

**“Mahindra CIE Automotive Limited Q1 FY'15 Earnings
Conference Call”**

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PARTICIPANTS

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Mr. K Ramaswami (MD - Mahindra CIE Automotive Limited)	Mr. K. Jayaprakash (Chief Financial Officer – Mahindra CIE Automotive Limited)
Mr. E. Pedro (Representative from CIE)	Mr. Vikas Sinha (Head-Strategy - Systech Sector)
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Moderator:

Ladies and gentlemen good day and welcome to the Mahindra CIE Automotive Q1 FY15 Earnings Conference Call hosted by ICICI Securities Limited. We have with us today Mr. Hemant Luthra – President Systech Sector; Mr. Sanjay Joglekar – EVP and CFO Systech Sector; Mr. Deven Kataria – Senior VP, Business Development Systech; Mr. Vikas Sinha – Head-Strategy, Systech Sector; Mr. Guru Prasad Iyengar – Finance Controller, Systech Sector; Mr. Pedro, Representative from CIE; Mr. K Ramaswami – MD, Mahindra CIE Automotive Limited; Mr. K. Jayaprakash – Chief Financial Officer.

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. Hemant Luthra. Thank you and over to you sir.

Hemant Luthra:

Good morning everybody thank you for being here. I don't know how many of you are there, but as usual always our pleasure to answer any questions that you have regarding this unique asset that is being created. I think the most important thing we have to add is that we are still on track to complete the merger. We have all shareholders and creditors approval, we are just waiting for courts to bless this. They only have a packed agenda ,so, we are just awaiting our turn and hopefully by the end of this quarter which was our original hope, might get push-out by a month or so depending on the courts. Also those of you who were not present in meetings other than Mahindra CIE should know that all the other shareholders of the listed companies, whether it is Mahindra's Stamping which is going to merge or Mahindra Composites voted in favor of this, so the majority of the minority was not just in favor it was almost unanimously in favor.

The business still continues to look good under the leadership of KR, he has done a very good job last year, he continues to do an outstanding job this year. And the only other thing that I can add at this stage is that we had the CIE Board Meeting at which I was present couple of days ago which declared their first half years results and we had the Mahindra CIE meeting yesterday. At the CIE Board Meeting they have reached the point where they feel that they have got MCIE, Germany equipment problems under control, they have got some orders and they have got some customers. With German customers it is mutually cooperative as they see that there is a strong entity and so instead of a one sided dialog let's just say that it's mutual dialog with customers and we believe that Germany also can come back to its original glory shortly.

The other thing that we have got from CIE is that given the fact that uniform costing systems has been developed by Sanjay and his team which are perfectly consistently with whatever CIE does, we now can make out which product should be optimal and where it should be manufactured, so that synergy should start to kick-in. Other than that, I have done it over for specific questions and

leave the general stuff, that's all that I need to say at this point of time, we continue to be optimistic towards the business.

Sanjay Joglekar: Sanjay here, I think I would like to just add one thing because many of you may have this question about MFE Germany's EBITDA for the quarter April to June. As we have said the January to March EBITDA was about 6.8% whereas current EBITDA in euro terms is around 3%. we had planned a preventive maintenance of the 12,800 ton press in this quarter and a cost of about €2.8 million was planned for that. If you see our own budget our own target compared to the actual results, we are running very close to that and our target to improve the EBITDA over a period of time still remains.

So, that is just one major thing I want to point out and then we will answer question as they come.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Raghu Nandan from Quant Capital. Please go ahead.

Raghu Nandan: Thank you very much sir for the opportunity and congratulations on a good set of numbers in the stand alone business which have seen a strong profit growth despite weak environment especially in the passenger vehicles for some of your major clients. Basically, on the stand alone business I had just one query and that was, the other expenses has come down from 18 corers to 14 corers on a YoY basis, so last year, other expenses did it include higher cost due to the merger related expenses or something like that. What was that which created that lumpiness sir in the standalone business?

Management: Jai Prakash, you would like to take?

