



“Mahindra CIE  
Q2 CY2021 Earnings Conference Call”

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**Moderator:** Ladies and gentlemen good day and welcome to Q2 CY2021 earnings conference call of Mahindra CIE hosted by ICICI Securities. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance, during the conference call please give me 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 Ayesha. Good day everyone and thanks for joining us today for this call. From the management side, we are represented by Mr Ander Arenaza Alvarez, CEO, Mr. K. Jayaprakash, the CFO; Mr. Vikas Sinha, Senior Vice President, Strategy; and Mr. Oroitz Lafuente, Business Controller and Swapnil Soudagar, DGM Strategy. Now I would like to hand over the call to the management for the initial remarks. Over to you, Sir!

**Vikas Sinha:** Good afternoon everyone, and Good Morning to those who are joining from Europe. I welcome all on this call as also Ander Arenaza our CEO. I hope and wish that all your loved ones are taking care and are safe. Thank you for attending the call. Q2 CY2021 was a difficult quarter as India battled a very virulent second wave of the COVID-19 pandemic to speak in terms of daily cases was roughly four times that of the first wave. While there was no nationwide lockdown like during the first day the month of May was severely affected by the local lockdowns announced by the various state government.

The second wave has mostly subsided but it has resulted in a dip in consumer sentiment that is only gradually recovering. MCIE India's June sales were at the level of 85% of Q1 CY2021 monthly average sales. In the second half of CY2021, we expect the market to recover on the back of the demand for personal transportation necessitated by the pandemic driven safety concerns and continuing positive rural sentiments riding on a satisfactory monsoon.

Given the size of India the pace of vaccination is slow in covering the great majority of the population, we need to be vigilant about incipient new wave that would affect the health of the people and the economy of the country. Thankfully at MCIE India we will be able to ensure that all our workforce that is eligible for vaccination will have at least one dose of vaccine by the first fortnight of August.

Europe also experienced renewed waves of the pandemic in this quarter leading to a dip in market demand sequentially in comparison with Q1 CY2021 but given the rapid pace of vaccination wherein a great majority of the population is expected to be fully vaccinated by September, we do expect that H2 CY2021 will be better than the first half.

Supply side issues like the continuing rise in input prices especially steel and the global semiconductor shortage for the auto industry may have some adverse impact in the second half both in India and Europe but we remain optimistic. As we all know the same quarter last year that is Q2 CY2020 was severely affected by global lockdown and it may not be appropriate to make year-on-year comparisons of Q2 CY2021 with Q2 CY2020 when the base was extremely low instead we will make a comparison sequentially that is with Q1 CY2021 performance and also with the quarter in the prior year that is Q2 CY2019 so comparison of Q2 CY2021 with Q1 CY2021 and also with Q2 CY2019.

We start with an overview of the legal structure of MCIE on page five. Here we see that in line with the strategy CIE continues to reaffirm its faith in MCIE by raising the stake from 60.18% by end of Q1 CY2021 to 60.76% during Q2 CY2021.

We start with Q2 CY2021 results for MCIE India on page seven. Sales dropped 17% sequentially compared to Q1 CY2021 to Rs.8734 million even though the underlying market segments degrew by much more. Our two largest segments declined by more than 25%, light vehicles by 30% sourced from high sales and two-wheelers by 38%.

If we compare Q2 CY2021 to Q2 CY2019 MCIE India sales declined by 5% while the underlying decline in our key segments was 19% for light vehicles, sourced from high sales and 40% for two wheelers sourced from time. This shows that the focus on growth in India that we have spoken about in the last few calls is working.

Let us turn our attention to profitability. MCIE India EBITDA margin in Q2 CY2021 was 13.9% lower than the 15.5% in Q1 CY2021 but satisfactory given the reduction in revenues and the increase in steel prices the margin was also higher than the 13.1% recorded in Q2 CY2019. The EBIT and PBT are at 8.8% and 8.3% respectively in Q2 CY2021.

