Mahindra CIE

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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, 5th Floor, Plot No. C/1, G Block, Bandra Kurla Complex, Bandra (E), Mumbai - 400 051. **NSE Scrip Code: MAHINDCIE**

Subject: Transcript of Mahindra CIE Automotive Ltd Q2 CY 2018 Earnings 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 July 12, 2018 in respect of Mahindra CIE Automotive Ltd Q2 CY 2018 Earnings Conference Call, please find enclosed herewith transcript of the same.

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

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

Thanking you,

Yours faithfully,
For Mahindra CIE Automotive Limited

K. Jayaprakash
Chief Financial Officer

MAHINDRA CIE AUTOMOTIVE LTD. MUMBAI

"Mahindra CIE Automotive Limited Q2 CY '18 Earnings Conference Call"

July 19, 2018

MANAGEMENT:	**MR. ANDER ARENAZA – CEO, MAHINDRA CIE AUTOMOTIVE LIMITED**
	MR. K. JAYAPRAKASH – CFO, 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: Good Morning Ladies and Gentlemen, Welcome to Mahindra CIE Automotive Limited Q2 CY '18 Earnings 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 '*' and 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 Limited. Thank you and over to you, Sir.

Nishant Vass: Thanks, Lizann. Good Morning everyone. Thanks for joining us for this call today. From the management side, we are represented by Mr. Ander Arenaza – CEO of the company; Mr. K. Jayaprakash – the CFO; Mr. Vikas Sinha – Senior Vice President (Strategy), and Mr. Oroitz Lafuente, Global Business Controller. I would like to hand over the call to the management for their initial remarks and then we can have the Q&A. Over to you, Sir.

Vikas Sinha: Thanks, Nishant. Good Morning to all. I welcome you and I also welcome Ander, who is our CEO. I will present the MCIE results for the second quarter of CY '18. We will start with the shareholding structure which is on Page 3, which has seen a change from the previous quarter. CIE Automotive acquired an additional 5% in Mahindra CIE Automotive Limited from Mahindra & Mahindra on June 29, 2018, for an amount of approximately € 60 million. This takes CIE stake in MCIE above 56% and has been done to strengthen CIE's position in India, which they regard as an important global growth market for them. We now go to the MCIE India results on Page 4, which had an excellent performance in this quarter in both revenue and profitability terms. The EBITDA for the India business has grown to 15.7% after reaching the 15% mark for the first time in the last quarter. The EBITDA has grown by 44% in absolute terms versus 2Q CY '17, EBIT by 67%, and EBT by 49%. The sequential comparison versus previous quarter is showing consistent growth in both revenue and profitability. There is a negative exchange impact at Bill Forge of INR 92 million in this quarter, which is depressing the EBT.

In Q2 C '18, the India business has grown by 26%. All divisions in India have seen healthy growth. The main driver of our growth India has been the positive market evolution in UV, tractors, and two wheelers as well as the growth of our key customers. Based on the overall economic indicators in India and the normal forecast for the monsoon this year, we remain optimistic about our performance in the next quarters. We turn to Page 5, we have the results for MCIE India's H1 performance, which shows the impact of two positive quarters. The revenue has grown to INR 15,780 million while EBITDA is 15.4% and EBIT is 11.6. MCIE Europe results for Q2 C '18 as shown in Page 6, sales have grown by 32% vis-a-vis Q2 C '17, 15% of this growth is on account of positive exchange rate translation impact. We have improved EBITDA margins to 14% as compared to 13.2% in Q2 C '17. In absolute terms, EBITDA has grown 40% versus Q2 C '17, EBIT by 52%, and EBT by 56%. The sequential comparison versus previous quarter shows a growth in sales, EBITDA, EBIT, and EBT, in absolute terms as well as in percentage. This quarter's EBITDA is also positively affected to the extent of 1% by the steel price increase agreed to buy customers and received from them retroactively from January 1, 2018.

The EBITDA in Europe this quarter is higher by 1% than normal because of this one-time effect. We are also confident about the evolution of our results in Europe in the next quarter as both the market and our internal operations are solid. On Page 7, we have H1 results for MCIE Europe. There has been a 30% increase in sales vis-a-vis first half of C '17. The EBITDA has grown by 33%, EBIT by 44%, and EBT 51%. Now, if we go to Slide 8, we will see the consolidated Q2 C '18 results, which are a combination of the positive evolution in both India and Europe, 29% growth in sales, 41% growth in EBITDA, 60% growth in EBIT, and 56% growth in EBT when compared with the same period last year. The consolidated EBITDA margin is close to breaching the 15% mark at 14.7 and so is EBIT is at 11%. On Slide 9, we have the H1 C '18 consolidated results of MCIE, which are showing 28% growth in sales, 39% in EBITDA, and 55% in EBIT. The point to be noted that EBIT has breached the 10% mark and is now 10.5% while EBITDA is at 14.3. With that, I close my address and I would invite questions. Thank you very much.

