June we had 50%, so this is the growth that we have had in the last month and in the next future we can foresee and according to our customer demands we will see more growth in the next quarter. But you can consider that we can be at 50% in this moment in India. And regarding Europe the impact of virus has been a little less than in India and in April we were at 20%-25% of the capacity utilization, in May at 40% more or less and in June we can consider 55% to 60%. So that has been the evolution in Europe and we expect to have in the next quarter utilization of 65%-70% that could be the near future.
- Sreemant Dudhoria:** In Europe 65% to 70% Europe?

- Ander A Alvarez:** Yes and also in India. I mean not there at 65%-70% can't be the evolution and the forecast for the next quarter according to our customer demand. But this also we cannot commit to any figure on that because we see at the volatility and of course this additional lockdown that's happened in India perhaps can reduce the turnover in the next months. But in Europe it seems that the situation is recovering fast and we are now above the breakeven level so we are now in a positive EBITDA and thus seen positive EBT, so let's say that the evolution is promising.
- Sreemant Dudhoria:** In the previous quarter conference call you highlighted about incentive from the European governments towards the labor cost, how much was that number in the Quarter 2?
- Ander A Alvarez:** The incentive that we are getting in European countries it varies from the different countries but in Italy for some part we had this kind of Cassa Integrazione name of the program and this gives you approximate the 80% of the total cost of the people that is the labor that is the reduction that is giving in Italy. Of course we are not applying to 100% of the people because we are right now at a production rate of approximately 50%, so we have in Italy approximately 120 people in Cassa Integrazione. Oroitz is now calculating the amount and give you some figures in 1 minute. And regarding Germany, in Germany we have survived and this is also similar product as Cassa Integrazione in Italy and in this program the saving for the company is approximately 70% of the total cost of the employee. So we pay 30%, the company pays 30% and they take this 70%, so we have applied this in April and May, in June we have reduced a lot because now we are preparing the stocks and we are making the products for the summer time. So the benefit we took is a little bit less than the previous months. But that is the month that you can have, something like Oroitz, he is now calculating, he will give the accurate figure.
- Sreemant Dudhoria:** You talked about the opportunity from the import substitution of products from China and in our product profile what is the opportunity size that we are looking at and how quick we could kind of capture this opportunity?
- Ander A Alvarez:** We have different situations in each vertical but for example as I mentioned before in the gears division our customers thereby have lot of gears in China now they are moving some of them to India, so this localization is a fact and we can have a growth of our gear division of 5% to 10% thanks to this movement, this behavior of the market. And also in the magnet business we are seeing that the biggest magnet production in the world is in China, now in India we are one of the key players, probably the biggest one and we are getting the additional orders from the customers, it's too early to give you the size because this movement is just completed now and difficult to give you the size but I think that another 5% to 10% growth in our magnet division is also visible thanks to this moment. So those are the range of growth that we expect coming from that movement.
- Sreemant Dudhoria:** Lastly if I can ask this question, you also talked about in sourcing of products, right now which is outsourced and how much of additional revenues can we kind of capture by in sourcing of products?
- Oroitz Lafuente:** We have calculated the saving in Europe (the labor cost support from government schemes like Cassa Integrazione in Italy) and this has been more or less €4 million in the quarter, in Q2.

