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BSE Limited Corporate Relationship Department, P. J. Towers, Dalal Street, Fort, Mumbai – 400 001. BSE Scrip Code: 532756	National Stock Exchange of India Limited Corporate Relationship Department, Exchange Plaza, 5 th Floor, Plot No. C/1, G Block, Bandra Kurla Complex, Bandra (E), Mumbai – 400 051. NSE Scrip Code: CIEINDIA
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Sub: Transcript of CIE Automotive India Limited Q2 CY 23 Earnings Conference Call

Pursuant to Regulation 30 read with Para A of Schedule III and Regulation 46(2) the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 and our letter dated 13th July, 2023 in respect of advance intimation for Q2 CY 23 Earnings Conference Call, please find enclosed herewith transcript of the said call held on 19th July, 2023.

The same is being uploaded on the website of the Company i.e. <https://www.cie-india.com>.

Kindly acknowledge the receipt and take the same on the records.

Thanking you

Yours faithfully,

For CIE Automotive India Limited

Pankaj Goyal
Company Secretary and Compliance Officer
Membership No.: A 29614

Encl: as above

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“CIE Automotive India Limited
Q2 CY 2023 Post-Result Conference Call”

July 19, 2023



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MODERATOR: **MR. BASUDEB BANERJEE – ICICI SECURITIES**

Moderator: Ladies and gentlemen, good day and welcome to the CIE Automotive India Limited Q2 CY '23 Post-Result Conference Call, hosted by ICICI Securities.

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal and operator by pressing star, then zero on a touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Basudeb Banerjee from ICICI Securities. Thank you, and over to you, sir.

Basudeb Banerjee: Thanks. A very good morning, good afternoon to all the participants and thanks to the management of CIE Automotive India Limited for giving us the opportunity to host the call. We have with us today in the call management represented by Mr. Ander Arenaza, CEO, Mr. K. Jayaprakash, Chief Financial Officer, Mr. Vikas Sinha, Senior VP Strategy, Mr. Oroitz Lafuente, Business Controller, and Swapnil Soudagar, DGM Strategy.

So, over to the management for the initial comments. Thanks.

Vikas Sinha: Yes, thanks, Basudeb. This is Vikas. I welcome all of you on this call, as also Ander Arenaza, our CEO. I will present CIE India results for Q2 C '23 and H1 C '23. Straight off the bat, let us appraise you of some of the key developments that we had highlighted in the last two quarters. After the exit of Mahindra & Mahindra from the company's shareholding, the name of the company has changed to CIE Automotive India Limited in this quarter, after all regulatory approvals were received. We had also held a German truck forging company for sale and the project is progressing well and we should be able to share further details soon.

Let us now examine the Q2 C '23 and H1 C '23 results of CIE Automotive India Limited, formerly known as Mahindra CIE, and in this presentation, we referred to them as, to the company as CAIL. The Q2 C '23 results for the India operations of CAIL are on page 7. The markets behaved as per expectations of seasonality in Q2, which we had talked about in the last results call. The weighted average market growth across segments was flat, compared to the same quarter last year and marginally down, compared to the previous quarter sequentially.

Some good news was in the gradual recovery of two-wheeler production which grew 12% sequentially. The two-wheeler retail sales data reported by FADA, the dealers association, also shows gradually recovering sales month-on-month.

Going forward, the relatively patchy progress of the monsoons could affect growth in two-wheeler and tractors market, but we do expect growth in the four-wheeler segment to continue on the back of new model launches.

Now sales of the India operations, that is sales of the India operations of CAIL at INR13.4 billion was 5% higher versus same quarter last year and higher than the market growth too as we pointed out earlier, but marginally lower vis-a-vis Q1 C '23. The India operations continued to become more efficient and achieved an EBITDA margin of 16.8% in Q2 C '23 versus 14.9% in Q2 C

'22 and 16.7% in Q1 C '23. The Indian operations continue their journey to match the global standards of the CIE group.

On page 8, we have the results for the European operations of CAIL in Q2 C '23. These financials don't include the German forging business CFG, which are held for sale. Sales of INR8.6 billion in Q2 C '23 are 6% higher year-on-year versus Q2 C '22, but lower than Q1 C '23 sequentially. The slackening in the growth trajectory in our European operations is partly due to the slowdown at Metalcastello, something that we have always expected and spoken about. EBITDA margin in Q2 C '23 was healthy 19.2% versus 15.3% in the same quarter last year and 17.6% in the last quarter sequentially. These margins are higher than normal due to the stock generation to cover the summer holidays coming up in August. The Q1 C '23 operational margins are being maintained on a run rate basis.

On page 9, we see the consolidated CAIL Q2 C '23 results. Consolidated sales were INR22 billion, 5% higher than Q2 C '22, EBITDA INR3.9%, 24% higher year-on-year. EBIT INR3.1 billion, which is 27% higher year-on-year. And EBT INR2.8 billion, which is 18% higher year-on-year.

The first half H1 C '23 results for our Indian operations are on page 11. Sales increased by 9% versus H1 C '22 to INR27 billion. This was higher growth than the underlying market. The four-wheeler and tractors market grew in high single digits on a half yearly basis, while trucks and two-wheelers declined marginally. This uneven market performance across segments is expected to continue. The EBITDA margin of 16.8%, EBIT margin of 12.8%, EBT margin of 11.9% and PAT margin of 9% are all much higher than H1 C '22. This reflects good all-round performance and we expect this momentum to sustain.

On page 12, we have H1 C '23 results for our European operations. These are without the German forging operations CFG held for sale. With sales of INR18.2 billion, there has been a 17% growth vis-a-vis H1 C '22, slightly higher than the underlying market growth. EBITDA margin in H1 C '23 was 18.3%, EBIT margin 15.2% and EBT margin 13.4%, all much higher than H1 C '22, largely on account of stabilization in energy costs and operational improvements.

