

2nd March, 2020

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: MAHINDCIE
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Subject: Transcript of Mahindra CIE Automotive Ltd Q4CY19 and Full Year CY19 Results Conference Call

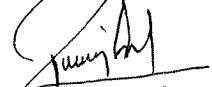
Dear Sir/Madam,

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 19th February, 2020 in respect of Mahindra CIE Automotive Ltd Q4CY19 and Full Year CY19 Results Conference Call on 27th February, 2020, please find enclosed herewith transcript of the same.

The same is being uploaded on the website of the Company <http://www.mahindracie.com>.

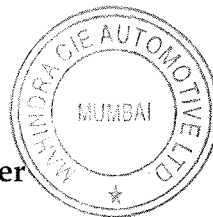
We request you to take the same on record.

Thanking you,
For Mahindra CIE Automotive Limited



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

Encl.: as above





“Mahindra CIE Q4 CY2019 and Full Year FY2019
Results Conference Call”

February 27, 2020



MANAGEMENT: **MR. ANDER ARENAZA ALVAREZ – CHIEF EXECUTIVE OFFICER, MAHINDRA CIE AUTOMOTIVE LIMITED**
MR. K. JAYAPRAKASH – CHIEF FINANCIAL OFFICER, MAHINDRA CIE AUTOMOTIVE LIMITED
MR. VIKAS SINHA – SENIOR VICE PRESIDENT, STRATEGY, MAHINDRA CIE AUTOMOTIVE LIMITED
MR. OROITZ LAFUENTE – GLOBAL BUSINESS CONTROLLER, MAHINDRA CIE AUTOMOTIVE LIMITED

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

Moderator: Ladies and gentlemen, good day. And welcome to the Mahindra CIE Q4 CY2019 and Full Year FY2019 Results Conference Call, hosted by ICICI Securities Limited. As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '**' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Nishant Vass from ICICI Securities. Thank you and over to you, sir.

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

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

Vikas Sinha: Hi, good afternoon. This is Vikas. Good afternoon to all of you, and good evening to those who are joining from Hong Kong and Singapore. Hope all of us are well. I welcome all of you on this call, as also Ander, CEO. I will present MCIE results for quarter four of calendar year 2019 and full year calendar 2019, they are referred to as Q4 C'19 and full year C'19.

Before starting with the results, I would like to state that the market scenario in India as well as Europe has not improved since our last quarterly report, and in some cases may have worsened. In India, this quarter seems to have continued the trend of slowing production in all segments. In Europe, the situation is equally challenging. But more so in the truck segment in Germany, where the demand scenario is one of the worst in recent memory. That said, MCIE has always been striving to maintain our margins and improve on our efficiencies, and we will zealously continue to do so.

We start with Page 5 of our Investor Presentation, where we have mentioned some key highlights for the year. This includes implementing a revised senior management structure and the fact that we have completed the MCIE and Bill Forge merger. This means that from now on Bill Forge will be reported as part of MCIE's standalone business.

We have also recounted briefly on Page 6, the acquisition of Aurangabad Electricals.

Page 8 shows the new legal structure as on December 31st, 2019, which is post the changes that were made during the year.

Pages 9 and 10 depict the revenue splits by technology as well as geography. And a brief overview of the end-use segments catered to as well as some of the key customers that we have in different geographies.

India results, we start on Page 12. Q4 C'19 shows growth in revenue due to AEL, which means the revenue of Rs. 8,269 million. Organically, though without AEL, there has been a drop in

sales. In absolute terms, the EBITDA margin from the India business was 12.6%. EBIT was 7%, though EBT has improved to 7% compared to 6.7% in Q3 C'19.

In the previous quarter, we had talked about an ongoing EBITDA margin recovery plan, and this is now taking effect, evidenced by the sequential EBT margin improvement despite a market drop. We have now initiated action to aggressively target new business and CY 2019 has seen the highest addition of new customers in many of the divisions.

On Page 13, we have the Q4 C'19 results for MCIE Europe. The revenue has dropped to Rs. 8,361 million, which was largely due to the truck market in Germany crashing in the period. The EBITDA margin is at 12.8%, EBIT at 8.8% and EBT at 7.6%. Q4 margins have improved sequentially as compared to Q3 C'19, despite a drop in sales and onetime restructuring costs of about EUR 2 million in Germany. Now these have a payback period of a year. These margin improvements are due to the restructuring actions already taken.

On Page 14, we see the consolidated MCIE Q4 C'19 results, which is a combination of the results in India and Europe. As mentioned earlier, the drop in sales has been a function of the underlying market drop. Despite that, we have an EBITDA recovery plan, which is showing results. The EBITDA margin has improved to 12.7%, as compared to 12.2% in Q3 C'19. The EBIT margin is better at 7.9% compared to 7.8% in Q3 C'19. And a huge improvement of 60 basis points over Q3 C'19 EBT margin to 7.3%.

Moving on to the full year results, the full year C'19 results. The full year C'19 results are on Page 16, now this is India, and they show a revenue of Rs. 33,798 million, again, due to the inclusion of AEL. Without AEL, the drop would be around 12%, which is largely in line with the drop in production at MCIE's key customers in India. The EBITDA margin has slipped to 13.8% for the year, the EBIT margin to 9%, and EBT margin to 8.6%, or largely a function of drop in sales. The lower EBITDA margin is also due to the slightly lower EBITDA margin of AEL and the severity of the sales drop, especially in the second half of C'19.

On Page 17, we have the full year results of C'19 for MCIE Europe. There has been an 8% fall in sales vis-a-vis full year C'18, some of it is due to exchange rate impact. Real sales in Europe terms has fallen 6% due to the reduction in CV Forgings, especially in Q3 and in Q4 C'19. The EBITDA margin has fallen by 0.8%, and EBT margins have also shown a slight drop. As mentioned earlier, the main sales drop is in CV Forgings. We are working on a plan to realign the operations to the new market situation.

