Mahindra CIE Automotive Ltd
Mahindra Towers, 1st Floor,
Dr. G. M. Bhosale Marg, Worli,
Mumbai 400 018, India
Tel: +91 22 24931449
Fax: +91 22 24915890
www.mahindracie.com
mcie.investors@mahindracie.com

May 3, 2017

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 Q1 CY 2017 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 April 21, 2017 in respect of Mahindra CIE Automotive Ltd Q1 CY 2017 Earnings Conference Call, please find enclosed herewith transcript of the same.

The same is being uploading on the website of the Company.

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

Thanking you,

Yours faithfully,
For Mahindra CIE Automotive Limited

Shankar

Krishnan Shankar
Company Secretary & Head - Legal

Mahindra CIE Automotive Limited Mumbai

"Mahindra CIE Automotive Limited Q1 CY 2017 Earnings Conference Call"

April 28, 2017

MANAGEMENT: **MR. HEMANT LUTHRA -- CHAIRMAN, MAHINDRA CIE AUTOMOTIVE LIMITED**
MR. PEDRO ECHEGARAY -- CIE REPRESENTATIVE IN INDIA
MR. K. JAYAPRAKASH -- CHIEF FINANCIAL OFFICER, MAHINDRA CIE AUTOMOTIVE LIMITED
MR. VIKAS CHANDRA SINHA -- SENIOR VICE PRESIDENT (STRATEGY), MAHINDRA CIE AUTOMOTIVE LIMITED

MODERATORS: **MR. NISHANT VASS -- ICICI SECURITIES LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the Mahindra CIE Q4 FY 2017 Earnings Conference Call hosted by ICICI Securities. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal 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: Thank you. Hi, good afternoon, everyone. Thanks for joining us today for the Mahindra CIE Automotive Conference Call. From the management side, we are represented by Mr. Hemant Luthra -- Chairman of the Company; Mr. Pedro Echegaray – CIE representative in India; Mr. K. Jayaprakash -- Chief Financial Officer; Mr. Vikas Sinha -- Senior Vice President (Strategy).

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

Hemant Luthra: Good afternoon, everybody. This is Hemant Luthra. We are facing some housekeeping issues and if you have a problem with this phone, I will request the conference coordinator to switch us out and switch us back in again. But there is technical problem here. In case, you have a problem, I just wanted to give you heads up.

Secondly, another housekeeping item, this is not Q4 2017 Results, this is Q1 Calendar Year 2017 we have changed the fiscal year. So, this is the first quarter of the current fiscal year.

As far as opening remarks are concerned when you had a good quarter and your share price has gone up 8% - 9% - 10%, I think the less said the better. And therefore, I am going to refrain from making any remarks because performance of the company that of my colleague speaks for itself and we will respond to your queries. If Pedro has something to add, I am giving it to him on behalf of CIE and then we will take it from there. I do not need to make any comments. I am just having too good time with what is going on.

Pedro Echegaray: Thank you, Hemant. Good evening and also good morning to those who are joining this call from Europe. We will be seeing the Mahindra CIE results for their First Quarter of Calendar Year 2017 as Hemant just said.

We will start with India results in page one of our presentation where we have excellent performance in both revenue and profitability. For example, the earnings before taxes more than doubled when compared with the same period of last year because of the acquisition of Bill Forge in last October but also even if we remove the impact of Bill Forge the rest of the divisions in India grew 15% in revenue and 20% in EBITDA versus first quarter 2016.

Sequential comparison versus previous quarter is even better showing also consistent growth in both revenue and profit. The improvement is seen across all the divisions as we continue improving our productivity and reducing cost through internal actions and also by exchanging technology and best practices with other CIE plans in Europe and America.

For example, last week an Indian team from our stamping division has visited CIE Mexico plant where we have state-of-the art stamping technology and they have identified several opportunities to improve our efficiency which realistically can be implemented in the medium-term. The main drivers of our growth in India have been the positive market evolution in utility vehicles and tractors as well as the effect of the raw material price increase which as you know is pass through to sales prices and therefore, have put up our revenue.

On the other side in January and February, we still have some negative impact in Bill Forge because of the demonetization effect on the two-wheelers demand. Based on the overall economic indicators in India and a normal forecast for the monsoon this year, we remain optimistic about our performance in next quarter. Another relevant fact is that Bill Forge Mexico has already started production and sales two month ahead of schedule and it is already running three shifts and the demand is very strong.

European results are shown in page five, where we continue with the improvement in our German operations after the clean-up at the end of last year while the rest of the companies in Spain, Italy, and Lithuania, maintained a usual good performance. We have managed to grow 8% in Euros; 4% in Indian Rupees versus first quarter 2016, while the same comparison for the EBITDA shows 13% growth as it has reached 12.8% margin which is 1% more than first quarter 2016. A sequential comparison versus previous quarter shows an even larger improvement but this is because of their pool base line. We are also confident about the evolution of our results in Europe in the next quarters as both the market and our internal operations are solid.

If we go now to Slide #6, we will see the consolidated results which are a combination of the positive evolution in both India and Europe. 19% growth in revenue; 37% growth in EBITDA when compared with the same quarter of last year, while the sequential comparison versus last quarter shows an even better evolution.

The consolidated results without Bill Forge also show a positive evolution when compare with first quarter 2016; 7% growth in sales and 18% growth in EBITDA. So, overall, with and without Bill Forge positive effect, we have a good performance in this quarter.

Now, I will handover back to Mr. Luthra before the Q&A.

