

Transcript

Conference Call of Mahindra Forgings Limited

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Presentation Session

Moderator: Good evening ladies and gentlemen. I am Daniel, moderator for this conference. Welcome to the 4Q FY12 results conference call of Mahindra Forgings Limited. We have with us today, Mr. Hemant Luthra, President – Systech Sector, Mr. Sanjay Joglekar, CFO – Systech Sector, Mr. K. Ramaswami Managing Director – Mahindra Forgings Limited, and finally Mr. Burkard Rausch, CFO Mahindra Forgings, Europe. At this moment, all participants are in listen only mode. Later, we will conduct a question and answer session. At that time, if you wish to ask a question, please press * and 1 on your telephone keypad. Please note this conference is recorded. I would now like to hand over the floor to Mr. Rohan of Anand Rathi Security. Please go ahead sir.

Rohan: Thank you Daniel and a warm welcome to the management as well as participants to this call. Let me hand over the floor to Mr. Luthra for his opening remarks. Over to you sir.

Hemant Luthra: Good afternoon everybody and sorry to keep you waiting, it just so happened that we had to finish the Board Meeting and we were also looking at the consolidated results and getting an assessment from our European colleagues as to what is happening in Europe, given the fact that there is some turmoil around. So I am happy to discuss both the standalone results that have come about as a result of the 31st March performance and I am also happy to discuss the results for the consolidated and also Europe so you can ask whatever questions you need to. As far as India is concerned MFL in India standalone, the EBITDA has gone forward from about 31 crores last year to about 41 crores this year and the consolidated EBITDA for the company has gone from 175 crores last year to 208 crores this year. As far as turnover is concerned, we have seen an increase in turnover in India that is MFL standalone from about 357 crores to 432 crores and most pleasing of all is that instead of a loss of 3 crores last year; our standalone PAT this year is about 6.75 crores. As far as the consolidated results are concerned, against a profit last year of about 3.75 crores, we have a profit of about 51 crores this year and even though we have had some hiccups with respect to performance of equipment in Q3 and Q4 that we have discussed on calls, we seem to have the problem under control or will have it under control in Q1. The customer order book remains strong both in India and in Europe and market share happens to remain good both again in India and Europe. The European concerns about slow down slowdown and European economy and so on seem to be...I can't say mitigated but as of now when we look forward to F13, we think that the volumes will hold. We believe that the margins will improve both in India and Europe and we have the order book to back it. There is one other thing I need to mention is that many of you have asked about what we are planning to do with the company and I am happy to respond to that...the plan to

consolidate all of Mahindra Forgings and Castings and Gears into one Systech remains on track and we will be going forward with that plan. There are some strategic investors who request and interest in taking a stake in the combined entity but at what valuations and so on is something we are discussing and since I don't want to be making forward looking statements before they have materialized into something concrete I don't want to comment or have anybody speculate on where we will be but at the minimum the consolidation of one Systech will happen. Supposing business continues to do well, our Gears business which is unlisted continues to do well, the Castings business has doubled the capacity and the stamping business which is part of MUSCO the results for which have been announced, has also had a very good year so stamping, forging, casting gears seem to be on track to create a good solid Mahindra Systech and that's what we want to call one Systech entity. So that I can respond to more specific questions or have my colleagues respond to more specific questions, I will stop here. There is KR who is the Managing Director of Mahindra Forgings, there is Sanjay Joglekar who is the CFO of Systech, there's Ajay Mantry who is the CFO of Mahindra Forgings and there is Burkard Rausch who is the CFO of Mahindra Forgings Europe. So I will go ahead and take questions and we will be happy to elaborate on the results as we go forward.

Question and Answer Session

Moderator: Thank you sir. Ladies and gentlemen, we will now begin the question and answer session. If you have a question, please press * and 1 on your telephone keypad and wait for your turn to ask the question. If you would like to withdraw your request, you may do so by pressing * and 1 again.

Ladies and gentlemen if you have a question, please press * and 1 on your telephone keypad.

Rohan: Daniel I have a couple of questions from my side so I will start off initially. I just wanted to get a sense on the head count that we have on our overseas operations now.

Hemant Luthra: Burkard will you get the details of the headcount on overseas operations both permanent and temporary?