On Page 18, we have the C'19 consolidated results of MCIE, which are a combination of the positive first half in India, Europe and AEL integration and the tougher second quarter, especially the third and fourth quarters. In C'19, there was a 1% drop in sales, minus 9% in EBITDA, minus 15% EBIT, minus 17% EBT and a minus 36% drop in PAT compared to C'18. The drop in PAT needs an explanation. It was accentuated by two factors; the onetime negative impact due to the MAT credit loss incurred by MCIE after we changed to the 25% tax rate regime. And there has been a onetime tax write-offs in CV Forgings, Germany of Rs. 892 million.

On Page 21 and 22, you will see our balance sheet and cash flow. In a year where our performance has been moderate, our cash generation remains very strong. FCF, the free cash flow generated during the year was in Rs. 4.2 billion. Our overall net debt has increased to about Rs. 11.4 billion, but this is largely because of a reduction in net cash. If you recall, the AEL acquisition was done in cash from our balance sheet.

So if you look at the gross debt situation, the gross debt has come down from Rs. 16.1 billion to Rs. 14.7 billion, a reduction of Rs. 1.4 billion. This has translated to debt equity of 0.25x and a debt to EBITDA, net debt-to-EBITDA of 1.1%. There was a CAPEX of Rs. 415 million in C'19 on a consolidated basis, out of which Rs. 1,374 million was for growth, Rs. 1,218 million in India and Rs. 779 million in Europe. The investments have been made, both in India and Europe for the purpose of capacity increase in Bill Forge AEL and for machinery upgradation in European plants.

On Page 24, we have laid out MCIE's overall strategic priorities where we are trying to replicate CIE's strategies in India, these priorities spell out the current focus areas for our business, we are cognizant of current market realities, and we have chosen to focus on operational efficiency improvements while canvassing for new business. These actions that we have undertaken during this year are not only to realign our business to new market realities, but also to make our businesses much better prepared to take advantage of the market opportunities when demand does come back.

On Page 25, we will see MCIE's performance on the key financial parameters that our parent CIE uses to evaluate all our businesses. We have achieved an EBIT margin of 9.1%. Return on net assets has slipped to 11.1%, which is largely a function of the revenue dropped in this year. Likewise, return on equity decreased to 7.7% in C'19. Now ROE in 2019 has been impacted by about 2% mainly due to the one-time write-off of the tax setoff available against past losses in Germany that I talked about earlier. This loss can be written back once the MFE performance improves. So the 2% is not due to operational reasons.

These figures do look a bit subdued, and as such, reflect the market situation, but as mentioned earlier, we have continued our cash generation journey. The operating cash flow to EBITDA in C'19 has been more than our target at 55%. We target about 50%, or in absolute terms at Rs. 5,507 million.

On Page 26, we have charted the quarterly trends in MCIE's revenue and EBITDA percentage.

Page 28 talks about MCIE's stock performance as compared to the relevant indices, especially Nifty, auto and market cap. You know the story better there. The next few pages, talk about the market statistics and forecasts from relevant sources, followed by the results submitted to SEBI in the prescribed format.

In conclusion, let me say, on the back of CIE's proven business model and MCIE's successful efforts over the past to replicate CIE's strategies in India, MCIE will emerge a stronger company

once the demand stabilizes. As mentioned earlier, we have begun working to adapt our companies to the new scenario, which demonstrates our fast reaction managerial speed and business resilience. These actions have gone through, where our margins have not dropped as much, as the drop in the market.

We reiterate our assurance to all our stakeholders that MCIE continues to remain calm in this turbulence, and we intend to build a much more robust company, one which will be well placed to grow more in favorable market conditions.

Thank you very much for your patience, and now we can proceed to Q&A.

Moderator: Thank you very much. We will now begin the questions-and-answer session. The first question is from the line of Nikhil Kale from Axis Capital. Please go ahead.

Nikhil Kale: So, in your opening comments, you talked about aggressively targeting new business this year, and also in CY 2019 you have seen the highest addition of new business. So if you could just throw some light on this, talk about any significant new order wins? And how and when do you see them ramping up going ahead?

Vikas Sinha: Yes, Nikhil, thanks. Yes, in this year we have had very significant new orders, especially in the India business. In the India business, normally it would be roughly about almost 20% of our sales we have as new orders, so they will ramp up over the next two to three years. Some of the ones that we have talked about in the past, Hyundai, Kia, PSA, Turbo Energy. In fact, if you look at the strategic page, we have highlighted that we have got extra orders due to BS-VI, small amount, but nevertheless, we have gained something around BS-VI. We are also gaining more and more foothold in the EV business, which continues to be very small, but we have had some orders there. So we are really focusing on some of these new age areas also.

And more importantly, in India, 75% of the new order wins are non-Mahindra. And this without in any way compromising our services to Mahindra, we are all out to serve Mahindra. So we are not defocusing even one bit on mine, but nevertheless, the 75% of our new order wins this year have been non-Mahindra.

Nikhil Kale: Okay. And similarly, if you could just highlight some details around the Europe business, I mean, new order wins there?

Vikas Sinha: No, Europe is more in the hold mode as of now. And so there, it's a much more stable business. In fact, our truck forgings business, we are actually engaged with most of the customers there. So it is more generating orders with the existing customers rather than new customers in Europe. And some of them are slowing down, Daimler has slowed down quite a bit, Caterpillar is also in a similar situation. So there we are not talking about new customers and so on, but we are speaking with our existing customers as we go by. Oroitz, would you like to throw some more light on Europe? Hello, it seems they are not. Okay. Maybe when they come back, we will ask Ander and Oroitz to throw some light on this further. Yes.