H1 C '22 PAT is INR3.4 million and includes INR1.5 billion of profit from discontinued operations, that is CFG. This profit includes a one-time impact of approximately INR1.1 billion of insurance collection due to 2021 floodings in Europe. Overall, in Europe, we expect the market to have slow growth and are therefore focused on maintaining our profitability.

On page 13, we have the H1 C '23 consolidated results of CAIL. Sales was INR45.2 billion, which is a growth of 12% versus H1 C '22. The EBITDA margin was 17.4% versus 15% in H1 C '22. EBIT 13.7% versus 11.4% previous year, EBT 12.7% versus 11.3% previous year, and PAT 12.8% versus 8.7% previous year. Overall, we have had strong performance, both in terms of growth and margin on a half yearly basis, delivering a double digit EBT on continuous operations.

On page 15, you will see our enriched consolidated balance sheet, which shows the healthy state of CAIL. Return ratios have crossed 20%, return on net assets has increased to 21.7, and return on equity to 20.7%. Return on equity on continuing operations should be noted as 15.5%.

The cash flows are shown on page 16. The company generated operating cash flows to the extent of 70% of consolidated EBITDA, which is good performance. Growth capex for the first half of the year was INR1.7 billion, largely focused on projects in India. Overall capex for H1 C '23 was 5.4% of sales, which is in line with our norms. Cash outflow due to dividends was INR948 million.

Before we end, a word on EV order portfolio. Electrification of powertrains has seen rapid adoption in Europe, with market share of greater than 10%, and is picking up in India as well, especially in two-wheelers and three-wheelers. At our Spanish car forging plants, we have had orders for steel forging used in battery packs and aluminum forging parts for chassis. We have orders from a couple of US OEMs for EV transmission parts at our Italian plant. These orders should compensate for any potential drop in revenues due to EV penetration in the medium term. On the other hand, in India, EVs represent an opportunity, and our annual report features the extensive EV-specific portfolio that we are developing in the Indian market.

To end, we are confident that we can utilize future opportunities and face future challenges with agility in order to meet the shareholders' expectations of sustainability -- of sustainable growth and profitability.

With that, we proceed to Q&A. So, Basudeb, back to you.

Moderator: Thank you very much. We will now begin the question-and-answer-session. Our first question is from the line of Nikhil Rungta from Nippon India Mutual Fund. Please go ahead.

Nikhil Rungta: Yes. Hi, sir. Thank you for the opportunity. A couple of questions from my side. First is on the EBITDA margin side in Europe, we have reported 19.2 and you have highlighted that on operating basis we are at 17.6 basically, we have continued the 1Q thing. So in 3Q as well, do you think, we'll be in a position to maintain this 17.5%, 18% number or how we should we should look at the same?

Vikas Sinha: On an operational basis, yes. There might be some variations due to the stock because that's a holiday. Q2 has almost three weeks of holiday. So the stocks have been built-up in this quarter. So to that extent, there will be some variation. But on an operating basis, yes, the margins will remain the same.

Nikhil Rungta: And just to continue on Europe's side, if you can just throw some light on the Metalcastello division. You already highlighted one liner on that, but if you can just elaborate on that.

Vikas Sinha: So you're looking for, Metalcastello is a very high performing plant, but you're looking at the volume trajectory, is that what you have in mind?

Nikhil Rungta: Yes.

Ander Arenaza: What we saw in the last months in Metalcastello is that we are producing in Metalcastello a lot of gears and components for the highway -- off-highway vehicles, especially for our main customer, Caterpillar, in the USA. What we see in the American market is that due to the interest rate increase and let's say, the strategies of the Reserve Bank of US to control the inflation, there is a certain decline of the economy in the last months.

So we saw certain reduction in the orders. We think that this is a temporary effect, but in this last quarter and probably in the next quarter or perhaps two quarters, we will see this market to decline a little bit. Then we still think that in the medium term we will see the recovery again and we will come back to normal figures in six months approximately.

Nikhil Rungta: Okay. Sir, last question from my side, if you can just elaborate a bit on our discontinued operation. I mean, even the operations are discontinued, the numbers being thrown by that operations are quite significant. Is it just because of the insurance claim during the quarter or is it something else?

Ander Arenaza: No, the performance at CFG, why is it so good in the first half?

Oroitz Lafuente: It's mainly due to the seasonal item of the insurance that we have received during Q2. That has been the driver for this performance.

Vikas Sinha: The insurance is the main driver, Nikhil.

Nikhil Rungta: Okay. Perfect, sir.

Vikas Sinha: Mostly one time, mostly one time. You know, let's not get very excited about the performance.

Nikhil Rungta: Sure, sir. Perfect, sir. That's all from my side. Thank you so much.

Moderator: Thank you. Our next question is from the line of Prashant Kutty from Sundaram Mutual Fund. Please go ahead.

Prashant Kutty: Yes. Thank you for the opportunity. The first question is on the revenue side of it, especially on the domestic side of the business. While you've actually highlighted over a longer period of time that you would want to kind of grow much ahead of the industry growth rate, I think, you even tabled a number of about 8% to 10 percentage higher of the industry growth rate. We seem to have seen a slight bit of deviation in this particular quarter.

Just want to highlight anything specific to highlight? And more so because in the passenger vehicles, we thought that passenger vehicles, especially the higher end, where our processes and products are used more, we actually haven't seen ample amount of growth coming over there. So just wanted to ask, is there anything to highlight over here?

Vikas Sinha: No, as far as the India growth is concerned, in Q2, of course, as I said, there were differential performance across segments. And there was differential performance customers also. So that has had an impact a little bit of that. But there is also impact on certain product mix changes. For example, there is more of the new Scorpio now in the product portfolio, which has had an impact. But to your original point, on the India revenue side, yes, we will, we are focused on going higher than the market.