Burkard Rausch: Yup. From the headcounts after the crisis, we have continuously reduced and our headcount now in total down to roughly 27% and this contains two different aspects, roughly 23.5% in own staff and the difference are the contractual staff and this contractual staff covers two basic ideas one is to have some space for preservation, realization to reduce this amount plus some flexibility in case crisis out of the Euro and all those uncertainties coming out of the market aspect would come up, gives us the flexibility here to react and to answer immediately and without any additional cost.

Hemant Luthra: Burkard I think the question was specifically the number of people that you have in Europe just now.

Burkard Rausch: In total it is 1500, 1346 own staff and 200 or so contractual.

Hemant Luthra: This is down from a peak in June...just to put it into context this is down from a peak in June 2008 of 1779 and 232 which is when we clocked the 300 millions in revenue. And this year also we have done approximately 300 million of revenue with approximately 1500 people, so that's roughly the...the exact number of revenue in Europe was how much?

Burkard Rausch: Revenue in Europe is 302 million in Euros.

Hemant Luthra: In 2008 the peak revenue with 2100 people was how much?

Burkard Rausch: 356 million as far as I remember by heart now.

Hemant Luthra: 356 millions with 2100 people and 300 million with about 1558 people. The one thing that I would like to point out is that sometimes the number of people may become a misnomer because we found that the productivity of people who are permanent and are trained make a huge difference in the quality of the product. So just by reducing the headcount by about 25%, 30% that we brought it down, we think we are at some kind of optimum mix of our own staff and the temporary staff. We don't want to increase the percentage of temporary staff. One of the reasons why we also wanted to bring to your attention for those on the call is that we had not imagined that the market would come back so dramatically. When we dropped from 100 million a quarter to 30 million a quarter, the tendency was to...we had dropped from 2100 people to 1300 people in September 2009, but then market started coming back quite rapidly and since our team now says that we should expect the same kind of volumes in Europe even in F13, I think we will have to do a little bit of rationalization maybe between 20 to 50 people who are contractual may have to be dropped in favor of more trained people because that makes a very positive impact on quality and productivity.

Burkard Rausch: At the end of the day you need a core team which is extremely well-trained, educated with material to produce the quality and who can added up with some temporary people to do simple work, cost efficient and projecting flexibility but at the end of the day demanding customers expect a high quality from well-educated team.

Rohan: Okay thanks a lot. I think we will get back to the queue first and then I will come back with my other question.

Hemant Luthra: Sure.

Moderator: Thank you sir. The next question comes from Srinath Krishnan from Sundaram Mutual Fund.

Srinath Krishnan: Thanks a lot for taking my question sir. If I look at the book to bill ratios of European Class A truck manufacturers they seem to be above 1 but environment out there seems pretty gloomy out there but it seems to be holding up. What is the reason for that?

Hemant Luthra: What is the ratio you said?

Srinath Krishnan: Book to bill ratio of the Class A truck manufacturers that is the heavy truck manufacturers in Europe. The order book is not coming down.

Hemant Luthra: Not a bad sign but unless...Burkard go ahead.

Burkard Rausch: From our communication to all European OEMs there are signals for a flat movement for the next month...half a year and that is something we are trying to figure out in a number of discussions. Of course there is a bit of variance depending on who has got more modern, more fuel efficient trucks or who has got a bit older fleet and models. But all in all we expect more or less a flat development for the next half a year. But in general the OEMs are quite optimistic for the period following that.

Srinath Krishnan: Okay. But if I look at the guidance provided by Scania and MAN other players, it is now more like post the quarterly results they have become slightly more pessimistic and they have been downward revising their guidance to negative 5% to 10%. So what gives you confidence to say that you will be ending flat for this year?

Burkard Rausch: The ones you mentioned that's right that's probably a bit more skeptical, but adding Daimler as well who have launched the new Actros in September-October with this two model situation right now, new Actros and the old Actros they are a bit more optimistic. So if you balance all in all we expect it to be more or less flat.

Srinath Krishnan: You will be supplying for this Actros model?

Burkard Rausch: Yeah. And we have got more parts in the new Actros than in the old. So any new Actros add more volume to us.

Srinath Krishnan: Actually what is the difference between the new one...did we have to incur any CAPEX in terms of improvement and product quality or...?

Burkard Rausch: We had some CAPEX last year to build the new parts, to be able to produce them. That has been mainly done. Now the new series of Actros is ramping up. Of course there is a split in pricing as any customer will launch a new product with a premium price for the new one and a bit separated pricing for the old family. But whether Daimler sells the old or the new one, we are very pleased to produce for both of them.