- Nikhil Kale:** Okay. And my second question was on the EBITDA margin recovery plan that you talked about. So again, there could you just provide some more color on what kind of cost savings or any benefits that you have seen in this quarter? And how do you see this panning out over the next year? So any numbers, if you could just share that would be great?
- Vikas Sinha:** Like, we are looking at the operations in an all-encompassing manner. So we are not saying that this area cost reduction will happen. Every cost head is being looked at with an absolute microscopic attention. And that you are clearly seeing in what is happening on the margin side, both in India and Europe.
- Swapnil Soudagar:** Sorry to interrupt the call. This is Swapnil. But moderator, can you dial out to Mr. Ander and Oroitz, again, they seem to have been disconnected. Sorry, Vikas, please continue.
- Vikas Sinha:** Yes. So that is the case, watch our margins. That is what I would say. But JP, would you like to add something around this.
- K. Jayaprakash:** No I think, essentially, we have been working on manpower and whatever outsourcing we have done trying to in-source and save some money out in there and on material costs. So better negotiations and yields improvements.
- Vikas Sinha:** Our improvement. There is a whole host of plan to look at how much power we are using for equipment, if we can optimize that, optimize the manpower, especially the contract labor that we are using. Like as JP pointed out, if we have put out something a subcontracting, can we do it in-house so that we save costs, both logistics and utilize our existing manpower, he mentioned material. So as you would see, every cost head something or the other in different places we are looking. It's a comprehensive program.
- Over and above that, we are also looking at productivity improvement. Don't forget that this opportunity is not just about cost reduction. It is also about productivity improvement. So you are looking at how you can improve your machine layouts, introduce automation in a cost effective way so that we can produce more on the same machines and so on. So it's a comprehensive program. Therefore, I said, it is not about just one thing that I can highlight. But yes, it is lots of areas that we're looking at.
- Moderator:** Thank you. The next question is from the line of Rishi Vora from Kotak Securities. Please go ahead.
- Rishi Vora:** I just wanted to reconcile the numbers. So if you look at your PPT Slide 16, over there, you have mentioned that the revenues from MCIE India is Rs. 33,798 million in INR terms. Whereas if you look at your Slide 38, over there, the standalone revenue is around Rs. 29,000 million. So what is this difference?
- Vikas Sinha:** Difference is AEL.

- Rishi Vora:** Okay. So in Slide 16 when you were mentioning Rs. 33,798 million. In the standalone slide, there is no AEL integration done?
- Vikas Sinha:** Yes. JP, if you want to explain that in further detail.
- K. Jayaprakash:** So the India segment is the MCIE standalone, plus AEL, plus Bill Forge, Mexico, and Bill Forge's precision in India, standalone is only the earlier MCIE, Bill Forge is a holding company.
- Hitesh Goel:** Hitesh here. So basically, you are saying in standalone AEL it is not integrated, right?
- K. Jayaprakash:** Yes.
- Vikas Sinha:** Yes. So nine months AEL and small amounts Bill Forge Mexico and Bill Forge precision, which is a small company, JP, if you can introduce Bill Forge precision. We have not talked about it in the past.
- K. Jayaprakash:** The Bill Forge precision is a company in Coimbatore, which essentially supplies to Hero. Its turnover is around Rs. 300 million.
- Hitesh Goel:** Okay. And there is no intercompany, right, in the standalone operation between AEL, standalone and Bill Forge, India?
- K. Jayaprakash:** Nothing significant.
- Hitesh Goel:** So there is a no significant. Yes. Okay. So that is the main differences between standalone reported and your PPT number is AEL basically. And AEL is nine month consolidation, right, in this year?
- K. Jayaprakash:** Yes, yes.
- Hitesh Goel:** Okay. And basically, when you talked about these new orders in euro, EUR 778 million. How should we look at it? Is it a seven year order book that you are talking about, I mean, over a product life cycle, right? These orders, so how should we look at it? How much is on the new models and how much on the old models?
- K. Jayaprakash:** No, no. What are you referring to?
- Hitesh Goel:** You said EUR 778 million, some new orders, right?
- K. Jayaprakash:** That's CAPEX.
- Hitesh Goel:** Okay, that is CAPEX. Okay. Any color you can give us on the order book that you have in India and Europe?

- Vikas Sinha:** Like as I told you on Europe, I will again reiterate, as some of our existing customers are most of the OEMs, truck and car OEMs, so we are working along with them. So we are not talking about, so whatever is the order situation we are there. As far as India is concerned, I think India, like the new orders generated last year would be, I think, roughly about 20% of our India business, India revenues we have generated last year, and the peak volumes will reach over a period of three years, okay? And out of this, new orders generated in India, 75% is non-M&M, and there are small amounts of BS-VI, extra coming due to BS-VI and some very minor amount of electric vehicles, but we are making inroads there.
- Hitesh Goel:** Yes, I understand, Vikas. But what happens is that the company is becoming very complex to model. So what suppliers have started to give is some order book guidance that this is the revenue order book that we have. Although I understand it's not sacrosanct, but based on some assumptions, can you start giving us some order book number?
- Vikas Sinha:** Sure, Hitesh, your feedback is well taken. Let us discuss this internally. And we will also check if you tell us who are the other best practices there, then we can look at that and try and see if we can start providing something.
- Hitesh Goel:** Yes. I mean, you can look at Motherson Sumi, you can look at global auto comps also, they give you some guidance on their order book or the revenues guidance over a cycle of a model? I mean, so like seven years, eight years. So that people have some sense how to model this, even Endurance has started giving some sense on their numbers or not. Otherwise, it's very difficult to model the company now?
- Vikas Sinha:** Okay, fair enough. We take your suggestion. And let us discuss internally with our team, and we will certainly look into that.
- Moderator:** Thank you. The next question is from the line of Priya Ranjan from Antique Stock Broking Limited. Please go ahead.
- Priya Ranjan:** Yes. So just my question is, the first is on the Europe decline. I mean, so can you just quantify what kind of decline was there in MFE and PV and plus Metalcastello for quarter and the full year?
- Vikas Sinha:** JP, do you have anything there?
- Ander Arenaza Alvarez:** I can answer to that, Vikas, I mean, I can...
- Vikas Sinha:** Yes. Thanks, Ander. We were waiting for you to come back.
- Ander Arenaza Alvarez:** Yes, we were already, in the last four, five minutes we are here already. Okay. So, in Europe we have had, let's say, a couple of impacts. In the CIE Forgings, what we call, say, forgings, our passenger cars, mainly passenger cars forgings dropped about 6%, 7% in the last quarter. The commercial vehicles forgings, this is German forgings, our German Forgings what we call MFE, dropped much more than that, we had the drop of approximately 25% in this quarter. You need

to see or take into account that our main customer in MFE is Daimler. And Daimler in that period dropped something like 34% or 35%. So the situation is that the market is dropping, probably in this last end of the year all the manufacturers adjust their stocks to end the year properly with not big inventories. So we have had this impact. Market reduction and inventory correction in Germany.

