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

April 24, 2018

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 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 April 13, 2018 in respect of Mahindra CIE Automotive Ltd Q1 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

Krishnan Shankar
Krishnan Shankar
Company Secretary & Head – Legal

MAHINDRA CIE AUTOMOTIVE LTD. MUMBAI

“Mahindra CIE Automotive Limited Quarter-1 Calendar Year 2018 Earnings Conference Call”

April 20, 2018

MANAGEMENT:	**MR. HEMANT LUTHRA – CHAIRMAN, MAHINDRA CIE AUTOMOTIVE LIMITED** **MR. ANDER ARENAZA ALVAREZ – 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 – MAHINDRA CIE AUTOMOTIVE LIMITED**
MODERATOR:	**MR. NISHANT VASS – ICICI SECURITIES LIMITED**

Moderator: Ladies and Gentlemen, Good Day and Welcome to Mahindra CIE Automotive Limited Quarter-1 Calendar Year 2018 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 telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Nishant Vass from ICICI Securities Limited. Thank you and over to you, Sir.

Nishant Vass: Thanks, Janis. Good Afternoon everyone. Thanks for joining us for the earnings call of Mahindra CIE Automotive Limited. From the management side, today we are represented by Mr. Hemant Luthra – Chairman of the company; Mr. Ander Alvarez – CEO; Mr. K. Jayaprakash – the Chief Financial Officer; and Mr. Vikas Sinha – Senior Vice President, Strategy. I would now like to hand over the call to the management for their initial remarks. Over to you, Sir.

Hemant Luthra: Good Morning everybody, this is Hemant Luthra. There is not much for me to say since all of you have seen the results and there is no point gilding the lily, and therefore, all that I am going to say is it is my pleasure to be part of this team and my pleasure to depend on people who are far better than myself to deliver the results that I think shareholders were looking for, so I will just hand over to Vikas and I will come in at the end. If there are questions, feel free to direct them to the CFO, JP is here, Oroitz from Spain is also here, Vikas is here who heads our investor relations, and Ander is here, so feel free to direct the questions and then I will come in at the end, I do not think I need to say much more here expect we are very, very pleased with what is going on.

Vikas Sinha: Good Morning folks. I will present the MCIE results for the first quarter of CY '18. We will start with the India results on page 4. Now, India had an excellent performance in first quarter in both revenue and profitability terms. The EBITDA for the India business has breached the 15% EBITDA mark, which is good news for us. The EBITDA has thus grown by 49% versus first quarter CY '17, EBIT by 71%, and EBT by 88%. The sequential comparison versus previous quarter is even better showing consistent growth in both revenue and profitability. Do keep in mind that the previous quarter was depressed by one-time VRS and other provisions, which we had talked about in our last call. The India business has grown by 24%. All divisions in India have seen healthy growth. The main drivers of our growth in India has been the positive market evolution in UV, tractors, and two wheelers as well as the growth at some of our key customers. The revenue growth has also been augmented by favorable raw material and scrap prices. Based on the overall economic indicators in India and the normal forecast for the monsoon this year, we remain optimistic about our performance in next quarters.

Our European results are shown on Page 5. Sales have grown by 26% vis-a-vis Q1 C '17, 10% of this growth is on account of positive exchange rate translation impact. We have managed to maintain EBITDA margins as compared to Q1 C '17. In absolute terms, EBITDA has grown 27% versus Q1 C '17, EBIT by 35%, and EBT by 46%. The sequential comparison versus previous quarter shows a decline on an absolute as well as margin basis. As explained by Ander in the previous results call, the EBITDA in Q4 C '17 was inflated due to retrospective price increase and the reversal of the provision made for the year on inventory results. The quarter's EBITDA is also negatively affected by the steel price increase agreed to by customers, but yet not received from them. 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.

Now, if we go to Slide 6, we will see the consolidated results which are a combination of the positive evolution in both India and Europe, 26% growth in revenue, 36% growth in EBITDA, 50% growth in EBIT, and 62% growth in EBT when compared with the same quarter of last year. The consolidated EBITDA margin is at 13.8% from Q1 CY '18 compared to 12.8% in Q1 CY '17. The decline compared to the previous quarter is due to the effect of one-time provision that we referred earlier, with that we can now proceed with Q&A and I hand it over back to Nishant.

Hemant Luthra: Gentlemen and Ladies on the presentation that has been uploaded to the site, our team has been working very hard, please note that the typo on the first page, it should be April 19, 2018, and not March 19, 2018, we will have it corrected, my apologies on behalf of the team for that error.

Moderator: Thank you very much. Ladies and Gentlemen, we will now begin with the question and answer session. We take the first question from the line of Ashi Anand from Allegro Capital. Please go ahead.