Hemant Luthra: I said Mr. Luthra today has nothing to say. I have thanked the team, thanked the board and is now ready to thank his investors after hearing their questions. So, I do not want to kill, take up air time. Over to you. Just identify yourself and we will take your questions as they will come. Just out of curiosity how many people do we have on this call?

Moderator: Yes. This is the operator. We have approximately about 90 participants. And we will begin with the Question-and-Answer Session. We have the first question from the line of Nitesh Sharma from PhillipCapital. Please go ahead.

Nitesh Sharma: Sir, starting up with the standalone division, we have seen a marked improvement in terms of margins to above 10% in this quarter. So, what has really worked for us and how do we see margin trajectory going forward. Are things falling in place as far as efficiency improvement and automation that we were working on?

Hemant Luthra: Vikas, you want to take that?

Vikas Chandra Sinha: Of course, in the overall consolidated margin in India as Pedro pointed out there has been an effect of Bill Forge. But even without Bill Forge things have improved and it is largely because of operational improvements but there is some effect of increased sales also. So, as far as whether it is sustainable or not, we believe it is. And because we have done the right things as far as the operations are concerned and therefore, we believe it is sustainable. Only thing on the India sales side, we will point out as it in the SEBI note that there is a Rs. 37 crores of price correction on the raw material that is there which does not affect the margins at all. So, in fact, if you take out the cumulative effect of the increased raw material prices between April to December which is also sitting in the quarterly results, the margins would have been higher. So, out of that Rs. 37 crores extra which is a pass-through on the raw material side Rs. 28 crores is because of the April to December period and if you take that out from the sales the margins would have been higher.

Hemant Luthra: Also to supplement what Vikas is saying that because we have had consciously a strategy of being a multi-product company, multi-location, multi technologies, you cannot paint everything with the same brush. So, yes, we have got headroom in castings, we may not have headroom at Bill Forge but we have headroom in Chakan and therefore, most new orders can also these processed not just by Bill Forge but they can also be processed by Chakan. Similarly, we have now seen strong growth coming in our gears, in machining, so different business are growing at different speeds but what you see is the consolidated result and that should be sustainable.

Nitesh Sharma: Sir, where are we in terms of our idea of executing the excess orders of Bill Forge from our Chakan plant, any color on that? Are we on the right path as far as this goes?

Hemant Luthra: See, the parts which have to go from Bill Forge to Chakan and you also have to make sure that the customer does the testing, has the plant certification. So, given what is happening just now, I would suspect that may be another three months to six months before we get all the PPAP approvals and so on the transfer some stuff from Bill Forge to Chakan. Similarly, we have got similar timelines for transferring stuff from Germany to Spain and from Spain to India, so there are orders in the pipeline and we are executing them.

Nitesh Sharma: In terms of the quantum of the orders we might execute from Chakan in the future?

Hemant Luthra: I do not have it on the tips of my fingers, okay. My estimate will be that it will be something to Rs. 25 crores Rs. 30 crores.

Moderator: Thank you. We have the next question from the line of Basudev Banerjee from Antique Finance. Please go ahead.

Basudev Banerjee: A couple of questions. One, for the India year-on-year revenue growth how much was volume led?

K. Jayaprakash: Volume related India growth was 4% to 5%.

Basudev Banerjee: But if one sees the target audience in the form of Mahindra Tractors or these Tata new cars their growth has been much superior to the erstwhile quarter numbers. So, with Tata improving their passenger vehicle business, so can we expect some benefit to your company down the line?

Vikas Chandra Sinha: So, of course, the tractor business is growing and it is good news for us, tractor accounts for close to 10% to 12% of our consolidated India business including Bill Forge. The Tata business is also growing and we do expect even the two-wheelers to come back. The two-wheelers have yet not come back to the October level on a month wise basis. But I think, the effects of demonetization have worn off and things will be back to normal. So, we do expect better growth coming forward.

Basudev Banerjee: Okay. And next is like, if one looks at your subsidiary level margin which is European margin, so like should one look at these kind of numbers as sustainable and all those transition costs are over and these kinds of numbers can be carried forward down the line or further improvement or it is sheerly from seasonality and rise in revenue?

Vikas Chandra Sinha: I will come back to the European margin question. Let me clarify one thing on the Indian growth question that you said. We do expect all two-wheelers, tractors and the car segment to grow but one thing we have to keep in mind that the Bolero model, we have to keep an eye on what growth rate the Bolero model of M&M is experiencing because that has an impact on our sales revenue. So, there are positives in terms of the various segmental growth that I talked about. The negative could be the Bolero growth rate that we have to look at. So, that is one caution I would like to put before you. Coming back to the European question whether the margins are sustainable? No, this is not because of any seasonality effect it is because of the work that has been done in the last year. Of course, in Q4 of C 2016 there were some unexpected one-time cost but that has gone away and I will turn it to Pedro for further details on the European margin issue.

Pedro Echegaray: Yes, exactly. In addition to the one-time write-off that we did end of last quarter you know for December it is holiday season in Europe so it is usually a weak, month in terms of demand. So, yes, first quarter usually is better. But this is normal, this is nothing exceptional and we expect to maintain similar levels of revenue and profits in the next quarters.

Basudev Banerjee: And as per you what kind of growth rate you are expecting for the European truck and car business?

Pedro Echegaray: We are not considering any significant growth in Europe, it is so far, the market is growing both in passenger cars and commercial vehicles. But a mature market, we do not expect sustained growth in Europe. Internally we are assuming that market will be flat.

Basudev Banerjee: Sure. And last question sir, can you again explain, I just missed out on that accounting of that Rs. 37 crores in RAWMAT which you said, so Vikas sir, if you can explain that?