Moderator: Thank you. Ladies and Gentlemen, we will now begin the question and answer session. The first question is from the line of Ronak Sarda from Axis Capital. Please go ahead.

Ronak Sarda: On Europe, if you can just help us understand of the growth, the Europe growth of 16%-17% in first half, how much is that driven by the Lithuania ramp up and how does the growth momentum look for this year and the next year?

Ander Arenaza: The growth in Europe is as you mentioned in Europe this quarter has been 17%, it is 32% growth taking into account the positive exchange rate effect, but in Europe the growth was 17 percentage far above the market. There are several reasons for that, I would say that it is true just Lithuania ramp up is going up, so Lithuania plant is growing. We installed a new press last year and now the ramp up is going and we expect to continue growing in our Lithuania plant, this is one of the reasons of the growth. Also, we have our Metalcastello plant, our Italian plant what we launched two years ago, a new project for Caterpillar and this is also ramping up and in this moment, Metalcastello plant is growing above 40%, so this is another impact of this huge growth. Also, let us say our MFE German business is also growing something like 5%-6% coming from the consolidation and the boom of the market especially because the industrial vehicle market is growing with export business, so those are the main factors of our huge growth in this quarter.

Ronak Sarda: Ander, what I was trying to understand was when does this ramp up come into pay, so let us say how do you look at the next year growth prospects for Europe and especially I mean considering there are lot of noise on trade wars, how do you take that into account?

Ander Arenaza: We have been talking with our customer regarding this trade war that is now happening in the world. Most of them they are absolutely relaxed on that. They say that they do not expect to have a big impact at least in the next month or year, so probably if this war continues perhaps in the mid long-term will have some impact, but right now in the short time they are sure that it will not affect. Regarding our expectations about the growth, I would say that the expectation in Lithuania and Metalcastello, we continue ramping up, so we expect to have a very nice growth in the next quarter, this trend will continue. Regarding the rest of the European business, the passenger cars and commercial vehicles, we see that our schedules coming from the customers are still high and we expect to keep this figures perhaps some like to grow also, so Lithuania and Metalcastello growing more than the market due to the ramp ups and CIE forgings and MFE growing according to the market, that could be 3%-4%, that is our expectation.

Ronak Sarda: Last question is on your margin performance, pretty strong margin performance across India and the European operations, you are close to 10% EBIT margin as well, do you think that is sustainable and any low hanging fruits to improve this further or we are still ramping up the capacity so any operating leveraging benefit?

Ander Arenaza: Yes, we are really happy with the evolution that we have had in margins in both regions, we think that we are managing the company solidly and professionally and this results are coming from that, good job coming from the teams that are working with the transfer of technology and improving efficiency in all of our plants. Having said that, I would say that we still have room for improvement in the margins, some of the divisions we still see that can get some improvement and our expectation is to continue improving. We think that the current margins are solid and we will consolidate them and that is my expectation and I will expect, and our Board expect that we will continue improving this margins as the volume and the growth of the business is helping us to do that.

Moderator: Thank you. The next question is from the line of Priya Ranjan from Antique Finance. Please go ahead.

Priya Ranjan: One question from the previous question, so on a full ramp up basis, the Lithuania will be contributing roughly around the new press line of Lithuania will be probably contributing around € 20 million, if I am not wrong, so where we are at this stage in terms of ramp up yearly or quarterly run rate?

Ander Arenaza: We have not reached yet the peak of this, you are right more or less we could be talking about that figure, we have not reached the peak. We have still some growth expected for the next quarter. I would say that we have done more than 50% of the ramp up already, so we are going to have some 30% additional growth behind us.

Priya Ranjan: On the Metalcastello front, are we on the first phase of Caterpillar order of probably around € 15 million, so are we reaching that peak or are we moving towards the second phase when we can see the order going up to probably € 25 million?

Ander Arenaza: We have already reached the peak of the first program that we were awarded and in fact we are now adding additional capacity and launching new business to continue the growth that the customer is requiring, so the market expectations are high, the customer is requiring us additional volumes and we are now adding capacity to continue growing, so we expect to go further in the growth in the next quarters, the only let us say our bottleneck now is the lead time of the investment are usually something like 9 to 12 months and we are now waiting for this additional machines to be able to cope with the demand, so right now we are working 24 hours, seven days.

Priya Ranjan: On the domestic, India business on Bill Forge side, we are still investing in the cold forging and all, so have we got new orders, I mean what is the sense on the new orders in domestic, if you can bifurcate both, non-Bill Forge and Bill Forge?

Ander Arenaza: The cold forging activity we produced several components for the two wheelers, you know that the two wheeler business is ramping up tremendously and we are adding capacity to follow our customers, so that is the growth coming from the cold forging in two wheelers, but on top of that we are also adding capacity in warm and hot forging because we have several new projects in the pipeline already awarded and we need to add additional capacity to fulfill the demand, so yes we are growing in a very strong way in Bill Forge.

Priya Ranjan: Just on the India business, have we got any new client addition?