On page eight we have the Q2 CY2021 results for MCIE Europe. We have seen a slight growth in sequential sales compared to Q1 CY2021 to Rs.10,670 million despite the underlying market dropping. Compared to Q2 CY2019 the revenue is down by only 6% even though the underlying markets have been degrown by much more. EBITDA margin in Q2 CY2021 was 14.1% higher than both the 13.9% in Q1 CY2021 and 13.1% in Q2 CY2019.

MCIE Europe in Q2 CY2021 had an EBIT of 9.9% and PBT of 9.1%. The improved profitability is evidence of the fact that the restructuring actions taken last year have worked well and now if we go to page nine we will see the consolidated Q2 CY2021 results due to a combination of India and Europe. Sequentially sales dropped by 7% compared to Q1 CY2021 and by 5% compared to Q2 CY2019 to Rs.1,941 million, EBITDA of 14 % was

lower by 0.7% versus Q1 CY2021 but higher by 0.9% versus Q2 CY2019. MCIE consolidated EBIT in Q2 CY2021 was 9.4% and EBIT 8.7%.

On page 11, we have the H1 CY2021 results for MCIE India. The sales have been Rs.1922 million maintaining the growth momentum from H2 CY2020. The EBITDA is at 14.7%, EBIT is above our target at 10.1% and PBT at 9.6%.

On page 12 we have the H1 CY2021 and MCIE Europe the sales at Rs.21045 million are up as compared to H2 CY2020. Their EBITDA margin is at 14%, EBIT 9.8% and EBT 9.0%.

On page three we present the consolidated H1 CY2021 result of MCIE. Here too we see that MCIE sales at Rs.40,267 million are continuing the upward trend from H2 CY2020. MCIE consolidated EBITDA in Q2 CY2021 was 14.3%, EBIT 10%, and EBT 9.3% despite the headwinds around the reduction in demand, increase in steel and the continuing pandemic impact.

Now we move to page 15 where we have presented the balance sheet position for H1 CY2021. RONA is at 11.8% and operational ROE at 11.2% and both are moving steadily towards our target that we have outlined earlier at the same time.

On page 16, we present the cash flows equation as on June 30, 2021. Cash flows have been robust despite difficult market conditions in Q2 CY2021. Net financial debt has decreased to Rs.11023 million as MCIE reduces debt in Europe. MCIE has also invested in growth capital to cater to organic growth requirements largely in India and Mexico.

We must also inform you that the board at its meeting held yesterday July 21, 2021 has recorded its approval to incorporate a new company as a wholly owned subsidiary. The proposed subsidiary shall be making Greenfield investment in the new plant at Hosur to leverage the emerging growth of opportunities in the mobility space. The idea is to help ring fence the business and operational risks associated with such a venture.

In conclusion, we would like to state that MCIE has continued on its stated path of growth and improving profitability. We look forward optimistically to the coming quarters.

Thank you and now we 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.

**Jinesh Gandhi:**

My first question pertains to the Greenfield plant, if you can throw some light on which products are we looking at and what kind of capex we will be doing?

**K. Jayaprakash:** Yeah Jinesh, this is a Greenfield we are putting up at Hosur. Obviously, we have hit capacity and we want to have additional capacity essentially in the bill forge unit and also i think we are looking at putting up a very state-of-the-art plant there. So it is part of the growth story that we have been talking about. It is just that we are housing it in a different entity for various business reasons and it will also be additionally entitled to the lower tax that the Government of India announced in 2019 of 15% plus surcharge.

**Jinesh Gandhi:** It is primarily to support the Bill Forge's capacity constraints and also two benefits from this lower corporate tax so we would be doing the same products which have been doing and that is the right understanding right? We will be continuing to do the same products not any different products

**K. Jayaprakash:** There are a few new products definitely, but similar range similar product.

**Jinesh Gandhi:** Second question pertains to Europe, with respect to the last quarter 2Q what was the constant currency revenue growth or revenue decline?

**Oroitz Lafuente:** Q1 to Q2 it was more or less stable.

**Jinesh Gandhi:** Q-o-Q it was stable in Euro terms and the second question pertains to the impact of semiconductor shortages several of your customers have been talking about severe impact in coming quarters, what are you hearing about the production schedules for third quarter for us what kind of impact it could have on our European operations?

