



“Mahindra CIE Automotive Limited Q3 CY '20  
Earnings Conference Call”

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

**Moderator:** Ladies and gentlemen, good day. And welcome to the Q3 CY '20 Earnings Conference Call of Mahindra CIE, hosted by ICICI Securities Limited. As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '\*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Nishant Vass. Thank you and over to you, sir.

**Nishant Vass:** Thanks, Aisha. Good day, everyone. And thanks for joining us today for the call. From the management side we are represented by Mr. Ander Arenaza Alvarez – CEO; Mr. K. Jayaprakash – CFO; Mr. Vikas Sinha – Senior Vice President, Strategy; and Mr. Oroitz Lafuente – Business Controller.

Now I would like to hand over the call to the management for their initial remarks. Over to you, sir.

**Vikas Sinha:** Yes. Thanks, Nishant. Good day, everyone. I welcome all of you on this call, as also Ander Arenaza, our CEO. Thank you for being with us in these trying times of the COVID-19 crisis. I hope and wish that all your loved ones are taking care and are safe.

At the outset, let me give you a quick update on the COVID situation at our plants:

While Europe is experiencing a second surge September onwards, our plants have not been affected and are functioning normally. In India, the last quarter was particularly difficult with fast rising cases across the country. It was especially difficult in Pune, where many of our plants are located. Total number of COVID cases at our Indian plants are more than 250, though a large majority has recovered and is back to work. As mentioned on the call last time, a crisis management group has been formed to handle the pandemic. Working groups have been contributed at each plant to review the situation and react as warranted, and all plants are functioning normally.

Let's proceed to the presentation:

The legal structure of MCIE and its subsidiaries is shown in Slide 3. We would like to point out, that in this quarter as well CIE has chosen to reiterate its commitment to MCIE, by acquiring an additional stake, taking the shareholding to 60.18% from the previous 58.02% at the end of last quarter, and 56.25% at the end of last calendar year.

The Q3 C '20 MCIE India results is on Page 4:

Q3 C '20 shows a marginal drop of 4% in sales compared to Q3 C '19. This is in line or slightly better than the market performance. Q3 C '20 sales in India has seen a sharp recovery in demand. Our sales level is higher than the pre-COVID Q1 C '20 numbers. EBITDA margin has improved to 13.6% as compared to 13.1% last year. EBIT is 7.8%, and EBT has improved to 7.2%. Thus,

Q3 C '20 EBITDA margins in India is higher than the Q3 C '19 margins, in spite of a drop in sales. This improvement has been achieved by the India team under trying circumstances of a surging pandemic, coupled with manpower availability issues because of the migrant workers' situation.

This surge in demand in Q3 C '20 in India is expected to continue into the next few months. Various reasons are driving this, which you are aware of; pent-up demand, COVID safety concerns leading to private vehicles, inventory buildup in the supply chain in anticipation of festival demand and surge in rural sales. But we are viewing the medium-term with caution as reduction in household income due to COVID-induced contraction in the economy could cause a problem. Of course, the long-term prospects in India remain positive as there is enough room for growth on vehicle ownership, farm mechanization and road building. To face up to these medium-term uncertainties in demand, we continue to focus on breakeven point reduction at our verticals and are increasing our efforts to bolster our order book, especially through exports.

On Page #5, we have the results for MCIE Europe for Q3 C '20:

While the demand is coming back slowly, the sales have predictably been lower than the sales of last year. In line with the market drop, MCIE Europe has seen a decline of 22% in euro terms. Car forgings based out of Spain and Lithuania, and the gears company based out of Italy have positive expectations for next quarters. But the truck forgings business based out of Germany is still in a challenging situation. The MHCV market, which the German operations serve, continues to be sluggish and is estimated to have dropped by 23% in this quarter. Overall, in Q3 C '20, MCIE Europe's EBITDA percentage was 9.9%, EBIT at 5.4% and EBT at 4.2%.

Restructuring actions are ongoing at our German operation and has cost Rs. 270 million. This negative impact, however, has been partially offset by the sale of real estate at our closed Jeco plant, which has yielded Rs. 162 million of profit. Net exceptional cost is therefore Rs. 108 million. Without these, the EBITDA percentage of the MCIE Europe in Q3 C '20 would be higher by roughly 1.3%. If we add this 1.3%, then the EBITDA margin will only be slightly lower than the EBITDA margin in Q3 C '19, despite the sharp drop in sales. That's the point to be noted here.

And now if we go to Page #6, we will see the consolidated Q3 C '20 results, which are a combination of both India and Europe, (-8%) degrowth in sales, (-12%) in EBITDA, (-23%) in EBIT and (-22%) in EBT when compared with the same quarter of last year. Without restructuring onetime costs incurred in this quarter, operational EBITDA margin would have been higher than what it was in the same period of previous year.

On Page #7, we see the nine-month CY '20 performance of MCIE India:

This shows the cumulative impact of the three quarters. The revenue is Rs. 18,152 million at an EBITDA margin of 9.7%, EBIT at 3% and EBT at 1.8%.

On Page #8, we have the 9-month C '20 results for MCIE Europe:

The sales have fallen in line with the market vis-à-vis the same period of CY '19. The revenue is Rs. 21,376 million, EBITDA is Rs. 1,253 million. The EBT is particularly noteworthy, EBT is roughly about Rs. 18 million. The EBT is particularly noteworthy, it is positive despite the lower market scenario and the onetime impact of Rs. 452 million incurred towards this year due to restructuring at our German and Italian operations.

On Slide #9, we have the nine-month C '20 consolidated results of MCIE, which are a combination of first quarter evolution in both India and Europe, and a disastrous second quarter, with some normalcy restored in the third quarter. We should point out that we have reached EBT breakeven for the nine-month period despite a disastrous Q2 C '20, this shows that the company remains resilient in the face of the crisis.