Srinath Krishnan: But what is the customer mix like in Europe if we have to split up between Daimler, Fiat, MAN and....

Burkard Rausch: Daimler has got by far the biggest market share.

Srinath Krishnan: No, break up of our revenue towards these customers?

Hemant Luthra: Is the question how much of our revenue is coming from Daimler vis-à-vis...? Burkard what was that you said roughly? 80 million coming from Daimler between four or five...?

Burkard Rausch: The biggest OEM is Daimler with roughly 80 million and MAN is second with 40, 50 roughly, then Scania, Volvo are following with smaller

shares. So all OEMs more or less gets parts of ours but if there is a shift of market share whether we deliver to Daimler or MAN who gains a bit of market share, doesn't count too much to us.

Srinath Krishnan: Okay. Just to get a better understanding, for example, we are supplying to Daimler. Does Daimler sell its part only in the European region or do they export these products to other plants of theirs?

Burkard Rausch: They export to Asia as well as South America. So those export markets are also growing. Europe as you might have expected is more or less flat and not of the old volumes but they are over compensated by export markets. Russia is running quite well, and Middle-East is running well so they are strong markets as well.

Srinath Krishnan: So how will your indirect geographical contribution like even though you supply to European OEMs, they again branch out and diversify. So how will your indirect...?

Hemant Luthra: I don't think it is going to be easy for us to estimate if the question is, out of the parts you supply to Daimler...if you supply 80 million components to Daimler out of a total turnover of 300 million approximately, do 'x' percentage of those trucks go to Latin America, do 'y' percentage of those trucks go to Asia and do 'z' percentage of those trucks go to... I don't know whether that information is readily available unless we do some digging for you from the German OEMs and see what percentage of Daimler's exports.... If Daimler exports 'x' number of trucks, we have to assume that our parts are going in the same proportion unless...Burkard do you maintain any records of what is the end use of which truck goes into which country? I don't think we have anything like that.

Burkard Rausch: We haven't got an analysis of that right now. But when you look through the annual report of the OEMs, from their production the ratio and when you look through the heavy trucks and within the group of heavy trucks our share is quite proportionally so, I would say you can take their export rate and ours will follow accordingly.

Srinath Krishnan: I am just looking at Daimler's Annual Report their truck to Latin America is 37, NAPHTA is 28 and Asia is 25. So if NAPHTA generates a guidance...that is US and other markets there. The general guidance there is with emission norm change a lot of free buying is happening and all the fleet owners are improving profitability so the growth rate is much higher there like around 15% to 16%. Does that give you more confidence? Can we expect more upward revision in you guidance for next year and...like you are guiding for a flat growth next year?

Burkard Rausch: But what I mentioned before out of this strong markets in exports, we expect after a more or less flat situation in the first half year, we expect a positive and stronger second half exactly following this point.

Hemant Luthra: I can do one thing. I don't know if we were asking many of the same questions when we had the review of MFE supervisory board meeting on the 15th of May. For those of you who don't already have it, we can pass on...there are links available from Daimler, MAN, Scania through their annual reports and that might give

you some guidance as to why we continue to be optimistic about what's going to happen in F13. If you already have them then I won't. For those who don't if you can send a mail to Rohan at Rathi then we have got those links to management discussion and analysis reports of all the OEMs and we will be happy to provide you those links.

Srinath Krishnan: Okay sure thanks sir. But another question was regarding emission norm change. I guess around 2013 end or '14 beginning there is an emission norm change in Europe and US. So will we have to incur any CAPEX on that to improve our product?

Burkard Rausch: No, we are producing forgings. The emission norms are for the truck engines.

Srinath Krishnan: Okay but don't we have to reduce the weight of our product...nothing of that sort?

Burkard Rausch: That is the reason for the new Actros for example. In preparation of the Euro norm, the weight of the new Actros was reduced significantly and that was the reason to engineer it and our new parts as a part of the new truck the main target was to reduce weight. That was the headline.

Srinath Krishnan: Okay thanks a lot. Do we export to...?

Hemant Luthra: Just one input also that between the development of new parts and handling some of the rapid changes in production that are required, the CAPEX in the year 2012 for Europe was about 17 million.

Srinath Krishnan: Total CAPEX for FY12 was 17 million Euros? FY13 and 14 how will that be sir?