Vikas Chandra Sinha: So, I will explain that again. If you look at our standalone SEBI note that we had put out in the notes section which is note 3, I will just quote the note. During the quarter ended March 31st, 2017, the company concluded negotiations for a price increase with vendors with a corresponding increase in sales price to two of its customers with effect from April 1st, 2016. This has resulted in an increase in revenue by Rs. 3743 lakh that is Rs. 37 crores with corresponding similar increase in cost of material consumed for the quarter ended March 31st, 2017. Essentially it means that two of our customers have given us increase in steel prices in raw material prices, all of which is passed on. But this increase is with effect from April 1st, 2016 and therefore, the increased revenues for those three quarters from April to December 2016 is also sitting in the sales of quarter one C 2017. So, the increased sales on account of those three quarters amount to Rs. 28 crores out of that Rs. 37 crores. Mind you, on any of this increased sale there is no extra profit. So, even if you reduce the revenue from that there is no difference in profits because it is a pass through. So, if you actually look at the Q1 India sales numbers it is inflated by Rs. 28 crores which is on account of the three quarters of the previous year. So, in actuality, our EBITDA margin will be higher if you take away that Rs. 28 crores from the sales line. So, our MCIE India sales at page four of our presentation is Rs. 6234 million which is Rs. 623 crores; out of that Rs. 623 crores about Rs. 28 crores pertain to the revenue from the previous three quarters on which we are making no money. So, essentially it should be Rs. 623 crores minus Rs. 28 crores roughly Rs. 600 crores and on that Rs. 600 crores we have made an EBITDA of Rs. 79 crores. So, that is the reason why the EBITDA margin will actually be a little higher than 12.7%.

Basudev Banerjee: And for the Rs. 28 crores corresponding revenue, the RAWMAT of Rs. 28 crores is also accounted?

Vikas Chandra Sinha: Yes.

Basudev Banerjee: So, that also should be removed from the quarter numbers?

Vikas Chandra Sinha: Yes, if you remove the turnover, you will remove the raw material consumption.

Hemant Luthra: Okay. And since you get the hard facts from my colleague, let me give you some things, some a little more soft-stuff, okay. You keep asking about Mahindra's Europe margins. Remember there is still a disparity between what CIE forging margins which now are now a part of

Mahindra CIE traditionally has been and what we have some margins of our forging business even though the gears business has caught up with the best of the CIE business. So, there is room for the German English business to grow, the Italian business is catching-up. And therefore, I do not think we can say that we are done with improvement yet.

Basudev Banerjee: Sure, sir, we will also be looking forward for improvement in margins.

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

Hitesh Goel: Sir, my first question is on the European operations. Is the Jeco benefit which was about to come in the European subsidiary has already been reflected or there is some more benefits which are likely to come on that front? And my second question is, can you also share the Euro growth or Euro revenue in 1Q FY 2017 for the European subsidiary?

Hemant Luthra: Sorry, I could not hear you, again.

Hitesh Goel: I am saying basically; my first question is the margin performance of Europe is very good. I just wanted to get a sense that the Jeco plant benefit that was about to come has already come in these numbers or there is more margin benefit from that front likely? My second question is on the Euro sales for the European subsidiary, how does it compare on a Y-o-Y basis? What is the Euro revenues in Q1 CY 2017 and what is the Y-o-Y number?

Hemant Luthra: Okay. So, I am turning it over to my colleagues to give you some hard fact. But to me Y-o-Y is less important just now then sequentially quarter particularly as Europe is concerned because we are trying to fix it, okay. Yes. Jeco has been fixed, the problems are behind us, it is starting to improve and will continue to improve. At what point, we will be satisfied with the improvement not for a long time till we are satisfied with the improvement. But when you talk about Europe again I am saying, that Europe consistent of many different plans and in some plants, they are reaching optimal efficiencies like the CIE forging plant, the new gears plant will also Metalcastello facilities are also getting to where we want them to be. But the whole idea of entrepreneur in different parts of the world running their plants is key to the CIE philosophy of management. What happens is that I have said this before, if somebody says listen I am doing this and Ander and I can turn around and say are you crazy, you are not good enough to beat the Spanish. And then the Spanish guys turn around and say and say are you not good enough to have more margins over the Germans. And the German guys says can you not have more margins compared to the Italians, okay. We love that what is going on. net effect is what you are seeing as the benefit of entrepreneurial plant managers and the consolidated results which are showing up for the company as a whole.

Vikas Chandra Sinha: So, Hitesh there were two parts to your questions, I will take part (b) and then we will try and address part (a). So, part (b) was in Euro terms what has been our sales. So, if you look at the page five of our investor presentation, we have given the exchange rates considered which are different for the three different quarters. So, in January to March 2017, it is Rs. 71.97 to a €1.

So, the sales without excise would amount, in Europe terms to Rs. €125.6 million. In January to March 2016 if we do the corresponding calculation that will be €117 million and in October to December 2016 that would be €103 million. So, we have seen a good growth both year-on-year and quarter-on-quarter. Coming back to your part (a) question on whether all the Jeco benefits have come in. I think, there were a lot of unexpected costs in the last calendar year that have been stabilized and the Jeco benefits have started to come in. Is further improvement possible at the German operations, the answer is yes. But it will be a gradual process and it will happen over a period of time. I will turn it over to Pedro for more details on the German question.