And then we have a different situation with Metalcastello. Metalcastello's market is commercial vehicle gear, but mainly off-highway vehicle gears, especially our customers are Caterpillar, Meritor, CNH. And those markets have dropped importantly, especially in the United States where we sell more of our production. So I think we have a seasonal drop of the market and we have been affected by that.

And regarding the forecast, so no one knows clearly what is going on in the market. But what we see is, more or less, we will keep this situation, this low weak market in the next couple of quarters at least, okay? So that is what we see, we are in the bottom of the valley, and we will keep in this situation until the demand comes in the second half of the year. That's our expectation.

Priya Ranjan:

Yes. So given the health crisis of corona and all. So a lot of companies and a lot of OEMs are planning to have a shut down because of supply issues and all. So how do you see, I mean, for next two, three quarters at least, will the reduction in a couple of next quarter will be even lower than what we have in the fourth quarter numbers?

Ander Arenaza Alvarez:

Okay. You know that our main markets are India and Europe and partially also the NAFTA market. Our presence in Mahindra CIE is zero in China. So we don't expect to have any impact due to the coronavirus. I mean, we think that we are now driven by the market, and the market is down, and this is a special situation, could be some effect, some temporary and short-term effect. But I don't expect this to affect. In fact, we have not received any plant shutdown information from our customers yet, not in India and not in Europe.

I can say you that that could happen if the virus spread more and the crisis grows, then that could happen. But if it happened, in my opinion, and of course this is a personal opinion, I think that probably nobody knows. I think it will be controllably a very limited impact and will be recovered immediately. That's my feeling. I don't think that will impact for sales.

Priya Ranjan:

I am just asking about the production cut, I mean, we are almost on the second month end of this quarter, I mean the first quarter of 2020. So what is the production looking like, I mean production of the end customer is like fourth quarter of CY 2019 or is it even below than that?

Ander Arenaza Alvarez:

No, it's not below. It's a little bit higher than the previous fourth quarter. So that is what we see. We see some growth, but it is normal because the last quarter of the year, what we call Q4 when we come from calendar year. So this is Q4, usually is weakest due to this stock inventory corrections and also the Christmas holidays in Europe and in America. So, first quarter is usually stronger and we see better performance than the fourth quarter.

- Priya Ranjan:** And a couple of things on the order book which you have given, Vikas, on the presentation. So one is, I mean, 75% of the new order you said is of non-Mahindra. But how much is out of this is coming from AEL? And how much, I mean, coming from organically?
- Vikas Sinha:** No, Priya Ranjan, this is not the order book, of course. This is just an indication of the new orders that we have got, and it is just to indicate, like in the past we have had questions around the diversification effort. So it is just to indicate the diversification. It is not an indication of the order book. As you would know, we have OEMs and we have Tier-1s, it is not as simple to give out an order book, and that is what we will have to think internally, whether it is possible for us to do so or not. So let's stick to that. AEL is an integral part of MCIE. And I think what you see is the diversification effort is equally across, includes AEL and includes non-AEL. So that is how I would explain it.
- Priya Ranjan:** And in terms of EV and BS-VI orders, I mean, can you just elaborate a little bit on which are the clients from EV side? From BS-VI, I mean, I presume that all your models or all your product will also be available on BS-VI, because every product has to move to BS-VI?
- Vikas Sinha:** Yes. So that you are right. And all that we are saying is that on BS-VI, we gained something around that. As far as EVs is concerned, our main customer is Mahindra EVs, both three-wheeler and four-wheelers.
- Priya Ranjan:** Okay. And in terms of, so the new business, I mean, the only business, which we have left is plastic. So how and when do you want to add that business in India in this year or next year, I mean?
- Ander Arenaza Alvarez:** Okay. Let's say that we are active now, again, after the acquisition and integration of Aurangabad Electrical. We are ready to add new companies, new opportunities. So we cannot give you a date, but once we find a suitable company and we find, let's say, suitable price or agreement with them, we will add it. So our strategy is to add this plastics company as soon as possible.
- Vikas Sinha:** No, but Priya Ranjan, one thing we need to emphasize that right now our focus is clearly to make sure that our operations are in order. So that is our first focus area. And as Ander pointed out, as and when, if we have a good candidate and a good price, we will have a look at it.
- Ander Arenaza Alvarez:** Yes.
- Priya Ranjan:** Just lastly, only two things. One is on the Mexico. Can you just a little bit throw some light on how is the ramp-up happening? And how is the margin and profitability of Mexico plants are moving up?
- Ander Arenaza Alvarez:** Yes, we have seen important growth in Mexico this year. You know that in 2018 we travel with quality deliveries with the technological, let's say, training of the team and all these processes that are standard when you set up a new plant. Now I think that we have a fantastic team. We have had skilled people, and we are making a very close follow-up from India and from Europe. So the situation from the production point of view is now 100% under control. Quality rates have

improved dramatically, and we are growing the deliveries to the customers. Not only that, we have already gained new businesses for the plant. So we are now already planning to continue investing and increasing the number of machinery to cope with the demand that we expect. So we think that it will be a success story in 1 year, 1.5 years.