Jai Prakash: Yes, in the June '13 quarter we had crore of rupees expenditure towards this merger transaction, and we had one big repair expenses of about 1.6 crores. And the other is processing charges were about 1 crore which is now lower which would obviously be related to the product mix and some of the activity is being taken in house.

Raghu Nandan: Sure, sir.

Sanjay Joglekar: So expenses are less by about Rs.3.7 crore, most probably people are interested in knowing what is due to only one time cost last year and are there any genuine savings. What I gathered from you that about Rs. 3 corer were the one-time expenses in the quarter of last year.

Jai Prakash: Maintenance, I would not say this quarter it is a little on the lower side it will go up a little bit in the coming quarter but not to the level of Rs. 1.6 crores.

- Raghu Nandan:** Sure sir, that was helpful. And sir on the subsidiaries part, if I heard it correctly, €2.8 million is the cost for the preventive maintenance taken, and is that entire amount taken in to this quarter itself sir?
- Sanjay Joglekar:** Yes, the entire amount is taken in this quarter
- Raghu Nandan:** So, €2.8 million on a revenue of €68 million would mean about 4% of revenues?
- Sanjay Joglekar:** That is right.
- Raghu Nandan:** So, if add that to that then the EBITDA margin stands at 7.5%, is that correct sir, is that the right way?
- Sanjay Joglekar:** About 7%. It is like this, it has two effects that the big press was closed, even the revenue in the quarter has taken a hit. We had done some inventory buildup in the quarter of January to March and met the customer's demand, but such a preventive maintenance is thought in advance informed to the customers, inventory buildup done so that their lines don't suffer. And that's why we clarified upfront that this was a part of the plan. If you recollect in the last quarter when we talked about this almost 7% EBITDA, both me and Pedro had said emphatically that don't anytime multiply a quarter by four. Similarity, I will say it now that do not multiply this quarter by four, see it on a consistent basis for two three quarters, understand the exceptional.
- Raghu Nandan:** Sure, sir. And sir like just wanted an update on two things of course which are being worked upon, one was on the productivity improvement part for the raw material side and the second was on the employee cost with reference to lay-off, so any update and color on those two things sir?
- Sanjay Joglekar:** The raw material cost or the rejections and all other factor they talk is a continuous improvement which is continuing. The layoffs or what we had talked about outsourcing has not yet started in a major way. And in fact I remember Raghu our plan was also to start sometime after September.
- Raghu Nandan:** True sir. So triggers remain for further improvement on the cost side sir?
- Sanjay Joglekar:** That's right.
- Raghu Nandan:** And sir like on the subsidiary part, on the volume side how has been the performance and also on the realization side? The reason I ask on the realization is, how is the trend in the content per vehicle because of change in emission norms.
- Echegaray Pedro:** Again, if I may try to answer that question... The content per vehicle in the near tracks Euro 6, it is higher than in the previous models, Euro V. So this is also together with expected demand recovery and the other reason which make us to be optimistic about demand grow or revenue grow in the near future.

Raghu Nandan: Sure sir. Like but the revenue growth in euro terms stands flattish so just wanted to understand that given that the realizations have gone up, so there has been a fall in the volumes whereas the underlying Europe HCV has been more or less flattish. So what has led to the fall in volumes? Number one and second is by how much has the content per vehicle gone up if you could give a broad indication that would be helpful? That all sir from my side. Thank you.

Echegaray Pedro: I do not have an exact figure on how much the content per vehicle has increased and about the demand, yes it is showing the first signs of recovery even though it is still and very-very limited,. But definitely the European market is starting to recover and we expect the worst part of the crisis you see is already over.

Raghu Nandan: Sure. But I mean, has been a volume de-growth and there were some plans of product rationalization that is what I was alluding to in my previous question.

Echegaray Pedro: Definitely there has been no, we have not lost in any project if it is as your question or any part. And the volume I would say that they are stable with very light growth. Of course as Sanjay mentioned because of the maintenance in the main press this quarter, our revenue has been, our production has been slightly reduced but we have been able to meet the demand with the inventory that we built.

Moderator: The next question is from the line of Hitesh Goel from Kotak Equities. Please go ahead.