Pedro Echegaray: Yes, exactly as Vikas has already explained the one time positive effect of Jeco closure was the headcount reduction and the one-time negative effect that we had last year that has already passed, okay. But yes, there are opportunities to further improve our margins as those Jeco parts have been moved to other German plants which require new processes, new tooling and new equipment and right now we are in the early stage of the learning curve. Any industrial process it takes time until you reach the optimum productivity and efficiency levels. So, we are at the beginning of that process. So, yes, there are further opportunities to improve our margins in Germany mainly because of parts being transferred from Jeco to other plants. But the one-time positive and negative effects of Jeco closure they are all gone, they are all passed.

Hitesh Goel: So, Pedro, this is the steady state margins of German operations of the European subsidiary, am I right now? And basically, now it will depend on the automation for the productive improvement

Hemant Luthra: These are not steady state. When you say that the problems have been fixed, okay the one-time problem of paying off the customers for delays, the one-time problem of relocating the equipment, okay I am bringing it back in. The one-time problems are gone, but once the one-time problem has gone, you are in a process of, you have bought up kaizen thing, you keep crying to squeeze, bit by bit by bit so, this is not steady state. I told you that the steady state will be achieved in some point in the future; I hope it is never achieved. The Spanish team does not compete on performance with the Italian and the Italian plant stop competing but if the Spanish team and Galfor and other places we are going to do 18 and 19, okay. So, Ander is going to tell the German team c'mon guys cannot you do better than 6 or 7. So, there is no such thing as a steady state when you are trying to shoot for doubling your market capital by 2020.

Hitesh Goel: No, Hemant, my question was different. My question was yes, I understand that. What I wanted to understand was that margin improvement from here will be now driven more from automation in the German plant because that is I think what you guys were highlighting that in Germany the automation could be the next big driver for margins.

Pedro Echegaray: No, we believe there are lot of automation opportunities in India. Our German plants are already automated whenever it is justified; it is true that some operations are still manual. It is also true that some of those manual operations which are not core business will might outsource to lower cost. But we do not see any significant investments in automation in Germany as the plants are already enough automated.

Hitesh Goel: Okay. And my final question on Bill Forge very encouraging improvement on EBITDA because on a Q-on-Q basis the revenue as slightly gone done but the EBITDA has gone up. Can you just shed some light on Bill Forge performance also please?

Pedro Echegaray: Well Bill Forge is performing very well. till January and February they suffered the effects of demonetization in two-wheelers demand which also because of the volumes their EBITDA margins, so we expect next quarter to give even better EBITDA margin as the volumes will go up because we do not have any more the demonetization effect on our account**.**

Hitesh Goel: So, Pedro, my question was that on a Q-on-Q basis actually EBITDA margin has gone down despite revenue going down. Because if I do console minus Europe minus India that would-be Bill Forge, right?

Pedro Echegaray: No, Bill Forge margin in first quarter has improved versus last quarter last year.

Hemant Luthra: No, Hitesh, let us look at the way you have been calculating. So, you are looking at consol minus Europe. Console minus Europe would be completely India.

Hitesh Goel: No, consol minus Europe minus India, so that is Bill Forge.

Vikas Chandra Sinha: Europe, India minus standalone will include Gears and Bill Forge and not just Bill Forge.

Pedro Echegaray: Just to clarify, I think this is important Bill Forge has significantly improved their margin versus last quarter versus fourth quarter calendar year 2016.

Hitesh Goel: Yes, so margins have improved on Q-on-Q that is what I want to hear.

Hemant Luthra: Also we may expect some further improvement in Bill Forge margin because their Mexico plant has been commissioned and as with our plants there is I am not talking about preoperative cycle but there is an learning curve of which it is going and the interesting thing which is macro not related to specific margins is that yesterday when we had the board meeting, the feedback was that despite Mr. Trump the demand for Mexican product across the border seems to be insatiable, they have been asked to up the capacities so the CIE people in Mexico have asked to up capacity is Bill Forge people have to asked to up capacity and the logic that they have been given is to two-fold. One is that if there is a 20% labor cost as a function of turnover in North America and is 8% in Mexico and even if you add duty whether it is 10% or 20%, it is not going to make the world very much difficult for Mexico, they still remain competitive. The Peso has devalued so they still remain very competitive. And also a large percentage, more than 50% of the product going from Mexico goes to Canada and goes to Germany is not all going to just going to U.S., so for the moment we are saying growth, growth, growth in Mexico also.

Moderator: Thank you. The next question is from the line of Ronak Sarda from Axis Capital. Please go ahead.

Ronak Sarda: Sir, my question was again on European operations while we have been highlighting that we do not expect a major revenue growth in Europe but if I just look at Y-o-Y and Q-o-Q basis it is actually almost a high single-digit. What has driven that in this quarter? And are you expecting some more changes to happen which is why you are expecting a very flattish growth for the full year or maybe we can continue with this kind of revenue growth and this is despite I mean whatever the

Vikas Chandra Sinha: Yes, Ronak, if you look at the Euro numbers we have gone from 103 to 125 on a sequential basis. But if you remember we had said that we would lose, we had lost some orders in Q4 of the last calendar year and we have said that we will get back some in the coming quarters. So, one is a reflection of that. If you look on year-on-year 117 to 125 now that represents about 6% or 7%, 6.8% - 7% growth so, that may be in line with the market of course we do not have production data for entire Europe but the registration data of both cars and trucks suggest that it is growing in high single-digits. Of course, the production data can be entirely different from the registration data. Whatever you had seen in October to December 2016 was because of some of the quality and delivery problems that we have had at Germany and some of it we have recouped back. So, now it will be more in tune with the market growth more than anything else. And as far as we understand the market growth in Europe will be closer to low single-digits rather than high single-digits.

Ronak Sarda: Okay. And I mean you do not expect any major pricing growth to happen this year?

