



“Mahindra CIE Automotive Limited  
Q2 & H1 CY2022 Results Conference Call”

July 22, 2022



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

**Moderator:** Ladies and gentlemen, good day and welcome to Mahindra CIE Q2 & H1 CY2022 Results Conference call hosted by ICICI Securities Limited. On the call from the management team we have with us Mr. Ander Arenaza – CEO; Mr. K. Jayaprakash – CFO; Mr. Vikas Sinha – Senior VP Strategy, M&A and Investor Relations, Mr. Mr. Oroitz Lafuente – Chief Business Controller, and Mr. Swapnil Soudagar DGM Strategy, M&A and Investor Relations. 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 the management. Thank you and over to you!

**Vikas Sinha:** Thanks. This is Vikas. Good evening everyone, it is a bit late today, our apologies, but there are constraints for us and we are grateful you could join. We start with an overview of the legal structure of MCIE on page #5 of our investor presentation that has been uploaded on the website. Here we see that in line with stated strategy CIE Automotive our parent continues to reaffirm its faith in MCIE by raising their stake from 60.75% equity to 63.44% during Q2 C2022.

Now let us look at the Q2 C2022 results for MCIE India on page #7. Sales have grown by 46% year-on-year compared to the same quarter last year Q2 C2021 and the sales figures in this quarter are 12794 million and this growth is much more than what our markets grew by. While uncertainties around the Indian economy arising out of global factors remain the auto industry in India is expected to remain buoyant in the coming months. MCIE India EBITDA margin in Q2 C2022 was 14.9%, which is similar to 15.1% obtained in Q1 C2022 and higher than the 13.9% recorded in Q2 C2021. The EBIT and EBT are at 11.1% and 11.4% respectively in Q2 C2022. Despite headwinds like steel price increase, inflation and other costs and semiconductor shortages, etc., we have maintained margins in India.

On page #8, we have the Q2 C2022 results for MCIE Europe. We have seen a growth in year-on-year sales compared to Q2 C2021 the sales figures been 12816 million and this is despite the underlying market dropping. The market sentiment in Europe remains uncertain but we do expect a better second half that is H2 C2022 could be and hopefully would be better than H2 C2021 in terms of the market.

Margins in Europe have been hit in the last few quarters by steep increases in energy costs, rising steel price, and inflation in other costs like freight. We have been negotiating with our customers to pass through increases in energy costs and in many cases these pass throughs are being operationalized. Because of these efforts and the efficiency measures applied MCIE Europe’s EBITDA margins which had fallen to 9.1% in Q4 C2021 rose to 10.2% in Q1 C2022 and has further increased to 11.6% in Q2 C2022. You can clearly see

an improvement across the quarters. MCIE Europe in Q2 C2022 had an EBIT of 8.5% and EBT of 7.9%,

Let us move to page #9 where we see the consolidated Q2 CY2022 results taking into account both India and Europe. Sales grew by 32% compared to Q2 C2021 and the sales numbers are 25609 million. The consolidated EBITDA for Q2 C2022 was 13.3%, EBIT 9.8%, EBT 9.7%. Q2 C2022 performance is the highest quarterly results ever that MCIE has achieved in terms of absolute sales and EBITDA.

Page #11, we have the half yearly C2022 results, H1 C2022 results for MCIE India, the sales has been Rs.24815 million maintaining the growth momentum from the semester before that is H2 C2021. The EBITDA is 15%, EBIT 11.1% and EBT at 11.2%.

On page #12, we have the H1 C2022 MCIE Europe results. Sales are 25238 million compared to H2 C2021. In this semester India has more sales than Europe. The EBITDA margin in Europe is at 10.9%, EBIT at 7.8%, and EBT at 7.2% in H1 C2022.

On page #13, we present the consolidated H1 C2022 results for MCIE. MCIE sales are at 50054 million, again continuing the upward trend, consolidated EBITDA margins for H2 C2022 12.9%, EBIT 9.4%, and EBT 9.2%.