Priya Ranjan:

Okay. And lastly, so the cost reduction effort and all, how much we are expecting to retain when the market will recover? I mean, some bit you might have to expand because your team size you might have curtailed back or your contract labor might have come down, but once the volume picks up, that part of the cost will come back. But how much of the automation and other parts, which you think can we retained out of, say, out of 100 in terms of cost saving how much is retainable even if the volume recovers and how much is not retainable?

Ander Arenaza Alvarez:

Okay. You know that in India we had the reduction of the EBITDA margin due to the volume drop. Now we are recuperating these margins in Europe. You already saw that the sequential margin has improved, and we expect to continue improving as the restructuring actions are complete and finished. So once the market comes again, let's say, that all these actions that we have taken will remain. So we expect to increase our margins further than the previous good margins that we had before the crisis. So it's true that we will need to add additional people, but our strategy is to adjust the structure to the current sales. And if the sales come and we continue our growth in the future because the market revamps, then we will have the opportunity to increase our margins and increase our profitability, thanks to our efficiency. So the strategy is very simple, is to do the homework right now in the crisis model, we can do the job, and then be ready for the volumes when they come. So we expect improvement, especially in India, we think that we should improve our margins in the next, let's say, when the volume revamps, again, that we expect that it will be in the second half of the year.

Moderator:

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

Shyam Sundar Sriram:

Sir, my question, I will start with Europe, at first. We have seen a 23% euro revenue drop this quarter. This seems to be much higher than the underlying industry decline, you didn't indicate the CIE Forgings would have seen about 6% to 7% decline. And the CV part would have declined by 25%, but the overall decline of 23% seems much higher. If you can help us explain some of the reasons for this decline? That would be helpful.

Ander Arenaza Alvarez:

The decline in Indian money is more related to the decline of Daimler that is our main customer. Daimler dropped in production, the production of Daimler, medium and heavy trucks, that is our main business, declined 35% in this last quarter. So that was the main impact in our drop in Europe. So that is why we had a bigger drop than the market in that specific business.

Shyam Sundar Sriram:

Okay. And Metalcastello, how much revenue decline, sir?

Ander Arenaza Alvarez:

No, in Metalcastello, it's also important drop because as I told before, the off-highway vehicle market has dropped importantly, about 30% also in the last quarter. And it seems that is more or

less the drop. And we are facing that drop. So both Metalcastello and MFE has been affected negatively due to this market reduction, yes.

Shyam Sundar Sriram: Understood, sir. And Metalcastello, are we seeing any improvement there in the off-highway market sequentially, is there any pickup there?

Ander Arenaza Alvarez: Not sequentially yet. Not sequentially. We don't see a recovery yet. We expect to have the recovery, but not in the short term. So let's say that we are waiting, and we are ready and preparing everything to the market, we are waiting for the market revamp, but not yet. That is the reality now.

Shyam Sundar Sriram: Right, sir. In Europe, on the passenger vehicle side, there is an emission norm related penalty that kicks off from 2020. Given this, how are our OEMs reacting to that? Is there any shift between diesel and petrol? And more importantly, from CIE Forging perspective, are we gaining or losing on that front?

Ander Arenaza Alvarez: No, in our, let's say, in passenger car forgings, we are not affected because we are producing both diesel and gasoline engines. So the transfer from one to the other is not affecting because particularly we are positioned for most of the car makers and in both technologies, gasoline and diesel, okay. So not effect on that.

What we see is that due to this fines that have been implemented by the European Commission starting at 1st January, 2020, we have seen a revamp of the diesel again. Diesel engines that were in, let's say, negative trend during the last year, the last quarter in the Q4 2019 grew. And this first, second quarter, they continue very strong. So we felt that everybody thought that was, let's say, loser in this technological change in the automotive world. Now probably, it's a temporary issue, but it's very, very strong in this moment.

And the main reason is that the diesel engines emit less CO2 than the gasoline engines. So the car makers in order to avoid their fines from the European Union Commission, they are trying to produce more diesel cars than gasoline. So it's kind of tricky situation, but that is the reality. But regarding our business is not affected for that change.

Shyam Sundar Sriram: Okay. Sir, is that also a reason why, I mean, the European passenger vehicle market is weak because of this changeover between gasoline and petrol again. Is that also a reason or are there more fundamental demand drivers that you are hearing from your OEMs?

Ander Arenaza Alvarez: Okay. The European car market is a very matured market, okay? So the expected growth could be 1% or 2% annually, no more than that, because it's a mature market. However, in this particular situation, the main problem that the market deflation is that due to the uncertainty, the technological uncertainty of the diesel, gasoline penalties to enter into the center of the cities, the electric vehicle push from the government and all these things, the consumer is a little bit lost. There is uncertainty for the consumer.

So the decision of the consumers is to wait until there is a clarification in the technology, there is a clarification in the norms, in the rules and legislation. And once this is clarified, the market will come back. So I can tell you that we have a lot of people around us that there is a delay in the acquisition of the car because they don't know what to acquire. So I think this is a main reason of the decline in Europe. We see a decline of 5%, 6% right now in the market. So according to the economy evolution, we should be growing 1% or 2%. So that is the impact of the technological uncertainty.

Shyam Sundar Sriram: Okay. Understood, sir. That is very helpful. Sir, in terms of Mahindra Forgings, Europe, the CV restructuring, I mean, from the financials, we see you have taken a restructuring charge there. If you can highlight some steps taken there to improve the profitability of MFE. That would be helpful.

Ander Arenaza Alvarez: Yes. I said yesterday in the board that despite the market drop, and despite the results were not a very brilliant. My feeling is that we are very proud of the job that we have done especially in Germany and also in Metalcastello. Their main actions, you know that we reduced all the over time. Immediately, we eliminate all the contract workers and adapt our productions and reduce our inventories that all these actions have been already taken, and then we are making some voluntary retirement schemes, where we are trying to do it in a smooth way and organized way. And as agreed with the unions, we are trying to get voluntary retirement. So of course, that has a cost in Europe, and those are the main cost that we have already provisioned in the last quarter.