In conclusion:

I would like to reiterate that we have begun working to adapt our company to the new scenario, demonstrating our reaction speed and our managerial efficiency. MCIE is on its way to normalcy and well placed to exploit opportunities in favorable market conditions. Thank you. With that, we can proceed to Q&A.

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

**Jinesh Gandhi:** First, clarification on CIE Europe's accounting. So, the restructuring expenses in the Jeco real-estate sale profits which have come... (Technical Difficulty)

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

**Nemish Shah:** So, I have two questions. So one is with respect to this restructuring cost. So are we done with these or do we expect some costs? So I have two questions. So first was with respect to the restructuring cost. So are we done away with the restructuring costs or do we expect some more costs in the next quarter?

**Ander Arenaza Alvarez:** Okay. Good afternoon, everybody. This is Ander Arenaza speaking. Yes, regarding the restructuring costs, as you saw, we had this Rs. 270 million in the Q3, mainly in the companies in MFE, in Mahindra Forgings Europe in Germany, okay. And for the next quarter, we are now analyzing if we can have some additional costs coming. We are doing the fine-tuning depending on the market evolution. And we are not yet sure, but we can expect some additional restructuring costs for the next quarter, not as high as it were in the third quarter, but some additional costs can be considered.

**Nemish Shah:** Okay. So do we expect to close the year at a normalized EBIT margin, will that understanding be correct?

**Ander Arenaza Alvarez:** Okay. We see a positive trend in the last month. We saw the Q3 turnover figures and sales figure were better than we expect. In my previous call, we were talking about a 65% to 70% of sales for this quarter and, in fact, we were closer to 90%. So it's true that the market evolution and performance was better than expected. And we expect also a better Q4 than expected. So the market is performing well. I think the end of the year will be good. And yes, we expect to continue improving our margins, as we said, because we were doing all the restructuring activities and efficiency, increased activities in the last month, and we hope that these actions and all the jobs that we did will pay results in the next quarter.

**Nemish Shah:** Sure. One last question was, so in CY '18 we kind of reached our peak revenues and so just wanted a longer term understanding in terms of our top-line. So in terms of trends and in terms of your discussions with the OEs and your customers, so when do we see us hitting those peak revenues that we had in CY '18, so can we expect that number to in the next one, two years? So just a broad understanding in terms of our top line for the long-term, say, the next one or two years.

**Vikas Sinha:** Nemish, Vikas here. We will, of course, not like to talk about forward-looking statements on our revenue. Point to be noted is, CY '18 was the highest for the market in general. CY '18 was the year in which the auto market, all segments had perhaps the highest performance in terms of the last 10, 15 years. So that peak for the market itself is not going to come in the next one or two years, it might go up to 2023 or something like that. We will certainly, as I said, beat the market. We have always been talking about it. So our peak will be earlier than what the market reaches. So if the market is reaching in 2023, the CY '18 numbers, we will definitely reach it before that. So other than this, we would not like to talk much more about.

**Nemish Shah:** Understood. Just one small clarification. So this gain in the Jeco plant, is that come under other income for our consol revenue? The gain that we had of around....

**K. Jayaprakash:** No, the revenue is in the other income, cost and other expenses.

**Moderator:** The next question is from the line of Nitin Shakhder from Green Capital Single Family Office. Please go ahead.

**Nitin Shakhder:** I just wanted to have a bit of an idea on the demand side from all the Indian segments on tractors, two-wheelers, LCVs and MHCVs. If you could just paint a bit of demand on each segment and how was the traction looks like?

**Vikas Sinha:** Nitin, if I can understand your question, you are saying for our major segments, which is basically light vehicles, including the cars, UVs, LCVs and vans, two-wheelers and tractors, you also asked about MHCVs. What is the demand situation, are you talking in the near-term, medium-term or long-term?

- Nitin Shakhder:** In the near-term. I would say, let's analyze next quarter or the quarter after that.
- Vikas Sinha:** So, as I said in my opening remarks, I think the next few months are looking quite good for all segments. Of course, among all these segments I think two-wheelers and tractors have recovered the sharpest. They continue to be at those levels as of now. MHCV was the laggard, but even MHCVs are showing better results. It still remains below what was last year, but they are showing better results. The other segments are probably showing a little bit of growth on what was happening last year. So the next few months, as I said, are looking quite strong.
- Nitin Shakhder:** Okay. And the same continued catch-up between the urban segments where the demand rises for specifically two-wheelers and cars to catch up more? Or do you see the tractors and medium heavy vehicles which are most used in rural segments to be doing far better?
- Vikas Sinha:** As of now, yes, rural side is doing a little better than the urban side, but we have to see how the festival demand shapes up in India. I think the expectation is that it will be a good demand. I think the inventory in the supply chain has gone up quite a bit in anticipation of that. So I would think the festival demand would also see urban sale as much. The question is, what happens after the festival season? For that, as I said, we need to be a little bit cautious, and that's the reason why we continue to focus on the breakeven at our Indian verticals as well as trying to see if we can shore up our order book in which ever way possible. But next few months are looking okay.
- Moderator:** Thank you. The next question is from the line of Hitesh Goel from Kotak Securities. Please go ahead.
- Hitesh Goel:** I want to understand what the OEMs are telling you in terms of next six months because they tend to indicate in terms of demand trends for the OEMs. So I got your point that still initially demand could be slightly better, but the OEM could be an indication on how should we look at FY '22 for Indian OEMs as well as abroad? So can you give some clarity, what is your expectation on the market demand, both in India and Europe?
- Vikas Sinha:** No. Hitesh, I will answer to your question in two parts. I'll take your question in two parts. The first part is what are the OEMs telling us and what we think would happen in 2021 or 2022. So one, the OEMs are quite bullish, and there is a lot of optimism. The reason for caution that we are exercising is really based on what could happen. We know that the economy is going to contract, which would mean that the household incomes will contract. And therefore, that would have an impact on large value, large ticket sales like vehicles. So that is the reason why we need to exercise some caution. But in terms of OEMs, OEMs seem confident, as I said, for the next six months, if your question was that.
- Number two, what happens in 2021, 2022? As we are saying, in India there is reason to be optimistic about the market because there is a lot of scope for growth. Nevertheless, whatever happens to the market, we are trying to recoup our 2019 levels as quickly as possible, whether it is 2021, hopefully, if not that, at least in the early part of 2022. That is how we are looking at the situation. What happens to the market, as I said, it's pretty much uncertain? But from our point