Vikas Sinha: We had talked about Hyundai and KIA in the last call, but all our divisions have grown very well this quarter more than 20%, so that is not a problem.

Priya Ranjan: But in Hyundai and KIA probably will come from…?

Vikas Sinha: Next year.

Priya Ranjan: How is the Mexico ramp up happening?

Ander Arenaza: Mexico is ramping up as you mentioned, we are approximately at the 50% within the journey of the ramp up. As all the Greenfield, we are having some problems in the ramp up regarding we need to train the people, we need to run the new machine with the new technology and that takes some time to take control of all the parameters of the process. We expect to continue growing in the next quarter and the evolution is very positive. We have set a team to give support to the technical side today to the plant team and we are now improving the internal efficiencies, so in the next quarter we expect to have also a jump in the volume, in the profitability in this plant.

Priya Ranjan: What is the net debt position at consolidated entity?

K. Jayaprakash: We are about 825 crores.

Priya Ranjan: On the profitability front, I mean where we are, what we wanted in the MFE side, so is the evolution of profitability in MFA is also happening or is still under drawing board?

Ander Arenaza: The profitability is improving in MFE, we are in a positive figure and positive EBT and EBITDA is improving slightly quarter by quarter, so we have strong action plan to improve further in the next quarter and we expect that this will continue improving. The fact is that the real percentage, the real margin of MFE is lower than our standard, and this is what we are now trying to offset, but that is the real situation we are now.

Vikas Sinha: Priya Ranjan, MFE EBITDA has grown slowly from what we have indicated previously, but of course it is way, way below the average.

Moderator: Thank you. The next question is from the line of Dipanjan Basuthakur from Stewart & Mackertich. Please go ahead.

Dipanjan Basuthakur: I have couple of questions like, first I would like to know something about the order pipeline, I mean both in India and Europe, so how are the order being ramping up, that will be my first question? My second question will be on your commentary that we are very close to achieving this 15% EBITDA margin and quarter on quarter, we have seen that the EBITDA margin is showing a very steady growth, so does that mean that we will end the year at a percentage more than 15% and any comments or any risk that you see to this assumption? Thanks.

Ander Arenaza: Regarding the order pipeline, I would say that the order pipeline is really strong in this moment, so we will keep with the same sales trend and let us say that it is very, very strong. Just one comment out the next quarter because you know that in Europe we have this August holidays, so we will have a couple of weeks of off, our customers are closed in those two weeks more or less, but that is the only effect that we will have on they will continue really, really strong. Regarding the margins, yes, you know that we have our internal target to hit this 15%. We were very close in this quarter and that is my view and at least my personal target is, I hope we will hit it by the end of the year, because I see really strong performance in India division and I hope they will help to improve a little bit more and especially we solved the Mexican margins that we are still very, very low because of the ramp up issues and so on, and once we solve this, we will be very close to that 15%, it will be our first target.

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

Shyam Sunder Sriram: Sir, in Europe given the challenges on the upcoming WLTP norms, VW has indicated some sort of a probable disruption in production, so what are you hearing from your customers specifically from VW and Renault, VW specifically because that is where bulk of our growth is coming from in terms of ramping up in the Lithuania plant, so what are you hearing there?

Ander Arenaza: They disclosed that with this new WLTP system, they will have some delays in the validation of the engines, so they expect it to have at least delay in the introduction of some engines to the market. The fact is that the last information we have is that they are improving a lot with this validation process and the impact will be not relevant. Regarding our order pipeline, we can check if this is happening or not. We do not see any reduction in the orders, so let us say that we are quite optimistic with that, probably there will be building inventory and it is not affecting us and we do not see any impact. We are in Europe where we see some impact because there are some new engines entering and transfer from Renault engine H5 Generation I to H5 Generation II and they are making some changes in the online and there is some distortion for some weeks. They are trying to use their August holidays to do this change and perhaps we can lose one week or two weeks of production due to that, but overall right now they keep with their standard orders and let us see. It is true that there could be one distortion in the market for one to two weeks due to those effects.

Shyam Sunder Sriram: Sir, on the MFE from the trucks perspective, trucks or the other vehicles perspective, will these norms apply there as well and your key customers Daimler are they indicating anything from that perspective?

Ander Arenaza: We talked about this specifically with them, that is you know our main customer in MFE, it is approximately one-third of our sales in the next year is Daimler and they told us that they see the market in at least the next year, full-year at the same level that they see now, absolutely high level, so they are not affected, so that is the information we got from them, it seems that there is no affect in the short-term as I told you at the beginning of the interview.

Shyam Sunder Sriram: Sir, in terms of Mexico operational performance, you indicated that we are having some challenges in ramping up, so currently where we are in terms of EBITDA margins and where do we expect it to be and what is the current run rate approximately in Mexico, we had indicated approximately 30 to 35 million as the run rate there, currently where are we now?