Burkard Rausch: It will be reduced to 10 to 12 million whereof 3 to 4 million are dies. They are not allocated to CAPEX in the sense of new machines but those are forging dies for normal production. They are capitalized and written off during the lifetime cycle and we will have to look at them a bit separately.

Srinath Krishnan: What is the market share we have in Europe right now among products that we sell?

Burkard Rausch: That's difficult to answer for our parts are specific. Let me put it this way. For Daimler we are biggest supplier for forgings in our range but I wouldn't compare it with forged parts for passenger cars which use completely different technology for the forging of those parts.

Hemant Luthra: I don't think it will get us or you anywhere if we...

Srinath Krishnan: No sir just trying to understand whether there will be any market share gains for us so that...

Hemant Luthra: Market share is very difficult you know because we do from 3,000 to 12,000, 16,000 tonnes pack all the way just like Bharat Forge does in Europe and there are some markets we choose to attack and some which we don't. So for

example, we don't go so much after the first hand passenger car market and if you look at the total requirement of forging there will be passenger car, trucks and non auto. We are doing much more trucks than non-auto and we are not doing passenger cars. So it is very difficult to say what is the total forging market in Europe and what percentage of that market we have. And if the question is that because of this do we have a very large percentage and therefore pricing power? I would not presume to have pricing power in the forging market. But for the products that we make and co-engineer and co-develop and therefore own the intellectual property for, there we have sticky customers and that's what is the success we get from Daimler.

Srinath Krishnan: Okay so what is the proportion of those products sir that we have pricing power to the total revenue?

Hemant Luthra: Sorry?

Srinath Krishnan: What is the proportion of revenue of the products that we have pricing power towards the total...?

Hemant Luthra: I don't know if you can call it pricing power but it is certainly the intellectual property that you own. So if you have 80 million of forging going to Daimler...Burkard...what are they 80% or 90% designed and developed by us or what?

Burkard Rausch: For the new parts, they are co-designed and co-developed right from the beginning so the whole development process is running for 4, 5, years now and I think that is one of the core strong points of MFE meanwhile not only to get the growings and make the production, but selling the engineering and the development capacity. I think that is the strong part of the modern forge to be a part of this development process right from the beginning. If we have got a chance to bring our experience and knowledge of forging right from the beginning, we can optimize the process and the product itself.

Srinath Krishnan: Okay...so...

Hemant Luthra: Do me a favor; I just hate to interrupt this because I want to give some fair air time to the others too. Sorry I didn't get your name?

Srinath Krishnan: Srinath from Sundaram.

Hemant Luthra: Sundaram a very highly regarded asset management. If you want to pick a time where you can meet with our CFO in India and Germany and meet with the CEOs in India and Germany feel free to pick a time so that we don't deny other people their chance. My apologies.

Srinath Krishnan: Sure sir, I understand.

Moderator: The next question comes from Mr. Amit Kasat from Standard Chartered. Go ahead sir.

Amit Kasat: Good evening everyone. I have a couple of questions. Sir, can you let us know what is the revenue loss because of the breakdown of the forging

press in the current quarter? Whether that is loss of business or it will come in the first quarter? What was the one-time machine maintenance cost in the quarter?

Hemant Luthra: Which press breakdown?

Amit Kasat: Because of the breakdown of the forging press...German forging press, there should be some loss in terms of the revenue?

Burkard Rausch: The point is it is a bit different. When you are a supplier to an OEM, you can't tell him we do not deliver because of a breakdown. So the key point for us is to find another press and continue to produce and deliver and not let the customer down. That's the customer point of view. But answering your question, we had roughly 3 to 4 million additional maintenance costs to repair the presses and what is even more expensive is when you have a sudden breakdown, then you have to shift the product to produce new dies for other presses and have to produce it on bigger presses normally or wherever you got the space and the capacity to do it. This means shifting to other plants in some cases as well and this is additional cost. So on the revenue side we haven't lost anything but on the cost side it hit our margins to secure that we do not let the customer down from an European market and customer relationship point we can't let a customer down.

Hemant Luthra: So let me answer your question. We have lost as a one-time exceptional which is what we are looking at about 6 to 7 million in EBITDA because of this one-time issues in Q3 and Q4 and that's roughly 2% and that's the difference that you see between what we were hoping to end up with and what we actually did. In Europe, we were hoping to end up with close to 30 odd million and we have got something like 23 million in Europe so, we have lost about 7 millions which is roughly 2% and obviously we are hoping that we will be able to plough that back in the coming year.