And we have said, quarter-to-quarter, there might be deviations, but in the medium term, that is what we are planning to do. In fact, we have highlighted that our customer base has increased quite a bit, quite significantly in the last three years, four years. A lot of those customers are in the ramp-up mode. We are investing heavily in India. Even in this half year, you see the growth

capex, which is almost 90% in India, it's substantial. And most of this capex is backed up by commitments from our customers.

So, from the point of view of what we are trying to do on the revenue side in India, nothing has changed. But you know, these hiccups here and there, one quarter to another will remain, but that focus of growing 5% to 10% higher than the market, weighted average market growth in India is there. I think, it is backed up by the capex and the order commitments that we have.

Prashant Kutty:

Sure, but generally, we are talking about, again, from the growth perspective, especially on the passenger vehicle side of it, if you look at it, the growth is obviously, like you said, a little divergent. So the larger, the UVs actually have done much better. And I presume that we would have probably got a higher share on account of that. So that's the reason for asking is that, is there any deviation from that perspective? Or is it just a timing effect and probably it will probably normalize as quarters go by?

Vikas Sinha:

No, I don't think there is, because the growth is on the higher end vehicles or anything like that. You know, yes, customers have grown differentially within the customers, different platforms have grown, so you will have variations in product mix because of that. I don't think there is anything to worry about. Let me put it this way.

Prashant Kutty:

Understood. Sure. And on the international operations, I think to what the earlier participant was asking, at an overall level, you still seem to be growing better in general. If I look at it, I think, I just want to ask, and this is also on the back of a relatively higher base of the last couple of years. So I just want to know, if this growth is expected to sustain, are we expecting acceleration? You did highlight about that there is a bit of slowdown in the Metalcastello operations. But in general, at an overall level, are we in general, we believe that probably this number of -- a high single digit number or a mid-single digit number seems to be a reasonable target?

Ander Arenaza:

Okay, yes, we mentioned about the Metalcastello evolution, mainly because of the US market slowdown. So we will expect that this trend will continue at least a couple of quarters. Then we also expect to have a rebound later. So let's say that we are optimistic because in Metalcastello, we have also some new customers for electric vehicles and we will start the production in the next quarter. So in that sense, we will see the recovery.

Then regarding the rest of the business, you know that the European market is kind of flat. I mean, there is no growth expectations in the next year, according to the forecast from IHS. So what we expected to continue our trend and to continue, let's say, in a good shape. Till now, what we see is that our order book and the orders are well fulfilled, and we don't see any reason to reduce the volumes in the next quarters. So we expect to be at the same level of the market or even a little bit above the market in the next quarters. So we are also optimistic on that.

Prashant Kutty:

Sure. And lastly, one point, last point is what is the proportion of the overall level of exposure to EV at this point of time, at an overall company level?

Ander Arenaza:

Okay, the exposure is low because you know that the percentage in, let's say, the percentage of the electric vehicles in India are really, really low. I would say that it is not even 1%. We are selling certain components for the EV and especially to the three-wheelers in that sense, both in

composites or magnets and gears, in these division we are selling components for the EVs. The percentage in all Indian activity could be 1% approximately. I mean, it's not relevant. And in Europe also, the percentage is low because we are now adding the new products and we expect that all these products will be produced and industrialized in the next years. So right now, the percentage, I cannot give you the exact number, but it can be something like 3%, 4%, 5%.

- Prashant Kuttu:** Sure. Thank you so much and all the very best to you.
- Ander Arenaza:** Thank you.
- Vikas Sinha:** Yes, thanks.
- Moderator:** Thank you. Our next question is from the line of Jeetendra Khatri from Tata Mutual Fund. Please go ahead.
- Jeetendra Khatri:** Yes, thank you. Sir, I wanted to know for your two quarters first half, your revenue composition by vehicle segment and also by product segment, your gears, stamping, components, etcetera?
- Vikas Sinha:** No, a vehicle segment is more or less the same as we indicated at the end of C '22 results. As far as around gears, etcetera, we will report that at the end of the year in our annual report and in our investor presentation. So, more or less, the growth is similar across, frankly, we have always been saying, whether it is margins or it is growth, it is more or less we try and have similar performance across segments. So, the segment wise is more or less the same as what we have reported at the end of C '22. Roughly, about 49% in India for four-wheelers, roughly, about 23% for two-wheelers, 20% for tractors and 8% for trucks, roughly. You know, that's the break up in India.
- Jeetendra Khatri:** Okay, and what would be the share of EV revenues in Europe and India?
- Vikas Sinha:** No, that is what Ander just said. In Europe, currently, at the current, we are not talking about the future. Currently, it would be 3% to 5% in Europe and anywhere between 1% to 3% in India.
- Jeetendra Khatri:** Okay, thank you.
- Moderator:** Thank you. Our next question is from the line of Vimal Gohil from Alchemy Capital Management. Please go ahead.
- Vimal Gohil:** Yes, thank you for the opportunity, sir. Sorry, I just want to harp more on the growth that we've seen in the India business. You mentioned that there is a mixed change, plus there are some customer level changes as well. If you could just probably give us some more detail there. Is it that some of your top customers, we have seen slower growth and some of the newer customers that you've added, which are still ramping-up are have probably grown faster which led to slower growth. If you can give us some more details there. That will be helpful.
- Vikas Sinha:** It is not as complicated as that. Very simple thing M&M has done very well but within M&M, we have the newer models of M&M doing better. On the newer models of M&M, the older models of M&M also had stampings, the external parts outsourced as far as stampings is concerned. On the newer models, you have less of that. So that, that is one aspect.