- Sreemant Dudhoria:** €4 million?
- Ander A Alvarez:** Yes in Germany and in Italy both together.
- Sreemant Dudhoria:** Anything in India?
- Ander A Alvarez:** No, not in India.
- Oroitz Lafuente:** India did not have any scheme under the government for these kind of things, it's only in Europe.
- Moderator:** The next question is from the line of Shyam Sundar Sriram from Sundram Mutual Fund.
- Shyam Sundar Sriram:** My question is in Europe there has been a lot of subsidy schemes announced by the various governments which are driving the electric vehicles in hybrid electric vehicle sales much higher I mean the mix of these vehicles and the mix has also gone up to 89% and it is continuously increasing. Now given all this may not be this quarter but over the next few quarters are we seeing any cut in terms of the production volumes or our passenger vehicle forging division in Europe, is there any plan that is emerging because of this and generally what is the outlook in Europe across different divisions?
- Ander A Alvarez:** Regarding the electrification across the electric vehicles we think that with the subsidies yes, it will be a sector that will grow but you need to realize that the size of this electric vehicle business is very-very small, so the impact will be very-very small for us. On the product in Europe there is not yet any recharging infrastructure already in place that means that the amount of electric vehicles that are sold are very-very low because there is no way to recharge the battery of the vehicle. So the trend that we are now seeing is that the car makers they are moving now to the hybrid cars and they are pushing for the hybrid cars with the plugging hybrid cars and this trend is also very positive for us because they have the internal combustion engine and with all the transmission plus all the electrification of the car. So we think that this will be the trend in the next year, so answering your question, we don't see any negative impact in the next few years and this at least it will take some years to the electric vehicle to be a threat to our business.
- Shyam Sundar Sriram:** And generally the outlook in Europe across what are you seeing in the next couple of quarters in terms of passenger vehicles?
- Ander A Alvarez:** What we can expect is a recovery in the next quarters but the recovery will not reach to the 2019 volume levels at least in the couple of years. So what we see in the next future is the market at 75%-80% of the 2019 volumes. That is the volumes we can see in the next 2-3 quarters. And then in 2021 we can consider probably in Europe 10% below 2019 figure. Those are the rough HIS forecasts and we think that will be the reality in the market and in India we expect that the market to recover faster than in Europe. That's our expectation. Probably we need to wait until the virus is gone; this is probably the key point in the Indian market. But once we solve the virus issue whatever with the vaccine or with the different measures taken by the government and the society, probably we will see the revamp in India. That's our expectation. On top of that we see that we think that this crisis will create some stress in certain competitor. There will be a

consolidation in the market, so we expect to grow above the market, thanks to this consolidation that we think will happen.

**Shyam Sundar Sriram:** This consolidation that you are talking about in Europe I mean you did allude during even the last call, so mostly in Europe?

**Ander A Alvarez:** Yes in Europe but also in India, we see that in India also. With the consolidation we think that this will happen. This is a reality in this tough situation. In Europe of course because we are already perceiving this and there is important movement in our customers to move the production to the safer and solid and financially strong companies. But in India we think that it will happen also and the stronger companies will be the winners in this crisis.

**Shyam Sundar Sriram:** Just one question on this restructuring, we have received in the grant €4 million for this quarter from the government. Now after receiving this grant are we still free to lay-off or retrench employees, is that still allowed by the government?

**Ander A Alvarez:** Yes it is allowed. There is no limitation on that I mean this is a temporary support that the governments are giving due to the virus situation and those are the standard programs both in Germany, Italy and Spain I mean most of the European countries they have similar programs to support the companies when their market is down and the point is that of course this support is there from the government. They give us the support to maintain the employment. But as we see that there will be a structural reduction and especially in Germany what we see is slight downsizing we think that we need to make a structural movement that's why we go for the restructuring activities.

**Moderator:** The next question is from the line of Jay Daniel from Entropy Advisors.

**Jay Daniel:** The promoters have increased their stake in the last quarter; will this be an ongoing exercise in the current quarter? So I just wanted a clarification on that.

**Ander A Alvarez:** This is a shareholder issue the CIE decision but what I can explain you is that the CIE decided to increase the share on Mahindra CIE because they saw that the value of the share price was not reflecting in the real value of the company, so it's an opportunity for CIE to increase the share. That was the main reason behind and if the value of the share price continues in this value probably CIE will continue taking this opportunity.

**Jay Daniel:** So what you are saying is that CIE will continue to take advantage of the opportunity provided by the current prices?

**Ander A Alvarez:** Yes, of course this is not my call; I cannot disclose this information because this is CIE shareholder issue. But what I would say is that probably in these present conditions the CIE can continue with taking the opportunity to increase the share because CIE consider the real value of the company is higher than is reflected in the share price. That's my answer.