Ashi Anand: The first question is with relation to the margin expansion in India, just wanted to understand what were the key drivers of the margin expansion and sustainability of the same going forward?

Vikas Sinha: Ander would like to take this, basically why did the margins in India increase and whether it is sustainable.

Ander Arenaza Alvarez: I am pleased to answer this question. During all this last few years, we have been working very hard in order to improve our internal efficiency in each and all of the different division that we have in India. This work, let us say we focused on efficiency and internal improvement is now paying the result. We have listed a few main effects also to have this huge increase in the margins. Of course, one of them is the volume increase as we have had in all the divisions that is very good news and that help us to a lot to leverage this margin increase, but on the other hand we have this new technology implementation, efficiency, improvement action that we are working very hard. As we said that the most performing technology was the casting technology and also gears and forgings where they are doing an excellent job. We are increasing our output, I mean I can tell you that this first quarter, this Q1 2018 has been most productive quarter in the history of our companies. The production in our casting wing per month where we used to do about 3500 over passed the 4000 tons and the same situation in the forging, so I do think that there are two main drivers, volume increase and general efficiency improvement and we are now marching and gaining the trust and confidence of our customers, because now we are becoming a real reliable and excellent quality company and the market is recognizing that.

Ashi Anand: The second question was with relation to Europe, if we look at European growth and if you adjust for the currency impact, it is about 16% growth. Now, you had mentioned in the last quarter that part of this growth will be driven by new business wins in Metalcastello and the Lithuanian plant, just wanted some kind of an understanding what is the outlook on kind of European growth one for this year and if we are looking at it from two to three year perspective on a constant currency basis?

Ander Arenaza Alvarez: In Europe as you saw and as Vikas explained in the presentation, the growth that is felt and they have positive impact of the exchange rates is approximately 10%, so the real let us say organic growth in Euros, we are taking that in Europe is approximately 16%, that means that we are far above the market and especially we are Metalcastello is growing at a tremendous pace mainly because we do know that we mentioned here we got this new program coming from our customer Caterpillar as we were making all the transition during last year and we have already started the production, so the jump in Metalcastello, there is 45% growth in Metalcastello in last quarter 2018. Our forgings have also grown in a good pace and in even Mahindra Forging, (German Forgings) let us say German forgings you know that we have been struggling during the last year to make it profitable business from that company. Now, we are with a growth of approximately 10%, so overall you can see that the growth is coming from all the different verticals that we have in Europe and of course the higher growth is coming from Metalcastello due to this new program that is now starting the SOP and I can tell you that we are getting the ramp up, so the growth should continue in the next quarter.

Vikas Sinha: Just to add to what Ander has said, the long-term growth will be closer to the market growth, that is something that you have to bear in mind. This, as we said is the ramp up period of the two new businesses that you have mentioned, so keep in mind that the long-term growth will be closer to the market growth, which in Europe would be lower than what has happened this quarter.

Moderator: Thank you. We take the next question from the line of Nitesh Sharma from PhillipCapital. Please go ahead.

Nitesh Sharma: Sir, to begin with on the India business we have seen a strong revenue growth traction much ahead of what our key clients have grown, so can you help us strip off the impact of RM cost passing of to the end customer?

K. Jayaprakash: We have seen a 24% growth in the India business. I would think somewhere around 3% to 4% would be because of the Steel price increase, the rest would be all organic and volumes.

Nitesh Sharma: Is there any impending rate hike in India which would come in the subsequent quarters?

K. Jayaprakash: The price for steel is increasing every month, so it would come in I would think because I do not think the steel price will settle.

Nitesh Sharma: In Q1 itself, we saw some gross margin pressure almost 400 BPS to 500 BPS margin pressure on the gross level, so do you think this would reward to some extent in the coming quarters?

K. Jayaprakash: You are looking at the raw material price percentage going up, right?

Nitesh Sharma: Right.

K. Jayaprakash: As of now, the scene looks difficult, so I do not think there is going to be any immediate reduction.

Nitesh Sharma: Can you help us update on the Mexico plant, what is the status, where are we in utilization and how is the ramp up going on?

Ander Arenaza Alvarez: The ramp up is going on according to with the plan that we have with our customer in Mexico. What is true is that it is a new factory, new machinery, new people, we have done this project to cope with the demand and let us say that we have lot of threshold in that plant, however, this week we have our best forging technician from Europe and from Mexico they are helping in forging plant in Mexico, they are supporting Bill Forge because during the next few quarters, the production will double, so we need to be ready to continue with the ramp up. On top of that, we embraced it and we were nominated for a new product for another customer. We set up one new press in Mexico, all this speeds up process with the sample, production, and everything has been done and has been approved by government and the SOP will be January 2019, so in approximately nine months or eight months, we will start the production with another customer, so let us say that the expectations on this plant are very high, and just to give you also additional information, with this second press, we still have limitations with probably with the forecasted demand from customers, so we will probably by the end of this year we will add an additional third press to continue with the overall so the expectations in Mexico are really, really excellent. They only point is that okay, this is a new factory and the inefficiency is coming from the factory, I mean the scrap rate and the OEE coming from the line are not still at the expected level, so that is where we are now working on with our best teams.