So we were talking about approximately €2 million. Depending on how the market performs, perhaps, we will need to continue provisioning some additional restructuring cost or not. So now we continue adjusting all the costs, reducing the maximum, not only unnecessary expenses in the company and in the production. In certain factories we are stopping the factory one day per week. So we avoid this unnecessarily stock to be produced. So those are the kind of actions that we have taken.

And we have been, and that is why we are quite proud of what we accomplished, because despite this 25%, 30% drop in the turnover, we were able to keep our very small margins, okay? So instead of being within a very negative situation, we survived. That's the reason that why we are kind of proud if we can say that, but we did the job, and we need to continue doing the job to get the minimum profitability that we are looking for.

Shyam Sundar Sriram: Right, sir. That was helpful. We have also seen a very good jump in Europe margins from 11.2% last quarter to about 12.7% this quarter. Here, I mean, the steps that you have highlighted for MFE, those are also some of the reasons? Or is there any mix also that has helped. I mean, MFE going down and while the CIE Forgings holding up, is that also a reason for this margin improvement?

Ander Arenaza Alvarez: No. Partially, yes, partially the effect of the mix fell because the drop of the MFE with lower margins have been bigger than the drop of the passenger car. But globally the margins in all the businesses remain more or less equal and we recuperate the MFE where we had a very bad third

quarter. In the third quarter, in MFE, we suffered because we had a big drop, and it was unexpected or we didn't expect so big drop. And for the fourth quarter, we recuperate because we did our homework, and we made the restructuring and now we recuperate those margins. So you have both effects. MFE recovery plus mix improvement.

Shyam Sundar Sriram: Okay. Understood, sir. That's very helpful. Sir, one last question, if I may squeeze, sir. From Bill Forge Mexico's point of view, what kind of ramp up can we see in CY 2020? Can we touch somewhere around the USD 30 million in CY 2020? Or some color on how we will ramp up there from a Bill Forge, Mexico perspective?

Ander Arenaza Alvarez: Okay. This year, in 2019, in Mexico we had a growth of something like 40%, 39% growth in the company. So you can see that the growth is important. And for the next year, we expect to have also important growth, not as big as that 40%. But our idea is to have more than double-digit growth in Mexico for 2020. So that is the expectation. And if we succeed with a couple of big projects that we are now negotiating with our new potential customers, we will probably go further and continue the growth at a very, very high rate. So we have been a strategy to go to at the end \$35 million or \$40 million plan, and we still stick to that plan, probably one or two years later than expected, but that is our strategy.

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

Jinesh Gandhi: First, a couple of clarification questions. In India, what was the organic growth or decline in the fourth quarter?

Vikas Sinha: When you say organic, Jinesh, you mean without AEL?

Jinesh Gandhi: Right.

Vikas Sinha: JP, would you take that?

Orotiz LaFuente: Sure. So in India, the organic growth in the last quarter?

Vikas Sinha: Yes, without AEL.

Orotiz LaFuente: Minus 10% more or less minus 12%.

Jinesh Gandhi: Okay. 12% decline?

Ander Arenaza Alvarez: 12% decline that is more or less the market decline, yes.

Jinesh Gandhi: Sure. And second question pertains to with respect to the PAT numbers which you used to share for the full year for India and European business. Can you share that as well?

Vikas Sinha: PAT for India, Europe?

- Jinesh Gandhi:** Right.
- K. Jayaprakash:** Okay. So PAT for India would be whatever you have seen the standalone of \$1.7 billion, plus AEL of about \$250 million. So close to about \$2 billion.
- Jinesh Gandhi:** Right. And Europe?
- K. Jayaprakash:** We have 3.5, right? So another \$1.5 billion from Europe. Okay.
- Jinesh Gandhi:** Okay. Understood. Okay. And with respect to CY '20, what kind of CAPEX are we looking at for CY '20?
- Ander Arenaza Alvarez:** Okay. From the CAPEX point of view, as we see the market is very low, we decided to stop our CAPEX expenditures in the short term, and we have limited. Of course, in certain technologies we have some niche because we expect some new products to be launched. And for example, we have new businesses. We have a new plant being built in Hosur, in 2020. But we will try to limit maximum the CAPEX, at least in the short term. Except they already awarded new businesses like Hosur plant that I mentioned. So I cannot give you now the figure of the CAPEX that will be lower than 2019 CAPEX.
- Jinesh Gandhi:** Understood. And third question was that regarding your comment for the India business in the presentation, you are talking about important commercial activity to increase share of business in the new projects. Any color which you can give on what are we referring to? And by when we should see that reflecting in our P&L?
- Vikas Sinha:** Jinesh, we talked about it, like the new orders that we have got. And that has a time span of two to three years.
- Jinesh Gandhi:** Sure, sir. You are referring to the new orders, okay.
- Vikas Sinha:** Yes. But that is more from a point of view of diversification to highlight diversification rather than just growth.
- Jinesh Gandhi:** Sure. That's a fair point. And lastly, with respect to AEL, would you be able to share their performance in CY 2019? I mean, what was their growth and margins, you indicated 12%, but what was the top-line growth there, or decline?
- Vikas Sinha:** The AEL performance, Ander?
- Ander Arenaza Alvarez:** Okay. Now, AEL performance is approximately at expected 12% EBITDA level. That is more or less flat during the year. And let's say, the decline they have had is less than the rest of the businesses in India. So, we can say that we were more or less flat, perhaps 4%, 5% decline only. You know that Bajaj Auto is the main customers of Aurangabad, we can say that they performed better than the rest of the two wheelers. So Bajaj has been a winner in this market. The last quarter we showed some decline, but that is the general view. So we can say very stable market situation

and stable EBITDA levels in AEL. And as we mentioned also, the new project pipeline is important. And we are getting new businesses internally for India, but also big businesses for export in Europe. So we think that the company will continue growing in the next future.