**Ander Arenaza Álvarez:** Hello Everybody, good afternoon in India and good morning in Europe this is Ander Arenaza speaking. Regarding the semiconductor impact and shortage it is true that the first quarter 2021 and especially the second quarter, the European market was really affected by that shortage. The main impact happened during the months of May and June and what we expect is that these shortages will disappear in the next quarters, the information we have from our customers show that there will be a recovery of the market and the production in the next quarters so the demands are really strong from September onwards so our expectation is that the shortage of semiconductors will continue but at a much lower pace especially in the Q3 where there will be a certain impact and probably in the Q4 this will be a minor issue so we expect that this shortage will remain till the end of the year but at the much lower pace.

**Jinesh Gandhi:** Got it and last question pertains to the capex we maintain our capex outlook of close to 5% of sales at an aggregate level or this will keep some increase because of the Greenfield?

**Ander Arenaza Álvarez:** Regarding the capex we continue our bet for Indian growth so we are adding capacity in India as we have good expectations for the future so we expect to be in the range from 5%

to 6% over the sales. This is the standard rate and mainly almost 100% of the growing capex is located in India especially you saw that the Hosur plant that we mentioned before this is the new plant that we will launch with already nominated products and so we are opening a big facility for forging and machining and we will add new customers and also new products on this factory so and all these businesses are already allocated so that will give us a big jump on sales also we are growing in different technologies. We are expanding our gear division, we are adding more capacity and space to continue our growth path then also the forging plant is we are growing in the warm forging activity and we are opening a new shed to produce to enter into the warm forging in the Chakan plant so as you can see there is there are plenty of big capex activity in the company as we expect to continue growing and we are quite optimistic for the growth. I remain optimistic for the second half of the year and especially for the next year where we will see a big jump once the COVID-19 hopefully will be over or issue will be over and the semiconductor shortage also will be over so in that sense we expect to have a good recovery in the next quarters and especially next year.

**Jinesh Gandhi:** 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 a good set of numbers. Continuing with the same topic as few global OEMs have been highlighting that Q3 volumes will be lower versus Q2 potentially so from that aspect because of the semiconductor issue so and your Q-o-Q Euro business revenue was in fact higher so how to look at just from a coming couple of quarters angle that Q2 revenue base you are confident of retaining or there is a risk to this Q2 revenue number for Europe business?

**Ander Arenaza Álvarez:** As you know in Europe in Q3 we have the seasonality impact because we have the August holiday in the middle of the Q3 that means that usually Q3 is weaker than the Q2 but however what we see in this moment is that the demand from the customer remains strong in July and also despite we will have the holidays and plant closures in August usually a couple of weeks will happen. We see also a very strong September. So overall what we see is that the market continues in a good trend recovering the volumes slowly and we can see and that is at least in the commercial vehicle market. We see also a very strong Q4. So my expectation is that the market will continue recovering and after the COVID-19 impact is over I think we will see a good evolution of the market. So short term I think the expectation is and the markets are quite good.

**Basudeb Banerjee:** Second questions like as in past couple of calls you also highlighted that you are in touch with key two-wheeler OEMs like Bajaj as that there is so much news regarding E2 wheelers

various new launches happening and various component players also announcing JV's or tie ups or portfolio expansion targeting E-2wheelers so anything material has happened incrementally in this quarter with regards to this?

**Ander Arenaza Álvarez:** No big changes on that. We continue our contacts with the customers. We continue developing the products with them and despite the two-wheeler business it is more affected in the last quarter let us say the third quarter in two-wheeler was higher than the rest of the sectors. We expect that this sector will recuperate soon so no main changes we continue our development with them and let us say the expectation for the future is also optimistic.

**Basudeb Banerjee:** Last question Sir, if I look at your strong Europe margin this quarter, how to look at the MFE margin, the erstwhile truck business margin if one needs to segregate your Europe business for you, how that has progressed because you have been focusing on cost management aspects?