Moderator: Thank you. We take the next question from the line of Ujwal Shah from Quest Investment. Please go ahead.

Ujwal Shah: Just wanted to understand that once the steel price increase is passed on in Europe, what will be the impact on the European margins for the next few quarters, so for the nine months?

Vikas Sinha: Oroitz, can I request you to take this, basically he is saying when the steel price increase comes in, what is going to be the likely impact over the full year in CY '18 in Europe?

Oroitz Lafuente: Yes, in Europe total impact of the steel price increase that is about 1% on EBITDA margin.

Vikas Sinha: 1% on the margin, there will be an impact.

Ujwal Shah: Coming to the Bill Forge, Mexico, operation, there is a note stating that we have around 10 odd Crores of currency impact that came on account of this unit; can you explain number a bit large?

K. Jayaprakash: We have a loan in Mexico which is dollar denomination and the local currency strengthening is what has resulted in this exchange gain.

Ujwal Shah: Lastly, Ander just mentioned that MFE (German Forgings) had seen a growth of around 10 odd percent, so have we won any new orders in that plant because 10% looks pretty decent growth for MFE (German Forgings) business, so is it expected to continue in this state for next nine months?

Ander Arenaza Alvarez: Yes, MFE (German Forgings), let us say right now the growth is 10%. The forecast that we have let us say the order coming from our customers show the same level of this high demand in the next let us say two or three quarters. This growth is coming especially because all the customers we have moved are most of them are European truck makers, Scania, DAF, MAN, Daimler and those companies they are exporting a lot to the States, the truck business in the States is booming right now, so we are supported by that. This is one of the explanation why we are receiving so many orders from the customers. Second impact is that this technology is quite mature technology and some of our competitors are failing in the market, so let us say there is a concentration in the biggest client, in the most reliable company, so we are getting benefit. We are recuperating part of the business coming from the non-performing companies or competitors, so with this two assets, right now the position all our plants in Germany, three of them they are fully booked and even with additional business sometimes we have to refuse these orders because the capacity is fully booked, so let us say that the momentum is really, really good in Germany in this particular business and the results in this third quarter as Vikas explained were negatively affected by the steel price increase.

Last year, the steel price increased in 2017, the steel price went up something like €25 to €30 per ton that was the growth and we succeeded in passing through this increase to the customer at the end of the year, that is why the Q4 was excellent because we were paid retroactively from 1st of January. This year the growth in 2018, the growth is huge, it is about €100 per ton, so that is why all of the suppliers we are going to the customer absolutely aggressively because we cannot bear €100 per ton for more than three to four months, so right now we have already closed most of the agreements, not 100% of them but most of the agreement are already closed and we are going to start recuperating the amount of the increase, we are going to recuperate approximately 1% that order in Spain during the Q2 and Q3, so we will have a positive impact coming from that in the next quarters.

Ujwal Shah: Ander, lastly, you mentioned about Bill Forge, Mexico, ramping up as well, so based on our expectations once the three presses are all up and running, what is the peak revenue expected out of Bill Forge, Mexico, operation?

Ander Arenaza Alvarez: We could expect $30 million more or less, so that is $30-$35 million. As far as the orders that we have now that is the amount that we expect to reach by the end of next year, we will start the ramp up of the new customer project beginning next year. The ramp up of our current 15 customers will be at the peak volumes by the end of this year, so in 18 months more or less, we will reach approximately that level.

Vikas Sinha: That would be the run rate, it will not be the full-year number.

Ujwal Shah: What would be the full-year number, run rate this means per quarter?

Vikas Sinha: 30 million is annualized, but at a run rate level at the end of next year.

Moderator: Thank you. We take the next question from the line of Sunil Kothari from Unique Investments. Please go ahead.

Sunil Kothari: Sir, I have two questions, basically we are now reaching revenue size of roughly 1900 Crore per quarter consolidated and Europe 1100 plus and 700 plus India, where is this demand trend continues, the steady demand and little bit growth, where you will feel you will have a capacity constraint?