Jinesh Gandhi: And AEL export opportunity you are referring to is the gravity die casting opportunity?

Ander Arenaza Alvarez: Yes, it's gravity metals of high-pressure die casting, both technologies.

Jinesh Gandhi: Okay, they started getting orders there? Or that is still a work in progress?

Ander Arenaza Alvarez: No. We have already confirmed orders for a couple of customers, yes. We are quite successful this year on that and we expect to continue being successful on that. So yes, the expectation for the AEL in the aluminum sector are good. We are optimistic.

Jinesh Gandhi: Okay. And last question on AEL, considering its two-wheeler exposure, do you see them getting impacted by electrification of two wheelers? Is their product portfolio anyway getting influenced by electrification or doesn't them?

Vikas Sinha: Jinesh, to answer your question, this is the best guess that we can make essentially and I will refer to the latest update that CRISIL has come out. And I think their assessment is that electrification in two wheelers will be the first among all the automotive segments. But within two wheelers, the electrification will come more on the scooter side, rather than on motorcycles. That's their assessment. Again, these are very fluid assessments, and it can change.

And there are two reasons for that. I think the cost drop in e-scooters it is almost comparable, coming very close to what the ICE scooters are there. But the difference is still there in motorcycles. So we expect that in the next two to three years, maybe roughly 50% of the scooters will migrate to e-scooters. Motorcycles would largely remain untouched for two reasons. As I said, the cost differential is still there. And second, most of the incremental growth in motorcycles is coming from the rural areas, which have price sensitivity is a little on the higher side. So that is their assessment.

So if you look at where we are supplying, I think Bajaj being our main two-wheeler customers, so I think they will be less affected. But you are right, at the end of the day, we all have to plan both Bill Forge and AEL, they are planning that, planning and thinking about this. In fact, Bill Forge has started work in the electric space in a small way. So that is how we see it. So yes, we are cognizant of the challenge. But I think there is no need to panic around that.

Jinesh Gandhi: Sure. And did we get any orders for e-Chetak or there is nothing much for us than that?

Vikas Sinha: We will have to check that, Jinesh. We have not really check that.

Moderator: Thank you. The next question is from the line of Mahesh Bendre from Stewart & Makertich. Please go ahead.

- Mahesh Bendre:** Yes. Sir, out of Rs. 3,400 crores of goodwill on our balance sheet, what part of that represents the goodwill coming from Germany?
- Vikas Sinha:** JP, your area.
- K. Jayaprakash:** Yes. About 18% to 20%.
- Mahesh Bendre:** And given the operations in Germany, is there any scope of revaluing that goodwill going forward? Because I am asking this because our return ratios are depressed instead of too much goodwill is getting built up on the balance sheet because of the acquisitions?
- K. Jayaprakash:** Okay. So goodwill is always evaluating at the end of the year for the future cash flows. And we don't see any reason for impairing it now.
- Mahesh Bendre:** Okay. So I mean, I am just asking, just when we try to compare ourselves with CIE in terms of achieving ROE, there is a limitation beyond which we cannot improve because of this kind of goodwill. So any thought process on improving ROE, and return on equity going forward?
- K. Jayaprakash:** See we touched almost 16% last year on return on net asset with all the goodwill. And we believe we can move our return on asset with the market coming up and the margins actions that Ander talked about. So let's wait and see how that pans out.
- Mahesh Bendre:** And sir, last question. With the end of this financial calendar year, do you see any growth in domestic business as well as international business for CY 2020?
- Vikas Sinha:** CY 2020, as Ander pointed out, the first half of 2020, we think it will be flat, and we do foresee some growth in the second half of the year.
- Mahesh Bendre:** This is for both Indian and international operations?
- Vikas Sinha:** Overall. Yes.
- Moderator:** Thank you. The next question is from the line of Priya Ranjan from Antique Stock Broking Limited. Please go ahead.
- Priya Ranjan:** Okay. Just lastly for JP, I mean, the tax reversal in, I mean, tax write-down for Germany. Can you just throw some light, what is it related to? And how can we get that tax credit back in the future?
- K. Jayaprakash:** Yes. This is related to the losses of the past on which you can set-off against the future profits. So we have taken a conservative call right now, and we will, of course, write it back as we see the profits coming back.
- Priya Ranjan:** So if profit comes...

- Oroitz LaFuente:** Just for clarification we are not looking at this negatively. We can do then in the future with no limitation.
- Priya Ranjan:** So why was it needed to, I mean, net it off this quarter year, if it is available for us?
- Oroitz LaFuente:** At this year, we have seen a reduction of the sales. I mean, this market situation where the sales are lower than previous year. We have taken a conservative approach, and we have decided to write them off. In case in the future, if profit still come back again, we will then activate them with no issues.
- Moderator:** Thank you. The next question is from the line of Basudeb Banerjee from AMBIT Capital. Please go ahead.
- Basudeb Banerjee:** A few questions. One, you mentioned earlier that 75% of incremental orders are excluding Mahindra for India business. So does that include AEL and BFL, I suppose it includes?
- Vikas Sinha:** Yes. Yes, it includes all.
- Basudeb Banerjee:** So if I exclude AEL and BFL for core erstwhile standalone business. How much will be ex-Mahindra?
- Vikas Sinha:** Basudeb, the reason why we acquired those companies was to diversify. So, we look at it as a whole.
- Basudeb Banerjee:** So basically, that 75% number looks on the higher side, that's very good. So that is primarily because of diversification, but core business. And second thing is, which are the new customers, if you can highlight, which we have added in recent three months?
- Vikas Sinha:** So one, of course, over the year we have talked about Hyundai, Kia, PSA, Turbo Energy. So there are many and just to go back to the nomenclature, AEL and Bill Forge are also core businesses for us. So we reiterate, like we have integrated both these businesses, and they are functioning very well within the CIE system. And I think the cultural integration of Bill Forge is absolutely complete with AEL. Of course, the journey has started, but we are very happy with the pace of integration at AEL also.
- So to that extent, the AEL Bill Forge was one of the strategic reasons was diversification. And in fact, that is the point we are trying to make that we have achieved some of the strategic goals that we had set out with those acquisitions. But having said that, coming back to your original question, without Bill Forge and AEL, there is also significant diversification happening.
- Basudeb Banerjee:** So that will be more healthy to understand that ex of this is it, that diversification is happening, nothing better than that. And as similar to the AEL number, which you said is somewhere around 4%, 5% decline and 12% static EBITDA margin, how was the same thing for BFL this calendar year?