Hitesh Goel: Sir this is on the European business, you said that you had inventory lying in the factory to supply to the OEM, so was it already sold in the last quarter because of which you know I am just trying to understand why there could be flat revenues if you had inventory lying in factory. Was it already shipped to the customer in the previous quarter and was booked in the last quarter?

Sanjay Joglekar: I am not getting your point, so we built up inventory last quarter that is January to March particularly related to the big press because the preventive maintenance was to be taken. And sales this quarter have taken place out of the inventory.

Hitesh Goel: Okay. Sir, can you give the revenue impact on this quarter, what could be like-to-like growth in revenue in European business if this press maintenance had not happen?

Sanjay Joglekar: No I think that will be very hypothetical for me to say because by large built up the inventory and secondly it is not big press and that revenue depends on so many other factor.

Hitesh Goel: Okay. And sir can you add some color on what kind of EBITDA margin improvement you are looking into the Europe business this year and how could that trajectory because I think CIE and in their one of their presentation has given a trajectory on margin improvement on the India business and the European business. So, can you share some outlook on that?

Hemant Luthra: I can't give outlook. I know you are asking this question, it is your job to ask the question, it is only my job to give you what we can say, okay. And we have said this before and I am saying this again, CIE Forgings in Europe delivers something to 13 to 14% EBITDA. Historically, in the Mahindra Forging before they had a problem before with the press and before the electricity duty become a problem has delivered I believe between 9 and 10% EBITDA historically, okay. When you merge it all together, I think I have mentioned this the target for each of plants is going to be as good as the best. All I can tell you is that on a long-term basis you are looking at Mahindra Forging European unit which is now part of Mahindra CIE reaching equivalent to CIE best in class EBITDA margin.

Sanjay Joglekar: So Hemant I think you are right and I will just repeat what guidance we have been giving in the past. We have said that over a period of maybe about two to three years we would attempt to reach the original glory of MFE which is about 9-10% EBITDA. And beyond that we will have this kind of aspirational target as Hemant rightly said you should know have an ambition, try for the best. So our EBITDA improvement target which we have been in fact saying for almost last three quarters, it still remains the same because whatever we are doing from last October onward we are on track with our plans.

Hitesh Goel: Okay. Sir actually why I am asking this question, not only on EBITDA margin on the business also just to get more clarity. So like many auto ancillaries are also now like, I will give you an example of Motherson Sumi they also never used to give too much details on order book or anything like that, I know it's very difficult to give an order book number, but just to give a sense, is the market share improving in European business with customers and have you bagged any new content in different products in European business apart from the market growth which is important for the European business from a two to three year standpoint, can you give some visibility on that?

Echegaray Pedro: I would say that our market share in Europe is stable other than that is slight increase in content per vehicle that the Euro VI represents in comparison with Euro V. But other than that our market share I would say it is stable. And therefore our revenue growth will be coming more from the demand recovery as the Europe ends the crisis situation that they faced it in last couple of years.

Moderator: Thank you. The next question is from Srinath Krishnan from Sundaram Mutual Fund. Please go ahead.

Srinath Krishnan: Good morning sir, thanks a lot for the opportunity and congrats on good performance. My question is to Mr. Pedro, post CIE taking over I wanted to understand have you received RFQs that Mahindra Forging wouldn't have? And how are the win rates been like and when will these start translating revenues? And secondly you have registered about ₹8 million of revenue at European entity, how is the break, I mean, I want to understand what would be breakeven levels and how was it a year back?

Echegaray Pedro: Okay. Well yes, on the synergies, the both technical and commercial synergies development of new products and contracts with new customers are already happening and I would say that we are making progress according with the plan. I mean this was already considered in our strategy and I am happy to say that it is being implemented in line with the plan. This is mainly for India. Most of the synergies and most of opportunities that we have identified to develop new products or new customers are in India. Anyway, this is a long-term plan and to answer your question when we can expect to see the impact of this strategy in the revenue? Well, I don't think we will see any significant impact in less than two to three years. Of course, right now we are making contacts every month, we are meeting new customers, talking about new product and new commodities, but it's a process which takes time, we don't expect to get any new order because of this process before the end of 2014 calendar year so probably six to nine months more to get orders. And then we will have to build the tooling and to develop the product. So in average, I expect the whole process will take probably two years until we start producing those new products, okay.