of view, we would try and be as close to the 2019 figures in 2021. That's how we are looking at it.

**Hitesh Goel:** Okay. And can you also tell us something about, you said that you will grow higher than the market, so what are the drivers for that? Are you gaining market share from OEs more or there is content per car increasing? Can you give us some sense on what is driving it?

**Vikas Sinha:** One, of course, is exports. As we have talked about, we will definitely raise the level of our exports. Today, exports from India is roughly around 12% to 13%. We would like to increase it, definitely over, say, 20% of our India sales. So that will be one of the drivers. And of course, we are looking at increasing our share of business with our existing customers, especially in these times, affording, like, for example, M&M, Bajaj, Maruti, these are some of our key customers, and the Tier-1 suppliers, we are focusing on increasing share of business. And also, we are looking at newer OEMs. We have talked about Renault, Kia, and there are a lot of Tier-1 suppliers that we are focusing on, especially at Bill Forge and some of our India verticals like Stampings. So the strategy is not just OEMs, just to summarize, increased share of business at our existing customers, focus more on Tier-1 customers and exports. That's the reason why we are being confident. As we told you last time, normally, we think that in any given year, 15% of the sales will come from the new orders. I think we hope to get much more than that from new orders in any given year for all of these. So that's why I think we are pretty much okay with the way things are shaping up for us in that way.

**Moderator:** Thank you. The next question is from the line of Sreemant Dudhoria from Unifi Capital. Please go ahead.

**Sreemant Dudhoria:** Few questions. Sir, could you please comment on any new product introduction or custom acquisition that happened in the quarter three and what is in the pipeline now? Any meaningful additions that have come in?

**Vikas Sinha:** No. In terms of product, as I said, product is what the customer asks us to do. So we are not a product-driven company, we are more of a process-driven company. So in terms of customer additions, in Q3, for example, it has happened. Even in Q2, customer additions have happened in our Forgings vertical at Chakan we are talking about some export customers. Let me not take their names at this stage. We are talking export customers, we are talking about some shift from CIE and MCIE operations from Europe, that has happened. Some Tier-1 suppliers in our Gears and Foundry business, that has also happened. So both in Q2 and Q3, we have had new additions to our customer portfolio, not necessarily in terms of product. As I said, we are a process company and whatever the customer asks us to do, that is what we do.

**Sreemant Dudhoria:** Right. Coming to the Europe CV business, with the back-to-back restructuring one-offs that we have taken, where has the breakeven point come to? And do we need to do any further restructuring to make it profitable on a sustainable basis?

- Vikas Sinha:** Oroitz, Europe restructuring is basically restructuring in Europe and what is the breakeven point there at this point of time? Oroitz, if I can request you?
- Oroitz Lafuente:** Definitely. As of now, in Europe, the breakeven point, it's around Rs. 5.5 billion per quarter, that will be our breakeven level.
- Sreemant Dudhoria:** Right. So do we need to make further restructuring? I am not sure what is the quarterly run rate now. But at what level of utilization, would we breakeven, say, at EBIT level?
- Ander Arenaza Alvarez:** Okay. Right now, you know that we have three verticals in Europe, one is the passenger car forgings, that we don't need any additional restructuring in that division, that vertical is working well and the market is coming. So we are in pretty good figures in that vertical. Regarding Metalcastello, where we had a drop because of the off-highway product reduction, we already did the restructuring activity in Metalcastello. So we have finished this activity, and we are already also in good margins, despite we had a relevant market volume reduction in this vertical. And finally, and we go to the critical businesses, we have the commercial vehicle forgings vertical. This is mainly German activity, our German forging activity. And in this activity, when we were at, let's say, peak levels, we were very close to the breakeven position because the margins were quite low. Despite we had a huge drop in the size in the turnover, we were able to reduce our costs through restructuring and through government subsidies. So we were also able to keep this breakeven situation, okay? So that is where we are. So we are adapting our cost structure to the new volume scenario and the expected volume scenario. So in Germany, as I told before, we have certain additional activity to finish our restructuring. So we can expect that in the Q4 we can have some additional costs of restructuring in one of the plants. But the biggest activities are already done. So it's just a last fine-tuning of the adjustments to adapt our cost structure to the current volume scenario. We expect that the current volumes will keep more or less stable during calendar year '21 in the commercial vehicle forgings, okay? So we don't see a revamp in the commercial vehicle forging business. We can see the revamp in India, we can see the revamp in the passenger car forgings, but not in the commercial vehicle forgings.
- Sreemant Dudhoria:** Okay. Sure, sir. Is it possible to comment on a current utilization level, both in the European three divisions and also in India, plant utilization levels?
- Ander Arenaza Alvarez:** Yes. In India, we can be at 90%, more or less, in average. Certain verticals, we are working at 100%, okay? In some divisions like magnets, our magnet division is working at 100% in this moment. But average in India, we can be at 90%, more or less. And in Europe, we are slightly lower than that. In the passenger car forgings, we can be at 80%, more or less, that's where the market is in this moment. And in Germany, where we have the higher capacity, now we can be at 65%, 70%. That is the situation, more or less.
- Sreemant Dudhoria:** Right, sir. So in India, are we now redrawing our CAPEX plans because we are at 90% to 100% of utilization?