Let us move to page #15 where we have presented the balance sheet position as of June 30, 2022. The return on net assets is 13.8% and operational return on equity is 13.0%. MCIE's consolidated RONA has been improving it was 11.8% as on June 30, 2021, and 11% for CY2021 so clearly good improvement in this very key metric.

On page #16, we present the cash flow situation for H1 C2022. Operative cash flows have been robust despite having to carry more RM inventory due to uncertain steel availability in certain categories and this is required to maintain continuous production and no customer delivery disruptions. Net financial debt has increased slightly to Rs.8737 million as compared to the end of year 2021 although the net financial debt to EBITDA has been reduced to 0.67x. MCIE has also invested in growth capex, which caters to the organic growth requirements largely in India and Mexico and all backed by an order book. We continue to be optimistic about both our Indian and European operations despite the global economic uncertainties that we are facing. With that we can now proceed for Q&A.

**Moderator:**

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

- Jinesh Gandhi:** Hi! Congrats on good numbers. Couple of questions from my side personally on the European business if you can share the revenue breakup with respect to on constant currency basis and also if you can share what was the benefit of RM cost on the revenue growth part?
- Vikas Sinha:** Revenue in euro terms and what was the effect of steel.
- Ander Arenaza:** The revenue in Euros was 7% higher than they reflected in INR as the exchange rate has changed from €1 Rs.88 to 81-82 so there is a 7% loss in IRS in sales and regarding the raw material impact is approximately 15% in the sales so 15% of the growth is coming from the raw material.
- Jinesh Gandhi:** If we actually adjust from these two factors then European growth was almost at about 14% would that be the right way to look at it?
- Ander Arenaza:** Yes. We could consider that about our real growth in let us say in constant raw material and constant exchange rate would be approximately 10%, in our case that was reducing and is affecting negatively due to the European situation.
- Jinesh Gandhi:** Second question pertains to the energy cost pass through we have indicated about the negotiations coming to an end so what kind of price increases that we got, is it for the entire energy cost inflation has that been entirely been observed by customer or they have asked you to take certain hit on that as well?
- Ander Arenaza:** We have had big negotiations and hard negotiations with all the customers. Let us say the agreements were different in each of the customers so there is not a pattern there, but with most of them we reached agreements where the energy costs were pass through partially not 100%, this was considered as a special situation in the market so we absorbed part of the cost and the rest was observed by the customer. So depending on the customers it would be around 60:40, 70:30 this is the ranch of the agreements we have reached with the customers.
- Jinesh Gandhi:** So 60% to 70% pass through and absorption 30% to 40%.
- Ander Arenaza:** That is right.
- Jinesh Gandhi:** Got it and the third question is on the European market demand side so we are hearing about some bit of slow evaluation of demand in the European market despite the supply is improving so what are you picking on that side from your customers?
- Ander Arenaza:** It is true that the POs from our customers let us say what we call EDIs the electronic orders that we received in our systems are showing a relevant increase for the next month so our customers' expectations are quite strong and we see really a strong Q3 and Q4.

Nevertheless I would say that we are quite cautious and we have certain doubts of that these earnings will come real in the future because of the special situation in the European economy and especially in the euro politics the war in Ukraine and the potential shortage of gas in Northern Europe at the end of the year, so hopefully all these kind of things will resolve and I hope that the demand will match the orders that we are receiving from the customers, but you are right the trends at least the information we received from the customers is really a good news.

**Jinesh Gandhi:** Okay got it and last couple of clarifications, the question is to JP one is with respect to the other income in EU seems to be on the higher side what has led to that and secondly the interest cost for the Indian market India business was quite low so what has led to that?

**K. Jayaprakash:** On the other income piece we have received some insurance claims in Europe the 240 million in this quarter so that is one receipt and on the standalone interest reduction you can keep in control of the basically exchange rate positive impact.

**Jinesh Gandhi:** Just for the forex impact interest rate could be in that, if the interest cost will be in 120, 130 million per quarter range?