Hemant Luthra: What Sanjay, Pedro and I are actually saying is consistent but it should not appear to you that I am saying something and Sanjay is something and Pedro is saying. Volume is a function of market. Volume is function of how we can do synergy and we do not think that the European growth is suddenly happening which is going to kick off greater volumes. What I did say was that Sanjay has pointed out to you in the quarter before and achieve 7% or thereabout, that momentum will continue. What I also said was the best in class that we have got CIE Forging is 14%. So if we do not make the revenue we will start making better profit through doing stuff together, okay. Now that's the point that we are making and if the topline increases, great, it is a kind of stuff that has happened in India, even though the topline has not gone up we have done a fantastic job in improving profitability. So let's just focus till the markets comes back in India and abroad on improving the profitability and efficiency okay, let's not just talk about the volume and that's exactly what we are trying to do.

Srinath Krishnan: Sure, thanks a lot. To understand the process and efficiency better, how has the breakeven levels changed in terms of revenue compared to last year for the European operations?

Sanjay Joglekar: To say on the whole I mean, I do not have an exact number as compared to last year, but compared to last year the EBITDA margins on the whole were about 2 to 3%

Srinath Krishnan: Yes.

Sanjay Joglekar: And if you take now the first six month January to June, EBITDA is about 5% even after considering this preventive maintenance, okay. Now if you take this and consider that there are further plans in efficiency improvement and reduction in the fixed and the personnel cost by way of outsourcing, there is a very good chance of improving or reducing the breakeven point.

- Srinath Krishnan:** Sure. Sir and for the Indian operations if I look at the power cost it is about 7.9% of sales and of the lowest in last eight to ten quarter, we were at around 10% and now we are at 7.9%. Are these sustainable?
- K Ramaswami:** Yes, I think they are sustainable. Of course the factors which can influence this are, power tariff are charged by the local state government that will be a major influence depending how much we are loaded. As we get more and more business, we think this is sustainable.
- Srinath Krishnan:** Sure sir, thank you. And lastly, will you be able to help us with the proforma financials for the combined entity? You had mentioned that you will be able to beginning in the first quarter.
- Sanjay Joglekar:** We had mentioned that I think, we will discuss this internally while the merger process is on and we'll try to put it. We all probably at the moment have not been able to put the proforma results. As you mean for the Mahindra CIE as a consolidated entity including all foreign subsidiary, correct?
- Srinath Krishnan:** Yes sir.
- Sanjay Joglekar:** What we had put in October.
- Moderator:** Thank you. The next question is from the line of Nishant Vass from ICICI Securities. Please go ahead.
- Nishant Vass:** So first question being on the domestic business, what are you seeing in terms of outlook for the growth in terms of volume terms and probably what has been the quarterly volume growth if you could highlight?
- K Ramaswami:** Yes, the domestic business as you know we are on the auto sector and it is expected to remain flat or marginally grow because our major customers forecast is not very upbeat, it will remain flat marginally grow with all the discounts that are being offered in the market. Our focus would be to get more and more business transferred from CIE for which we have already initiated the subject but of course it will take some more time before they really materialize into sales. We also expect some growth in export business and that's how we would remain sustainable in the next quarters.
- Nishant Vass:** So to imply, there would be no possible volume leverage benefits coming in this year.
- K Ramaswami:** I would say, I mean this year is probably too long for me to forecast but the next quarter or the current quarter would remain static or maybe grow marginally but it will not be significantly more.
- Nishant Vass:** Okay. So my second question is on the European business, just wanted to know because you have highlighting that, the move from Euro V to Euro VI, there have been a lot of new product platforms initiations from various OEs, so I just wanted to know whether we are in similar products that we

are supplying in Euro V to product platforms that have been launched in 2014 by various OEs in our business?