The second aspect is, of course, within the two-wheeler market, Bajaj has underperformed a little bit and we expect Bajaj to recover August onwards as their exports get back on track. Bajaj exports almost 50%. So these are one or two things that are happening. Of course, our newer customers are doing well. So it is basically, as I said, within the market, some customers doing better or worse, and within a customer, some platforms doing better or worse.

Vimal Gohil: And you can confirm that you haven't lost any share in any of the platforms?

Vikas Sinha: Normally, don't lose shares Q1 to Q2. That normally does not happen. Any loss of share will be reflected over a period of time. It's really not between Q1 and Q2 you will see that kind of change.

Ander Arenaza: We have not lost any market share in this period.

Vimal Gohil: And sir, the next two questions would be if you could just give us a capex for '23 and on the Galfor deal, do we expect some resolution by the end of this year? Yes, that would be my two follow-ups. Thank you.

Vikas Sinha: So capex, we have indicated in H1, our overall capex growth-plus maintenance is roughly in the range of 5.4%. So we always maintain 5% to 6% of sales would be our capex. So that is the thing that we'll continue for this year also. The full year also, you will see a very similar number anywhere between 5% to 6%.

As far as your second question, not Galfor, it is the CIE Forgings Germany deal, CFG deal that we are talking about. Yes, it is progressing well, and it should happen pretty sooner than later, let us put it this way.

Vimal Gohil: Understood, thank you so much and all the very best.

Vikas Sinha: Yes, thank you so much. Thank you.

Moderator: Thank you. Our next question is from the line of Rishi Vora from Kotak Securities. Please go ahead.

Rishi Vora: Yes, hi. Thank you for the opportunity. First on the Europe side. You highlighted that in the Europe business, you have won orders for EV from EV OEMs. Can you just highlight what would be the quantum of that? And by when should we see the ramp-up of EV revenues happening for the OEMs?

Vikas Sinha: Now what we had referred to was at Metalcastello. I think Ander has talked about in may be two results, in the Q3 result call I think. You know, we had talked about two orders on transmission parts for Metalcastello, which overall would amount to say, somewhere between EUR25 million to EUR30 million per annum but that will be at the peak. So, all of it will not come at the same time and when it will start as Ander has indicated maybe in the next few quarters. I think, but more likely, you will start seeing the impact next calendar year on the Metalcastello revenues.

Rishi Vora: And nothing on the PV forging business on the EV side?

- Vikas Sinha:** No, that is the other two things that we are talking about, steel forgings and aluminum forgings. Aluminum forgings, yes, orders have begun but in a very small way. We are talking about 3% to 5% sales that is part of it coming from aluminum forgings and also some steel forging parts in the battery system. I'll ask Ander to elaborate on it. Since you talked about PV forgings, the PV...
- Ander Arenaza:** We are getting, have already got several orders from German car makers for EVs. We are talking about differential grounds for EV applications. It's a very important business. And also, as Vikas mentioned, we are going to produce for battery plates for truck manufacturers also in Germany. So yes, these kind of products we are now getting from the market and we are industrializing and during the next calendar year, during next exercises, we will see these products to ramp-up and to increase our share of electric vehicles.
- In the previous calls last year or even during the last call, we mentioned that approximately more than one third of our new orders are now coming from EVs. So we will see this percentage of the EVs growing up slowly, slowly during the next quarters.
- Rishi Vora:** Understood. And on a Q-o-Q basis, how much would be the decline of Metalcastello business revenues?
- Vikas Sinha:** About 15%. Yes.
- Rishi Vora:** 15%. And Yes, this last one, follow-up on Europe business, you highlighted that, we would see some wage revisions in the coming quarter. So where are we on that? And when should we expect that coming through? The wage revisions in Europe.
- Swapnil Soudagar:** Wage revisions in Europe, when are they happening? Wage costs. Salary.
- Ander Arenaza:** Okay, it depends on the country, okay? In Europe the wage revision in Spain, for example, are done from 1st of January. So the wage revision has been already done. So we already applied from 1st of January. And for example, in Germany there are -- we had last year certain revision according to the IG Metall agreement and in August or September there is an additional increase already agreed. So we will see in the next couple of months, we will see this salary increase again.
- Rishi Vora:** Understood. Thank you. That's it from my end.
- Ander Arenaza:** Thank you.
- Moderator:** Thank you. Our next question is from the line of Nikhil Kale from Invesco. Please go ahead.
- Nikhil Kale:** Thank you for taking my question. I just wanted to understand, there would be some impact of RM deflation as well, right? So would it be possible to highlight the growth in India and Europe on a kind of constant RM basis on a Y-o-Y numbers?
- Vikas Sinha:** On the RM side, I think, we'll have to look at that, but at least in India, it is not having a major impact. In Europe, it will have some impact.