**Ander Arenaza Álvarez:** Last year in 2020 due to the big impact of the COVID-19 and also because of the drop of the market, we accomplished a very strong restructuring activities in all our companies in Germany and we reduced our breakeven levels and we try to adapt our capacity to the new demand this year as the market established revamping, I think that you can see that we were able to improve our margins slightly and I think we are in a good path in this moment so the margin evolution in Europe it seems solid and we continue improving and we of course we are not satisfied especially with the German profitability when the German profitability is not where we want to be but we continue working to improve those figures. We see that if the market comes strong as it seems that it will come we will be able to continue improving our activity.

**Basudeb Banerjee:** Sir as you mentioned the creation of the separate subsidiary for new products and e-mobility etc., so can you highlight on the target product portfolio under that new subsidiary?

**Ander Arenaza Álvarez:** This subsidiary will be located in Hosur let us say close to Bengaluru. It will be managed by the our team at Bill Forge mainly as Bill Forge is completely booked and we have no additional capacity for the growth so we opened this plant for this growth. The plant will have forging especially the machining and machine activity and we will produce different components for exports for PSA, different customers like Royal Enfield and also Hyundai, those are the customers that we are working for in this projects and trail runs has been already awarded to us so we are launching all the investments, the building will be ready in couple of months two to three months will be fully finished and we will start production beginning next year.

**Basudeb Banerjee:** Thank you that is all.

**Moderator:** Thank you. The next question is from the line of Sunil Kothari from Unique PMS. Please go ahead.

**Sunil Kothari:** Thanks for opportunity. Congratulations for a really good number. Sir my first question is related to this outperforming Indian market, Indian entity has grown far faster than the market so if you can elaborate and give some qualitative reasons and strength towards those outperforms?

**Ander Arenaza Álvarez:** We think that our Indian activity we are producing properly and with a high efficiency and we are improving our quality and delivery ratios despite the impact of the pandemic and the difficult situation in the country and in this scenario most of our customers are supporting us and they are consolidating and moving the production to us as we are a reliable partner for them. So what we see is producing in with efficiency with good quality in a very solid company as we are is paying results and the customers are confident they trust on us so they are supporting and consolidating production where other smaller suppliers, they are struggling with the situation that is in my opinion the view and the main reason of our good position in the market so that I explained this in the first quarter last call in April and we see that this trend still continues despite the COVID-19 impact that happened especially in May where we had a drop of 30% approximately that month because of our customers closing factories due to the lockdowns in the different regions in India especially in the Bengaluru area but after that we saw the very fast recovery that is why we remain optimistic and we continue investing to expand our capacities to continue our growth paths in India.

**Sunil Kothari:** Great Sir and Sir my second question is a little related to some time there comes some days or weeks back we had CIE investor day I attended that and that was a very, very good explanation and strategy explanation on the what CIE want to do over the next three to five years and it seems that Mahindra CIE seems to be a very important part of that growth strategy profitability improvement investment strategy so would you like to understand from you where currently this our entity is and how far we are from the achieving those objectives what we will be doing if you can explain in a little bit detail about the strategy for next three to five years which parent already have disclosed in those that investor day?

**Ander Arenaza Álvarez:** As you said the bet of CIE is to continue growing and improving our profitability in India we see and as CIE from CIE point of view and despite the different new trends in the automotive what we see is that the Indian market will continue growing and there will be a very, very important production and manufacturing hub for the automotive sector worldwide so what we think is that we need to continue and our expectation is that the biggest growth in CIE in the next years will happen in India that is a fact because we expect the market to continue booming and also the export rate should grow from India to the rest of the regions especially Europe and the States so that is the bet of CIE and in that sense Mahindra CIE is the instrument where CIE will put efforts to continue the growth and if

you look at the at the capex and the investments that we are doing in India it is mainly focused on that so we expect this growth to happen in India and we will have a very, very solid activity in the future in India.

**Sunil Kothari:** Sir regarding return on equity, profitability, EBIT margin so we will be also aligning to those numbers over a period right?