Echegaray Pedro: . Yes, basically we have I would say the 90% of product that we have for Euro VI are follow-ons of Euro V plus some new products, but in total they do not represent more than 10% overall revenue at the maximum. So, we assume that most of them have follow-on products and are similar products to what we used to supply before.

Nishant Vass: Okay. Mr. Pedro if I could correct the question, in terms of the heavy duty registration this year in the Europe markets specifically Germany, it seems to be strong growth. What kind of outlook is possible or what are OEs discussing possibly for the year because last year was a strong year in the change of the emission, what is the possibility of growth in terms of volumes that OEs are giving you?

Echegaray Pedro: Well, right now we do not have an official forecast because unfortunately there is nobody who provides forecast for commercial vehicles in Europe. So our expectation is that in average the market will grow between 5% and 6% this year in Europe, okay. And this is in line with short-term forecast that our customers are providing us in their delivery schedules.

Nishant Vass: Okay. Sir one last financial question on MFE if I may, we were highlighting that because of the preventive maintenance on margins have optically come down and we also have possibly the employee leverage angle remaining which might come in second-half of this year. So I would just wanted to know what is the temporary employee situation right now in Europe as in how much of that benefit have we anyhow taken or is that still possibly going to come up? Also if you could give us directional sense into how has employee productivity in the European business moved from the time CIE took over the company and to now?

Echegaray Pedro: Well, we have at this moment around 8%

Sanjay Joglekar: About MFE employee which is related more to the outsourcing plan and something also to do lean management, I would request that we cannot throw numbers at the moment as we have to firm up the plant then start the activities. Well, employee productivity has been improving as you can see in the results, I don't know whether I can put anything in percentage terms but let Pedro join as we can clarify something on this.

Echegaray Pedro: Yes, I think I have already finished my explanation.

Sanjay Joglekar: Sanjay here, the question was on MFE employee productivity which I have said that there has been improvement in productivity as one can see from the results, but I cannot really give any percentage unless you have any better idea.

- Echegaray Pedro:** No, we do not have any percentage there, have been really significant productivity improvement. This is mainly for a production rationalization. So there have not been any significant goalpost reduction, the temporary workers level remained more or less stable, and we expect it to be reduced once we start the outsourcing operation. So the productivity is coming mainly from internal reduction, a reduction on breakdowns of the equipment and mainly production optimization. In the past we have a lot of inefficiencies because of set-ups and tooling changes that we are made too often, so now production has been rationalized and optimized so we are reducing the number of changes in tooling so we have been able to increase the productivity and efficiency that way.
- Moderator:** Thank you. The next question is from the line of Srinivas Rao from Deutsche Bank. Please go ahead.
- Srinivas Rao:** Yes, sir I have two questions. First, regarding this preventive maintenance which you talked about for the heavy press, am I correct that this was the same press that did have a break down some time back and which kind of impacted on operations?
- Sanjay Joglekar:** Yes, that's right.
- Srinivas Rao:** So, it's the same press right?
- Sanjay Joglekar:** Yes, same press.
- Srinivas Rao:** I mean, just wanted to clarify is this is a new press which you have purchased or it was a press which was refurbishment, I mean, any particular reason why this seems to, I mean the cost of operating the press seems to be quite high? That's just one question.
- Echegaray Pedro:** It is a new equipment but it was not properly maintained, one of the reasons was because we were not able or the previous management team in Germany was not able to meet all the demand in the new developments that they had, so they reduced the preventive maintenance level, so that cost some additional breakdowns. But now that we have normalized a maintenance and that we are executing all the preventive maintenance as weekly or on monthly basis and we don't expect this to happen again. Of course, this kind of equipment requires methodical and certain major preventing maintenance to be executed once a year but normally it takes just a few days, it will not be almost a complete full months and short terms as we understand.
- Sanjay Joglekar:** I will just additionally clarify you that when you see the numbers 2.7 million for one press it definitely looks higher, but this press gives us a revenue of about €50 to €60 million in a year, just one single press.
- Srinivas Rao:** Understood. Okay, this is very helpful thanks Sanjay and thanks Pedro. My second question is on the relative differences in profitability between CIE and the Mahindra's European operations. Could

you throw some light as to what is the reason for that, is it product mix or there is a structural cost which Mahindra's European operations can hope to reduce to achieve those profitability levels?