**K. Jayaprakash:** Yes.

**Jinesh Gandhi:** Can you quantify the forex gain in this quarter?

**K. Jayaprakash:** 50 million.

**Jinesh Gandhi:** Thanks, I will fall back in queue. Thank you.

**Moderator:** Thank you. The next question is from the line of Siddhant Dand from Goodwill. Please go ahead.

**Siddhant Dand:** My question is what is the 225 Crores inter-corporate loan in the cash flow?

**K. Jayaprakash:** 255.

**Siddhant Dand:** You are talking about the 2.25 Crores outflow in the cash flows as you know like our inter-corporate loan that you seem to have given.

**K. Jayaprakash:** This is basically Europe has seen a very good cash flow this first half and almost €28 to €30 million in cash flows and whatever surplus we get in paying it back within the growth, so at an interest rate of about 1%, 1.5%.

**Siddhant Dand:** Is it within CIE the inter-corporate loan?

- K. Jayaprakash:** No, it is within CIE Automotive.
- Siddhant Dand:** Like any duration of this...
- K. Jayaprakash:** See this is basically cash pooling so like we explained in the last related party approval we are taking this is a loan given so we can call back anytime.
- Siddhant Dand:** Why do not we just pass it on to MCIE India or something just want to understand?
- K. Jayaprakash:** MCIE India the only way we could get it here is through dividend loan which is not tax efficient and so really we are looking through and we have to see how much money we need there. So we will look at it how efficiently it can be used, but as it stands today we earn decent interest rate on it, so we have passed it.
- Siddhant Dand:** No, just keep it with ourselves instead of giving our inter-corporate loan to CIE.
- K. Jayaprakash:** Keep it with Galfor what you mean to say?
- Siddhant Dand:** Yes.
- K. Jayaprakash:** Keep it with the bank you will get nothing.
- Siddhant Dand:** So you are giving loan to CIE and they are giving some interest rate on it?
- K. Jayaprakash:** That is right we are earning 1.5% in Europe which I think is a decent interest rate to earn right.
- Siddhant Dand:** My next question would be how much is Metalcastello benefiting from the fall in the Euro compared to the USD is that the primary growth driver there in earnings?
- Ander Arenaza:** No I do not think that is the reason because the growth of Metalcastello was started several months ago without exchange rate impact so the reason of Metalcastello doing well is coming from the recovery of higher growth components and let us say the infrastructure improvement in the USA so it is not related, the growth of Metalcastello is not related to the exchange rate. Of course we will be benefited by that and we hope that in the future, perhaps we could see even higher improvement.
- Siddhant Dand:** What percentage of total sales in Europe our exports?
- Vikas Sinha:** Metalcastello exports about 30% a third of the Metalcastello revenues are exported to the US.

- Siddhant Dand:** No overall Europe.
- Vikas Sinha:** No, Metalcastello has increased the exports revenue to 50% and Metalcastello is roughly about 15% to 20% of the European revenues.
- Siddhant Dand:** We have shown interest in the plastic capex or its growth over there organic or inorganic any update over there?
- Vikas Sinha:** No, we keep looking for it right now nothing in the plastic space that we have either organic or inorganic, no plans as yet.
- Siddhant Dand:** Just a Germany specific question this particular quarter was it profitable our business in Germany or the energy cost really hitting us over there?
- Ander Arenaza:** Our German business is struggling because of the inflation plus the energy cost increase and of course it was difficult time before the crisis and the inflation came now the situation is also really, really tough. So let us say that the German business is trying to survive and we are working on the internal efficiencies and we are trying to pass through the customers the real impact that we are suffering in the business.
- Siddhant Dand:** We are not losing money right?
- Vikas Sinha:** We are not losing money but we are not making money either.
- Siddhant Dand:** Fair enough that was known and just my last question is any of the profitability been because there has been some fall in metal prices in India so has there been some lag in pass through because of that profitability is boosted or nothing like that?
- Vikas Sinha:** We have yet not experienced a drop in raw material prices in India we do expect it to happen but right now in this quarter there is no effect on that.
- Siddhant Dand:** Okay perfect thank you.
- Moderator:** Thank you. The next question is from the line of Nikhil Kale from Axis Capital. Please go ahead.
- Nikhil Kale:** Thanks for taking my question. My first question was on the operating income. So Europe if I see the operating income it has increased quite sharply so even in Euro terms if I look at it the operating income is almost double Y-o-Y so can you just talk about what is its share and what is driving this increase?
- Vikas Sinha:** When you say operating income you refer to EBIT?