- Jay Daniel:** And what would be the target for CIE to take its stake to I mean from whatever level it is at the moment where would it want it's holding to increase to?
- Ander A Alvarez:** I don't know if there is a target on that. It's just an opportunity and increasing the share in the India business because of the interest in valuation of the company.
- Moderator:** The next question is from the line of Priya Ranjan from Antique Limited.
- Priya Ranjan:** First on Aurangabad Electricals incentive, so if I remember correctly that we have to pay or we have already paid these incentives to the promoter group of Aurangabad Electricals. So whatever incentives we are getting we have to pay and just want to understand we have to pay to the promoter or we have already paid that?
- Oroitz Lafuente:** We need to pay Rs. 600 million and the payment will be done in August. The difference of the fee that we collect we don't need to pay anything else, there will be only contingent payment that was pending was Rs. 600 million.
- Priya Ranjan:** So after receiving this incentive do we have to pay those?
- Oroitz Lafuente:** We need to pay only Rs. 600 million, nothing additional.
- K Jayaprakash:** Priya Ranjan it is not dependent on the cash flow, we have to pay in August. Since we have received eligibility certificate the payout happens in August.
- Priya Ranjan:** Secondly on the and earlier Shyam has actually asked this question on the electrification part in Europe; so after COVID what we are seeing is that the government is incentivizing a lot to the electric side. So even Germany has run up a program of incentivizing their electric vehicle purchase, I think even UK is talking about that and France is also talking about, so we have seen the market share of electric is moving up. So if suppose electric market share in overall passenger vehicle moves up by around 10% in 2021, so what can be the potential loss of business we can have that it can happen to us?
- Ander A Alvarez:** I mentioned before that we don't see potentially impact in our sales in the next few years. What we consider is that yes there is a growth on the electric vehicles and there will be a growth because of a subsidies and the support of the government programs. But the infrastructure is not yet ready in Europe, so we don't see that this will be a huge market in the near future. What we see and when we talk about this 10% of the market we are including the hybrid vehicles that they have the combustion engine and complete transmission, so the pure battery electric vehicle will be less than 5%. So we can consider that the maximum impact could be no more than 5% in our business. So in the next 2-3-4 years we don't see a relevant impact in our business then we need to see what will happen with the technology and how this will be managed by the government. The investment in the infrastructure this is a huge investment to be done in the future in the different countries around the world and in this moment of crisis and when there now the governments with a huge deficit I think it will be tough for them to invest. So I think that the electrification will come but it will come slower than expected.

**Priya Ranjan:** In terms of the business outlook for Metalcastello, I think the European agricultural market was quite good this year. So how do you see the off-highway vehicle Metalcastello, can it go back to the last year's number pretty quickly or it will take much longer because you already have taken some restructuring out there? So your outlook on the market is little benign compared to what we are seeing in terms of the agricultural market overall.

**Ander A Alvarez:** Yes, in Metalcastello we have agricultural sector components but we have mainly off-highway vehicles market and our main customer in Metalcastello is Caterpillar and there was more than 60% of our sales to the USA market. So due to the current political situation in the USA where the elections are coming by the end of the year, in this period there is no let's say spends and investments from the government and after that what we expected that the revamp will come in 2021-2022. So that's our expectation, so we see probably a weak second semester or at least affected by the virus plus the market drop and then the recovery and revamp to the previous period will come in 2021 probably or even 2022.

**Priya Ranjan:** Lastly on the Mexico front, can you just update where are we in terms of run rate and in terms of profitability?

**Ander A Alvarez:** In terms of profitability I already told in the last conference call that the company is evolving positively of course we have been affected by the virus and the lockdown and right now we are starting again the production at the reasonable level. Our expectation for the Mexican plant in the short term is we need to recuperate from the virus impact. The internal efficiencies quality, delivery and everything is under control and the company is now is performing well, so in that sense I am quite happy. So once the market comes I think we will see a good profitability and have a profitable business there. We are actively searching for new businesses. We have been already awarded for new businesses from the different customers, so yes we are developing the business and I think that this virus crisis will delay a little bit the improvement of the company. But we are sure that we will fulfill the company in the next year, so that's the expectation. The expectation in Bill Forge Mexico is positive and I think that we will see good figures in the near future.