Sanjay Joglekar: Okay, I will give a general explanation, as you can see that CIE's margin are higher not only compared to German operation but in general compared to their competition also. And what we have been saying on the calls earlier is that it is due to the way that they have managed the plants and the way the corporate cost are kept to the bare minimum including the structure cost, the personnel cost and other expenses. Pedro, if you are still on the call then you may say?

Echegaray Pedro: But to answer your questions, it is really a combination, I mean there operational factors, we think that we are more efficient in managing operations than our competitors, as Sanjay already mentioned our fixed cost, our structure and administrative costs and commercial cost are lower than our competitors. We do really have lean structures and also has to do with product, I mean we select very carefully our products. We concentrate our production and our revenue in those products which we are more efficient, in which have certain competitive advantage versus our competitor. And also we try to minimize the diversification of product, even though we want to be diversified so we are not depending on a single product or in a single customer. At the same time having too many different products being built in the same plant or in the same equipment as it happen in this 12,000 press in Germany creates certain in a field. We tend to find the right balance between diversification and efficiency, okay, diversification which is important and efficient, **external diversification doing reduce inefficiency** to products. And so I think that right balanced product of that point is also important and is one of the reasons that we also have a highest margins.

Moderator: Thank you the next question is from the line of Sunil Jain from Aditya Birla Capital. Please go ahead.

Sunil Jain: Sir two questions I had, one is, we had talked earlier about the energy cost, the lower energy cost at Europe, so what is the latest development on that front, are we continuing to get the subsidy from the government?

Sanjay Joglekar: As we explained the subsidies which is done as a matter of the policy by the German government will continue. There is yearly audit process, last year we completed the audit and this year the subsidy will continue and it is expected to continue year-on-year, like you go for a ISO certification renewal, there will be a sort of a renewal audit year-on- year.

Sunil Jain: On quarterly basis we are accruing this subsidy and has it been received or it is an annual process?

Sanjay Joglekar: No, we received in the sense, where energy cost that you paid is reduced to that extent.

Sunil Jain: Okay. And the cash to that extent is received?

- Sanjay Joglekar:** Exactly, yes.
- Sunil Jain:** Okay. The second point I want to ask you is, in your outlook you have mentioned something that overall your top three customers grew by 2.3% but then there was a de-growth 22.3% in Q1 FY15, could you just clarify what exactly is the indication?
- Vikas Sinha:** So you are referring to this statement as per the Press Release I guess, “overall passenger vehicle production Q1-FY15 has grown marginally by 2% compared to the previous year. In the same period production at our top three customers grew marginally by 2.3%”. Now top three essentially means TML, M&M and Maruti. While Indian OEMs TML and M&M, who are two out of our top three customers have de-grown by 22.3%.
- Sunil Jain:** Okay. So basically you are saying that TML and Mahindra have de-grown by 22%?
- Vikas Sinha:** Yes.
- Sunil Jain:** And the growth at Maruti has been able to compensate for the de-growth?
- Vikas Sinha:** To an extent, yes.
- Deven Kataria:** This is volume production, this is just vehicle production, yes.
- Vikas Sinha:** Yes, this is the vehicle, this is the market side.
- Sunil Jain:** Right. So related to that is in terms of the new launches that some of the OEMs are announcing, have we sort of got some inroads into the new production and you are going to sort of work on supplying parts for the new production the OEMs are launching?
- K Ramaswami:** As far as Mahindra is concerned, we will be single source supplier for crank shaft for most of the new models that they are introducing and so is the case with the TATA Motors. So of course those introductions are scheduled by end of this year and early next year, but we have secured ourselves in these businesses so that our future is guaranteed.
- Moderator:** Sure. The next question is the follow up from the line of Hitesh Goel. Please go ahead.
- Hitesh Goel:** Yes. Sir, can you also tell us debt figures for Mahindra Forging consolidated business and is the consolidated entities, if possible, Mahindra CIE?
- Sanjay Joglekar:** I think the debt level at the moment are also almost similar like March, around Rs. 700 crores.
- Hitesh Goel:** Is this for Mahindra Forgings?