- Nikhil Kale:** No, I am talking about the other operating revenue sorry.
- Vikas Sinha:** So you are talking about slide #17 right?
- Nikhil Kale:** Yes, that is correct.
- Vikas Sinha:** Slide #17 we have Europe other operating revenue is 953 for H1 C2022 and 737 for Q2 C2022 right that is the number you are referring to.
- Nikhil Kale:** Correct.
- Nikhil Kale:** Sorry but the insurance claims are they sitting in other operating income or in other income.
- K. Jayaprakash:** It's in other income.
- Nikhil Kale:** So other operating revenue will be set effectively in this major part of the scrap sales?
- Oroitz Lafuente:** Yes, in the other operating income the major amount is effectively through the scrap scales.
- Nikhil Kale:** Got it thanks. Secondly just wanted your thoughts on how are you looking at the demand situation in India, EVs in I think tractors is doing quite well here on the M&HCV side we are seeing good momentum but what is your view on the two-wheeler side what are you hearing from your customers and what is the outlook going forward here?
- Vikas Sinha:** Yes, two-wheelers has been struggling for some time we all know because of the total cost of acquisition has gone up for two-wheelers but we are seeing an uptick in the two-wheeler schedules as we see today it is still below say the 2018 levels much below the 2018 quarterly levels but there is certainly an uptick from a quarter-on-quarter basis. Yes the base is low but we are seeing some growth in the two-wheeler segment as of now. As I said everything is subject to no change happening due to the global economic factors.
- Nikhil Kale:** Just last question so specifically with our key customer M&M we are seeing three new launches that are coming up the Scorpio and XUV700 is doing really well just wanted to understand how was our content shaped up in these new models compared to say the content that we are doing in the past has the content gone up and would be benefit from the kind of response that we are seeing for these models?
- Vikas Sinha:** Yes, we will benefit from content wise I cannot give you an exact answer at this point of time I do not have an answer to that, but it is true all our business with M&M is growing in every vertical that deals with M&M so yes we will continue to benefit with the good performance of M&M models.

- Nikhil Kale:** Okay got it. Thank you, I will get back in queue.
- Moderator:** Thank you. The next question is from the line of Bharat Sheth from Quest Investment Advisors. Please go ahead.
- Bharat Sheth:** Hi! Congratulations Ander and Vikas and JP on the good performance. My question for this Ander when you say that Q3, Q4 we are anticipating a much better demand and much better growth so this is Y-o-Y or we are talking of H1 to H2?
- Ander Arenaza:** It is H2 versus H1. We expect the second half to be better than the first half of the year and it is true that the demand and the EDIs let us say the order that we have there. The order book that we have in our shipments now shows a big increase and we are receiving those orders in July, August, September, but what I told also is that perhaps these orders will not be executed and the reality will be milder than they are now planning so we are cautious of what can happen in the European market, we got there a lot of uncertainties in front of us but the message from our customers is from all of them it is a general view is quite optimistic so let us see.
- Vikas Sinha:** Bharat Bhai in terms of forecasts and since it is public we can tell you the IHS forecast for H2 is roughly 8.3 million units production compared to 7.6 in H1 so that is roughly a 9% increase over H1, but as Ander pointed out given the gas situation especially in Germany which is our main production area for the European light vehicles, the reality can be very different from any of these forecasts.
- Bharat Sheth:** And this is even after factoring that normally H2 there is a five months operating vis-à-vis...
- Vikas Sinha:** Yes, H2 is normally five months or even less than five months it is basically four months and three weeks even after that, that is the forecast as of now, but as Ander has repeatedly pointed out let us take it with a grain of salt not even a pinch of salt a grain of salt.
- Bharat Sheth:** Second on now Europe during our COVID-19 lockdown we had worked substantially and to bring down the breakeven level so which was around say 80 million per quarter run rate at PBT level breakeven now with this inflationary cost and increase in the energy cost so what level European business can breakeven at PBT level?
- K. Jayaprakash:** I think because of the energy price increase and all we will be around €100 to €105 million per quarter.
- Bharat Sheth:** PBT level breakeven, current quarter number is around 155 million Q2 in euro terms?
- K. Jayaprakash:** Yes around 150.