Vikas Chandra Sinha: Ronak, you are being very optimistic.

Hemant Luthra: If I was on Ronak's place I would ask the same question. I cannot promise anything about pricing. If we had to take some of haircut on pricing because we were not delivering to the customer who is not happy because of whatever problem Europe was having and we have to pay out something to compensate him. The fact that he will come back to us, I believe that there has been some comfort provided that going forward we can see strong realizations is all that I can say. So, I cannot predict a price increase. But if you have fixed the problem and the customer has come back to you, whether it happens this year or next we will figure out something.

Ronak Sarda: Right.

Pedro Echegaray: Also in Lithuania, we are ramping up a new crunch up line wasn't introduced in production in first quarter 2016 so that has even though the volume is not very much it has also contributed to the growth in European sales without considering the depreciation of the Euro. So, in Euro terms the growth has been 8% year-on-year, 8%.

Ronak Sarda: Right. And sir, my second question is on the Bill Forge. Maruti has a very strong pipeline for this year and are we participating in all the new launches and if that is true can we actually grow in a high double-digits at Bill Forge at least? Does that look possible for this year?

Pedro Echegaray: Yes, as you know Maruti is an important customer of Bill Forge through Tier-I. Bill Forge supplies mainly to Tier-I customer GKN, Nexteer and others which in turn supply to Maruti Suzuki and yes, indirectly we are participating I would say in all Maruti launches.

Ronak Sarda: Okay, sir that is good to hear. And sir, when do we expect the New Mexico plant to ramp-up to many optimal capacity will that take almost full year I mean full of 2017 or do we expect second-half to be much better than the first-half?

Pedro Echegaray: No, production has already started. We are already producing three shifts but obviously, productivity still will be low because everything is new. It depends from the customer we would reach peak production next month. Customer is desperate to receive as many parts as possible from Bill Forge in Mexico. We have to be realistic, everything takes time there is a learning. We think definitely the second semester will be a strong semester in terms of revenue in Bill Forge Mexico that is for sure. Even second quarter we will notice, we will feel in our P&L some effect of Bill Forge Mexico already.

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

Priya Ranjan: So, my question pertains to the Caterpillar order when is that expected to start which was I suppose around €15 million?

Pedro Echegaray: It has already started. Caterpillar deliveries has already started. Obviously, first has started in Europe in Metalcastello, we are starting right now in India.

Priya Ranjan: Okay. So, Europe has already started and we will be starting in India now.

Pedro Echegaray: Yes, correct.

Priya Ranjan: Okay. And sir, any new order in Europe, I mean apart from what we have said a couple of quarters back?

Pedro Echegaray: You mean for Gears, Metalcastello or overall?

Priya Ranjan: Overall I mean.

Pedro Echegaray: Well, we have some couple of new orders in our passenger vehicles division the forges we have in Lithuania I already mentioned this order for a customer in Poland plus some new order also for Galfor. So, we are doing well and I would say that we are growing faster in Europe than the passenger vehicle market.

Priya Ranjan: And just on Mexico, is the GKN order is also some of the Indian orders has transferred there or GKN Mexico order is actually completely new order?

Pedro Echegaray: No, it is completely new order. Bill Forge from India is currently exporting to Nexteer Mexico and Nexteer Mexico it is already in discussion with us to add new orders to our Bill Forge Mexican plant. But none of those orders from Nexteer or GKN will replace or substitute any of the existing orders we have from Bill Forge India.

Hemant Luthra: Okay. Just also, you guys must be curious. I wanted Anil Haridas to be on the call because he is now fully integrated into the team. He could not be because of reason where I decided to say that customer comes first ahead of investors, I am sorry to say that to you guys. Bill Forge had signed an agreement or was in the process of signing an agreement with a Japanese company which is a global leader in heat treatment. That global leader in heat treatment has happened to open doors for them in India and globally and that customer happens to be in the Bill Forge plant. So, in addition to what Pedro has told you, now we are trying to see if we can leverage that Japanese heat treatment partner so that we can just not supply out of Bill Forge into the Japanese company but we can also supply get more access to the rest of Mahindra CIE. So, that is pretty much in line with why you buy company like Bill Forge and see how they can open up more doors. So, next time I promise we will have Anil on the call.

Priya Ranjan: And just JP, can you give that consolidated net debt number?

K. Jayaprakash: It is around the same number as we had towards the end of December. 10,400 million.

Hemant Luthra: About Rs. 1,000 crores.

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

Srinath Krishnan: Sir, you mentioned that Mexico is already in two shifts. How big would Mexico plant be by end of this year in terms of contribution? And secondly sir, Bill Forge contribution for the quarter and margin if you could provide that will be really helpful. And lastly, you mentioned that you have headroom in stampings business and castings if I am not wrong. So, what would be the current margins in those two businesses?

Hemant Luthra: See, we cannot break-up by while it is nice to have the plants compete with each other in terms of performance. But we also encourage them to collaborate. So, if you encourage them to collaborate and Bill Forge move some work to Chakan then individual Bill Forge numbers are not indicative of how well Bill Forge and Chakan are working together. So, trying to give numbers by units does not make sense to you. We are giving you numbers by geographic Europe, India and consolidated. Sorry, I miss the second part of your question. Yes, you are asking about headroom…

Srinath Krishnan: Current level, current margin levels first and then…

Hemant Luthra: Current margin levels of what?

Srinath Krishnan: The castings you mentioned, you are at I guess at mid-single-digits, right if I am not wrong. So, how much would it be?