Amit Kasat: Right this clarification is very helpful Hemant. My second question is on the domestic business. Can I get the customer base as a proportion of revenue as a standalone business?

Hemant Luthra: Customer base as a proportion of revenue? I am not sure I understand that.

Amit Kasat: No, no, basically we have top five customer as proportion to the revenue.

Hemant Luthra: Top five customer as a proportion to revenue would be what KR in India?

K Ramaswami: We have about 80% of business coming from the top three customers.

Amit Kasat: Who are they?

K Ramaswami: Tata Motors, Maruti and Mahindra, Mahindra as the group.

Amit Kasat: Okay. And what will be the Mahindra in this complete?

- K Ramaswami:** More or less equal, in fact 30% each.
- Amit Kasat:** Okay, thanks. The last question Hemant is for you.
- Hemant Luthra:** Amit that is split between, for Mahindra it would be split between SUV and tractor.
- Amit Kasat:** In the Mahindra business, are we heavily loaded towards the tractor or the automotive?
- K Ramaswami:** I would say more or less equally loaded.
- Amit Kasat:** Equally loaded. The last question Hemant is for you.
- Hemant Luthra:** Sorry, finish your question.
- Amit Kasat:** Yeah. So, basically we are hearing about One Systech and everything, but mostly we are missing out what is the total revenue and the PBT of One Systech, because most of the companies, can you share what is the total revenue base for this year and what was it for the last year and you can share on the PBT basis also? Because, for the listed entity we get, but for most of the other companies we don't know, the actual price of the company as a stake we want to know.
- Hemant Luthra:** Amit, I will try and help you reduce your homework, because unlisted companies don't normally get reported. But, if you went to Department of Company Affairs and you looked at what the unlisted company reports or filed, you would be able to get that number. So, I am trying to reduce, help you reduce your homework. The estimate that one suspects, combined all operations are going to be about 4200 crores, this year 4300? I will just get you the numbers; I will get you the numbers.
- Amit Kasat:** Okay, thanks. Thanks team and best of luck.
- Moderator:** We will take the next question; it is from Aryn Pirani from Deutsche Bank. Go ahead sir.
- Aryn Pirani:** Yeah, thanks for taking my question sir. First of all, I just want to understand, on a consolidated basis, is there anything we do for the non-automotive segment? And what are the kinds of products or components that you make and what are the industries that you cater to there?
- Hemant Luthra:** Non-automotive, would you include tractors and non-automotive or you would exclude tractors and non-automotive?
- Aryn Pirani:** I would exclude that, basically if you are doing anything for the power segment or for construction, rail or wind energy or something like that.
- Hemant Luthra:** Yeah, why don't you take the question in India and then I will ask Burkard to take this question. So, you are excluding tractor from non-automotive?

Amyr Pirani: Yes, yes.

Hemant Luthra: Tractor is automotive as far as you are concerned?

Amyr Pirani: Yes, yes sir.

K Ramaswami: Okay, we do about anywhere between 5% to 10% from India, almost 90% is automotive and considering tractors to be part of automotive. 5% to 10% would go to people like earth movers, railway engine manufacturers and things like that, not very significant to India.

Hemant Luthra: And if you constituted tractors as non-automotive, tractor would be another 10%. I never have any idea, on a lighter note that last year everybody was hoping that tractor would be accounted as automotive and this year everybody wants tractor to be accounted as non-automotive or the other way round. So, just because we have had a hiccup in one year in tractors in Mahindra, does not mean that hiccup is going to last. It's part of the cycle in any case.

Amyr Pirani: See, basically what I was trying to understand is that, obviously the tractors, even though the automotive segment follows a certain cycle of growth. And if you look at the non-automotive side, obviously the product cycle as well as the market development is of a different kind. So, I was just trying to understand if you are trying to increase your exposure to those industries, wherein obviously it takes time to break into the customer, but obviously it would be slightly more sticky and maybe give you higher realizations and margins over a longer period of time. That's what I was trying to understand actually.