- Bharat Sheth:** Now second question is for Ander currently our CV part contributes around 10% of the India business is that fair understanding?
- Vikas Sinha:** Yes, roughly including light commercial vehicles.
- Bharat Sheth:** Sir do we have any plan to increase that business because that next two to three years that business looks much uptrend side so do we have any plan and how do we expect that revenue mix of CV to go up in couple of years?
- Vikas Sinha:** We do business with CVs in foundry and in stampings and if the CV volumes go up we will commensurately go up with that and if need be we can look at increasing our presence there but we will benefit out of growth in CVs if the question is that yes we will benefit.
- Bharat Sheth:** But is there any chance that revenue mix contribution from CV increasing?
- Vikas Sinha:** It may not increase drastically but that number 8%, 10%, can become more than that but it cannot become 20%.
- Bharat Sheth:** Last question for JP. In last year our working capital used to be remain negative and this time because of higher inventory as Vikas explained so how do we see now steel price stabilizing do we see that for second half our working capital again go back to negative level on cash flow, positive cash flow can be generated?
- Vikas Sinha:** Net working capital position in India how can it become better.
- Oroitz Lafuente:** Yes, in the following months, we will see a reduction in our working capital, we expect that the steel price will remain constant but the revenue will go up we can pass, and as we will readapt our stocks to the sales level so we will at least see a small improvement in the working capital in India.
- Bharat Sheth:** Thank you and all the best.
- Moderator:** Thank you. The next question is from the line of Nemish Shah from Emkay Investment Managers. Please go ahead.
- Nemish Shah:** Thanks for the opportunity and congratulations on good set of numbers. So I had a question on the Europe business so adjusting for the forex and the RM prices like Ander mentioned that we have seen a 10% growth and when we are looking at the production numbers in the Europe there has been a decline in this quarter and for the first half as well so just wanted to understand what is leading to this market share gain for us and do we anticipate this outperformance continue and what kind of then growth should we expect in the Europe business?

- Ander Arenaza:** What we see is that our market share has increased interest on customers in some of our business, one of the increases is happening in Metalcastello as we explained because the business is growing importantly that is one of the reasons. Second reason is in our tractor business in Spain and our passenger vehicle forgings we are seeing also a certain increase in market share probably because some of our competitors are having more difficulties or let us say the market is moving due to the difficult situation in European countries so that is what we see it and probably because of our product mix we have been benefited by that so we cannot see a single course for this improvement those are the main drivers.
- Nemish Shah:** Yes, that is it from my side. Thank you.
- Moderator:** Thank you. The next question is from the line of Jinesh Gandhi from Motilal Oswal Financial Services. Please go ahead.
- Jinesh Gandhi:** Hi! Couple of questions, one is on the India business any indication of what is the benefit of commodity cost inflation on the topline?
- Oroitz Lafuente:** It is approximately 10%.
- Jinesh Gandhi:** Second question pertains to the sunroof systems which CIE Automotive has in their portfolio so is there plan to launch that in India through the listed entity or that will be through unlisted entity or it will come separately?
- Ander Arenaza:** That is a different business that CIE bought to and is managing from a different country, and this is mainly directed from China so this business will be directed by CIE directly.
- Jinesh Gandhi:** Got it. Thanks and all the best.
- Moderator:** Thank you. The next question is from the line of Nikhil Kale from Axis Capital. Please go ahead.
- Nikhil Kale:** Thanks for taking my question again. So just taking forward the market share gain point that you talked about in Europe just wanted to understand for the products that we are present in Europe how is the competition like is there a decent enough chunk of the small players and is it fragmented, why I am saying that is because in this current kind of cost situation maybe some of the larger players are better placed and that is driving market share so do you see enough headroom for you to gain market share with all these small players kind of going up?
- Ander Arenaza:** Yes, probably we will be benefited the stronger players will benefit from the consolidation of the market this is something that we are forecasting since several months so that is probably one of the reasons of our growth or our market share increase in the last quarter

and yes that is a reality probably this consolidation will happen especially if the higher price situation continues in this moment.