**Ander Arenaza Álvarez:** Clearly, CIE target is to we are above 18% EBITDA and return on assets the expectation is this 20% and in Mahindra CIE we are still below those figures so clearly the strategy of Mahindra CIE is to match or even improve the CIE margins worldwide so that is the clear target so we continue our improvement, working on efficiency, working on quality and of course growing the business because we have the capacity to continue growing that is the strategy of CIE so yes we would like to align or we will align our margins to CIE margins that is the main target that we have there.

**Sunil Kothari:** Great Sir. Thanks a lot and wish you all the best. Thank you very much.

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

**Bharat Sheth:** Congratulations Ander and whole team and good set of number in challenging time. You gave little more color on this forging business in our Europe, Germany, can you elaborate I missed some part so how do we really look at this business the way CV market demand is growing very strongly in the Europe and second question is what exactly are we doing for participating on EV space from the European entity?

**Ander Arenaza Álvarez:** As you know the German business that we called MFE Mahindra Forgings Europe, they has been let us say our most complicated business and less profitable business in the last years. We had strong turnover level in the past but we were not making money so we decided to reduce and to make a slowdown of the businesses let us say a selection of the business especially eliminating all the non-profitable products that we were producing so in this reduction of the business we had some hard times especially because in 2020 the crisis came so the reduction was higher than what we expect then I think that we did all the restructuring job what we expect is that we will keep and maintain the business we are not planning to continue growing, we want to make it efficient and we want to make it profitable in at least having a positive EBT and that is our challenge and that is what we are getting and obtaining now, okay. For the future what we see is that the business will remain up flat and we will continue our efficiency improvement plan, so that is the strategy. Coming back to the electrification, we see that the electrification will be the next challenge in Europe as the market will change in the next 10, 15 years and we are working directly with most of our customers to offer the different products and to change the portfolio in certain plants okay and we are working on actively on the suspension and chassis

component and in the aluminum forging and we continue on that path. Development for example in some, we already got a very important electric component business nominated from an American customer so we are already nominated to produce a big program for electric vehicles so that the way that we are working where we are concentrating now in the current market, because you know that the electric vehicle market is only 5% in this moment in Europe and so we need to take care of the rest of the 95% and for the future we are voting and we are actively searching for the products for the electrified battery electrical vehicles, so that is the strategy and we have time and so we are quite optimistic that we will make this change feasible and in a proper way in the next years.

**Bharat Sheth:** So on this European forging plant so we want to turn it make EBT positive, so in the whole journey what stage we are?

**Ander Arenaza Álvarez:** We are already in positivity EBT okay, very close in that band so that is where we are and we need to now to continue improving to have positive additional positive margins so we are already in the break even, already we got it and but of course it is not enough for us so we expect to continue growing.

**Bharat Sheth:** Since you are saying that for electrification we are looking evaluating aluminum forging so what type of capacity currently we have and how much investment we really need to make to scale up that aluminium forging business in Europe?

**Ander Arenaza Álvarez:** The investment is not important because what we would use is the current presses to produce the aluminium of course then we need to change certain facilities and to add treatment ovens and we need to modify the lines but the investment is not very relevant okay, so what we will use is the existing capacity to produce the aluminum components and let us say all the chassis components.

**Bharat Sheth:** Okay and can you give some color on this Metalcastello business which was operating at very low capacity, how we are looking up and any new customer acquisition that has added in the first half of the current year?

**Ander Arenaza Álvarez:** In Metalcastello, the business is evolving really well, our main customers in Metalcastello are the American customers, American off-highway vehicles market is revamping so the demand is really, really strong in Metalcastello. Just to give you we are adding also additional capacity and investing in additional machinery because the plant in this moment is fully booked and the expectation for the near future is also really, really strong. So we will come back to 2018 figures where the market was really strong. In 2019 we had slowdown and 2020 because of the CoViD-19 it was very, very low and we are recovering again the 2018 figures so we are quite optimistic with the evolution of Metalcastello business. So I believe at least in the next one-and-a-half to two years we will see a big jump

in Metalcastello and we are working even adding capacity to cope with the demand. The pressure in this moment is very high and yes we are opening the new customers, I told you before that we got a big business from an American customer, a new American customer for electrified powertrain so I think this is the best information that I can give that saying that we are opening new customers and we are opening also new products for electrified vehicles so in that sense it is a very, very positive move in the evolution of the company.