Hemant Luthra: The thing is that we want to make maximum money, which is what we believe our responsibility is. You first sweat the current assets. Now, when you go for non-automotive and maybe KR can talk to you a little bit more about this, you marry the component to the machinery that you have and if you have some unutilized capacity on your existing machinery, before you invest in a large hammer or a large press to go for railways or to go for something else, the ideal solution would be to make your existing presses and sweat them more. So, we are always keeping an eye out on the return on capital employed and while it may be effective to look at wind, I don't know how much wind is being, how many wind projects are being set up, it may be very effective to look at power. But, look at all the power plants that are not come up. Just now you will see us sweating our assets as best as we can and then improving the EBITDA margins and then improving the return on capital.

K Ramaswami: The scenario might be a little bit different in Europe and I would request Burkard to give a comment on how much is non-automotive in Europe.

Burkard Rausch: Yeah. And Europe is roughly 65% in trucks and automotives and 35% is tractors, special machinery, railways, mining and...for example, ships, things like that. And that's exactly our strategy to get a bit more spread into our portfolio as far as those customers. And especially in Germany many of them are mid-sized, so called Mittelstand companies, so we can generate better margins there and do not depend too much only on trucks.

Amyr Pirani: Okay. And do you see this ratio like for non-auto increasing over a period of say, next two to three years or do you think that this is where it would be steady at?

Burkard Rausch: It always depends on the point where you are standing. When we look back to the crisis, especially the heavy trucks were hit, then the rest as in relations, increased back with the strong recovery of the truck percentage, raised again. So, even being focused of looking to other fields and other products, it depends on the movement and the development of the heavy truck segment itself. And when this 65% is quite dominant and when it is running well, then it is quite difficult to increase the share of the rest.

Amyr Pirani: Right, understood sir. And generally for the company as a whole, how does your steel price contract with customers and do you have kind of like a pass through, like if steel prices increase, just pass it on to your customers or does it work in some other way?

Hemant Luthra: Burkard, you go ahead with Europe and KR will tell you what we are doing in India.

Burkard Rausch: And in Europe we negotiate the steel prices with different steel mills, to secure the prices for roughly a year. And that is meant for the basic price of the steel. And then we have got the European systematic, that's the scrap and alloy surcharges. And they are moving up and down permanently and that is something that is coming for the whole market and affects all companies using steel and therefore there is a systematic surcharges just are put through from the purchase side to the customer side as well.

Hemant Luthra: KR, what do we have in India on steel prices?

K Ramaswami: India, I think we have a standard rule with all customers, but most of our customers compensate for steel increases.

Hemant Luthra: I think what we need to also mention to you is that, what we are trying to do is that while customers tend to compensate you much faster or sorry, they tend to want to adjust steel prices much faster when they are coming down than going up. And therefore, the whole exercise for the whole team is that how can you persuade them to look at it not three months later or six months later and then look at trading prices and negotiate, but do it much faster and reset the prices much faster, because it hurts us more when it is going up. So, those are operational issues that we keep a close eye on.

K Ramaswami: Unlike Europe we don't have a general rule in India that customers should compensate. It depends on our negotiating ability with customers and the customers' willingness to pay for raw material price increases.

Hemant Luthra: And there are some customers, I don't know in Europe, but there are some customers in India also, KR who will say that, we will supply the steel or we will specify the steel and we will give you an input-output ratio and you try and do conversion cost, how does it work.

K Ramaswami: There are also customers who negotiate directly with the mill in the sense that they grant the price increase and correspondingly they compensate with the suppliers. There are all kinds of formula that works here.

Amyr Pirani: Okay sir, understood. Thanks. Thanks a lot for answering my question.

Moderator: Thank you sir. The next question comes from Mr. Nirav Bhatt from Anand Rathi. Go ahead sir.

Nirav Bhatt: Hi sir. Thanks for taking my question. Just two things from my side. What is the capacity utilization this year on a standalone and consolidated basis? And the next one and I am sorry if I had missed this, but what is the CAPEX like for the next year sir?

Hemant Luthra: KR, why don't you handle the capacity and issue with the qualifications and how you measure the capacity and then I will turn it to Burkard.

K Ramaswami: In terms of theoretical efficiency that means considering the total available time to actual production time in terms of cycle time, India is around 50%. But, measure of capacity is gained from; there are so many measures to evaluate the capacity utilization. For example, if they have forty different job changes in a machine, especially in a country like India, where volumes are relatively low, then you do forty changeovers. Your efficiency would get affected and to that extent the capacity utilization of the job. So, it's contextual. In terms of theoretical efficiency, we are around 45% to 50%.