- Vikas Sinha:** Ander, Bill Forge performance. Question on Bill Forge, how has Bill Forge fed.
- Ander Arenaza Alvarez:** Yes, Bill Forge, also, I would say, flat performance during 2019. We had less than 5% drop in the total business. So you can see that the performance is better than the market performance. And in terms of margins, yes, the Bill Forge improved slightly in margins. So we are now at a level, let's say, at above 18% EBITDA. So let's say, that Bill Forge performance in 2019 has been good. And our expectation for 2020 is to grow, despite the current market situation, we will grow.
- Basudeb Banerjee:** That's great, sir. And last question, if I missed out in the initial part of the call, if you highlighted Metalcastello performance for the full year and your outlook on any impact of these recent news of virus on Metalcastello specifically?
- Ander Arenaza Alvarez:** Yes. Metalcastello had a fantastic first half of the year. And in fact, despite the drop in the second half. Overall, we had a growth of certainly 1% growth. So in 2019, we had a positive growth of 1% in the total calendar year. But as I mentioned, this growth is divided into different phases. First half with a very positive trend and second half with a weaker situation.
- Now in this moment, in the first quarter, first half of 2020, we are in the bottom of the valley. And we don't expect to have a revamp of the market again, till the second half of the year. So now we are receiving some positive news from the customers, but not confirmed yet. So we prefer to be in the safe side and to be conservative on that. And we think that we will continue in the same, let's say, with low sales in the next months, yes.
- Basudeb Banerjee:** So, I suppose you said in the earlier part of the call that similar to MFE, Metalcastello was also down north of 30% Y-o-Y in this quarter. And such kind of weak momentum is going to persist for the next two quarters, as you were saying. So how has been the swing in EBITDA margin because of such a sharp decline?
- Ander Arenaza Alvarez:** I cannot disclose plant by plant the EBITDA margin. So I prefer not to disclose that. But what we had we reduced the EBITDA margin approximately 2% due to this reduction. So we took our actions, and we have been impacted. But I would say, marginally in the profitability. So Metalcastello continue at a reasonable and positive EBITDA level despite the market drop.
- Basudeb Banerjee:** And any specific comments on the recent virus on Metalcastello performance specifically?
- Ander Arenaza Alvarez:** No, it's directly a market impact. I mean, our main customer dropped, importantly, in the last quarter the sales, and they are also struggling. Probably there are some adjustments in the market, but we hope that this is just a temporary issue and the market will come back and rebound. In fact, we have been visiting them a couple of times in this period. And the expectations they have are not bad. So let's wait and see. Now what we are doing now is we are totaling internally in order to pass this process, this period and try to be ready for the revamp when it comes.
- Vikas Sinha:** No. Basudeb, your question was regarding the coronavirus impact because it's in Italy, right?
- Basudeb Banerjee:** Yes.

- Vikas Sinha:** Right now, we have not seen any impact so far. We have not yet seen any indication from our OEMs either, but this is a fluid situation. And if it corrects itself in the next two to three weeks, then it should not be a major issue.
- Basudeb Banerjee:** Understood. And last question, sir, any update on the two assets of CIE acquisition, which has been discussed many times earlier. So any chance in CY 2020 or it's not going to happen in the foreseeable future?
- Vikas Sinha:** Ander, this is regarding that BCM; Brazil, China, Mexico, whether it will happen in 2020 or later?
- Ander Arenaza Alvarez:** Okay. Not sure. Let's say that this is a decision that needs to be taken in the board level, both in CIE and Mahindra CIE. And I repeat that this is really our strategy. So it's still our plan. And we will find the proper moment to do that. Now our plan was to accomplish this integration during this calendar year, 2020. But now with the special situation of the market, we are a little bit cautious on that. So, we don't have a fixed date, but it is definitely in our plans. And we will do it.
- Vikas Sinha:** And Basudeb, just to add to that, our entire focus right now is internally on the operations at the plant. So we'll see how to do even on the question around acquisitions or around this, I think, we will take it slow on most of those things. Even, we also talked about how we are cutting down on CAPEX, etc. So really, the focus this year is on operations, and then we will take it from there.
- Basudeb Banerjee:** And last, what sustainable tax rates for standalone and consolidated, we should look at?
- Vikas Sinha:** JP, tax rates?
- K. Jayaprakash:** Yes. So I think for standalone, we should be able to get 26%, 27%. And consol, since now India has come down to 25%, 26% we should be able to get down consol also at 25%, 26%.
- Moderator:** Thank you. As there are no further questions, I would now like to hand the conference over to the management for closing comments.
- Vikas Sinha:** Yes, thanks a ton for your patience, especially at this hour of the day in India and it is even later hour in Hong Kong and Singapore. So thanks for your patience. Thanks for your time, and we promise that we will continue to do our best. Thank you very much. Have a good evening, and a good day to all.
- Ander Arenaza Alvarez:** Thank you very much, everybody.
- Moderator:** Thank you. On behalf of ICICI Securities Limited, that concludes this conference. Thank you for joining us. And you may now disconnect your lines.

Note: This statement has been edited to ensure quality