Ander Arenaza: We are approximately at 50% of the expected volumes, we are more or less we have the project to produce for 4.5 million parts and we are now supplying approximately 2 million for the complete year that is the level we are now, and regarding the margin we are quite low, we are not reaching the expected margin because we have some variations because of the internal scrap and low productivity coming from let us say the learning curve that we are facing now, but we expect that this will be corrected and we expect to be at the end of the year at the proper figure, so the volumes will help us to achieve the expected margins, that is what we are expecting now.

Shyam Sunder Sriram: Will we reach the same Bill Forge level of margins like 20% levels in Mexico as well, is that the possibility from that business perspective considering the customers and the parts we supply there?

Ander Arenaza: We expect to be let us say at the same Bill Forge margin levels in Mexico or even above because we have already received a new order from another customer, so we are adding more presses in order to cope up with the new project with this new customer, so let us say the business in Mexico will grow strongly in the next couple of years and we are quite optimistic to achieve or even to improve the Bill Forge margins in India.

Shyam Sunder Sriram: Sir, one last question, recently CIE published the revised targets, any roadmap that you can share in terms of how India and Europe, what does it mean for MCIE India and Europe?

Ander Arenaza: We have not disclosed yet the roadmap of our guidelines for the 2020 and we are preparing them and we will probably during the next quarter we will disclose them and we will make a presentation of this guidelines for MCIE till 2020, let us say in the same way that CIE does.

Vikas Sinha: Sham, we are working on that and we will come up with that.

Shyam Sunder Sriram: Sir, you had indicated the India business ex Bill Forge all division are growing at 20%, if you can add some more granularity in terms of forging, castings, stampings, and gears, how are you seeing these businesses growing, any granularity would be of much help?

Vikas Sinha: Sham, the good thing that we have achieved now in India that all divisions are the asymmetry in performances has reduced to a great extent and I think what we can tell you is that all divisions, mostly the India business has grown in tandem, so there is not much difference in growth performance across divisions.

Shyam Sunder Sriram: Sir, are we planning any further restructuring in MFE in terms of any other maybe hiring of assets or something of that sort?

Ander Arenaza: Now, we are not planning any additional restructuring in MFE, we have let us say German activities has already been restructured and now we are focusing our effort in improving our margins and improving the internal efficiencies.

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

Jinesh Gandhi: Sir, my first question pertains to ramp up at Lithuania and Metalcastello, by when can we expect full ramp up happen at both these plants, so Metalcastello obviously you have indicated first order has been fully ramped up, but the new order which the additional order which we have got by when do we expect that to also ramp up?

Ander Arenaza: In Lithuania we expect to be at full rate approximately by the mid next year, so in 2019 we will be at the full rate, and regarding Metalcastello, we still have the growing coverage is longer and we expect to be at full rate in 2020.

Jinesh Gandhi: Okay, that is including the additional order?

Ander Arenaza: Yes, that is including the new order.

Jinesh Gandhi: Similarly at Mexico by when do we expect the full ramp up?

Ander Arenaza: The SOP of the new customer starts January 2019, so in six months we will start the ramp up with this customer. During 2019, we will receive additional program from this customer that will grow even more, so I would say that by the end of 2020 we will be in the peak of this ramp up.

Jinesh Gandhi: From what we had indicated earlier, how do we see Mexico to contribute fully by 2020 given that the new order has also come in?

Ander Arenaza: Our idea is to match the Bill Forge margins and you can imagine that only with the current business, we should double the current volume and with the new customer we will even go further, so Mexican activity will be really relevant activity, we can say that we can go up to $ 50 million business more or less that is our target.

Jinesh Gandhi: That would be by end CY '20?

Ander Arenaza: Yes.

Jinesh Gandhi: Would we have to further invest in Mexico plant given the new order and how ramp up is happening?

Ander Arenaza: We have to invest, we have one press already ordered and it is coming by the end of this year and additional one will come mid 2019, mid next year.

Jinesh Gandhi: Lastly, what would be our total CAPEX targets for CY '19 and '20 if you have any?

Ander Arenaza: I do not have the details now, I mean we have not made all the budget for next year, so we can disclose that for the next quarter call.

Jinesh Gandhi: Sure, but for CY '18 we maintain roughly about 400 crores for CY '18?

Ander Arenaza: Yes, that is right.

Jinesh Gandhi: Can you indicate the capacity utilization for our India plants and MFE plants or other European plants?

Ander Arenaza: It is not easy to say that, but I would say that in Europe we can be at 80% more or less. In Germany it is more and in Germany we are fully booked, so this is now we are in 100% of our capacity, but in the rest of the businesses can be something like 80 and in India it is also complex to say because every business, every vertical has a different position, but average could be we are about 80%-85% of capacity that would be there where we think we are in average.

Jinesh Gandhi: Does it mean that we will have to now start looking at investing in new capacities not necessarily Greenfield, but either through debottlenecking or Brownfield to prepare for next leg of growth say beyond CY '19?