**Ander Arenaza Alvarez:** We are now adding capacity, as we commented in the previous call in July, we did not stop our investment programs, because we were expecting that the market will come soon, and that's what has happened. So we continue our investment, our capital expenditure plan. So in this moment, in these three quarters we invested something like Rs. 2 billion to increase capacity and to continue our growth path, and we will continue this. So yes, we are adding capacity. In certain verticals, we are improving our facilities, so we can continue growing and we can continue, let's say, our growth trend and our growth expectations that, of course, it's our strategy in the long-term.

**Sreemant Dudhoria:** For full year, what would be the number, sir? For three quarters you said Rs. 2 billion. By FY '20 what number we are looking at?

**Ander Arenaza Alvarez:** Okay. We have not yet, let's say, approved the budget for the next year, so I cannot disclose these figures yet. But we can say that in this year, just continuing with the same trend, we will be at Rs. 2.5 billion, that can be the figure. And we can expect that the next year we can be at those levels or even if we win additional businesses, as we are now winning, probably we can have some more CAPEX for the next year. So the reality, and Vikas explained, that in the last months, especially in India, our new order book is performing very well. We are already above our internal targets for the calendar year, complete calendar year. So we expect that these are the best signs because these programs will come back to, let's say, will be additional sales in one and a half, two years. So the reality is that our order book is performing well, and as we have the competitiveness and the quality and reliability that the market requires, we are increasing or improving our position with our customers.

**Sreemant Dudhoria:** Sure, sir. Sir, one point which was highlighted to the earlier participant's question was, the export mix from India, you are planning to increase from 12 - 13% to 20%. What time frame we are looking for this ratio to change?

**Vikas Sinha:** So Sreemant, of course, we are talking of, let's say, any addition will take roughly between 12 to 18 months to fructify. So that's the time period that we are looking at. So the real impact of all this will start happening from H2 next year on the export side. So it will take that time frame, it does take in activating those orders, so 12 to 18 months. So H2 of next year you can see for that.

**Sreemant Dudhoria:** So this will be lumpy from the H2 onwards, if you are giving a timeframe of 12, 18 months?

**Vikas Sinha:** No, it won't be lumpy. It suddenly won't go from 12% to 20% from H2 onwards, it won't happen. I am saying that increasing revenues from exports will start coming from that period. Sreemant, there were two other things that I would like to highlight among your questions on Europe breakeven point. I think in Q3 C '19, in Europe, we were at 11.5% EBITDA. And in this quarter, Q3 C '20, if you add that 1.3% onetime cost, so we will roughly be in the range of 11.2% to 11.3%. So we are very close to that 11.5% number, with a 22% drop in euro terms. So when we talk about breakeven points reduction, this is the kind of real results that you are talking about. The EBITDA margin in real terms has dropped only by 0.2% or 0.3% in spite of a 22% drop in euro terms. So that's on breakeven point in Europe.

The second point that you were asking was about CAPEX. I think normally, we spent about 5% to 6% of our sales as CAPEX every year. That is the thumb rule in the industry. This year, in spite of whatever capacity additions that we are making in areas we require, it will be lower than that figure. That Rs. 250 crores figure is lower than that 5% to 6% figure. So we are exercising caution in spite of the fact that there is need to add capacity in different areas. So only wherever it is required, justified and the profitability numbers are assured, we are putting in CAPEX. So we continue to be cautious about CAPEX, but we appreciate the point that growth is coming back strongly, and we need to keep up with it. So please bear this in mind on CAPEX.

**Sreemant Dudhoria:** My question on the breakeven was specifically on the commercial vehicle business in the Europe, where we have been struggling. So given that the restructuring is happening, are we happy with the margin levels that we are achieving there now? Or is there a scope for further improvement there to reach to our overall margin levels? So I was asking from that perspective.

**Vikas Sinha:** Look, the margins in our truck forgings business are lower than what other parts of MCIE do, much lower than what CIE expects. So that's a given. So there is scope for improvement of that margins. But whether we will be able to reach the CIE expectation of EBITDA 15%, I doubt that in the next two to three years. So this is only for truck forgings business.

**Moderator:** Thank you. The next question is from the line of Shyam Sundar Sriram from Sundaram Mutual Fund. Please go ahead.

**Shyam Sundar Sriram:** Firstly, on the Europe business side, we have seen a 22% decline in euro revenues. The passenger vehicle production has been -- has declined by around 8%. I mean, has Metalcastello been much weaker than 23%, 24% because it doesn't seem to add up. So I am just trying to understand how have we performed against the market per se?

**Ander Arenaza Alvarez:** Yes. The answer for the Metalcastello evolution is mainly because you know that our main customer in Metalcastello is Caterpillar. Caterpillar depends on the off-highway vehicles. And this market is now in the bottom side of the cycle, okay? And especially because all these machineries are for the, let's say, big works and the public works or mining or oil and gas and all these kinds of activities, okay? So we are now in the bottom side of the cycle. That is one of the reasons. Also, because as our customer is Caterpillar and main market is USA, due to the elections, let's say, public works activities are now stopped until the election happens in the beginning of November. So we are waiting for the market to come back again in 2021, probably in the second half of the 2021. That's the reason of the drop of the Metalcastello turnover.

**Shyam Sundar Sriram:** Okay. Understood, sir. The other question in Europe, the electric vehicle car trend has been catching up much better-than-expected within passenger vehicles, how are we looking at it? Is the mix more tilted towards more PHEVs than BEVs, so we are relatively less impacted, how are you reading the situation, sir?