**Priya Ranjan:** Okay.

**Moderator:** The next question is from the line of Jigar Shroff from Financial Research.

**Jigar Shroff:** At the end of Q1 conference call you had mentioned that the consolidated fixed cost of MCIE is about 100 crores per month and with all these various restructuring and cost cutting and lay-off exercises that you've undertaken, can you envisage or give a guidance I mean how much have you been able to reduce the fixed cost to now per month?

**Ander A Alvarez:** Yes, you are right we mentioned that figure of 1000 crore for the quarter of this course and it's true that now we are above this rate in June for example that's why we've put it out in the presentation saying that we were already in a positive EBITDAs in both India and Europe. We have reduced our regular level approximately 10% that is the approximate reduction that we have already that means that our break even should be 900 crores. So that is the amount that we

can consider right now. Of course this value is moving everyday and we are adjusting it but my another way of looking at this figure is that my expectation is to recuperate the margins, despite the drop of 10% to 20% of the turnover that we can expect in the second semester. That is the view that we have.

**Jigar Shroff:** So you've reduced it from 100 crores per month to 90 crores?

**Vikas Sinha:** No Jigar, what Ander is saying is that we have mentioned that our breakeven point per quarter was 1000 crore last time, breakeven point. So the breakeven point has reduced from 1000 to 900 crores, so there is a 100 crores reduction.

**Jigar Shroff:** I was talking about the fixed cost you mentioned is 100 crores per month that you had mentioned, right?

**Vikas Sinha:** No but just think of it from a break even perspective. From a break even perspective it has reduced from 1000 to 900, we can make the fixed cost calculation on the basis of contribution margin. But essentially 10% reduction is what you can take more or less because the breakeven is reduced by 10%.

**Jigar Shroff:** And it's an ongoing exercise as you mentioned, so any target you are looking at which you envisage to reach in the next 3-4 quarters?

**Vikas Sinha:** Which is what we had mentioned earlier and Ander had specifically mentioned that by the end of this year we would want to go back to the pre-COVID margins.

**Jigar Shroff:** So I mean you would say I mean a 100 crore saving per annum, is he trying to say that way?

**Vikas Sinha:** Oroitz, the question that Jigar is asking is if we have reduced our breakeven by 100 crores or 1000 million per quarter, so what is the actual fixed cost saving that breakeven reduction translates into?

**Jigar Shroff:** Exactly.

**Oroitz Lafuente:** The fixed cost per month has reduced more or less Rs. 100 million. Rs. 1000 million per quarter sorry per month, previously I now would have made this 10% reduction.

**K Jayaprakash:** So that's the point Jigar that I had mentioned that 10% reduction in BEP is roughly around 10% reduction in fixed cost. So that 100 crores that you referred to would be 90 crores now per month.