**Bharat Sheth:** Can you give some more color on our this Aurangabad aluminium plant or the facility which we acquired the company which we acquired what stage we are with earlier we because of COVID-19 there was some slowdown?

**Ander Arenaza Álvarez:** The company in Aurangabad is doing well, they continue growing and they will as you know we are opening also building a new plant in Aurangabad, fully new plant in order to continue our growth strategy. We continue also with the exports that we are doing to Europe and this is also a growing business and that Aurangabad main customer is Bajaj and we have an excellent relationship with Bajaj and I think we are supporting Bajaj a 100% so they continue trusting on us and giving us additional business. Then what is true is that due to COVID-19 and we had a plan to transfer technology from Europe to enter into new products in Aurangabad, this transfer was unfortunately stopped because of the pandemic and we hope that this transfer will be restarted by the end of this year okay not yet because of the second wave of the COVID-19 that surprised us and we were expecting to do it in June, July but now we need to postpone it to the end of the year, but we will do this with the jump of technology also in Aurangabad. So overall we are really pleased. The management team is doing really well in Aurangabad. I think the alignment with Mahindra CIE team is complete and I can only say positive things about Aurangabad so we expect that this business will continue growing in the same way that the Bill Forge is growing strongly. I think that Aurangabad will continue also the growth path and we will become one of the aluminum high-pressure die casting leaders in India.

**Moderator:** Thank you. The next question is from the line of Srinath Krishnan an Individual Investor. Please go ahead.

**Srinath Krishnan:** Thank you. My question is to Mr. Ander. First congrats on consistent operations for the last one year. There were plans to merge the Chinese, Mexican and Brazilian operations with Mahindra CIE once the automotive industry has stabilized, so now we see some stability in the market. Any update on the same, any update or time line that we could have? Thank you.

**Ander Arenaza Álvarez:** There is no good news in this moment. We are continuing in our internal analysis and strategic reviews and in the next month we will accomplish the strategic plan for Mahindra CIE and we will decide later the next steps okay. In this moment we see this option as

feasible, but we need to decide and looking at the market evolution and the expectation of the different regions decide if we will go on or look for other acquisitions and use all our financial capacity to develop other businesses that is the strategy thinking that we are now having and we will accomplish this during the second half of the year.

**Srinath Krishnan:** Thanks a lot.

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

**Nikhil Kale:** Thanks for the opportunity. Congrats on a very good set of numbers. Most of my questions have been answered. Just had a couple of housekeeping questions so, firstly I just trying to understand in the last quarter you had mentioned that there will be certain price increases which will be coming in the Europe business which have kind of come in that is what you mentioned in the presentation, so can you just help me with the quantum of the price increases that you have seen?

**Ander Arenaza Álvarez:** Sorry. I did not catch currently the question. Vikas, can you tell me on this?

**Vikas Sinha:** Nikhil, are you asking how much price increases we have got in our European business right?

**Nikhil Kale:** Yes the benefit of price increases in revenue.

**Vikas Sinha:** Benefit of price increase in Europe.

**Ander Arenaza Álvarez:** Yes, the price increase in the second quarter is approximately 6% over the Q1 okay. This is the raw material impact. As you know the steel price is going up and has gone up dramatically in the last quarters and the impact is in our business in Europe is 6% and it is approximately the same done in India okay.

**Nikhil Kale:** So in India also you have gotten price increases for this quarter because I think last quarter you got price increase in India, but has it also happened in India for this quarter as well?

**Ander Arenaza Álvarez:** Yes, let us say the price increases in different quarters has been different, aluminum has continued going up and steel is also going up and the impact on this of the raw material in our P&L is approximately 6% and it is similar in India and in Europe so it is 6% this year.