Hemant Luthra: Again, I am saying, I am reluctant to give numbers for casting because just remember that yes, it is lower than forging. It is a universal truth that it is lower than forging, okay because forging tends to get machine castings, what we are doing is not machining everything, we are machining stuff like turbo chargers and so on that we are sending out to Honeywell. But also if you remember in casting when you produce crankshafts, crankshafts can be forged or cast. So, when I go out to do the marketing of crankshafts, if the engine is small I can offer to the customer both forge and cast crankshafts. So, gears which has the highest margin just now is running flat out we are going to do something more to improve capacity there. Chakan is running below the capacity, casting is running below the capacity, we do not need to put in any CAPEX but we can switch demand from Bill Forge to Chakan for forging, other than that I do not want to get into more details.

Vikas Chandra Sinha: Srinath, coming back to your question if there is headroom for margin growth in India, the answer is yes. I will draw your attention to the CIE presentation, it is on the CIE website and it is their Vision Documents for 2016 to 2020 dated 26th May, 2016. There they have said that the EBIT margin in India should grow by at least 3% to 4% by 2020 that is a clear indication that we believe that the margins can improve. And coming back to what Hemant was saying, yes we are trying to implement our diversified product market strategy and that is the benefit of diversification where sometimes some verticals do well, some do not. A clear indication if you look at what Hitesh was asking the question about Gears plus Bill Forge put together. It is a fascinating thing because Bill Forge in this quarter has not done well because of the demonetization effect in two-wheelers, while Gears has done quite good because the tractors has done particularly well in Q1, so they cancel out each out each other. So, that is the idea but you are right, in operational terms whether operational efficiencies can be improved at foundry and stampings? Yes, we do believe operational efficiencies can be improved at those places. At Gears and Bill Forge of course, the idea is to keep growing because there are a lot of growth opportunities there. At foundry and stampings the idea is to keep improving operating efficiencies. I think there is a growth opportunity at forgings also because forgings supply crankshafts to Renault KWID as well as to Maruti and there is a growth opportunity there. While composites and magnetic, we are holding on to both the revenues as well as the margins. So, this in a nutshell is what is happening on the growth and margin parameters for the various verticals in India and collectively they will achieve whatever I just talked about in terms of the 2020 I could say the aspiration that we have. So, that is on India. On Europe also you had some question, Srinath?

Srinath Krishnan: No, sir, I am done. Thanks a lot.

Hemant Luthra: One other clarification that I want to give because the whole idea of being a multi-product company, under one roof, reporting consolidated results, and doing everything at arms' length, this supposing I find that supposing I want to push the stamping business market share with Mahindra or Tata higher, okay and I am also supplying castings to them and I am supplying forgings to them, very often it can happen that I offer them a basket of products and when I offer them a basket of products then I am interest in the combined EBITDA of that basket rather than the individual pieces of that basket. Supposing somebody cannot develop a complex casting and I do it for it, I will say all right I will do this casting for you but give me an extra order on stamping. So, that is why, it is not as if we are trying to hide anything.

Srinath Krishnan: No, I understood. Sir, one question which we missed out was Mexico what would be that peak revenues from that plant from what you have invested?

Pedro Echegaray: With the current investments which right now we are discussing an expansion but with the current environment that peak revenue will be around $20 million.

Srinath Krishnan: Okay. Are you expanding that facility?

Pedro Echegaray: No, we are analyzing, we are studying that because as I said there are customers, the current customer GKN and Nexteer they are asking additional volumes for which we will have additional volumes and orders for which we will have to make additional investments. It is under analysis at this moment.

Hemant Luthra: There is also one other thing that I want to point out because Pedro, Ander, Vikas and I were having dinner together yesterday, we have publicly announced that at the right time when we can forecast stable revenues and so on out of CIE's Brazilian, Mexico and Chinese forging operations we will put them inside Mahindra CIE, it is a public announcement that has been made many times. Okay, now somewhere along the line as we proceed towards that, we will also start to see optimizing what Mahindra CIE's Mexico plant through Bill Forge does and what CIE's plant to Bill Forge does. Today, we cannot do it because they are two separate companies, two different sets of shareholders and we cannot say that transfer business from one to the other, okay. But going forward when you are looking at headroom for improvement this is also what is going to happen. If you look at let us say 12 months from now when Brazil, Mexico, China are part of let us say Mahindra CIE you will start to optimize and say shall we do everything in both the plants or shall we do one in one and the other in the other. So, that kind of optimization upsides are still available.

Srinath Krishnan: So, that this integration would happen in the medium-term 12 months to 24 months?

Hemant Luthra: No, I do not want to put a date on it because Brazil, Mexico, China are at different stages of evolution, investments have been made and once we can see a stable revenue stable cash flows then it is easier for us to come back and do arms' length relative valuation. At the moment, we are a little away from it and when that happen then we will let you know in advance and obviously, we will take shareholder approval.

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

Sandeep Baid: My question is again on Germany. I understand that Mahindra CIE Forging Germany plus UK made a loss of about €12 million at the EBIT level last year 2016. So, this year I assume that the loss will not be there and we should be looking at least single-digit Euro million number?

K. Jayaprakash: Last year losses in MFE and Stokes, yes I understand €12 million you talked about. What is the question you have?

Sandeep Baid: So, this year is it fair to assume that losses will not be there and you will be looking at least at single-digit million numbers in terms of EBIT?

Pedro Echegaray: This year definitely will post positive results in Germany, okay. And talking about last year you have to remember that we had a several one-time negative charges. We made a last quarter write-off of €4 million plus several other activities problems. So, nothing of that is happening now. Now, we are in normal production in quite situation so yes, we will positive results in Germany bottom-line.