**Jigar Shroff:** So I mean annually that would be around roughly 100 crores saving per annum?

**Vikas Sinha:** But now there are only 6 months left, so you will have to...

**Jigar Shroff:** I mean at least for calendar year '21 we can.

**Vikas Sinha:** Yes.

- Moderator:** The next question is from Nikhil Kale from Axis Capital.
- Nikhil Kale:** So just wanted to understand, just wanted to get your views on how is the demand shaping up especially in India in the different segments? So if you could just provide some colour of how the demand is shaping up especially in the two wheeler, in the tractor side and what are you hearing from your customers?
- Vikas Sinha:** Actually Nikhil I'll take that question. So as you are right, different segments are responding differently. Tractor is obviously doing very well. You know that Tractors is in positive territory as far as growth is concerned compared to 2019 last year. What we're seeing is two-wheelers is roughly about 30% down compared to last year and four-wheelers are roughly about 50% down in June and proportionately the same thing is improving month on month as far as the schedule currently are concerned. But as we have pointed out there are many lockdowns happening especially in the big auto producing zones. So this might have an effect on that but tractors is the best, two-wheeler follows that and of course followed by four-wheelers. LCV is somewhere in between, MHCV is still in a bad shape.
- Nikhil Kale:** So would it be correct to assume that tractors could be maybe looking at like a low single digit as a decline for this year? Given that the demand has been pretty strong to recover?
- Vikas Sinha:** Well let's not talk about forecast at this moment, let's assume because there is so much of uncertainty there are numbers that are there people have made those forecasts but let's not go into that. Tractors will certainly do the best so far in the next 2 to 3 months is the expectation. Two-wheelers is also catching up quite fast. So anything that is rural, suburban is doing well. Whether it is tractors, two-wheelers, in two-wheelers I think very clearly you are seeing the market leaders are doing better. Again the Maruti, the lower end cars you are seeing a lot of rushed schedules coming in, Boleros, Scorpios, anything which is rural, suburban is doing a little better at this moment.
- Nikhil Kale:** Secondly on the cost front, if I look at other expenses, they are down almost 62% versus the same quarter last year. So I mean we talked about reduction, cost reduction activities that we have done but also just wanted to understand are there any expenses which have been kind of postponed in this quarter and maybe can come back in the second half? So how are you looking at the sustainability of the other expenses line items?
- Vikas Sinha:** JP or Oroitz, essentially have we postponed any expenses?
- K Jayaprakash:** No, we don't do that. Whatever is essential, it is carried out. In fact probably during the break down you would have done a little more maintenance. I don't think we have postponed any revenue expenditure.
- Nikhil Kale:** And just a last housekeeping question; so if I look at your SEBI published results, the cash flow statement talks about a cash outflow of almost 1.98 billion for purchase of plant and machinery whereas in the PPT you talked about the CAPEX of 1.35 to 1.4 billion. So just wanted to understand what's the difference here?

- K Jayaprakash:** That's the exchange difference on the opening block.
- Nikhil Kale:** Okay.
- K Jayaprakash:** The Euro has moved us significantly, it moved to 85 from 80.
- Nikhil Kale:** And could you just help me out with the financial part for Aurangabad Electricals revenue and EBIDTA?
- K Jayaprakash:** You want Aurangabad Electricals revenue numbers?
- Nikhil Kale:** Yes, revenue and EBIDTA.
- K Jayaprakash:** Vikas we do that giving it segment wise?
- Vikas Sinha:** Not the EBIDTA, maybe revenue certainly we have.
- K Jayaprakash:** Revenue was about 700 million in the second quarter.
- Moderator:** The next question is from the line of Mr. Nishant Vass from ICICI Securities.
- Nishant Vass:** So first on the India business side, on the employee cost side if I could get some sense from JP sir, what is the trajectory of the cost structure because we see, seems to be quite sticky. So has there been any one-time costs or the hiring post reopening that has led to this situation or how should we think about this cost line in India?
- K Jayaprakash:** In India we have done some restructuring, it's been within the employment terms like a notice period and there has not been any extra payout, so unlike what has happened in Europe but definitely we have done restructuring and we have used the cost and the count on the headcount.
- Nishant Vass:** How should we think about it going ahead like what kind of a reduction are you envisaging for the second half of the year?
- K Jayaprakash:** If you see and you can see that pretty clearly in the standalone numbers; the quarterly numbers have almost come down by 20%-22% which includes both the variable part as well as the permanent reductions that we have undertaken. So I would think again something like 10% is what we can see is the permanent reduction we would have there.
- Nishant Vass:** My second question is centered around Europe and MFE specifically. You highlighted that many of the suppliers are facing challenges, so I would presume considering the truck market situation with MFE, MFE is also in a similar position in terms of the underlying market being weak and profitability definitely would be challenged. So what is the sense you guys have in terms of MFE as a business considering now it's been 6 years integrated with CIE. Would we be having a rethink in terms of what is the steady state size of the operations going ahead in terms of mix between revenue and profitability and the associated question would be then would that need also to have a rethink in terms of the balance sheet impact of MFE that it is currently having?

**Ander A Alvarez:** As we mentioned in all the different conference calls, in MFE we have a tough situation because from let's say historical low profitability. In all this period we have been improving the company restructuring, we have reduced the size of the business and we closed one of the plants, Jeco plant some 3 years ago, then we also closed the UK business Stokes when we didn't see future growth and profitability. So we have been doing this downsizing and restructuring with the aim and with a clear target of making it profitable; probably not as profitable as other businesses but we want to have a variable and sustainable business for the future. That's our task, that's what we have been doing in all this period and of course in 2020 we have had two negative impacts, one is the downturn cycle in the commercial vehicle sector. We are now in the bottom of the cycle in this, so this is affected the turnover of this business and also we have the virus impact that also created additional reduction. Our view is that we need to continue working there, we need to wait until the new market cycle comes and the commercial vehicles can go up again in the next years and the virus impact has gone. Once we see that we will continue making the decisions. Meanwhile we think that we need to make this business profitable and despite the difficulties I think we can be the ones that comes to rise in that tough environment in Europe Forging Components, that's our view.