Ander Arenaza Alvarez: Regarding, our capacity constraint in Germany as you know it is not really profitable business, it is below our standard. We do not plan to continue invest in that, we are only making maintenance CAPEX in our Germany operation and the idea is to fulfill the capacity, maximize the resource, and do not invest in development in those company, although let us say in India, we are investing heavily to solve this bottleneck in terms of production to continue growing, so you can see that the last year we made an investment approximately 300 Crores. For this year, we expect to go to up to 400 Crores of investments and the idea is to continue adding capacity. We are even advancing the gear business, it is fully booked right now and we are advancing 2019 investment to 2018 so we are moving ahead the investment. The forgings, Bill Forge for example we are adding also a couple of presses in order to continue with the supply to the customers that they are increasing every month, so we are growing let us say adding new capacity in all the profitable businesses where we have the customer demand, that is where we are, so we are really happy that we are investing in the hi-tech technology, we are adding robotized cells, we are moving in the right direction, technology and capacity, so that is my explanation on how we are going to cope up with the demand is adding capacity where we need it.

Sunil Kothari: Currently, we do not face any capacity constraints at this run rate?

Ander Arenaza Alvarez: We have done certain capacity constraints in Mexico because of some operational problems, let us say like that those are the being solved and we will release these bottlenecks and we will continue in production. Internally, we do not have now any blocking point in the company, but we need to be prepared for the new forecast that we are receiving from the customer, so you need to also understand and we were yesterday analyzing this deeply in the Board of Directors why we are having this excess and my point was very, very clear and as we are now supplier with excellent delivery performance and excellent quality performance, we are consolidating the production from other competitors and the customer are trusting us, so that is mainly the key of the success that we are having especially in India.

Sunil Kothari: My last question is, Sir, we have some objective to achieve some EBITDA margin and EBIT margin, so that process is continuing and will we see some improvement in current year consolidated margin?

Ander Arenaza Alvarez: I have this pressure from the shareholders and I have the pressure also from CIE to reach the standards that CIE has in let us say Europe and worldwide and we are in the way to get it. Yes, my expectation is that we should continue.

Moderator: Thank you. We take the next question from the line of Pratik Poddar from ICICI Prudential. Please go ahead.

Pratik Poddar: Sir, just one question on the India part, if I look at your key customers, their growth is almost 12%, 4% is explained by the steel cost inflation, the rest is explained by what, is it at the other key customers have grown faster than the industry or market share wins, could you just talk a bit?

Vikas Sinha: If you refer to Page 4, on that Page 4 of our investor presentation and we have given a market update table, below that we have given a note on our key customers. If you look at the weighted average growth, I am saying the weighted average growth of our key customers then that would be about 18.5%, so I will just read that out. "The growth of MCIE customer's weighted as per their share of business in MCIE India for January to March 2018 is 18.5% and sequential growth is 15.7%", so that is if I weight it as per what my customer buys then that is the result, so we have given you that. Over and above that, 3% to 4% is raw material increase which JP has pointed out and the rest obviously is from some of the new additions that we have talked about in the past.

Moderator: Thank you. We take the next question from the line of Arvind Joshi from Bateleur Advisors. Please go ahead.

Arvind Joshi: I had a query regarding our announcement which we had made around the Bill Forge acquisition where we are intended we would be doing other QIP to fund our future growth, but now looking at the kind of serious cash flows that are visible now, do you think QIP is gradually becoming redundant unless a exceptionally good deal comes along for acquisition?

Hemant Luthra: I would say that our focus is on ROE and as you rightly point out the balance sheet is strong, the cash flow is strong and we are evaluating different options and one of the options could be to resort to debt, so I am not going to comment on whether the QIP is redundant or not, but it does not look necessary.

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

Jinesh Gandhi: First question pertains to India business, we have seen this reasonably high swing in our RM cost as percentage of sales which might not be the right way to look at it, but given the limited understanding we have on this side, how do we…?

Vikas Sinha: Reasonably high swing in RM cost, you are looking at the standalone numbers?

Jinesh Gandhi: Standalone numbers, yeah.

Vikas Sinha: The question that he is asking is on the standalone numbers, there is a high swing on the RM cost.

Jinesh Gandhi: Is it something to do with mix, is it something to do with proportion of outsourcing versus captive manufacturing or is it just RM commodity like timing difference of pass through?

Vikas Sinha: You are referring to that number in the SEBI report from 29358 to 34319, is that what you are referring to?

Jinesh Gandhi: Yeah.

K. Jayaprakash: Basically, it has to do with the commodity price increase and the larger proportion of stamping which has higher raw material cost, so it is largely to do with the commodity price and the mix.

Jinesh Gandhi: Secondly, the India business growth of 18.5% on our key customers on the weighted average basis, this would be broadly similar across our main businesses forgings, stampings, castings?

Vikas Sinha: No, this is a consolidated view.

Jinesh Gandhi: But some businesses would have grown faster than others because of?

Vikas Sinha: That Ander pointed out in his initial remarks if you remember that gears, castings, and forgings have grown quite well and also Bill Forge.