Hemant Luthra: I think Burkard, yeah.

Burkard Rausch: Yeah. In Europe we are running at about 80% utilization and it's a bit spread on which sort of presses and hammers we are talking about that in average should be about 80%. And second part of the question was?

Nirav Bhatt: Second part was on CAPEX.

Hemant Luthra: I want to clarify this, because we are all trying to stick to some of our old traditional measures. What KR described was that if there is a certain number of machine hours in a year and if the number of machine hours in a year is reduced by the number of machine hours that, KR correct me if I am wrong, the number of machine hours that are used for downtime and maintenance and so on, that leaves the theoretical capacity. And what you then get left with is, actually what you have used is the capacity utilization. So, when he is talking about 45% to 50%, I just want to make sure that this is total number of machine hours in a year versus the actual number of machine hours deployed. In Germany I think the measure is slightly different and the two are not strictly comparable, but if all said and done, Germany may be 10% to 15% higher than us, if we used the same measure.

Nirav Bhatt: Okay. And sir, for European capacity, Germany capacity utilization, this was around 70% last time around; this has improved from 70% to 80%, something like that?

- Burkard Rausch:** Yeah, right.
- Nirav Bhatt:** Okay. And India has roughly remained flat?
- Hemant Luthra:** Yes. That is correct. Burkard, that 70% to 80% is correct?
- Burkard Rausch:** Yes. Last year we have seen around 70% and then moved up to 80%. That's correct.
- Nirav Bhatt:** And on the CAPEX sir?
- Burkard Rausch:** On CAPEX we had some additional CAPEX for the new Actros as I explained before. So, last year was a bit higher than average. But, this year we expect something between 10 and 12 million.
- Hemant Luthra:** And then India what is the story?
- K Ramaswami:** In India last year we had around 24 crores CAPEX and this year we planned, normal CAPEX of around, within the same range plus strategically we might also look at adding capacity, in which case it might go up to 75 crores.
- Hemant Luthra:** The capacity addition which might seem strange, when we are talking about 45% to 50% is that, because we are investing in second hand machines and we have in the last couple of years lost some production, because of break down in some of these second hand equipments, the idea now is to have some of the important equipment with some standby. So, if there is 6300 tonnes press on which we are doing a lot of work, then the idea is to see if we can find another 6300 tonnes press and our colleagues in Germany are helping us find that. And that might be well worth it investment, because of the backup and not having to outsource some work. Is that right?
- K Ramaswami:** Yeah.
- Nirav Bhatt:** Okay. Sir, just two more questions. So, the old presses will be disposed off, right?
- Hemant Luthra:** Not necessarily. What we will do is, when we do CAPEX like this, and this is a particular reason why we have got KR, who has come from TVS. Many of you have not met him, but he has spent 27 years in TVS and TVS has had a great Sundram Fasteners and others, have had a great track record of using PPM and getting with prize for improvement and efficiencies and lean manufacturing. So, the idea is that you can improve your uptime, not by reactive maintenance, but very strong preventive maintenance schedule. And therefore you will only get rid of a press when you find that it is actually causing more damage by running it, than by letting it go. So, it will not necessarily mean disposal of presses, it might mean that instead of doing a job which is a 20 kilo job on the press, we might be forced to do a 15 kilo job on the press, if the press has been de-rated. But, you don't throw away these presses, unless they are absolute junk.
- Nirav Bhatt:** Okay. And sir, on Actros the new platform?

Hemant Luthra: For example, one of the things that we have done is that, in Stokes in England and we shut down two of the facilities there and the third one has become profitable. In fact it did 10% EBITDA in England alone. We moved some of their presses to India. So, before we take decisions to throw something away, we will see what can be done and how assets can be moved around inside the country.

Burkard Rausch: And about your question about Actros.

Nirav Bhatt: Right. I don't know if you can give a specific answer to this, but sir, what is the additional top line contribution or maybe revenue contribution that we are seeing because of Actros?

Burkard Rausch: Right now we have got roughly 70 million on the normal Actros program. And as the program is not shifting from one day to another from the older Actros to new Actros, this is a permanent process which will happen over the next two, three, four years. At the end of the day now Daimler has not taken the decision, how long they will run the two families in parallel, but what we expect is at least for the next two years. And so if more Actros of the new family is sold, slowly the old Actros will run down. And at the end of the day we expect to bring up our sales from roughly 70 million to 100-105-110 in total for Daimler, with this movement from old to new and full capacity of Daimler parts. That is the whole program.