Ander Arenaza: Yes, we are doing that, we are adding capacity in our bottlenecks and in the projects that we received from customers, we need capacity we add machines as we are doing in Bill Forge and we are doing also in our metal stamping division, so we are adding machinery to increase our capacity and to increase our sales and this is a fact because we expect the market continue growing at the current pace at least during the next year, so we are planning to increase our CAPEX in order to prepare our factories with proper capacity and also we are also planning to prepare our human resources to cope with this demand, it is not only machinery it is also the human resources, the people that you need to run the facilities properly.

Moderator: Thank you. We will take the next question from the line of Hitesh Goel from Kotak Securities. Please go ahead.

Hitesh Goel: There are two questions, first on India business, do you in your planning have you thought about what is the kind of growth you can achieve in next two years in India business over and above the growth of M&M and Tata Motors, why I am asking this question is that you have always alluded the fact that you are planning to bring the share of business of M&M and Tata Motors lower in your overall revenues and we can forecast M&M and Tata Motors because we cover them, but we just wanted to get your sense what is the growth that you are looking at over and above the M&M and Tata Motors growth in the India business?

Vikas Sinha: As far as you know very well that M&M and Tata Motors are growing at a good pace both in tractors as well as in cars, so we are growing along with them. Other than that, if you look at our growth performance this quarter which is about 26%, if you take a weighted average growth of all our segments in which we are there, so it would be roughly in the range of 15% and there will be an impact of raw material maybe to an extent of another 5% to 6%, so we are clearly looking at an extra 5% to 6% growth which is coming out of other customers, so that is how you can look at it.

Hitesh Goel: Were you also had consolidated Gears India in the standalone business, so when you are talking about this 26% growth, this is like for like or it includes the Gear India revenues, how should I look at that standalone performance?

K. Jayaprakash: If you are looking at the SEBI results they are not comparable because June '17 numbers does not include Gears, but if you are looking at the investor presentation where we are separating India and Europe, India had always included Gears, so they are like to like.

Hitesh Goel: So India revenue includes standalone plus Gears India and Bill Forge, right?

K. Jayaprakash: Yes, that is right.

Vikas Sinha: So that 26% number is actually India growth number, it has nothing to do with standalone.

Hitesh Goel: Can you also allude the fact that how much time does it take for the capacity to come up because like as Ander said that you are almost operating at peak capacity in India, so if the industry were to grow 15% next year and you grow 20%, 5% to 6% higher than industry then do you have sufficient capacity?

Vikas Sinha: We have been augmenting that, that is exactly what Ander has been saying, in our plans we have been looking at that and wherever possible we have been debottlenecking, adding machines here and there to achieve that purpose, we have already done in Metalcastello, we have done it in Bill Forge, we are looking at our stampings plant, we are looking at our forging plants, so we are looking at capacity addition almost in all our divisions.

Ander Arenaza: The capacity let us say that all these investments are already launched and they are now in the building process and we will receive all the new machinery and all this new capacity during the next quarter, so we expect all this capacity to be ready in 2019. In 2019, we see the market continues growing and we need more capacity, we will launch additional capacity to be installed by 2020, so we are installing the capacity according to the market and we are let us say one year ahead, that is more or less the time that you need to install the capacity properly.

Vikas Sinha: That is the reason why, Hitesh, normally we indicate 5% to 6% of sales as CAPEX. This year we have indicated it will be slightly higher and it would be in the range of Rs. 4000 million.

Hitesh Goel: On European business basically there is some view in the industry that European sales may not grow for next five years, I mean it will be very low single digit growth or may not be any growth in the PV sector in Europe, so how do you guys plan to grow, are you seeing a lot of suppliers folding up and you getting more opportunities as such, can you allude to the fact what is the strategy there now?

Ander Arenaza: Historically in the last year, we have been growing above the market, mainly that means that we have been increasing our market share and it is true that the next year the market expectation is to be more or less flat or 1% to 2% of growth that is in my opinion is almost flat and our expectations are to let us say continue growing our market share, consolidating the market in Europe, so we will have opportunities to do that. You can imagine that in this flat scenario, some of our competitors are struggling, so we think that there will be consolidation and as we are strong also in terms of technology and also financially, we will have the possibility to increase our market share in Europe.

Hitesh Goel: Just wanted to emphasize on that point, you are saying that you are getting a lot of opportunities to grow market share, so you will grow organically, or do you feel there is a need to acquire companies to get more customers in Europe or you are happy with your customer base in Europe?

Ander Arenaza: I would say that we prefer to grow organically in Europe, of course if there is any nice opportunity, we will go for it, but from a strategy point of view we do not plan any acquisition in Europe. We would like to focus our acquisitions in India and we would like to increase our business share in India, you know that now we are approximately 60% in Europe, 40% in India, we would like to reverse that share.

Moderator: Thank you. The next question is from the line of Ujwal Shah from Quest Investment Advisors. Please go ahead.

Ujwal Shah: Firstly on the Europe business as you indicated about Metalcastello reaching numbers for the first order and considering the August holidays, can we see second half growth numbers being softer or single high digit growth numbers as compared to first half, is that what would be a good assumption for the Europe business?