Ander Arenaza Alvarez: I would say the castings, forgings, and Bill Forge are the best performing, fastest growing divisions, but the others are also growing above double digits, so let us say that it is quite balanced.

Jinesh Gandhi: Secondly, can you update on India business, are there any new order wins which we have seen either in terms of new customers or new products for existing customers?

Vikas Sinha: Jinesh, we have talked about some of the new wins in the past in the highlights of the last year's calendar year investor presentation, we had talked about two of those customers in Ashok Leyland and TDK. We have further got some wins, but they will start materializing only in 2019, so we have not mentioned it in this quarter's investor presentation, but we have got orders from Kia and Hyundai in the foundry and forgings respectively, so we have got that, but it will have no impact on this calendar year, it will have an impact only next calendar year.

Jinesh Gandhi: Are these sizeable orders in the sense?

Vikas Sinha: The question is how do you define sizeable?

Jinesh Gandhi: In the sense, do we have a large share of our business?

Vikas Sinha: One of them is certainly very sizeable, the other one is of course an entry point, so we are looking at it. As we come closer to that then we will be in a better position to talk about what is the size of the order, but we are excited about these two orders.

Jinesh Gandhi: Lastly, on European business margin, so if I have understood it correctly percent of RM cost would have been just about 1% on margins in this quarter, is that right? Impact on margins of commodity price is about 100 basis point.

Vikas Sinha: JP, what is the RM to sales in Europe this quarter is the question.

Jinesh Gandhi: Impact on margins of commodity price is about 100 basis point.

K. Jayaprakash: We said in the Europe growth about 2% would be because of the commodity price change, so out of the 26%, 10% would be currency related and 2% would be the commodity price related, so volume growth you can take it as 14%.

Jinesh Gandhi: EBITDA margin, the pressure which you have seen in this quarter vis-a-vis fourth quarter despite sharp increase in revenues on QOQ basis, how do we read that?

Vikas Sinha: Jinesh, we explained in Q4 of last year we had two extraordinary items, one was we had the price increase Rs. 68 million which we had got from the entire calendar year which was put under Q4, so 51 million out of that was one time and also there was this writeback of inventory provisioning. If you had taken those away, I do not think there is any drop in.

K. Jayaprakash: There is still a drop which is explained by the commodity price increase which will come later.

Jinesh Gandhi: Future commodity price increase could be about 1%?

K. Jayaprakash: The impact would be around that.

Jinesh Gandhi: Lastly, in European business this 10% Euro growth which we have seen, almost 10% is similar for MFE (German Forgings), so other business have also grown in same line because the European car business per se has been fairly weak as such, car volumes have been fairly weak?

Ander Arenaza Alvarez: We have Europe, we explained the German business, I mean the MFE (German Forgings) like I explained before. Then I explained also Metalcastello's growth, you know if we get in this new order, huge order of around €20 million coming from Caterpillar and from the similar ramp up, so we will continue growing in Metalcastello and finally let us say automotive or car forging that we produced in our previous CIE forgings, we continue growing because our activity in Lithuania in the East of Europe, we have this company where we invested in couple of presses during the last year and we are now ramping up these presses, so that is the reason of the growth. Let us say that as I told you before in Europe, the forging companies in all this sector has been suffering a lot during the last year and there is a consolidation, so the best performing company are consolidating and getting the businesses from the low performers, so we see that we are with them, company in consolidating this business in Europe, so let us say that we expect to continue growing in the next quarters.

Jinesh Gandhi: Given this phase of consolidation has started in Europe on forging side, are we looking to acquire anything on the forging businesses in Europe?

Ander Arenaza Alvarez: We do not want to add, let us say that as we told you that it depends on the profitability and strategic fit that this company could have with us. Let us say most of these companies that are in the market and they are struggling, they have very old machineries, let us say old mundane machinery, non-competitive structures. We are not willing to add more forging companies to our portfolio. What we want to do is we want to add their products and produce in our own assets, we want to consolidate the production in our terms, so we can maximize the profit from this business.

Moderator: Thank you. We take the next question from the line of Shyam Sundar Sriram from Sundaram Capital. Please go ahead.

Shyam Sundar Sriram: Sir, you had mentioned in the presentation of exchange rate effect of about 107 million in BF, Mexico, that has come in the PBT level in India in MCIE India, even at the PBT level or it is not at the EBITDA level, right?

K Jayaprakash: It is at the PBT level.

Shyam Sundar Sriram: Sir, Ander also mentioned about new order win at BF, Mexico, is it in addition to the earlier two orders that we had already talking about or?

Vikas Sinha: Ander, the question is the new order that we are talking about, is it the same as the second order that we had talked about earlier or is it a third?

Ander Arenaza Alvarez: It is the same one, it is a second customer we have.