**Nikhil Kale:** Secondly given that power and energy cost has such a higher proportion or an important cost item for businesses that we are in again given the kind of cost increase that you have seen in Europe are there now increasing conversations with customers to do more of the production in India and then kind of exports which could kind of benefit our export business?

**Ander Arenaza:** We do not see that trend in this moment there is also an additional problem that the transport costs are increasing tremendously, also the difficulty of the logistics in this moment there is a lack of enough logistic routes and ships to move the product and the material from India from China to Europe is also blocking that. Also our customers are afraid of all the geopolitical issues that are happening around the world, so in our opinion the local to local strategy will be reinforced and all these things that are happening in the world. So we do not see that move in this moment we probably see a certain strategy changes in our customers, but at this time I would say that probably the local to local will be the main strategy followed by the customer. We have certain customers that are referring to the CO2 emission coming from the transport so from the environmental point of view also their view is to localize as much as possible.

**Nikhil Kale:** Got it thank you.

**K. Jayaprakash:** This is for everybody Vikas. On slide #17 there was a question on other operating income.

**Vikas Sinha:** This is with respect to that question that was asked regarding the other operating revenue in Europe of 7 million in Q2 C2022 go ahead.

**K. Jayaprakash:** So with lot of apologies the Q2 number needs to be corrected the H1 number is correct. The Europe instead of 737 we should read it as 478 and Q2 total is 1463 of course it is under correction but for everybody just note.

**Vikas Sinha:** JP will you please repeat it?

**K. Jayaprakash:** If you go to the slide #17 the Europe number 737 should get replaced with 478 and consolidated should be 1463. So it will more or less fall in line with what was in Q1 so there is no significant increase in other operating revenue.

**Vikas Sinha:** Okay fair enough other operating revenue that is right?

**K. Jayaprakash:** Yes. So the only change is in other income not in other operating income.

- Vikas Sinha:** Okay so that is for everyone, apologies for this error.
- Moderator:** Thank you. The next question is from the line of Kirti Agarwal from ICICI Bank. Please go ahead.
- Kirti Agarwal:** I wanted to know is the EV industry is expanding can we get a number is what is the order book in hand for CY2023 and if we have seen a major development in the Tamil Nadu plant as the company has incorporated so how is the company planning for the capex of that plant?
- Vikas Sinha:** Two questions you are asking if I may repeat one you are asking is what is the EV order book in India so we had indicated in our year ending call of C2021 that we were talking in the range of roughly 400 to 600 Crores in India at that time so if you refer to our transcripts of that period of that time. As of now we do not have a figure we will again come back with the same number towards the end of the year but what we can say is that our presence in the EV order book is we are quite comfortable with whatever is happening especially we have two businesses which have a significant two-wheeler presence, our aluminium business out of Aurangabad and Bill Forge business out of Bengaluru and both of them are doing well especially with the Bill Forge as far as the EV order book is concerned, details right now we do not have the details but that is something we can get. The second question you had was with respect to CIE Hosur I think the investment that we are making on that what specifically did you want to know?
- Kirti Agarwal:** I wanted to know how are you planning for the funding of the capex as the company is planning for 5 billion capex I guess so?
- Vikas Sinha:** What is the capex for CIE Hosur and when is it going to start production right?
- Kirti Agarwal:** Yes, Sir.
- Vikas Sinha:** JP on CIE Hosur.
- K. Jayaprakash:** We have already invested something like 1.3 billion out of our internal accruals the commercial production has started towards the end of June so we have started dispatches. Now regarding your 5 billion that is only in MoU we spent over next five, six years and not immediate. We believe CIE Hosur should be able to generate a firm cash flow to make its capex maybe from a year or year-and-a-half from now it should be able to generate it's own cash flows.
- Kirti Agarwal:** Okay Sir thanks a lot for answering the question.