Vikas Sinha: The impact of August holidays and December holidays are going to be there, like you will have almost three weeks in August and two weeks in December that you have to factor in, that is a normal part of seasonality of the business, so that has to be factored in. Other than that as Ander has indicated that our ramp up as far as Lithuania and Metalcastello is still going on, so to that extent we will benefit out of growth from there.

Ujwal Shah: Secondly on MFE considering we have already working at peak utilization, so in terms of efficiencies or the economies of scale getting through in MFE would be in which ways high, so which are the areas in MFE where we can actually look to improve our margins further?

Ander Arenaza: In MFE let us say that our main inefficiency is coming from the low productivity in the production, so we are now working to increase this productivity, to increase this production efficiency, and we are getting very good results in some of the plants. Also, we are making some review of the products because some we have in our portfolio some loss-making components and we are either increasing the price or either exiting from this products, so we are now trying to have a more balanced portfolio and a much more efficient company, so with those two action plans we expect to increase the profitability of the business and to probably we will not reach our standard margins, but we will be improving our current margins.

Ujwal Shah: On the balance sheet side for JP, on the standalone balance sheet, we can see other current assets as well as other current liabilities in quarter reducing quite a bit as compared to December and the decline is quite stark, so any particular reason for the same?

K. Jayaprakash: Yeah, in December GST knocking had not happened because we were still waiting for some clarity and the return filing and all, so from this year onwards in the first half we started knocking it off, so you see similar impact on both sides, they were both gross receivable and gross payable in the liabilities and investments, the input credit against the payables.

Ujwal Shah: Lastly, on the MCIE India business, if we look at our key customer's growth rate for the sequential basis we see it degrowing by 2.2% whereas we have shown decent sales on sequential basis, so is it that new orders have driven it or is it basically the Gears business that has driven?

Vikas Sinha: India Gears is included in India, that is the point.

Moderator: Thank you. The next question is from the line of Jehan Bhadha from Nirmal Bang. Please go ahead.

Jehan Bhadha: Sir, basically on the raw material front in the standalone numbers, we have seen quite a big spike up there, so raw material as percent of sales has increased to 57%, so your comment on how we will be able to retain our pricing power and pass on these cost increases?

K. Jayaprakash: You are right, the raw material as a proportion of sales have significantly gone up and it has been going up if you notice even in the last quarter, so this is essentially the steel price increase is the commodity price increases that you have been seeing. In terms of our pricing power, it remains to be strong, our input to the customer is very clear in terms of basic raw material it is a complete pass through, so we do not see any challenge in terms of recovering that from our customers.

Jehan Bhadha: Secondly, you also mentioned the net debt amount, I could not get that, what is the net debt and whether what is the likely trend for net debt going forward projecting into next year's CAPEX?

K. Jayaprakash: I mentioned the figure as 825 crores, that is the net debt position now. In terms of financing our capital expenditure, we are fairly equipped with our internal accrual. Any change in the debt profile will happen only on acquisition, that is our expectation.

Moderator: Thank you. The next question is from the line of Bharat from Quest Investments. Please go ahead.

Bharat: Sir, I am taking forward this Ujwal question, Vikas, if you on Slide 3 if you look at our key customers has degrown by 2.2% QOQ sequentially whereas we have grown almost by 3.35% sequentially, so just can you throw more light what has led to this growth whether we have been able to get market share within the same customer or our content per vehicle is increasing, if you can?

Vikas Sinha: For example what you are saying on the key customer growth which accounts for roughly about 50% to 55% of our sales, so that is being accounted for, so they are degrowing, others might be growing a little higher you know like we might be growing more with others there, not that they are growing I am saying we might be growing more with others and of course you have to factor in the steel price increase between Q1 and Q2, so there is as bit of a steel price increase also between the two periods. There is about 3% to 4% increase between the two quarters in steel prices, so you will have that. Of course, we are also growing beyond our three major customers as you are aware, so it is a mix of this two, I think when Hitesh was asking the question I was trying to break down the 26% growth year-on-year, so that you will have between the weighted average market growth, new customers, and steel price increase, so the same thing applies here.

Bharat: In existing customer are we increasing our content per vehicle, can you throw more light?

Vikas Sinha: No, that normally during the life of the platform remains the same.

Bharat: Are we participating with M&M which has been working on new platform, so are we partner there or not?

Vikas Sinha: Yes, of course we are.

Bharat: Vikas, on this India business, we have grown say 26% YOY, but if you look at I mean India standalone reported as per SEBI, we have grown by almost 29% so does it mean that other businesses has degrown or whether Bill Forge or Gears India, can you allude little more?

Vikas Sinha: As JP explained, the standalone business year-on-year is not comparable because Gears were not included there.

Bharat: But the gap is wide, so I just wanted to get sense?

Vikas Sinha: No, but it is since the Gears business was not there, so you are not comparing, those are not comparable with standalone numbers.