Sandeep Baid: So, mid-single digit kind of margins something that one can look forward to?

Hemant Luthra: I am not going to forecast margins but why do not you look at the history of Mahindra Systech five years ago when it was different plants in Germany were running at between 8%, 10% or 12% EBITDA, okay. With CIE's help should we get there? Yes. Will it take x months, I cannot predict. The fact that it has been such a sharp improvement between Q4 and this quarter thanks to people like Edmundo who were transferred from Mexico to Germany, he speaks perfect German, he is fluent, he understands the people. Ander has been there. Jesus Maria has been to Germany, so I think that team is motivated. When do we get that number of all time high that we have had there I am not going to predict.

Sandeep Baid: Okay. And Pedro you had mentioned sometime back that it probably may take about two years for the Mexican plant of Bill Forge to fully ramp-up. Now, I understand we are looking at much faster ramp-up. So, would it be fair to assume that by end of this calendar year full ramp up of the current plant should happen?

Pedro Echegaray: Bill Forge Mexico, yes, definitely. Yes.

Sandeep Baid: Okay. So, the $20 million revenue potential which is there we should be looking at that kind of run rate by the last quarter of this calendar year?

Pedro Echegaray: By year end in the next year calendar year I think our revenue for Bill Forge Mexico should be around $20 million, yes.

Sandeep Baid: All right. And when do we plan to decide on the expansion of the Mexican plant, will it take some time?

Hemant Luthra: After this call shall we give Mr. Trump a call. I do not think anything drastic is happening, healthcare is not changing much, traiffs are not happening, NAFTA he is not exiting, he is trying to say that we have we will have a negotiated settlement. So, if all goes well I would imagine that six months before we run out of capacity, we will be starting to plan for additional capacity.

Moderator: Thank you. The next question is from the line of Nishant Vass from ICICI Securities. Please go ahead.

Nishant Vass: Sir, I have just two questions, one medium-term and one slightly long-term. In terms of the diversification strategy, customer diversification strategy that we are undertaking in India, so if I were to ask you realistically when do you think the Japanese OEMs, that are large, Japanese and the Koreans they are large in India can be a meaningful share of our revenue contribution when I say ex of Bill Forge because of all the efforts that we are taking will it be a three year out cycle or more than that, first question? Second question on a longer-term thought process from a Powertrain perspective and this probably can be addressed by Pedro. CIE forgings is obviously a very important supplier on the pass car side. So, with electrification being a very talked about topic globally and the German OEMs are also aggressively looking at it, where do you think the opportunities can be for us as a supplier on the electric side and are we exploring products on that? Thank you.

Hemant Luthra: While Pedro thinks about it let me give you some of the benefit and let me extend an invitation to those of you who are interested. I was fortunate to be present at the CIE Board Meeting which I attend and I am going there again next. Where the CTO of the company, Mr. Jose Esmoris, made a presentation which I do not think we should try and cover in a Q&A on a analyst call just now. That presentation said what is happening around the world, what is hybrids how long will it take electric vehicles to come? What products and technologies does CIE need to focus on? Where should these be? What is going to be happening in Asia? Is that electrification going to be coming first to Europe then to Asia? So, there is a very thorough study that has been done. I do not think I want to put it on the website because it has strategic implications. But for those of you who are interested in trying to understand how well Mahindra CIE is prepared for this, okay, schedule an appointment with Vikas who is Head of Corporate Strategy and he will help you understand that under with the blessing of CIE we are preparing Mahindra CIE also for the same thing. I do not know if I can answer your question but it is not going to come as deep shock to us that suddenly we have to change our parts.

Pedro Echegaray: Let me complement what Hemant has said, well even though it is true we keep talking about a crankshaft production as it is our main product in Europe for passenger car, it is definitely not the only product. As you know CIE forging have three plants, one in Spain called Galfor another one also in Spain called Legazpi, and then we have Lithuania. So, only Galfor it is dedicated to crankshafts production. Legazpi does not make any crankshafts at all, they make transmission parts similar to Bill Forge they make tulips and CV joint components. The same is true for Legazpi but as I already mentioned Legazpi is starting since late last year to forge crankshafts but this is still relatively small business. So, we are not as much dependent as it might look from crankshaft's production in passenger cars in Europe. Having said that, I agree 100% with Hemant we do not expect any drastic change in the market as you know. This is going to happen no doubt about that. But it will take time probably there will be an intermediate stage which are hybrid vehicles. As you know hybrid vehicles use both internal combustion engine plus electric motors. So, I would say in the next 10 years to 15 years we do not expect any drastic reduction of crankshafts production as hybrid vehicles will require also crankshafts but in the long-term same as we have done in other technology changes we can easily adapt our production facilities to whatever new products, electric vehicles require. Remember that our equipment and faculties are not dedicated, they are flexible and by changing the tooling we can make easily any other forging products for any other customers. In fact, we have already started development parts for electric vehicles and this trend will continue and will increase in the future as demand for electric vehicles to grow.

Nishant Vass: Yes, basically on the medium-term possibility of India revenue? All the efforts that we are making via Bill Forge and basically when do you think it can lead?

Hemant Luthra: Just one second, Bill Forge signed last year and people have come here when Mahindra put together a joint venture between Mitsui, and Sanyo and MUSCO from beginning to end it took three years, okay. All that I can tell you is that has been a little over two years since we have been wooing some Japanese Tier-I and Tier-II suppliers and people who will help us open doors and I would imagine that we may be closer to a decision 6 months to 12 months from now not longer.

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

Priya Ranjan: My question related to the Bill Forge India expansion and where are we in terms of expansion because we were expanding our capacity in cold forging I think, mostly I guess in cold forging, right?