- Oroitz Lafuente:** There is not any relevant impact on the evolution.
- Vikas Sinha:** Yes, so I think in India, RM is now no longer that big a factor. Of course, there is some impact will happen if it moves up and down, but it's not a major thing.
- Nikhil Kale:** Got it. And I think on the slide, which talks about your cash flows, you mentioned that the excess cash is sitting in CFG, right, to intercompany loans. So just wanted to understand that arrangement, why that has been done?
- Oroitz Lafuente:** What we have been doing there is, as we are preparing the companies for the sale, we are taking out all the excess of cash that these companies have generated and it's not required for the day-to-day operation. So we are bringing that cash back to the holding company and leaving the German operation plans only with the required amount of cash to operate normally. So all the excess, we are taking it back to the holding company to buy it.
- Nikhil Kale:** Sorry, the voice was not clear. Vikas, can you just help me understand?
- Vikas Sinha:** Yes, JP, will you please explain? In terms of, like the company will be sold on a debt-free, cash-free basis. So any extra cash that we have generated so far has been transferred as a company loan to the holding company.
- Nikhil Kale:** Okay, so when that sale kind of happens, you'll be getting all that cash back?
- Vikas Sinha:** No, no, the cash, Yes, JP, explain please.
- K. Jayaprakash:** So Nikhil, the money that is cash which was there in German operations, we have left only cash that is required to run the operations. All the surplus money that has been received is paid to the holding company that is Galfo and is earning interest at their rate of about 4%-plus in the class for their doing.
- Nikhil Kale:** Got it. Thanks, that's it from my side.
- Moderator:** Thank you. Our next question is from the line of Navin Matta from Mahindra Manulife. Please go ahead.
- Navin Matta:** Yes, hi. Thanks for the opportunity. Just one question. For the discontinued operations, just to get a color of how the underlying performance has been, can you give a sense of how was the revenue and EBITDA for the first half or the quarter, which has just gone by?
- Vikas Sinha:** CFG first half performance.
- Ander Arenaza:** Overall, the performance of the German operation has been quite good. We had above expectation sales mainly because of the strong performance of the truck market in Europe in the first half of the year. So from the sales point of view, we performed really well.
- And regarding the operations point of view, also the margins, the recurrent margins are really, really nice and even above our expectations. Of course, we have this exceptional item because we recovered the money from the insurance, I mean from the floods that happened in Germany

two years ago. But overall, let's say in the reference, we can say that the performance and the company is really balanced and performing well.

Navin Matta: Any quantification, if you can share some light, that will help? What would be the top line and the EBITDA?

Ander Arenaza: Yes, we can be between 9% to 10% EBITDA margins in a recurrent in this moment and also the important thing of let's say one of the main reasons is that we have a long-term contract agreed with our customers, with our main customers, with Daimler. So we see certain stability also for this activity in the near years, next years.

Vikas Sinha: Given that we are in a process, I think, Navin, I think, the EBITDA margin is roughly higher than what we used to do about 4%, 5%, it is definitely in the range of 8% to 10% I think, as of now, operational EBITDA over and above that you have had these insurance payment and other one-time issues, so numbers are definitely looking good, sales are higher than what we normally used to be. The run rate of this company used to be EUR220 million. So on a yearly basis, it is higher than that, that run rate basis. So as since you know, this we are still talking about this with various parties, let's, stick to this kind of explanation.

Navin Matta: Sure sir, perfect. Thank you. That's all from my side.

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

Jinesh Gandhi: Hi, a couple of questions from my side. One is for the India operations, we do still expect about 5% to 10% organic growth to be higher than the underlying industry growth, right?

Vikas Sinha: Yes, correct.

Jinesh Gandhi: And this is after building in for the EV orders which we have got, that will be over and above that for the India operations.

Vikas Sinha: You know, right now, of course, EV orders are not significant as you see, EV orders, whenever they become relevant, they become relevant, but this in general is what we are talking about, is what we are doing. In fact, if you look at the weighted average growth in this quarter, I think, the weighted average growth in this quarter was 0.4%, market growth. We grew roughly about 5%.

The sequentially, the weighted average sequential growth Q-on-Q was about negative minus 1 point something, 1.2 or something. So to that extent, yes, we have maintained that figure. Yes, we are a little bit on the lower side, probably around 5% and not higher than that. But yes, that gap is there. That 5% gap is there between the market growth and our performance. In general, yes, we would want this to be higher.

Jinesh Gandhi: Okay, and then we said 0.4% weighted average growth is for your customers, and factoring for volumes of your customers and not for the..

Vikas Sinha: No, no, growth is for our segments. That is what we can track publicly, like, and those are the numbers that are best available. Within that, of course, different companies grow differently. So the data that we have presented on the, you know, like, if you look at the Q2 India growth, that page number is on page 7.

On page 7, if you look on the right hand side, it gives you the market data. There you apply the weights, a colleague earlier had asked a question of what the weights are. So less than six ton is 49%, two-wheelers are 23%, tractors are 20%, and trucks are 8%. So you apply those weights to those growth numbers, you will get that figure.

Now, there was another colleague who had asked, go one step lower and see what is happening on the customer side. That is not what we are saying. Of course, on the customer side, there are different things happening. You are seeing a few customers doing better, few are doing less, and within, say, for example, M&M, which is doing very well, some newer products are doing better than the older products.

We have more, given that there's more stampings business on the older product, obviously any transition from older M&M models to newer models will have a little bit effect on the volumes. So that was the gist of the discussion we have had so far. But when you talk about weighted average market segment, it is the market segment level growth that we are talking about.

Jinesh Gandhi: Got it, got it. And secondly, coming to the European operations. So considering on a Y-o-Y basis, there would be a substantial benefit of the INR depreciation against euro. Any sense on how has been the euro terms revenue growth for this quarter on Y-o-Y basis, constant currency?

Oroitz Lafuente: More or less in a flat situation. The euro has had an appreciation of 6%, 7% more or less so flat evolution for us.

Vikas Sinha: It's flat more or less for us.

Jinesh Gandhi: Flat more or less. And okay, so this is as against industry, we should have seen some growth, which is what we have been indicating that we will be focused on margins in Europe as against growth in India.

Vikas Sinha: No and take into account about a 15% drop at Metalcastello. So that is a big factor in the Europe thing. You know, remember in the previous calls, Ander has talked about how the Metalcastello market is cyclical and therefore, we have been preparing with these two EV orders, the transmission parts, which are actually from a different segment. Because the current segment of Metalcastello is related to the off-road market, with Caterpillar being the biggest customer. And then, and this market is very cyclical.