**Ander Arenaza Alvarez:** Yes. So in Europe, what we see regarding the electrification, which is important push from the carmakers and from the European government to increase the sales of these electric cars. But

what we see in the short-term, the hybridization is the first step in this electrification process. Pure battery electric vehicles, the percentage of these vehicles is very low, and we don't expect a huge growth there. Mostly what we see is either internal combustion engine or hybrid cars to be sold in the next years. So in this sense, we don't see an impact in our passenger cars forgings, at least, in the next three, four, five years. So that's the horizon that we can expect to continue in the same levels or even growing in the next years. Then it's true that there can be a change in the model, but we think that this is a long-term change. And also, it's important to say that we are winning a lot of product for the hybrid vehicles because you know that the hybrid vehicle still has an internal combustion engine, so we don't see any major impact in the next years.

**Shyam Sundar Sriram:** Okay. Understood, Ander. That was very helpful. Ander, the other question, you did talk about the breakeven point for MFE. I think I missed it. You mentioned EUR 5.5 million. Sorry, I might have missed it, if you can just reiterate that point, please?

**Oroitz Lafuente:** The Rs. 5.5 billion of quarterly sales is the breakeven for full Europe, not only for MFE. It's for all European business in MCIE.

**Shyam Sundar Sriram:** EUR 5.5 million, this is on a monthly basis, is it?

**Oroitz Lafuente:** It's Rs. 5.5 billion.

**Shyam Sundar Sriram:** Okay. Billion INR. Got it. Thanks for the clarification. Sir, one other question, from India business per se, are we winning new orders away because of maybe import restrictions from China? Which segments are we seeing those incremental orders, if you can please provide some perspective on that?

**Vikas Sinha:** No. Shyam, your question is specifically for China, related thing?

**Shyam Sundar Sriram:** Yes, sir. So, I mean, are we winning anything because of import restrictions or maybe because of supply chain shifting away from China in that perspective?

**Vikas Sinha:** Some. Like it could be the China thing will have a very small impact. So, small business wins we are winning maybe to the tune of Rs. 2 crores to Rs. 3 crores per month, largely in two verticals; gears and magnetic products, so there is competition from China. You have to understand, like, for example, in forgings, I think India is very strong competitively in forgings, so there are hardly any imports from China in forging. Foundry, the import from China is largely in the blocks and heads side of foundry. So, again, that is an area where we are not present, we don't want to be there. So again, that's not an issue. Stampings, again, is a very local product. So there is really no import of stampings product. So that leaves out these two verticals, gears and magnetics products, which are small verticals. And we are gaining a bit out of the China situation, it's not that we are not gaining. In fact, in our magnetic products business, we are competitive with our Chinese competitors. I think we compete with Chinese imports in the magnetic space. It's a small business where so we have to remain. So we are gaining some. But in the areas that we operate in, I think the Chinese imports is much less significant, even say in aluminum, there

is not much of Chinese imports on the aluminum side, both for four wheelers and two wheelers. So wherever we are, we are gaining some, but in a small way.

**Shyam Sundar Sriram:** Understood, sir. And sir, just one question. In the nine months CY '20, if you can give us some sense from an India perspective, how much would be the new businesses that started this year? I mean, we had orders which we were talking about last year as well. So if you can give some sense of how much would be the new businesses commenced commercial production this calendar year?

**Vikas Sinha:** So in nine months CY '20, what is the proportion of new businesses in this year?

**Shyam Sundar Sriram:** Correct.

**Vikas Sinha:** Overall, we will have to see how much of it is coming from new businesses. We will have to take a call, but it will be higher than 15%.

**Shyam Sundar Sriram:** Okay. Understood. That was helpful. Sir, sorry, one last question. From Europe, more from a housekeeping perspective, the other operating revenue in Europe is much higher than usual. First half CY '20, the other operating revenue was around Rs. 160 million average per quarter. This quarter we seem to have Rs. 539 million, was there any government grant that was received in this quarter, which is a part of the other operating revenue?

**K. Jayaprakash:** Shyam, let me comment here. The other operating revenue, actually, other income is higher, but the other operating revenue needs to be corrected. I mean, it includes the Rs. 350 million which is part of it, so it should be reduced by Rs. 350 million there.

**Shyam Sundar Sriram:** Okay. And so even the other income also seems to be...

**K. Jayaprakash:** That is the Jeco land sale.

**Shyam Sundar Sriram:** Okay. So the land sale income is added here, and expenditure is before EBITDA. I mean, the restructuring cost is prior to EBITDA, is it? Sorry, sir, I missed.

**K. Jayaprakash:** See, the sale value is included in other income. And the expense is also above the EBITDA line. So the net income is part of the EBITDA.

**Shyam Sundar Sriram:** Okay. And the operating revenue needs to be reduced by Rs. 350 million, other operating revenue?