Nirav Bhatt: Okay. Thank you sir, that's helpful.

Hemant Luthra: For those of you who have not asked this question, I will provide an answer for an unasked question. So, there are couple of things that are happening, you have seen Europe, you have seen that Germany has got full employment of the kind that it has not seen since the downfall.

Burkard Rausch: Reunification.

Hemant Luthra: Since the reunification. And you have seen some noises about whether austerity should work or growth will work. So, two or three things are happening. One is, because of the tight labor market, there are some anticipated increases in labor cost, which is what we are negotiating with the customer that instead of giving us pass through on steel prices alone, you should also and metallic, you should give us a pass through on some of the increased cost on account of labor. The other thing that is happening in Europe is that because of the nuclear plants being shut down, the electricity is being brought, pumped into Germany from France and other places. So, we are trying to see if we can get customers to accept those indexed cost increases also. And third thing that is happening is that in Europe you are also seeing, I have lost my chain of thoughts, so I will come back to you, I don't know where I was going, but I will come back to you. Meanwhile, I will take some other question. I am sorry, one more thing.

Burkard Rausch: By taking up two tickets, you see power following as a result and political results of the accident in Japan and I am sure you read about it that Germany took the decision to close down the nuclear plant that is the strong tendency of increasing electricity and power prices. The point Hemant mentioned as well about the wages, we have got unemployment rate of now 5%, we haven't seen that since the late seventies. So, we are bit of a tower in Europe with this low rate. We have got much

higher rates all around. There are political discussions of course. And that compared to America for example, in America it is normal that somebody from Michigan moves to California or wherever, if there is work to do and a new job. In Europe, it is slightly different. The main problem is language and so difficult to move from Greece from Spain from Italy just to move over to Germany. Those are developments which will happen over the next decade actually that by learning English and more and more people learning German and really getting the flexibility of the market, but this will be one of the big challenges for the next ten, fifteen, twenty years.

Nirav Bhatt: Right. Okay sir. Thank you so much.

Moderator: Thank you sir. The next question comes from Mr. Amit Kasat from Standard Chartered.

Amit Kasat: Thank you very much.

Hemant Luthra: Before you get into your question, the answer to your question was about 4300 crores of consolidated Systech revenue with roughly 10½% to 11% EBITDA across all companies this year.

Amit Kasat: Okay, thanks, that is very helpful. Sir, you talked about the utilization. Is it possible for you to give what is our India forging and the machining capacity and the same for the overseas?

Hemant Luthra: India forging, machining capacity?

Amit Kasat: Yeah, what is the total forging capacity which we have?

Burkard Rausch: In percentage of forging?

Amit Kasat: No, in absolute terms.

Hemant Luthra: Absolute terms, how many tonnes, KR?

Amit Kasat: Tonnes per annum.

K Ramaswami: Capacity is around 3700-3800 tonnes.

Hemant Luthra: That's about 45,000 tonnes per annum in India. And how much is that in Germany?

Burkard Rausch: We are doing 140,000 in total and 50% out of that are machines, so I would say 70,000 roughly.

Amit Kasat: Okay, fine.

Hemant Luthra: No, no, forging tonnage will be 147,000 is what we have reported this year and some of that is machines.

Burkard Rausch: 50%.

Hemant Luthra: 50% is machines. So, it's not 70,000 tonnes of machining and 70,000 tonnes of forging.

Burkard Rausch: Out of that. Out of that.

Hemant Luthra: Yeah, out of that.

Amit Kasat: Out of that, okay, okay, thanks. Got it.

Moderator: Thank you sir. Ladies and gentlemen, if you wish to ask a question, please pres * and 1 on your telephone keypad.

There are no further questions. Now, I hand over the floor to Mr. Rohan of Anand Rathi Securities for closing comments.

Rohan: Thank you Daniel. And a big thank you to the gentlemen of the management for this conference call. Thank you sir and best of luck for the future.

Moderator: Ladies and gentlemen, this concludes your conference for today. Thank you for your participation and for using Door Sabha's conference call service. You may disconnect your lines now. Thank you and have a pleasant day.

Note:

- 1.This document has been edited to improve readability.
2. Blanks in this transcript represent inaudible or incomprehensible words.