If you look at the 2020 figures, we were about 38 million in Metalcastello. Those numbers are publicly available. And last year, we had reached about 80 million, so that is the kind of cyclicity you are looking at. To offset some of the cyclicity at Metalcastello, we had talked about that, another colleague had asked, what is the size about EUR25 million to EUR30 million orders of EV parts, which is, a completely new part for Metalcastello that we have got.

And we are hoping that this will offset any of the decline in that cyclical decline that Metalcastello will have. But of course, there will, the timing will always be a little different. It has come a little earlier than what we had expected because the EV orders will start ramping-up only say, Q4 onwards and you will see more impact on our P&L in the next calendar year. So that you have to take into account as far as Europe is concerned.

Jinesh Gandhi: Got it. And for the European business, the passenger vehicle business, you talked about a few orders on the EV side. So any sense on the size of the annual run rate of revenues of those orders?

Vikas Sinha: Right now, Ander did mention about 3% to 5% of European sales. You know, they are actually coming from all of those car forging orders only, because the Metalcastello orders have yet to start.

Jinesh Gandhi: Okay. So that's already commercialized and supplies have started.

Vikas Sinha: In a small way, we have talked about aluminum forging, those two new orders that Ander talked about. It is on a small basis, but it is ramping-up.

Jinesh Gandhi: Got it. And lastly, any further update on aluminum forging? How are we going ahead with that segment? We had converted one line on aluminum forging. Any further progress on that?

Ander Arenaza: Yes, we already informed that we already got a couple of projects on aluminum forging and we are working, we continue working with several customers and we are trying to develop this business in our Spanish forging plants. So everything, there is no news to add regarding our previous comments. So the orders are already there and some of them are we expect to come soon. So the development of this technology or this product is going on as expected.

Jinesh Gandhi: Okay, so we don't need to further invest in terms of capacity at least in the current phase?

Ander Arenaza: No, what we are doing is we are updating our current facilities to produce this kind of products. And of course we will add additional machinery, specific machinery for this aluminum products, mainly heat treatment ovens and certain finishing activities. But overall from the forging point of view, we will try to refurbish our existing capacities.

Jinesh Gandhi: Got it. Great. Thanks and all the best.

Moderator: Thank you. Our next question is from the line of Nishit Jalan from Axis Capital. Please go ahead.

Nishit Jalan: Hi. Thank you for the opportunity and congrats for good set of numbers. I have few clarifications first to start with. This loans to related party is outside of the listed entity CIE India it has been given to the CIE parent right the CISA is that correct understanding?

Vikas Sinha: JP?

K. Jayaprakash: Yes. It is given to the CIE parent entity.

Nishit Jalan: So, just wanted to clarify, any reasons for that or why we are keeping cash there, that entity needs cash, can we not have, could we not have parked that cash in the listed entity in any of the subsidiaries or transferred to India, any tax implications or anything on that?

K. Jayaprakash: Transferring to India would mean tax losses, and if you were to do it on a loan basis, we would have exchange challenges. So we are earning a very good return in a very safe investment. So that's the idea. We've evaluated and we feel this interest rate that we can earn and keeping the money safe this would be in I mean, clearly, it scores over other options.

Nishit Jalan: Got it. And see hypothetically, if we do any acquisition in India, which we have stated in the past that we are looking out would we be able to use that cash that we have in European entity to do the acquisition or that it will not be able to do that or possible to do that?

K. Jayaprakash: As I said, moving it as dividend is clearly, we are evaluating those options, Nishit. I have no immediate answer on that. We are really looking at various options. As of now, there is no clear answer.

Nishit Jalan: Got it. Okay. Second question is on the Europe business. Metalcastello is well understood that there is some cyclical slowdown and hopefully new orders will compensate for that next year. But if I look at the overall revenues, the Europe PV industry has grown by almost 14%, 15% and I would assume that there is some underperformance in the PV forging business as well. Is this some lead lag impact or your customers are not doing well or something of that sort? Can you give some more clarity on that?

Ander Arenaza: Okay, there are several reasons for that. Certain impacts that are affecting to this, let's say, lower performance in our, let's say, forging activity in Europe. But mainly, you can consider that, yes, the product mix and the customer mix could have certain effect on that. Also, if you look at our Q1 results and sales, you saw that we over-performed and now we are, let's say, we are a little bit below the market. So probably, there will a certain stock transition from one side to another. Okay, so we will probably sell more in the first quarter and now we are selling this. So I don't think this is just an operational tactical thing from the customers, not any impact.

And finally, also we have a certain impact on the -- you know, that our scrap surcharge is updated every quarterly, and there has been a certain reduction in the scrap surcharge compared to the Q2 last year. Okay, so it is approximately EUR100 per ton less, EUR120 per ton less this year. So this is an additional impact that could happen. So, all in all, all together, its generating certain reduction effect, but I don't think it is relevant, and we expect that during the next quarter, we will come back to the normal evolution according to the market.

Nishit Jalan: Got it. Now, coming to the India business, right? If I look at two questions on that part, one on the new order wins, anything you can highlight on the new meaningful order wins without naming the customer also if possible, which should start, which would ramp-up in the next couple of two quarters, three quarters, which will help us grow ahead of the industry. That is one.

And number two is, if I look at an India business, your standalone margin, EBITDA margin has improved quite significantly, but looks like the subsidiary performance have been tied lower. So

I would assume it is because of Aurangabad Electricals. Anything to highlight here or anything if you can give more clarity? That's it from my side.

Vikas Sinha:

No. First, I'll answer the second question on Aurangabad Electricals. I'll ask boss to talk about it a little bit. But as far as whether we have new orders or not, as I said, we have put in a capex growth, capex in India this year would be roughly in the range of INR140 crores in the first half itself. And it is happening across the board as we have been pointing out, all backed by order commitments from our key customers, from our customers.