Shyam Sundar Sriram: My last question is in Europe, this point was raised by an earlier analyst, given decent backlag that is happening, of course, Ander alluded that there is a vendor consolidation that is happening, generally from your key customers which is Renault, what is the outlook there and what is the way forward on that front?

Vikas Sinha: Shyam, of course I will ask Ander to add on to this, but the fact is our customers are equally present in both petrol and diesel, so whatever happens we will just follow them, so for us it is not a problem at all, of course both Renault and Volkswagen have diesel portfolio, but they are also accordingly changing and we do not have any preference of either diesel or gasoline in Europe, so that is not a problem for us.

Ander Arenaza Alvarez: You are right, Vikas, I mean the point is that we need to do that certain diesel crankshaft or this certain diesel components are being reduced, but at the same time the gasoline ones are booming, so in the balance we expect to continue growing. Our position, because we have analyzed this deeply, but according to our figures in the forging division, this impact will be positive for us because we are positioned in the fastest growing engines that we have in Europe in terms of gasoline, I mean Renault is trying to put capacity and it is doubling the capacity in H4 and H5 engines and we are suppliers of this platform of this engines, so let us say that the impact that we will have with the reduction of the K9 that is the diesel engine will be offset and we will overcome by this H4 and H5 engine increase, so we are not affected due to that effect.

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

Priya Ranjan: My question is related to what will be the contribution of this Greenfield of Lithuania in the overall growth and when we talk about 10% growth in MFE (German Forgings) and 45% in Metalcastello, was it in constant currency?

Vikas Sinha: Oroitz, can I request you to answer this question, so first question is how much of revenues are coming from the Lithuania crankshaft business and second question is what was the Euro terms growth in Metalcastello?

Oroitz Lafuente: The Lithuanian crankshaft business growth is something like €15 million, it is the growth that are coming from there annualized, and regarding the growth we are taking increase in Metalcastello excluding the exchange rate the impact has been 35%.

Priya Ranjan: MFE (German Forgings) will be say I mean the flat if we take the constant currency?

Oroitz Lafuente: MFE (German Forgings) is growing 10%, we are growing in production. In Euros it is 10%, it is 35 in Metalcastello, and something like 16% in the car passenger roughly.

Priya Ranjan: Sir, in India business when we talk about growth of we are barely growing in line with our weighted average growth of the customer, so when we are planning to ramp up this gear plant ahead of the one-year prior to what was said earlier, so what can be the outlook for next year in terms of overall growth because there I guess there will be certain new businesses maybe from new customers or maybe from the existing customer?

Vikas Sinha: Priya Ranjan, I would still say that we should take the weighted average growth of our customers plus something extra that would come from there, so some of our existing customers like the two wheeler business, the tractors business, the small commercial vehicle business, the Maruti business, these are growing exceedingly well, so therefore the weighted average, so we are right now in a sweet spot as far as our customers are concerned and plus we have added new customers as we talked about. We talked about Ashok Leyland, TDK, now Hyundai, Kia so this will add further growth to us in India, so that is the way to look at it.

Priya Ranjan: What will be the growth of the Bill Forge in constant excluding Mexico, if we exclude Mexico because Mexico will be I can take till the current course?

Vikas Sinha: Bill Forge has also grown 25% plus.

Priya Ranjan: Sir, just one last question on this Melrose acquisition of GKN, so what is your thought and what can be the impact for the company, if any?

Ander Arenaza Alvarez: We have had several contacts with management in GKN and their expectation is in the short-term let us say the main changes will come from the top management position that they will not affect us, operations will continue in the same way. In my opinion, there can be a positive effect for us for all the suppliers because you know that GKN buy millions of component to suppliers, but they produce also million of components internally so we are suppliers, they are our customers but they are also our competitors in some way. I am sure that with the new policy coming from the new shareholders they will reduce the investment in the production of the machinery that you know is massive in capital investment and they will concentrate on the technology and equally concentrate in the design and in the assembly of the components and that is the main concern that the shareholder of GKN have with their previous owners, they were spending a lot of cash so there was no cash for the shareholder, so in my opinion if this is how the new shareholders sees the business, we will probably see an increase in our potential business with GKN, so let me tell we are not worried. We hope they will solve everything totally and they will continue being the market leader as an excellent company there.

Priya Ranjan: When we talk about Caterpillar order from Metalcastello, now the incremental whatever order has to come has already come or we can expect more from Caterpillar and Metalcastello going forward also?