- Sanjay Joglekar:** Consolidated, yes.
- Hitesh Goel:** Any color on the merge entities?
- Sanjay Joglekar:** No, I mean merge entities we are not talking on this call.
- Hitesh Goel:** So just on Q-on-Q perspective debt has not gone up?
- Sanjay Joglekar:** Yes.
- Moderator:** Thank you. The next question is a follow-up from the line of Srinivas Rao from Deutsche Bank. Please go ahead.
- Srinivas Rao:** Sir, I mean if I look at what you call contribution level or EBITDA level, it's increased definitely in the last two quarter compared to what we have seen in the past year. But if I look at certain longer term, we are still in the 160-175 million range or Rs. 15 crores to Rs. 18 crores. Is it feasible that given what you have seen in the past over the next two years assuming the kind of upcycles you are talking about, we can see materially higher numbers?
- Sanjay Joglekar:** So let me put it and probably KR can answer this but what we can talk about what are our efforts for margin improvements, if the markets improve and if we maintain or improve the margins, obviously the number will go up but that is something I can't really comment on. But KR, you can take a call about how you feel the future of the company is.
- K Ramaswami:** If you look at the EBITDA numbers, it has moved from something like 9% to 11% and then on last year I think we moved to 16.3% and this quarter we are looking at 18%. So that's been the improvement in EBITDA as such. But if you are looking at quantum of EBITDA, obviously quantum of EBITDA would depend on the topline. And as I was saying that we are now looking at export business and plan to move some businesses from CIE to India to take advantage of this EBITDA. The EBITDA percentages in India are probably the highest ever reached and even comparable with industries of similar products that they produce. So there has been significant increase even in the last quarter. But if you are looking at real numbers in terms of EBITDA quantum, it will come only by increased sales revenue but the market today is a bit sluggish if I may use that word and therefore the topline is going to increase only overtime when the market peaks up and when we get the export business. We are ready and from an internal standpoint of view EBITDA numbers are very-very strong and therefore we think people would take advantage and have more export orders placed in us and we are very confident of this.
- Srinivas Rao:** Sir, if I can just add two more questions. Your capacity utilization would give enough headroom for you to manage growth?

- K Ramaswami:** Yes, we probably can close to 4,000 tons per month is what we can do and we have adequate capacity.
- Srinivas Rao:** And sir would you like to give any finally CAPEX guidance for both Europe and India for fiscal '15?
- K Ramaswami:** In India, we will be focused on investing in automation, investing in yield improvement projects. So it will not be very significant in terms of major capital. I will pass it back to Sanjay for your Europe.
- Sanjay Joglekar:** Sanjay here, probably we have given this guidance quite a few times in the past, what in Europe we are planning is not growth at the moment, Europe is also having sufficient capacity if the market grows by 5% - 6% for next three to four years. And except the regular maintenance or some low cost automation, we are not planning any major capital expenditure in Europe either. In India, as KR is absolutely right about automation and about some yield improvement, rest all depends on how market grows and some new product lines coming in or something. But that is something down the line another two to three years. So no significant CAPEX in either of the entities over two to three years is expected.
- Moderator:** The next question is a follow-up from the line of Sunil Jain from Aditya Birla Capital. Please go ahead.
- Sunil Jain:** Sir, this is a slightly high level question in terms of India that now that we are seeing diesel prices and petrol prices, the delta actually coming down and that has had some impact I would say on SUV sales which are more on the diesel side. What is your outlook and how is the company preparing for that? In terms of if the diesel, your products which you are supplying to diesel vehicles or diesel SUVs come down, do you have presence on the petrol vehicle side, are you planning to increase petrol vehicle presence?
- K Ramaswami:** Yes, if you look at our supplies to customers we are more focused on diesel vehicles up to let's say 2012 or so, but later on we have now moved into supplying to customers who are more focused on petrol vehicle as well. I would say the mix is fairly reasonable and it will; however, be focused on diesel vehicle but what we have done is we have developed several customers, which continue to produce diesel vehicles. In petrol vehicles, we do have market and we expect that market to continue to grow. However, the total business would still depend on the overall auto growth so we have a good mix to balance.
- Sunil Jain:** So what would be sort of your broad mix in terms of supplying to petrol version versus diesel version?
- K Ramaswami:** It's difficult for me to make an estimate but I don't know, maybe 60-40 or 70-30 in favor of diesel.