There are many customers that we have highlighted that we have added, we have talked about Stellantis, for example, we have talked about Bosch, we have improved our business at Hyundai Kia, we are talking about Royal Enfield. So there are a lot of customers that we are speaking to in India. And I think, as I said, from our perspective, we are very confident of ramp-up in India. So not just for the next two to three quarters. I think, we are confident for the next couple of years easily as far as the ramp-up in India is concerned. So that is your first question.

Second question, obviously you have highlighted it rightly. AEL is a little lesser than what we would expect it to be and we have put into place a program to improve the operations there. And we do expect to see good results in the, say, in the next half year or so. So that is the overall perspective, but I'll request Ander to talk a bit about AEL.

Ander Arenaza:

What you said, Vikas, is correct. We expect to continue the improvement trend that we started a couple of years ago in AEL, so the margins of this company will continue growing as the efficiency and the operations are improving. Also we have been negatively affected due to the fact that AEL is a dependent company and during the last quarter, we have been in a very weak turnover situation. But this trend seems to change in the next quarters as we all expect that our customers export again soon as Vikas explained. So we are quite optimistic on that.

On top of that, we are getting new programs and we have been appointed and we are launching new programs for EVs, for Tata, for example, and these programs are starting right now. So in the midterm, we will see recovery, growth, both in turnover and also in markets.

Then coming back to other business where we made a huge investment in the last year, our new plant in Hosur. This plant has been already launched and we started the production and the programs that we launched there are ramping-up and we will see a big jump in the next quarters in this factory. So we are also optimistic on the evolution, the big growth in CIE Hosur with the margin recovery and we will -- I think, that it will be a success story in the next quarters and you will see that in our next result, our next quarter results.

So overall, I think that the -- all the activities that we have done, we have deployed in terms of capex and investment in the last year will show results in the next quarter as we are now showing in this year. And my expectation is that, okay, we will see the market, we are affected by the market variations or market volatility, but in the midterm, we will see the consistent growth and the order book is relevant. And every month we are receiving new orders from the customers so we expect that the growth history will continue in CIE India.

- Nishit Jalan:** Great to hear that. Just one follow-up if I may. Can you remind us what was the kind of capex that you have incurred in the new line in CIE Hosur and what could be the incremental revenue potential from there?
- Ander Arenaza:** Okay, the capex we had there was something like INR1.7 billion. That is the capex in building, machinery, everything that we already spent. And the sales that the turnover in this moment, we are at about approximately INR1 billion, at a rate of INR1 billion sales. And at least we should double that in a very short term. Okay, that is the, is probably after doubling it, probably we will go further. But I would say that doubling the sales in Hosur should be the next step.
- Nishit Jalan:** Got it. Thank you for all the clarification and all the best.
- Vikas Sinha:** Yes, thanks Nishit.
- Moderator:** Thank you. Our next question is from the line of Aman Agrawal from Carnelian Capital. Please go ahead.
- Aman Agrawal:** Sir, thank you for the opportunity. My first question was on the Euro revenues. If I see on a Q-on-Q basis, our revenues have declined by around 11%. Even if I take that 15% decline for the Metalcastello business, that translates to around 3% to 4% overall decline in revenues, given it is 20%, 25% of our Europe business. So like, still we have like 7% to 8% kind of decline versus around 2% decline for the industry volume. So just wanted to understand why this underperformance was for the industry?
- Vikas Sinha:** Ander explained, there was this slab such as that he was talking about. There is a bit of that effect also there. But all these things will straighten out going forward. The Metalcastello decline is there definitely. So other than that it should be okay in line with the market going forward.
- Aman Agrawal:** Understood, sir. Second thing sir, on the Germany business sale, any timeline when we expect to finish it, complete this?
- Vikas Sinha:** I said that in my opening remark, I said, sooner than later. So beyond that, you know how all these M&A transactions are that saying about the cup and the lip and I don't want to jinx anything. So let's leave it at that. We are saying sooner than later.
- Aman Agrawal:** Understood, sir. Thank you for the opportunity. Thanks for that.
- Vikas Sinha:** Thanks, Aman.
- Moderator:** Thank you. Our next question is on the line of Pratik Kothari from Unique Portfolio Managers. Please go ahead.
- Pratik Kothari:** Hi, good afternoon and thank you. Vikas, my first question on India, I mean, in the past we have spoken about our productivity being lower or substantially lower than our counterpart operations in Europe, Spain, Germany, etcetera. So just if you can highlight what kind of measures are we taking to improve this, where are we on this journey of improvement?
- Vikas Sinha:** This is Ander's favourite topic, so I will leave it to him.

Ander Arenaza: Okay. This is something that we are measuring month-by-month in all the verticals, okay, because yes, what we see is that India is a very competitive country, but a lot of this competitiveness is lost because of the lack of efficiency in the production. So we are continuously working on this, and all the verticals are performing, I would say, month-on-month to improve our efficiency. The kind of activities that we are doing are we are transferring technology in terms of let's say layout, how we produce the components with the new layouts that make the production more efficient.

We add certain automations. We also change certain cutting conditions or production conditions so we can improve the cycle times. Also, we reduce the labour and sometimes there are unnecessary operations that we avoid. So those are the kind of things that we do, and we transfer to the different plants in India so we are able to improve the efficiency. We make sure the added-value per employee in each of the vertical every month so we monitor this evolution.

This is something that we can see also in our EBITDA margins, where we were five years ago, six years ago, we were below 10% EBITDA. Now we are close to 17%. So this is a fact. Also we are growing and our customers are relying on us. That means that our reliability from the delivery and quality point of view has also improved. So because it is not only working on efficiency but also working in the reliability. So that's something that we are doing. In fact that is my main task in the organization to be sure that all this process is moving.