**K. Jayaprakash:** Yes, yes.

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

- Jinesh Gandhi:** Sir, just continuing on that question of other operating income. Rs. 350 million should be removed from other operating income, is that because of nonrecurring nature?
- K. Jayaprakash:** No, no, it is a mistake there, Jinesh. Actually, it is part of other income. Other operating income, we should reduce that. It got included in both places is what I am trying to say.
- Vikas Sinha:** So this is from the investor presentation, JP you are saying?
- K. Jayaprakash:** Yes. Yes. In that clarification slide.
- Vikas Sinha:** Yes. That other operating income slide, I think it has got mixed up there.
- K. Jayaprakash:** It got included in both the places, other income and other operating income.
- Jinesh Gandhi:** Okay. So other operating income should be close to about Rs. 180 million?
- K. Jayaprakash:** Yes. Correct.
- Jinesh Gandhi:** Okay. And other income remains Rs. 379 million?
- K. Jayaprakash:** Yes. In that, Rs. 350 million is sales value of the Jeco land sales.
- Jinesh Gandhi:** Okay. And profit is Rs. 162 million. Okay. Got it. Second question pertains to, with respect to this opportunity on the import substitution which we talked about, there was one question on that. So, are we looking at areas or technologies which we currently don't have, or which is not currently in our focus area of parent, but could be big an opportunity? Are we open to such opportunities, say, like electronics or other segments, which can be large segments from Indian market perspective, but globally, parent is not focused on that?
- Vikas Sinha:** No, Jinesh, we will stick to the perimeter in which CIE operates.
- Jinesh Gandhi:** Okay. All right. And secondly, with respect to benefit of restructuring at MFE Germany, so what kind of reduction further we see in breakeven points?
- Vikas Sinha:** Breakeven point reduction...?
- Jinesh Gandhi:** Rs. 5.5 billion revenue is post third quarter's reduction?
- Vikas Sinha:** Yes. So Ander or Oroitz, see the question is, today the breakeven point in Europe is Rs. 5.5 billion, how much further reduction do we envisage?
- Ander Arenaza Alvarez:** We could expect another Rs. 200 million, of reduction, yes, in the quarterly sales figure.
- Oroitz Lafuente:** Yes. You can expect another Rs. 200 million of reduction, third quarter sales. So we would target it from Rs. 5.5 billion to Rs. 5.3 billion.

- Jinesh Gandhi:** Okay. Got it. And lastly, with respect to the new orders which we are getting and targeting. So is this made up of new products and new customers largely or this will also include ramp-up at existing customers as well?
- Vikas Sinha:** No, it will include ramp-up with existing customers also, it will include newer customers. Less newer products because, as we say, products are what the customers asked us to make. It would include all three. So largely it will be newer customers because with existing customers normally what more they ask, some of it also goes away, so it normally balances out. So you will have newer customers. Largely, newer customers would be driving.
- Jinesh Gandhi:** All right. And lastly, on the export front, the numbers which we are talking of 20% of sales, would this include the exports with respect to shifting from Europe to India?
- Vikas Sinha:** Yes, it would. That's the reason why we think it is very much achievable, Jinesh.
- Jinesh Gandhi:** Right. So, but that would be coming from our existing European operations to India operations. So at consol level, it might only improve profitability, right?
- Vikas Sinha:** Some of it will come from MCIE Europe. Some of it will come from CIE Europe.
- Jinesh Gandhi:** Okay. But sir, so when you are saying CIE Europe, effectively the overlap of technology is currently only on forgings side, right?
- Vikas Sinha:** Yes, there are a few others, so they input materials from them. They also do a lot of machining and a lot of other things that happen, so inputs for that and so forth. So it won't be any direct conflict, it will be for some of the input parts, they may require input forging for whatever is being done in CIE Europe on the machining side.
- Moderator:** Thank you. The next question is from the line of Preeti RS from UTI Mutual Funds. Please go ahead.
- Preeti RS:** It's a breakup question. I want to know what's the gross debt level. And what is the cash absorption that happened in the pandemic quarter for the fixed cost?
- Vikas Sinha:** Preeti, can you repeat the two questions, please?
- Preeti RS:** Yes. I asked what is the gross debt as of now, as of latest quarter? And what was the cost absorption that happened in the Q1 to absorb the fixed cost?
- Vikas Sinha:** The cost absorption, when you say that, what exactly you have in mind?
- Preeti RS:** I mean, the loss, the extra loss that we had to incur.
- Vikas Sinha:** In Q2 C '20, you are saying?

- Preeti RS:** Yes, your Q2, right.
- Vikas Sinha:** So in Q2, how much loss happened in Q2, is the question?
- Preeti RS:** Yes.
- Vikas Sinha:** Okay. JP?
- K. Jayaprakash:** Yes, I will take it. So if you look at our June results, ma'am, our consol loss stood at almost Rs. 600 million. And now we have turned positive, and we are now about Rs. 350 million profits. So that is as far as the loss part is concerned. On debt, as we stand at the end of the quarter, in terms of total net financial debt, we track net financial debt, ma'am, so I have that figure readily available, it is Rs. 16.1 billion. Which includes, this year we had an accounting standard change, so Rs. 2.5 billion of IndAS 16-related change. And the euro has been strengthening in the last nine months, that impact is about Rs. 1 billion. So really, if you ask me, the debt has gone up by about Rs. 1.2 billion over December 2019, which is largely because of the working capital increase or the free cash flow number for the period.
- Preeti RS:** Okay. And in this, you are almost close to Rs. 600 crores to Rs. 700 crores are the FOREX debt, is that right?
- K. Jayaprakash:** Sorry?
- Preeti RS:** What part of it is the FOREX debt, the foreign debt, foreign denominator debt?
- K. Jayaprakash:** There is hardly any foreign debt, madam. In India, we don't take any foreign currency loans. There's some part of it in Aurangabad Electrical, but it's very insignificant. And in Europe, it's all in euro only. So there is no exchange risk there.
- Vikas Sinha:** JP, the question is, out of that net financial debt of Rs. 16 billion, how much is debt in India and how much is debt in Europe?
- K. Jayaprakash:** Yes. So Indian debt would be, on a net financial debt basis it will be about Rs. 1 billion, I mean, not more than that, about Rs. 1 billion. Everything is Europe only.
- Moderator:** Thank you. The next question is from the line of Rajesh Ranganathan from Doric Capital. Please go ahead.
- Rajesh Ranganathan:** In response to an earlier question, you had mentioned that you expect hybridization to be the main drive going ahead and not pure EVs. But let's just for the sake of argument, let's assume that we do shift to EVs in the future, what would be the impact on our sort of addressable market per car?
- Vikas Sinha:** Rajesh, if 100% shift to EVs happen, if that is the supposition, so what part of our revenues will be affected? So that part of the revenue, which is related to the powertrain, essentially, which is

engines and part of the transmission, not entire part of transmission but some part of transmission will change. So how much of our business is related to that? Roughly 20% in India, roughly around 28% to 30% in Europe, this comes down to around 25%, if 100% EVs happen. So that is the kind. So we are talking about things like crankshaft or engine gears, so those are the kind of things that we are talking about that, that will go away. Other things like driveline part, steering part or even like the parts that we supply for two wheelers which are not related to engines will be there, step holders for example, in a motor bike. So all those will remain. So that 100% that you are talking about is 25%, to answer your question.