- Moderator:** Thank you. Next question is from the line of Bharat Sheth from Quest Investment Advisors. Please go ahead.
- Bharat Sheth:** Thanks for the opportunity again. So all this capex what we are doing at Hosur and even Rajkot so can you give some color which are the product lines that we are expanding and in future also the larger capex will be on what kind of a product line?
- Vikas Sinha:** This everything is in India. Hosur is whole set of products both for domestic and export customers, Rajkot again it is because of the expansion of our existing customers.
- Bharat Sheth:** Which are the major products in Rajkot?
- Vikas Sinha:** Rajkot we have gears and shafts the same product line that exist today and then Aurangabad electricals again a new plant we are making again for our existing customers but non-Bajaj. So there are other areas also we are making investment, we made investment for warm forgings in Chakan, forgings Chakan and we are making investments in our magnetics division so magnetics division will be new customers and forgings Chakan is also a new product because Chakan was not doing warm forgings so this is a kind of synergy between bill forge and forgings Chakan the warm forgings plant.
- Bharat Sheth:** This question is for Ander. See we have good presence in hybrid EV side in the Europe, now Maruti has come up a very new product which is largely in India hybrid EV was very less so how do we see opportunity for ourselves in that hybrid EV and do we expect that, that will be a little longer than the ICE?
- Ander Arenaza:** Let us say we see a big advantage to the hybrid because you have the internal combustion engine versus the electric motor so you can enter into the cities without polluting I think initial idea would help the OEMs and producers, but unfortunately there is a problem with the cost of the hybrid because you have to double the systems so most of the OEMs as far as we know are going directly to the electric cars so hybrid will be a temporary solution within four, five years until the infrastructure repair then they will go directly to the complete electrical, pure electric vehicles that is how we see in the future.
- Bharat Sheth:** Great thank you.
- Moderator:** Thank you. Next question is from the line of Hitesh Arora from Unifi Capital. Please go ahead.
- Hitesh Arora:** Just wanted to clarify which was asked earlier so from the India business on a sequential basis what is the benefit of the raw material increase in the sales?
- Ander Arenaza:** On sequential it is negligible it is like 1%, 2%.

- Hitesh Arora:** On the capex that you mentioned what is the sort of incremental revenue that we can expect in the next calendar year?
- Vikas Sinha:** Again we would not be able to give that exact number for the capex but we have an internal rule of meeting a minimum return on investments for every capex so if the market situation is right then we should definitely get good returns out of the new capex.
- Hitesh Arora:** We look it in terms of asset turnovers as well?
- Vikas Sinha:** No we look it in terms of ROI of course asset turnover is an integral part of that so yes so there are various levels at which we look at starting from the growth number, profitability so there are whole host of things that we look at but the most important factor is the return on that particular project.
- Hitesh Arora:** When do most of these come on-stream your expansion plan...
- Vikas Sinha:** No there is of course a time period between getting the order and going live with that order it takes anywhere between 12 to 24 months before our capex can go live.
- Hitesh Arora:** At least 12 months from now?
- Vikas Sinha:** Yes.
- Hitesh Arora:** Okay thank you.
- Moderator:** Thank you. The next question is from the line of Siddhant Dand from Goodwill Warehousing Pvt. Ltd. Please go ahead.
- Siddhant Dand:** I just wanted a followup to my previous question so how much is our loan to CIE total amount as of Q1 ended?
- K. Jayaprakash:** €40 million.
- Siddhant Dand:** Have we taken any loan from them also some other company or something?
- K. Jayaprakash:** Our Mexico loan is from them and in Germany also we have taken loan from them.
- Siddhant Dand:** How much money have we taken from them and how much do we owe them can you just give that number for 40 million and this side?
- K. Jayaprakash:** This side it will be close to about both put together under 80 million taken from them.