**Nikhil Kale:** Thank you. Secondly if I look at the commentary that and you are talking about a lot of new order wins and a lot of organic capex that you are doing. At the same time I think in the last quarter we have kind of changed our dividend policy wherein we pay out more dividend

now which we were not doing earlier, so how should I look at it this in line with our stated policy of looking at potential acquisitions, is the focus now more on organic growth or are we not seeing enough targets available at good valuations. What is the situation here?

**Ander Arenaza Álvarez:** We are focusing on the organic growth mainly because we got the new orders from the customers and we decided to go in that path, but we keep also an eye on the inorganic growth and as we usually say that we would like to have 50% of organic growth, 50% inorganic growth, so we are still active. Of course due to the pandemic we were not able to be very active or to develop these activities so we expect that by the end of the year once the pandemic is over we will be able to start also analyzing the market and we are also willing to continue our inorganic growth path, so the strategy of the company continues its focus and also in the growth so that is the update on that.

**Nikhil Kale:** Thank you. That is it from my side.

**Moderator:** Thank you. The next question is from the line of Nihil Parekh from Tamohara Investment Managers. Please go ahead.

**Nihil Parekh:** Thank you for the opportunity Sir. So I just have one basic question referring to the commentaries of the various auto ancillary companies and also the OEM largely their business have been impacted due to semiconductor issue be it the Q1 or Q2 but looking at our result we have seen minimal impact, so just can you share your thought what measures have you taken to ensure that we have safeguarded from this impact?

**Vikas Sinha:** We tried to answer that question, yes there has been an impact on the market and very clearly you see the market impact is there. We talked about and the presentation also talks about, the market demand coming down both in India and Europe in Q2 versus Q1 you can clearly see that especially in Europe which will be more semiconductor impact in India of course we had the May lockdown so yes there has been an impact on the market but we have always been saying that we are trying to grow faster in the market and order book is being developed and that is the reason why our impact has been less than the market impact. It has been the steady focus on ensuring growth over the last few quarters that we have been talking about and that is what you are seeing in this quarter, so we have not done anything differently to mitigate the impact of the semiconductor crisis or anything it has just been the focus on growth that has been part of our steps.

**Nihil Parekh:** So can we say that it has been the recent order wins which has sort of helped us tide this time?

**Vikas Sinha:** Absolutely, of course when you say focus on growth it is you get order, a lot of the orders have come as Ander pointed out, because there has been a consolidation in the market,

customers are trusting companies like us more given the uncertainty in the health of the supply chain as well so that is the reason why some of our existing customers have given us have reposed trust in us during this pandemic period, some new like Hosur, Ander pointed out new customers that have come in PSA, exports and the two other customers that he talked about. So yes you are right so largely our existing customers are imposing trust because the supply chain there is a lot of uncertainty in the supply chain plus we have also gained newer orders, a lot of like if you remember in CY2019 we talked about some huge number of customers that we had added if you go back to our CY2019 year-end presentation we had talked about so many customers, we had added at that time, so a lot of them are ramping up now, so you are right. It is the order book but the focus on order book is because of the growth.

**Ander Arenaza Álvarez:** My comment was that yes also that in Europe, the second quarter was affected negatively by the semiconductors and we saw a reasonable turnover figures that is why also what we see the Q3 and Q4 in the optimistic way because once this semiconductor shortage is over we will see the production of our customers growing and we will see our demand growing so that is the main reason that we still feel quite optimistic for the near future and especially for the next year where we think that will be one of the best years in the automotive sector okay that is the feeling that we have because in this difficult situation we did reasonable figures and nice figures. If the market improves as we expect the figures should be better, so that is why we continue being optimistic in this environment.

**Nihil Parekh:** Thank you so much for answering my question.

**Moderator:** Thank you. The next question is from the line of Jinesh Gandhi from Motilal Oswal Financial Services. Please go ahead.

**Jinesh Gandhi:** Couple of clarifications. One is, when you are talking of recent order wins helping to dilute semiconductor stockage, this would be primarily in India right. Europe side would not have been any material in the order wins with respect to the totally new wins as such?