Ander Arenaza Alvarez: The SOP of this program has already started that is why we have eliminated the FOREX impact, this is 35% growth this quarter and we expect to continue growing even more because we have just started with these programs. The Caterpillar strategy was explained to us and it was pretty clear that they do not want to invest any more in the production of the component, they want to work in the design and in the assembly of the components and the production they will observe, that is the reason of outsourcing big volume of components and as we have the full trust from the Caterpillar management, they awarded us a big bunch of this outsourced components, so let us say that Caterpillar will continue and on top of that let us say that we are moving part of the production from Italy and the new projects are coming to Italy. We are moving some of the production to India, so we are making a win-win agreement with the Caterpillar where some of the production transfer and we use our capacities in Italy and in India and the customer gets the benefit of more competitive pricing in India, so let us say that we have an excellent relationship with the customer and we are making a really interesting business case for both sides.

Priya Ranjan: One last question to JP, what was the net debt position in the first quarter end?

K. Jayaprakash: Similar to the end of the year.

Priya Ranjan: Why in EBITDA we are continuously growing, but we are not able to reduce debt, so where are …?

K. Jayaprakash: We are doing good amount of capital expenditure now as was explained in various questions before and the negative thing for this quarter if one would think of is the working capital impact of all these steel mills now there is a capacity constraint and they are seeking price increase and better credit terms, and we are also required to keep inventory.

Priya Ranjan: One more thing on the domestic business, I mean we have seen a lot of demand for the truck axle etc. because the number of axles is going up in trucks, the vehicle growing much, much faster so can we tap some of the opportunity in the interim say in next one year to two years, I mean the heavy commercial vehicle side is going to get stronger?

Vikas Sinha: We will have to check which part of our business could have a look at that, axles would mean the castings business, but in India we of course cannot make the forged axles but of course on the differential side, housings etc. we can make and we do make, so that will obviously will have a positive impact, but axles in India we cannot make.

Moderator: Thank you. We take the next question from the line of Mahesh Bendre from Karvy Stock. Please go ahead.

Mahesh Bendre: Sir, in the European operations, we have hit €140 million mark this quarter, so is this the number sustainable for next three quarters?

Ander Arenaza Alvarez: Yes, I think so, that is our intention and even internally we are trying to improve the debt, so what we see is we are now in a consolidated situation, let us say all the problems, quality delivery are already in the past. You know, it is a complex business because now we are in the peak, but we expect to continue with the same trend and even improving a little bit, especially coming from the steel impact that we have to recover from the first quarter. We are penalized as I said before with 1% approximately, so we expect to recuperate this negative impact for the next quarter, so that will improve a little bit the margins.

Mahesh Bendre: Sir, just wanted to know how many plants we have in Europe and India and out of those plants is there any further scope for improvement or do you think that most of the plants that we are currently operating is stabilized in terms of efficiency?

Vikas Sinha: We have 29 plants in all, of course in Europe we would have nine plants and 20 in India, so except for our German and UK operations, all plants are in good shape. Even the German operations are fairly stabilized, but they need to improve a little bit so that is where we are.

Mahesh Bendre: When we formed the joint venture with CIE and Mahindra came together, the first plan was to improve the efficiencies of the plants that we are operating into Europe and India, so the margins have come off, our revenues have gone up, so I am just wondering can we further improve on in terms of operational efficiency in existing plants?

Vikas Sinha: Ander, the question is can we further improve operational efficiencies or have we reached the limit of our improvement?

Ander Arenaza Alvarez: Yes, we have to improve this margin, there is still a lot of room and there is a lot of growth to do and a lot of action to implement. This continuous improvement is not seen across and we are still some three to four points below CIE's expectations, so that is our job, I mean some of the businesses are performing better, the others are a little bit a lower, but all of them need to improve their margin, we will not stop until we get the minimum levels as we set.

Mahesh Bendre: Sir, what is the capital expenditure plan for Europe and India for this year and next year?

Vikas Sinha: I think our CAPEX guidance is always 5% to 6% of our sales that includes both maintenance and growth CAPEX, so that should cover.

Oroitz Lafuente: It is Rs. 4 million is the amount of CAPEX that we have for this year.

Vikas Sinha: For this calendar year, but normally it is roughly in the range of 5% to 6% of the sales, which you can see unless and until there is a very big Greenfield project that we do.

Mahesh Bendre: This 5% to 6% for both, Indian and Europe?

Vikas Sinha: Yes, on a consolidated level.

Mahesh Bendre: Sir, what could be tax rate one should assume for consolidated entity, our domestic standalone tax rate is 35%, is more than 35%, I do not know why this is high than the normal tax rate and what could be the possible consolidated tax rate one should assume for the current year and next year?

K Jayapraksah: You can take similar to what you saw in the CY '17 numbers which was around 30%.

Mahesh Bendre: Why for domestic the tax rate is high in terms of 35?

K Jayaprakash: Domestic is 35, Spain would be less.

Mahesh Bendre: Sir, last question is what is the capacity utilization in Indian assets and European assets as a whole?