Bharat: Last question, as per Slide 3, in Indian market are we participating with any MHCV company or not, because we are not participating either with M&M or Tata Motors?

Ander Arenaza: On MHCV on the domestic front, it is much lesser, we do supply to Cummins and Honeywell, the turbocharger housings, but the more indirect and more exports, to some extent we supply to Automotive Axle, it is limited supply that we have. We are not very dependent on the MHCV market.

Moderator: Thank you. The next question is from the line of Ankit Kanodia from Smart Sync Services. Please go ahead.

Ankit Kanodia: I just wanted one small thing to be clarified, as in when you have mentioned that 400 crores of CAPEX is there for the '18-19, how are we planning to fund it as in is it all through internal accruals or through debt or what would be the composition look like?

K. Jayaprakash: As of now, we are funding it through internal accruals.

Ankit Kanodia: Is it same for the next year, '19-20 this is what you have planned?

K. Jayaprakash: Unless it goes up significantly, I think we should be able to finance this internally.

Ankit Kanodia: Any ballpark figure for CAPEX of '19-20?

Vikas Sinha: No, we are working that out, as Ander indicated the demand scenario is changing rapidly, so we will have to relook at the numbers. Normally, we always say it is 5% to 6% of sales, because we are in a sustained growth environment especially in India it might be higher than that.

Moderator: Thank you. The next question is from the line of Jigar Shroff from Financial Research Technologies. Please go ahead.

Jigar Shroff: Sir, anything you would like to talk on inorganic opportunities in India, I mean what is the status on that?

Vikas Sinha: As we have indicated in the past, looking at inorganic opportunities is part and parcel of our working, but as of now we are not in a position to talk about any of the them, we will talk about it at the opportune moment.

Moderator: Thank you. The next question is from the line of Priya Ranjan from Antique Finance. Please go ahead.

Priya Ranjan: One question on the raw material cost pass through, which has actually lead to a 100-basis point margin improvement, so is that for the both quarter or is it actually for one quarter we are talking about 100 basis points?

Ander Arenaza: This growth of let us say 1%, we had this second quarter is the amount for the first and the second one, so you look at in the first half, in the first quarter plus second quarter, you can consider 0.5% in each one, so 50 basis points for each one, that is the real impact. All of them has been already applied.

Priya Ranjan: Basically, it is actually 50 basis points is only for the normal from the first quarter?

Ander Arenaza: That is right.

Moderator: Thank you. The next question is from the line of Deep Maji from Stewart & Mackertich. Please go ahead.

Deep Maji: I have one question that in the con call you have mentioned in the current scenario on the consolidated basis the 60 percentage of your revenue comes from your European operations and 40 percentage comes from Indian operation and you want to change that equation and how you are planning to do that and how long would it take to reduce the dependence on European operations?

Ander Arenaza: Mainly let us say we have two ways to reach this target. One is the organic growth that we are having that in India that is much higher than the European growth, so this will offset the difference between the two regions and second way to reach this target is adding new companies that is inorganic growth that we are looking actively now in the market, so as I told before we are not planning to increase or to make any acquisition in Europe. All our acquisitions will be done in India or at least in Asia, so that is our target. We will continue growing organically and inorganically in India, and in Europe, we will grow only organically.

Deep Maji: Sir, the basic strategy would be to grow inorganically because it would help you to add capacity immediately, so it will be safe to assume that no primary focus would be on adding through inorganic expansion?

Vikas Sinha: No, that is not right, we are as you may be aware what Ander is saying that the Indian market is poised for much higher growth, so if we grow organically in the Indian market that itself will lead to a changed ratio from 60:40, India will grow simply if we grow organically and as you may be aware of the new automotive mission plan in the next 10 years the growth is almost some fantastic growths have been predicted, the number of cars may actually triple, so we are looking at least good potential for growth in India organically. Over and above that as I pointed out to a previous questioner, evaluating inorganic growth is as much part of our day-to-day operations. Our parent CIE grows normally 50% organically and 50% inorganically, that does not mean of course we will follow the same pattern because it depends on the opportunities there, but all that we are trying to say is inorganic is equally part of our agenda, but inorganic opportunity is dependent on whether it works or not, so it is very difficult to predict that I will grow X percentage from inorganic growth because there are lot of other factors whether the company, the opportunity fits in, whether the valuations are right, all those kind of questions have to be taken into account, so all that we are saying is organically that ratio will correct itself to an extent and if we do something inorganic which we will do mostly in India, that will correct it further.

Deep Maji: Another additional question, Sir, how long will it take to change that equation, is there any kind of guideline that you can share with us, as we are all predicting that Indian market is going to experience significant growth from the automotive space, so I believe this equation will change, but from your side I want to know how long will it take to change that equation means from European reliance will come down and India will become more prominent?

Vikas Sinha: The European operations is an integral part of our business, so we are not saying that we are downgrading the European operations, nothing like that. If you look at our results the India result and the European results are pretty symmetrical, so as far as what is going to happen as Ander pointed out, we are going to have a strategy document that we will release sometime later this year. I think to answer that question I would request you to wait for that document.