**Vikas Sinha:** Yes, that is correct. So in India if you see the difference in market we talked about between Q1 and Q2 light vehicle market dropped by almost 25%, 26% for two wheelers by and roughly about 38%, tractors of course dropped only 15% that is true and MHCVs also a large number so we have dropped to 17%, there will be some steel impact still we are much better than the market prospect so you are right as far as order book wins in India is concerned. In Europe also it is largely the existing customers that we are talking about in Europe. Of course Ander has talked about a new customer for our Metalcastello business but that is largely existing one. You are right.

- Jinesh Gandhi:** Secondly, with respect to this new American customer for EV program, the component which will be supplying is our existing component or that is on totally new EV component as such and would this aluminium forging or normal steel forging which we do currently in India?
- Ander Arenaza Álvarez:** The new process we are processing for electric powertrain are existing products of course with the different characteristics due to the electric vehicles requires much more accuracy and surface treatment and so on but the production is existing products and mainly they are shafts and gears for the electric transmission.
- Jinesh Gandhi:** Secondly on aluminium forging which you indicated the investment would not be very high, it is primarily because we look to shift some existing equipment from steel forging side, is that what you meant?
- Ander Arenaza Álvarez:** I did not catch the question properly, Vikas can you help me?
- Vikas Sinha:** The question is we said that the investment in machinery for aluminium forgings will not be high, so the question is are we dedicating some existing press or whenever it happens will we dedicate some existing press to the same or how is it going to be because there is extra capacity?
- Ander Arenaza Álvarez:** Yes that is right. The solution is our proposal is to use the existing part of the existing capacity and the different presses that we have to produce these kinds of components. Of course, we need to completely change the line and add the additional heat treatment facilities and so on but the idea is to partially use the capacity that we have to replace products for these new products use the chassis components.
- Jinesh Gandhi:** Thank you.
- Moderator:** Thank you. The next question is from the line of Bharat Sheth from Quest Investment. Please go ahead.
- Bharat Sheth:** Thanks for the second time opportunity. Ander, second half is normally typically is a lower than the first half in case of Europe business, because of many holidays lined up in second half but Y-o-Y how do we really look last year second half versus this year second half?
- Ander Arenaza Álvarez:** We think this second half will be better and stronger than the last year second half. Last year second half was affected especially Q3 where the COVID-19 pandemic was still there and we saw a recovery from the Q2 that was really bad. Q3 was better and Q4 was good okay, but this year what we see is that the second half of the year will be better stronger than the second half of the 2020. We clearly see that because the impact of the pandemic is

slowly disappearing, not definitively because in Europe at least in Spain we are in the fifth wave of the Coronavirus, so the virus appears and disappears continuously so that is the situation but the semiconductor issue that was one of the blockages in the first half of this year will disappear or will be reduced and will be much lower impact in the second half of the year so that is why we expect a stronger second half in 2021 and in fact the order book shows that. The order book for September, October is really high so let us see of course there are certain uncertainties because we do not know there will be another wave of the virus but if the virus, is over I think that we will see a good end of the year.

**Bharat Sheth:** That is on the topline as well as the profitability margin wise also EBITDA correct?

**Ander Arenaza Álvarez:** Yes absolutely.

**Bharat Sheth:** Thank you. That is all from my side.

**Moderator:** Thank you. That was the last question. I would now like to hand the conference over to the management for closing comments.

**Vikas Sinha:** Thank you for your participation and now hand it over to Ander for his closing comments.

**Ander Arenaza Álvarez:** I wanted to thank you to all the participants for the good questions and direct questions and I hope that we answered properly to all your questions. I just wanted to thank you to all my team and all the workers in the team Mahindra CIE because they did a fantastic job in this really challenging times especially in India where we were affected heavily in all the locations, but especially in the Bill Forge in Bengaluru area, in Karnataka, so my best wishes and my thanks to all the team because of the commitment, they showed, the commitment and they manage the company perfectly and I think that our customers recognize that, so thank you very much to everybody and see you next time. Thank you.

**Moderator:** Thank you. On behalf of ICICI Securities that concludes this conference. Thank you everyone for joining us and you may now disconnect your lines.

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