Sunil Jain: 60% or 70% in the end of diesel?

Management: Yes. Deven, do you want to say something?

Deven Kataria: Yes, this is Deven Kataria. I think the question that you are asking I think there is two elements to the question. One is obviously what's happening to the vehicle mix in India and we have seen diesel retreat from the very high percentages it had reached about a year and a half ago, we are seeing that walking back towards the more normal distribution between diesel and petrol which is about 50-50 and the European experience will end up pretty much there.

Deven Kataria: The other part is that the technology that goes into the vehicles, into the engines, see, we supply crank shafts that is our primary business in forgings, and in India, India has been a slightly unique market, most of the engines regardless of whether they are petrol or diesel have used forged crank shafts. And that is a trend we do not see going away, in fact, as petrol engines, if you look at the market you will see smaller and smaller petrol engines and creating the same level of horse power. So what ends up happening is you start running at higher compression temperatures, compression pressures and higher temperatures and these crank shaft necessarily need to be forged. So by and large we don't see the trend for forgings going away, so the demand not going away. Obviously, from a customer mix standpoint, we are with customers who are heavily diesel, Mahindra being a prime example, but we are also seeing customers starting to develop petrol strategies. So if you look in media you will see what Mahindra is trying to do with petrol engines and our goal is to be part of that whole process, to be in the market wherever our customer wants us to be.

K Ramaswami: Yes, I just want to add. Hyundai for example, they make lot of petrol engines, they use crank shafts which are cast and we are I would say major-major supplier to Hyundai for cast crank shaft, not necessarily from forging but from foundry division and when all these companies merge together, you will find that our share of business on crank shaft is significantly going up because crank shaft or forged crank shaft. As such we are supplying from our foundry division.

Sunil Jain: So basically what you are saying is that you can suit or modify your forged crank shaft to supplier to the petrol version as and when those productions are developed by our respective OEMs?

K Ramaswami: Yes, that is right. What I am saying is that in India in the automotive you can have crank shaft either cast or forged and we would be capable of doing both and currently we are doing. And when the whole companies merge together, the shaft business in crank shaft would be significantly higher.

Sunil Jain: And so crank shaft would be sort of comprising how many percentage of revenue broadly, could you sort of give some indication?

K Ramaswami: In India it's about 55% to 60% of our revenue, we do have exports as well as other parts that we supply.

Sunil Jain: So 55% of Indian revenue would be comprised of crank shafts?

K Ramaswami: Roughly, yes. Because exact number is very difficult to define because some of the crank shafts are supplied as forging and we also have capability to give completely machined and ready to assemble crank shaft.

Sunil Jain: Okay. And this is only MFL number you are talking about, you are not including the cast crank shaft in this 55%?

Sanjay Joglekar: No, only the forging numbers.

Moderator: As there are no further questions, I would now like to hand the floor over to the management for closing comments.

Hemant Luthra: At the moment I can say nothing more except that we think that there are opportunities that we intent to exploit to build on the value of Mahindra CIE and those opportunities are not just resident in Latin America and India but there are opportunities in South East Asia also and we are going to continue to build on that. We have to respect the CIE mantra that we call them and they call about four mantras which is the – EBITDA should be north of 15%, the EBIT should be north of 10%, the RONA should be north of 20% and the net operating asset should be less than 3x of EBITDA and free cash flow should be more than 50% of EBITDA, that's what has made CIE successful, that is what hopefully will make Mahindra CIE and the CIE partnership even more successful. This is a story that we hear every day. There are targets that we are required to benchmark ourselves every morning and as I said you can watch this space, For those of you who are interested in more detail meetings, let us use one single coordinating point which is Sanjay Joglekar's office

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