Moderator: Thank you. The next question is from the line of Nikhil Vaishnav, an Individual Investor. Please go ahead.

Nikhil Vaishnav: Sir, I have few questions that I would like to ask you, I want to ask you how much will you reduce debt in this year and also rate of borrowing for this debt?

K. Jayaprakash: If you see we have almost reduced 10% currently and we would have liked it to be better, but the current situation in the steel market is very tight, so both on inventory and on payables we are in a bit difficult situation, but I would think we would be closing the year around 800 crores.

Nikhil Vaishnav: Also what is the tax rate in Current Year '18 for India and Europe, overall?

K. Jayaprakash: Overall, you can take an average of 30%.

Nikhil Vaishnav: Sir, can you give some detail of your top five customers and their share in total turnover?

Vikas Sinha: On a consolidated basis, I think we are fairly diversified, I think our top two customers would be M&M and Daimler and they would be in the range between 10% to 15% each and after that you know all customers are fairly small on a consolidated basis.

Nikhil Vaishnav: Do you see any effect of steel prices on this business?

Vikas Sinha: No, steel price is a pass through, so it gets passed on but as a previous questioner pointed out, the RM by sales goes up even if we pass on the steel price, because the same number gets added to the numerator and the denominator, and therefore the RM by sales keeps going up, so that is one effect. Of course, the other issue is the availability of steel in the market, given the supply demand scenario here which of course causes, we have to work doubly hard to ensure that steel is available for us, but other than that the steel price is actually pass through, so in absolute EBITDA terms it does not make a difference even though the percentages gets affected by the simple pass through.

Nikhil Vaishnav: Any effect of currency and what to monitor from this?

Vikas Sinha: Currency, largely is translation for us, so it is mostly our European operations is translated from Euro into Rupee, that is one. Of course, we have foreign exchange loan in our Bill Forge plant in Mexico. We have consistently been providing any Forex effect on that loan in our investor presentation, so this year our EBT is reduced because we have an impact of Forex variation on that particular loan. Other than that, I do not think any variation is significant.

Nikhil Vaishnav: Sir, do you see any effect of trade wars on your business?

Vikas Sinha: Trade wars, I think Ander did address that, as of now like we seem to be fairly covered, all our customer seems to be fairly confident, but we will keep monitoring the situation as to what can happen, but as of now we are not seeing that much of an impact, but it may be too early to say.

Ander Arenaza: You saw the impact of the sale trend that we have right now in our account that is very positive, so we have not seen any impact of this trade wars in our account. We have contacted our main customers to check if they see any threat on that and the answer is that in the short-term they do not see any threat. In the long-term who knows, but in the short-term I would say that we will not have any impact.

Moderator: Thank you. The next question is from the line of Manish Kanakia, an Individual Investor. Please go ahead.

Manish Kanakia: Just wanted to check what is the rate of interest we pay on the net debt what we have, overall?

K. Jayaprakash: The large part of the debt is in Europe, MFE and that is about 4.5%.

Manish Kanakia: Why the variation, first quarter we paid approximate 2 crores and this time we paid about 23 crores, so why does that variation happen?

K. Jayaprakash: You are looking at what, the standalone numbers?

Manish Kanakia: On consol basis?

K. Jayaprakash: If you are looking at EBIT and EBT different, then you have to consider the Forex impact as well.

Manish Kanakia: But overall 4.5% is we can consider on the net debt is it?

K. Jayaprakash: Yeah.

Moderator: Thank you. The next question is from the line of Anand Dubey, an Individual Investor. Please go ahead.

Anand Dubey: Sir, I just want to ask you capacity for India and Europe plant wise?

Vikas Sinha: I think Ander answered that question earlier, it is very difficult to go plant by plant, I think overall in India we would be 80%-85%, in Europe other than our German operations we would be 80%-85%, and in Germany we would be close to 100.

Anand Dubey: Sir, I want to ask you can you give me the breakup number for top five customers like M&M and you have given Daimler, what are the other three customers?

Vikas Sinha: On a consolidated basis, I think M&M is our largest customer, our second-largest is Daimler, the third would be Renault, after that we have a whole series of customer, so M&M and Daimler as I told you in the range of 12% to 15%, Renault Nissan after that would be in the range of 5% to 6%, and after that there are a whole series of customers.

Moderator: Thank you. Ladies and Gentlemen, that was the last question. I now hand the conference over to the management for their closing comments.

Vikas Sinha: Gentlemen and Ladies, thank you very much for the time. If you have any further questions, you are always free to contact us, and you know our contact details and we will be very happy to answer them. Thank you very much. Have a Good Day!

Ander Arenaza: Thank you very much.

Moderator: Thank you. Ladies and Gentlemen, on behalf of ICICI Securities Limited, that concludes today's conference. Thank you for joining us and you may now disconnect your lines.

Note: This statement has been edited to ensure quality