- Siddhant Dand:** Secondly like we discussed that the German business is not doing well so is there any goodwill over there we could consider writing off or impairing?
- K. Jayaprakash:** We have goodwill of course there but that is an annual check we do for accounting we go by that.
- Siddhant Dand:** Perfect, because it has been struggling for a while I am wondering why we have not impaired it?
- Oroitz Lafuente:** We have one cash generating unit which is considered full part of Europe and also we can move parts and projects around our Spanish plants and German plants so again we will make the testing, for goodwill based on the cash generating unit and we keep doing this testing regularly and up till now we do not have any signal or any update after that we should make any kind of impairment so for the moment we do not see any risk on that part.
- Siddhant Dand:** Perfect I just wanted to just request if you could keep a gap between the earnings then the call so that we can actually go through the numbers properly next time.
- Vikas Sinha:** Yes, of course that is the normal practice that we have. We have certain constraints this time Siddhant so our apologies for that it is late I do understand but instead of waiting till Monday evening or Tuesday we thought it is better to do it right.
- Siddhant Dand:** Yes, of course.
- Vikas Sinha:** So our apologies but we do try to keep that in mind and we will keep that in mind Siddhant, and if there are any followup questions you can always call us.
- Siddhant Dand:** Yes, perfect thank you.
- Moderator:** Thank you. Next question is from the line of Hitesh Arora from Unifi Capital. Please go ahead.
- Hitesh Arora:** Thanks again. On the German business what are our plans sort of turning around the business or restructuring the business or bringing it to a part of sustained profitability if you could throw some light?
- Ander Arenaza:** You know that in our German plants we have been struggling since several years and we have been doing let us say all the restructuring activities and included that during the last year despite the negative environment with a very low sales and with cost increase we have been able to keep the company without losing money so that was the result of all these activities. Unfortunately right now we are in front of additional difficulty coming from the energy plus the huge inflation that we are facing and we are attacking that once I am

looking for internal improvement in terms of efficiency gains plus they are passing through the cost to the customer and we cannot afford absorbing those additional costs that we are suffering so that is the evolution of the business. On the other hand we have a very strong order book in front of us so if the business comes our customers are planning and the energy prices and the material go down as it was expected for next year then we could survive probably that is our expectation.

**Hitesh Arora:** Sure. Thank you.

**Moderator:** Thank you. Next question is from the line of Anshul Mittal from Care Portfolio Managers. Please go ahead.

**Mohammed Patel:** This is Mohammed Patel. My first question is what percentage of sales in Q1 FY2023 or only ICE related products?

**Vikas Sinha:** No that would be a majority of that, 90% plus in Q1 2023 just think of it this way in India EVs I think in two-wheeler segment I think EV penetration in Q2 2022 was about 4% actually little less than 4%, 3.5%, 3.7%, in cars it was negligible maybe 0.5%, 0.6%, in three-wheelers which is a very small segment it was decent enough, and in Europe this number of battery electric vehicles we are not talking hybrids because as was explained earlier hybrid has both the power trains so pure battery electric vehicles in Europe is roughly about 8%, 9% in Q2 C2022 or Q1 F2023 that you said. So right now the basic numbers are very low so our revenues are also quite low, all that we are saying is among the new order book we are generating a lot of the new orders that we are getting lot of them pertain to EVs but then they will start making an impact on the P&L maybe towards late next calendar year or early 2024 calendar year.

**Mohammed Patel:** My second question is there is a difference in the sales that we report in SEBI and the investor presentations for example India in the SEBI results it is 1386 Crores in investor presentation it is 1279 Crores so what explains the difference?

**K. Jayaprakash:** Basically, in SEBI it is all revenue so you need to add the other operating revenue to the sales numbers to get the SEBI number that is what we give on the slide #17.

**Mohammed Patel:** Understood. Thank you.

**Moderator:** Thank you. As there are no further questions, I now hand the conference over to the management for closing comments.

**Ander Arenaza:** As always thank you all of you for your participation and for the good questions well directed questions. I just wanted to say that in a very difficult market scenario what company has shown and has good results and shown its resiliency and we expect to

continue improving our results in the next quarter. It is true that there are certain uncertainties coming from the volatility and the potential problems that could happen in Europe due to the war in Ukraine, but we are quite optimistic and we expect that the next quarter it will be much better. So I just want to thank you all the Mahindra CIE team for their good job and thank you to all of you until next quarter. Thank you very much.

**Moderator:**

Thank you. On behalf of ICICI Securities Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.

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