**Rajesh Ranganathan:** Thank you so much. That is very clear. And second part of the question, I think somebody else sort of asked it earlier. But let's assume, if you look at the EV landscape in Europe, our market share in the EVs for the non-powertrain components, is that similar to our ICE models? Or in a sense, is our order wins similar within the OEM between the two types of models?

**Vikas Sinha:** So as Ander pointed out, right now, we don't have too much of EVs even in Europe. So for example, we have a very big business of crankshaft in Europe. So when pure battery electric vehicle, hybrids anyway have a crankshaft because hybrid has both the type of engines. It may have a smaller crankshaft, but it does have a crankshaft. Right now, whatever surge in EVs that we are seeing in Europe is driven more by hybrid rather than pure battery electric vehicles, where there will be nothing like a crankshaft. The entire power will be generated by batteries, whether it is lithium-ion or different kinds of batteries. In hybrid, you have both the engines.

**Rajesh Ranganathan:** What I mean is for your non-powertrain components, what is our model sort of wins currently in EV vehicles?

**Vikas Sinha:** So look, in Europe, we have three kinds of businesses. One business is the truck forgings business. In the truck forgings business, we are not into engine parts at all, in the truck forgings business. The kind of parts that we supply are things like I-beam, that big I-beam that we do, none of them is engine-related part in truck. Even though in Europe, the electric trucks might take very, very long time, but we are not in the powertrain part of truck forgings at all. This is our German operation. Similarly in our gears business in Italy, we supply largely to the off-road market, customers like Caterpillar, CNH. I don't think these will be affected by EV at all. Amongst the three businesses in Europe, almost 60% has nothing to do with the electrification. So the one business that will be affected is the car forgings business, which is based out of Spain and Lithuania, which does basically two kinds of parts, crankshaft and CV joints. CV joints, again, which is more driveline for us, will not be affected by EVs. So what will be affected is crankshaft which is, as I said, roughly, in Europe will end up somewhere around 25% to 30% of our business in Europe would be this particular area. And do we have order wins in the non-powertrain part? Yes. As I said, we have CV joints and the related driveline parts that we supply. So we have that business.

**Rajesh Ranganathan:** Thank you for that. And other question was related to your government grants. So how much was that, say, in the September quarter? And what will be the impact going ahead of that grant continuing or not continuing?

- K. Jayaprakash:** Okay. So the grant accounted for, in this quarter only, is about Rs. 12 million, okay? Last quarter it was much bigger, it was about Rs. 122 million because it was a cumulative impact. If you see the entire grant, it's about Rs. 2.5 billion, that's the entire grant. But in consol, it will be around Rs. 1.9 billion because Rs. 600 million was already accounted for in the acquisition accounting. This Rs. 1.9 billion will get recycled into P&L over a period of five to six years going forward as we start, I mean, as the GST paid to the government accumulates. Right now, in the consol, I mean the claim that has been submitted to the government is only Rs. 1 billion.
- Vikas Sinha:** So Rajesh, the question on this grant that we are talking about is the Maharashtra Subsidy Scheme that we are part of. Was your question related to this or was your question to government support during the pandemic in European front?
- Rajesh Ranganathan:** My question was related to the second part, the European pandemic support.
- K. Jayaprakash:** I am sorry, I thought you were talking about India.
- Vikas Sinha:** So what JP has answered is the subsidy part that we are getting in Aurangabad Electricals, which is the Maharashtra government subsidy when you make a particular investment. So that is very clear, and that is very set. And as JP would explain, that would be there. The government grants are not shown separately, that's part of the cost structure. I will request Oroitz to answer on how much government support we got in April to June and how much in this quarter, if at all, July to September, in Europe.
- Ander Arenaza Alvarez:** The second quarter, as we had a big drop on sales, the government grant was around EUR 4 million in all our verticals in Europe. So the support from the governments was important. In the third quarter, as the market came back, let's say, the volumes came back, so we did not need so big support from the government, that's one side. Also, second, the third quarter in Europe is the holiday season, where we have the August holidays, two, three weeks holidays. So the real impact of the government grant in the Q3 was less than EUR 1 million, so it's not relevant.
- Rajesh Ranganathan:** Okay. And going ahead, do we expect this pandemic support to continue or it's over now?
- Oroitz Lafuente:** We will use it in the next quarter, but it will be also a small amount. Not relevant. Something in Germany, and we will use also something in Italy in Metalcastello due to the low sales. But it will not be a big amount.
- Moderator:** Thank you. The next question is from the line of Shashank Kanodia from ICICI Direct. Please go ahead.
- Shashank Kanodia:** Sir, a couple of things from my end. So like you mentioned, the import substitution is smaller opportunity in India. Even on the European front, sir, since 26% of our business is forging, so even there import substitution or China process strategy is a small opportunity?