**Nishant Vass:** So Ander if I could understand you correctly, please correct me if I am wrong; you were saying that you would actually like to continue to remain invested and expand the business and while others might be even in a more difficult spot than you are. Is that understanding correct for MFE because I was of the opinion that you were looking to downsize MFE's business because it has low margins?

**Ander A Alvarez:** Yes it's more or less correct but what is not correct is that we don't want to expand the business. What we think is that we will be able to consolidate certain businesses in Germany so we will continue investing in this business and the strategy is to make the business profitable with less turnover. So with this is like downsizing that we have started in the previous year, we will continue and until we kept only the profitable business and we get rid of non-profitable businesses that we have had in our portfolio during some years. So we are clean enough the portfolio and we expect that we will continue in this business probably with €150-160 million turnover that is much less than, more than 200 that we have some years ago. So that's the strategy is to continue but not to growing a lot, just consolidated.

**Nishant Vass:** And then the second part of the question which I will ask so considering that you were seeing stable state business being much lower than what when we had acquired this entity. Would you like to have a revisit on the balance sheet size of the impact of this business because when you had acquired the scale of business was much larger?

**Ander A Alvarez:** This depends on the profitability of the business, so we still think that we have a value in this business and we can be able to get the required margins. So if that is the case we will be able to avoid any impact on the balance sheet or any impairment on the balance sheet but of course we need to see and wait and see and work hard to get this. In this moment we do not see the need of the impairment and let's see if we are able to make all this restructuring job properly and getting the proper margins.

- Oroitz Lafuente:** The interest is to see the assessment in the cash the business generates not the top-line so our target is to finish with a more profitable business, generating cash because for the moment we don't see the need for making any kind of impairment.
- Moderator:** Thank you. The next question is from Nikhil Kale from Axis Capital. Please go ahead.
- Nikhil Kale:** My question is more on the COVID cases, so you mentioned that there have been certain cases at your plants as well. So just wanted to understand when you have a case or when you have some cases on your plants, what is the process there? Do you have to shut it down for couple of days and then re-sanitize it, so how does that work and especially that Aurangabad that being like a hotspot and you had a lockdown for another week, I think over the past week so how are you seeing; I mean you mentioned that you have won some business there but with Aurangabad being a hotspot, how do you see the business ramping up, opening up and then ramping up to meet the new realities.
- Vikas Sinha:** So, Nikhil I will take your second question first which is around Aurangabad Electricals. So Aurangabad we are, the situation in our plants is under control. There are a few cases may be around 10-12 cases there but all of them are fine, there are a few cases and the plant is running; that's not a problem. Second on what happens when a case is reported as I mentioned in my initial opening remarks so there is a group at every plant which takes care of that. We see at which area things have happened and the contact breaking and the quarantining of people who have come into contact with them and the local authorities are involved and then based on their guidance any further action is taken. So we have not had to close down our plant in any of the cases, we said about 40 cases have happened but they have not had to close down the plant. More importantly we provide all help to the affected people in terms of support on doctors, support on getting them admitted to hospitals, even in the case of trying to get them medicines if required so all those things we try to do. So far we have not faced any trouble in the functioning of the plant, of course as I said it is not a comfortable situation but I think our plants are functioning.
- Nikhil Kale:** Yes but when Aurangabad was locked down for I think the last week you had a complete one week lockdown again, so even our plant would have been shut, is that right?
- Vikas Sinha:** No, these lockdowns in Maharashtra don't cover the plant industry.
- Nikhil Kale:** Okay.
- Vikas Sinha:** But we have like similar lockdowns are there in Pune for example, the plants are functioning.
- Nikhil Kale:** Specifically for example we read in the newspaper that Bajaj plant was shut even when we spoke to some of the other suppliers in Aurangabad, they mentioned that because of that one week lockdown even we had to shut down the plant, even though it is in the industrial region?
- Vikas Sinha:** It depends on what the local authorities suggest like the Bajaj plant had separate issues so it depends on it is based on the advice of the local authority. In fact if things go worse and if they ask us to shut down we will shut down but that has not happened.