Hemant Luthra: Vikas, you want to take that cold forging expansion of capacity?

Vikas Chandra Sinha: At Bill Forge?

Priya Ranjan: Yes.

Vikas Chandra Sinha: Bill Forge has had like in the last financial year itself and we are talking about F 2016 I think there was as balancing expansion both at Bengaluru and at the Coimbatore plants, so that has already been done and it has already been factored into the previous financials let us put it this way. So, that will have no impact on this year, this calendar year financials.

Hemant Luthra: I want to add something more which again to supplement Vikas if you are saying what Bill Forge is going to do, I was with Anil in Bengaluru day before yesterday, we are looking at some potential opportunities for growth organic and inorganic and he said that he may want to buy some land in Coimbatore because the prices of land is lower and the demand from some of his overseas customers is likely to translate into something that might require additional capacity expansion beyond what Vikas has said. So, in the past may be Anil was constrained by the fact that he had private equity as an owner and who are good people Kedara was very good for them. But the confidence that he gets that he has a strategic partner now mean that they are going back into the drawing boards and looking at products and customers where they can expand more aggressively. While no CAPEX may be required for meeting their current targets, if we have to do what we have to do which is as part of a strategic plan set between 2017 and 2020, we will double our market capital. The eye on growth will have to be there all the time.

Priya Ranjan: So, I mean at the current level Bill Forge India operations can do around Rs. 180 crores of revenue run rate quarterly?

Hemant Luthra: I would imagine that Rs. 170 crores to Rs. 180 crores sounds right.

Pedro Echegaray: Yes, we do have that capacity.

Hemant Luthra: And I think if Bill Forge Mexico happens and they consolidate that then it should be Rs. (+180) crores plus not Rs. (-180) crores.

Moderator: Thank you. The next question is from the line of Vidrum Mehta from ICICI Securities. Please go ahead.

Vidrum Mehta: Sir, I just wanted to clarify on the Bill Forge front that is Mahindra CIE India minus standalone will be Bill Forge plus Gears, right?

Vikas Chandra Sinha: Yes.

Vidrum Mehta: So, sir, in that case, in Q1 CY 2016 last year, Bill Forge was not acquired and at that point of time we only had gears business. So, how come the revenue is coming as a negative like?

Hemant Luthra: I will answer the question on a business level and then I will turn it over to JP. Sometimes you shrink the revenue to become more profitable also, no.

K. Jayaprakash: I do not know how you have calculated this, you are talking of Q1 2016, right?

Vidrum Mehta: Correct.

K. Jayaprakash: And how did you pick-up gears being a negative number?

Vidrum Mehta: Sir, it is in the presentation that we have 4086 million for last year that is Mahindra CIE India. And Mahindra standalone number which we have reported is 447.

K. Jayaprakash: That is including excise.

Vidrum Mehta: Yes, sir, if I subtract excise from both from India also and from standalone also then to it would be negative, right?

K. Jayaprakash: 4086 million you do not have to reduce excise, from the standalone publish numbers you have to remove the excise number and that is revenue. See, those numbers are not comparable, so Rs. 447 crores that you are seeing first of all you remove the Rs. 43 crores of excise out of it.

Vidrum Mehta: Correct, so it will be Rs. 404 crores.

K. Jayaprakash: Rs. 404 crores from there you have to remove the other operating income because on the presentation what you are seeing is sale and not total revenues.

Vidrum Mehta: Okay. And sir, before like when we acquired Bill Forge six months back at that point of time for FY 2016 the Bill Forge clocked roughly revenue of Rs. 580 crores. So, if I take it on a quarterly basis it would be doing around Rs. 150 crores roughly.

K. Jayaprakash: Currently.

Vidrum Mehta: But sir, right now our total revenue from Bill Forge and Gears comes out to around Rs. 90 crores.

K. Jayaprakash: Again, you are doing the same mistake. First of all, you are comparing total revenues with sales. You have to knock off other operating revenue from the SEBI results and then reduce excise and then compare with the presentation numbers. It should come to about Rs. 190 crores, the Bill Forge and Gears put together.

Moderator: Thank you very much. That was the last question. As there are no further questions, I would now like to hand the conference back to management for any closing comments.

Hemant Luthra: Thank you for a very helpful Q&A session. We have the confidence that much of what we were telling you last year that we will lick the problems in Germany which we have. At this share price, it makes sense for us to continue to look for acquisitions which do not have to be cash. But it can be stock and cash like we did for Bill Forge as long as they are earning accretive and value accretive. I have mentioned that Governor Rajan has gifted us the opportunity where number of NPA type of companies are coming to us that is slightly more risky but there are also now enough people who love what we have done with Bill Forge and this implies that the management team stays in place, they take some upside, they take the cash, reinvest 50% and then there are a number of company that have come to us and said that why do not we do the same model, we love the idea of becoming part of your ambition to create the global leader in LCC automotive. So, there will be one or two other options I think where people will say even if it is not an NPA they will say that we will turn over the company merge it with a large whole as long as we can run what we were running be able to grow it with the cash that comes from a larger entity, do some cross-selling. So, quite frankly speaking I have ever been more optimistic about the future of Mahindra CIE. Whatever feedback we get from the automotive division and farm equipment division of Mahindra about the monsoon being normal whatever I hear though I am not privy to all of that is also that there are new Mahindra models in the pipeline which should trigger some business for their old faithful suppliers like Mahindra CIE. So, never been more optimistic all that I can say is that the glass is much more than half full. Thank you all.

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

Note: This statement has been edited to ensure quality