- Vikas Sinha:** Again, Shashank, if I have got your question right, you are asking how much scope for import substitution exists in Europe in the forgings business, right? Is that the question that you are asking?
- Shashank Kanodia:** Yes.
- Vikas Sinha:** So again, on the car forging side, which is like crankshaft and CV joint business, I think the competition is mostly within Europe. So it is like of the crankshaft business, the biggest competitor and the larger player than us is Thyssenkrupp. As far as the truck forgings business is concerned, the competition is less from China and more from countries like India, like Bharat Forge is a very big supplier to the German truck forgings market. From Turkey, again, Turkey is emerging as a big competitor for the German truck forgings business and less from China. So the aspect of import substitution is not very relevant in the European context.
- Shashank Kanodia:** Right. Great, sir. And sir, secondly, given that UK may go for a hard Brexit. And given the location of your OEM as well as our plant, can you please help us understand will hard Brexit have any impact to us in terms of working capital or incremental warehouses or in an inventory management system and stuff?
- Vikas Sinha:** No, Shashank, is the question, do we require to make investment in working capital for exports business? Is that the question you are asking?
- Shashank Kanodia:** No, sir. I am basically asking for like UK is coming out of European Union, right? So a few of the clients like JLR presently manufacturing and supplying from outside of UK I really don't know where the locations are. So does it impact us in any way in terms of our location of plants and your OEM location where they are situated?
- Vikas Sinha:** No. We are not affected by Brexit at all. We had shut down our UK business long ago. In fact, the Brexit is not having any impact on us. Whether we can start supplying to JLR, I will request Ander to throw some light on whether if that is a possibility of supplying to JLR in the U.K.
- Ander Arenaza Alvarez:** Okay. We don't see any impact, a negative impact on that, okay? We could have certain logistic difficulties at the beginning, especially, but let's say that all our UK customers, I am talking about Mahindra CIE, but also in CIE, they are working normally, and they are building a little bit higher stock, just to be sure that if there is any logistic blockage at the beginning of the Brexit. But we don't see a risk there. And let's say, all the logistic teams from our customers like JLR, they are working hard on that, and they are preparing all the paperwork, and they are preparing all the logistics routes to solve the situation. So we can expect certain difficulties because the change will probably create some troubles. But we are managing the situation.
- Shashank Kanodia:** Right. Great. Thank you, sir. Sir, just one last thing. In the prior con calls you have also mentioned about, I think, vendor consolidation, right. So if there is some opportunity in terms of any weak players getting out of the business and their share of business being acquired by us in the near-term?

- Vikas Sinha:** Shashank, I couldn't hear the last part of your question, but let me paraphrase it and tell me whether I am right. Essentially, you are saying, do we foresee any opportunities for industry consolidation and whether we can acquire companies during the period?
- Shashank Kanodia:** Yes.
- Vikas Sinha:** There are opportunities. But as I said, our key focus right now remains on getting our business back on track. And our first priority, even if an OEM asks us to buy a company, we would request them to see if they can shift the orders rather than asking us to buy the company. So that would be our first priority. But yes, we keep looking at opportunities. And if something good emerges and something that which seems with our strategic priorities and the return on investment going forward, we will certainly look at it.
- Moderator:** Thank you. The next question is from the line of Kishore B, retail investor. Please go ahead.
- Kishore B:** My question is related to the COVID situation. Since we could see the Europe is having second wave of cases, so are we prepared -- how are we prepared if there is any second wave across the world, including India?
- Vikas Sinha:** Kishore, to answer your question, in India, forget the second wave, we are going through the first wave, and it has affected us quite a lot, as I said in my opening remarks. I think we have had more than 250 cases in India. Many of our plants are in Pune. So we have gone through this difficulty. We have very set processes in place. In fact, most of the people, I would say 80% of the people who have been affected have actually come back to work. So all those protocols are in place. In fact, we have got some of those protocols audited by a third-party during May or sometime during May of that year. So in India, it is very much well set. Coming to Europe, yes, there is a second surge, but as I said, our plants, which are largely away from the city are not so much affected at this point of time. But protocols are already in place in Europe, and they are strictly being followed. I guess, both Ander and Oroitz, they are in office today, and they are following similar protocols with masks on, sitting very wide from each other. So those things are being followed.
- Moderator:** Thank you. The next question is from the line of Jay Daniel from Entropy Advisors. Please go ahead.
- Jay Daniel:** Sir, you had mentioned that the breakeven point in Europe is Rs. 5.5 billion. What is a similar breakeven level in India for the current product mix that you have? Because I think you had mentioned that the overall target was to bring down breakeven levels by 10 percentage points. So I just wanted to know where we stand on India.
- Vikas Sinha:** Rs. 3.5 billion. And in fact, the 10% reduction was already achieved in the last quarter. Some of it because of excess manpower, cost et cetera in India, would have gone away because of the sudden surge in demand, but a large part of that will be retained. And this is what you are seeing.

We have increased our EBITDA margin in India in spite of a decrease in revenue compared to Q3 of last year. So that reflects that.

**Jay Daniel:** Okay. And I mean, do you have any other target set in for bringing down the breakeven levels further?

**Vikas Sinha:** Right now, I think yes, we will keep -- as I said, going forward, given that we see uncertainties in the market, we will keep monitoring the breakeven levels if required. But right now, the priority is on the top-line in India.

**Moderator:** Thank you. I would now like to hand over the conference to the management for any closing remarks.

**Ander Arenaza Alvarez:** Okay. Just as a summary, I would say that this quarter has shown that our company is coming back to normality. We are, again, in the pre-COVID levels, very close to our expected margin levels, and we expect to continue improving in the next quarter. So overall, we are quite happy with how we performed and how we managed this huge crisis in the market. And now I think we can think again in the growth and in the margin improvement for the future. So just to say thank you to all of you for your questions and for the collaboration and participation in this call. And I hope to see you or to hear you again in the next call in December. Thank you very much.

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

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