- Moderator:** The next question is from the line of Priya Ranjan from Antique Limited.
- Priya Ranjan:** Last con-call you had mentioned about growth in export and there is significant portion of export market. So can you just throw some light, which are the areas where we are witnessing good amount of traction in exports?
- Vikas Sinha:** So, Priya Ranjan if you look at our export performance our best performing export verticals are Gears and Bill Forge. So they are the ones that are performing well as of now and they are much above the numbers that Ander quoted and they are getting more and more orders. The idea is to make sure that the other plants also start doing it; of course Stampings and Composite will not be part of the export because their products are not so fit for being exported. So other than that, other plants there is a push to export more. Of course there is a shift from CIE Europe to India that is happening in the case of Gears for example started to happen in the case of Forging, so that is the first focus area and then Bill Forge and AEL anyway have a good export presence.
- Priya Ranjan:** Any similar things which is happening in Europe like say during the lockdown I have heard a couple of companies have mentioned that there a lot of sourcing has moved, started going to China and which probably that European wants to move back to the Europe again. So this situation might happen and as we have seen any clients who want you to add certain business in MFE so will you say no at this point of time because....
- Vikas Sinha:** Priya Ranjan you will have to rephrase, are you saying will be add business to MFE because customer asked us to, is that the question? The answer would be driven by whatever is the profitability of that business. And that is true for every business, we mentioned in our strategy also there will be strict monitoring of the businesses added, CAPEX etc. so any new business added will be strictly on the basis of what incremental returns they give to us. If in MFE also if we get an incremental ROI of more than 15% of course we will be very happy to consider.
- Moderator:** We have the next question from the line of Praneeth Gala from Mahindra CIE (was mis quoted as being from Mahindra CIE. Actually from "Stop Loss Research").
- Praneeth Gala:** I just wanted to know because you just mentioned, talked about the kind of exposure that you were taking care in the Aurangabad Electricals plant and all. So just wanted to know are you have to spend any additional amounts in terms of the COVID related expense like in case of sanitation or any medical expenses or precautionary equipment that you have to spend on for and how much was that in a quantifiable number?
- Vikas Sinha:** JP can you give an estimate on what is the additional expenditure...
- K Jayaprakash:** No, I don't think I can give an estimation of what. It is not very significant and I mean we are not even counting them. We are doing our....
- Vikas Sinha:** Praneeth so that is the answer, we actually have not made an estimate of that and in fact to our CSR fund we have spent about 25 billion on the other COVID related activities, the PPE gears

and helping out with during the time of the migrant issue and so on. So we are doing whatever that needs to be done and we are not counting for that.

**Praneeth Gala:** My other question is that since you also spoke about it is been new kind of a reduction measures especially with regards to anything related to the regular payments that have been previously done. So I just wanted to know has there been any sort of a pay cut to the employees or the auditors or the managerial personnel anyone in such.

**Vikas Sinha:** He is saying has any pay cut happened to your vendors, auditors, employees. So not so far but we will, we are actively considering any of these things based on our financial assessment.

**Moderator:** Thank you very much. That was the last question in queue. I would now like to hand the conference back to the management team for closing comments.

**Ander A Alvarez:** Thank you to all the participants and to all the people making the questions, interesting questions. Just my comment is that despite the difficulty of this moment I think we need to look at the future with optimism. I think we will overcome this virus impact in the market, the market will come back and we will be in the market even as strong as that we were before. That is our aim that is our commitment, so thank you for your questions, your participation and thank you for trust in us.

**Vikas Sinha:** Thank you so much.

**Moderator:** Thank you very much. On behalf of ICICI Securities Limited that concludes the conference. Thank you for joining us. Ladies and gentlemen you may now disconnect your lines.

*Note: This statement has been edited to ensure quality*