We have Indian engineers in Spain being trained. We have had Indian engineers in Mexico being trained. Then a lot of people coming from Europe to India to implement and to let's say, transfer the technology and to implement the improvements. So the people is trained and they are able to copy and paste all these improvements in the rest of the machines. So these are the kinds of things that we are doing every day.

Pratik Kothari: And I'm sure this will be a continuous journey and there's no end point, but given when you started this exercise, say four years, five years, six years back, would it be fair to say that a large portion of it we have already captured?

Ander Arenaza: No, I would say that we have done a good job but we still have a lot of things to do okay. I would say that we can be in the middle of the road. I think, we still have more than 50% of improvement ahead of us. So we will continue doing this. And this is, as you mentioned, this is a continuous improvement, a continuous journey. So we will continue improving. In fact, because we are also improving in Europe, we have low chance of improving in Europe. So, once we make the improvement in India, but we do also the improvement in Europe, the gap remains. So, we need to continue. This is a never-ending story. Yes.

Pratik Kothari: Correct. Very true. Sure. And last, if you can share the export numbers out of India and just what is the trend there?

Vikas Sinha: Export number roughly remains in the range of 13% to 15%. You know, I think, of course, this, it is on a half yearly basis. I think, exports have grown a little faster than our other domestic revenue, but it would still be in the range of 13% to 15%. And overall, I think, it will increase going forward.

- Pratik Kothari:** Okay, sure. Thank you and all the best.
- Vikas Sinha:** Yes, thank you so much.
- Moderator:** Thank you. Our next question is from the line of Basudeb Banerjee from ICICI Securities. Please go ahead.
- Basudeb Banerjee:** Yes, thanks. Most of the questions have been already answered. Just wanted to understand. So like, PAT of almost INR220 crores a quarter, so annualized somewhere around INR850 crores, INR900 crores-plus, INR300 crores-plus of depreciation. So INR1,200 crores kind of number. So against that were 5% to 6% capex to revenue. So still you are getting a decent cash flow. So what's the timeline in terms of inorganic growth, either in the plastic parts business or say a sunroof or EV parts, at least in India, with growth being in single digit on the other side?
- Vikas Sinha:** Now on the roadmap on M&A, like of course, we keep trying for it, but we really can't give you a date, nor will we put pressure on ourselves by giving a date so that we end up doing whatever is available. So yes, it's on our mind, we are serious about it, but as I said, we'll do it when we have a good target that we come across.
- Basudeb Banerjee:** So like recently, there was an article, one another domestic component maker venturing into the sunroof space for passenger cars, which has been another area where CIE has been working in global market. And so what any outlook from that aspect where sunroof penetration is also increasing pretty well nowadays in India?
- Vikas Sinha:** No, that's a good point that you make. We have not, as you know, CIE is very strong in the roof systems space. On a worldwide basis, it is one of the major players. So we have yet not, or you know, not we, I think CIE has yet not decided on what the sunroof strategy in India is going to be. So at this stage, I don't think, we can answer that question, but yes, it's a question well taken, and we will try and get back with an answer in the coming months.
- Basudeb Banerjee:** Sure, okay, thanks.
- Moderator:** Thank you. Our next question is from the line of Bharat Sheth from Quest Investment Advisors Private Limited. Please go ahead.
- Bharat Sheth:** Hi, good afternoon and thanks for the opportunity. Ander, my question is when we are working on to improve productivity in India to global level, so in all I mean, holistically, how do we see our EBITDA margin journey from here to next three years, if you can give some color on that, it will be really helpful?
- Ander Arenaza:** Okay. It is quite a difficult question, but I will try to answer saying that one of our main targets in CIE India is to match the margins that our parent company CIE has worldwide. So, let's say, global margins that our CIE parent company has is between 18% to 19%. So that can be our target for the future.
- Bharat Sheth:** Around 18%?
- Vikas Sinha:** Well, he said, 18% to 19%. So I will talk 18%, he will talk 19%.

- Ander Arenaza:** But it will be, the strategy is to match, our idea is to match the margins that CIE has, okay, so that is the proper answer.
- Bharat Sheth:** And overall growth also would be in high double digit or top line growth or say low double digit if you can give also will be required to achieve that kind of a margin trajectory?
- Ander Arenaza:** Yes. We are expecting to grow above the market, okay. That's the purpose we have to have the 5% above the market should be the target. But that will depend on also our new order allocation and also our performance and our competitiveness in the market.
- Bharat Sheth:** And coming to Europe business last, the kind of slowdown that we have seen in Metalcastello, so do we expect that full year, I mean, on the continued business, there will be a, we were expecting some mid-single digit kind of a growth, so it will be a more or less flattish kind of a thing in Europe.
- Ander Arenaza:** Okay, it is difficult to say, because it's true that the Metalcastello business will continue depressed at least one or two quarters, that is our expectation. And regarding the rest of the business, now we have the Q3 coming where this is the seasonal it is affecting because of the summer holidays so we will see week quarter and then we expect the market to recover. So what we think is that we will see, we still have a growth in Europe. Till now we are in 17% growth compared to the last year. And I think that we will end with certain growth, the complete calendar year.
- Bharat Sheth:** Okay. Thank you and all the best.
- Ander Arenaza:** Thank you very much.
- Vikas Sinha:** Thank you.
- Moderator:** Thank you. That was the last question of our question-and-answer-session. I would now like to hand the conference over to the management for closing comments.
- Ander Arenaza:** So as always, I would like to say, thank you to all the participants for the well-directed questions and very clever questions that you made. And also, I would like to say thank you to all CIE India team for their fantastic job. And I hope that I will be able to continue growing and improving the business in the next quarters. Thank you very much, everybody.
- Moderator:** Thank you. On behalf of ICICI Securities, that concludes this conference. Thank you for joining us. And you may now disconnect your lines.

Note: This statement has been edited to ensure quality