Ander Arenaza Alvarez: It is not an easy question because the utilization is different in each of the division, but I would say that the utilization level right now at an average would be at 90% more or less.

Mahesh Bendre: For both India and Europe?

Ander Arenaza Alvarez: Yes, in certain divisions we will have 25% free capacity. Some orders like, for example, Bill Forge are fully booked I mean they are 100%, but overall I would say that our capacity levels we are at 90% of utilization and that is the reason we are now in the same is Rs. 4 million in new capacity to continue this ROCE that is the basic and the rationale of our strategy.

Hemant Luthra: I think I just want to add one more thing from the last call which is that if as Ander has pointed out the gears is growing rapidly, Foundry has picked up, there is some headroom in Foundry, there are different kinds of headroom and also one of the way to balance the capacity all around the system is that if Bill Forge has got servicing its two wheeler market and needs more capacity, there may be something lying in Chakan, so on an average you can take the number what you are talking about, which is co-granular. It does not automatically mean that there is an immediate need beyond the Rs. 400 million of CAPEX that we have already as Ander has pointed out. You can move capacity between locations and we are even considering how to move capacity between countries.

Mahesh Bendre: Sir, last question, we are organically growing so well with high rates and probably we might face a capacity constraint next year, so in this context still we are looking to acquire new assets, new companies in the near future?

Vikas Sinha: Mahesh, our M&A strategy is to fill up our gaps, we are not looking at M&A just to acquire capacity, so wherever we feel there is a gap and there is an opportunity and the valuation is something that is value accretive in ROCE and ROE terms only then we will do it, so it is to fill strategy gaps, it is not necessarily to growth and the strategy gaps as you are aware is basically diversification of our products, of our customers, of our technologies, and our geographic location, so wherever we see that there is a good opportunity to fill this gap, we will do it.

Mahesh Bendre: Vikas, my question is that for further incremental growth, we need to add capacity everywhere in our business, so we need to invest money in that, so are we comfortable, I mean we have to invest in probably for organic growth, so if opportunity comes our preference will be for CAPEX side will be both on organic side or we will still go all-out for acquisitions.

Hemant Luthra: I want to supplement what Vikas has said about going, "all out for acquisitions". Its a wrong phrase. "All out" implies that you are desperate. When I was a younger man there was a saying about "the top line was vanity, the bottom line was sanity, and the cash flow was reality". We need to add one more measure "Return on Equity" which is finally what matters. So when you say "all-out for acquisitions", I am going to repeat only what Vikas said. If the price is right, if the ROE is good, if it is value accretive, we will do an acquisition. If something comes our way which makes sense, we will do it but it is not as if we have to ride on a horse go charging out like Lone Ranger making acquisitions even if the valuation is not right. Our focus is on getting the ROE right.

Vikas Sinha: Your question with regard to whether we will choose organic growth or M&A, those decisions are purely driven by the returns, so any organic growth CAPEX that we also do has to deliver the returns that we have in mind, only then those projects are taken and that applies to even M&A.

Mahesh Bendre: My question was that given such a strong organic growth that you are witnessing across the geographies, are we still the thrust on the acquisition or filling the gap as you said is the same as was a year back or still?

Vikas Sinha: Like for example the easiest thing is of course to grow with your customers, so that obviously that is the most profitable way to grow, then we will do that. I am not saying that we are stopping our M&A strategy, we are not doing that, our M&A strategy continues, but our organic growth is the most important thing, it is an unarguable point. So if the organic growth gives us profitability, we will obviously take it first.

Hemant Luthra: I want to add something here Vikas, Ander, and I all work closely together on this. If there is an opportunity which meets all the criteria, financial and otherwise about being value accretive, we look at it. Sometimes we also use our intuition and judgment. But most of the times we stay away from auctions. We do get phone calls from friends. We have seen what happened with Bill Forge. Billforge can now be part of a larger system, as CIE participates in the consolidation taking place in the industry. Potential partners ring up and say that we are confident in CIE's style of management, we are confident in what Mahindra CIE stands for, we have confidence in the CIE's governance standards. We want to fold ourselves into your business. That for us is the best way of trying to find inorganic growth.

When it becomes an auction, we do not like to participate. When you ask whether, will we go all-out for M&A. Probably, if it is something sensible. If it is only to boost the top line, No. Everything has to be on the basis of filling gaps in our portfolio of technology, of geography, of customers. The more active prospecting we do the better the valuations. What you will continue to see is this mix of growth. Organic this is a phenomenal tribute to what Ander and his team have done. Inorganic too, but not at the cost of diluting the earnings or the return on equity.

Moderator: Thank you. We take the next question from the line of Sagar Shah from KSA Shares. Please go ahead.

Sagar Shah: My question was one actually, I just wanted to have an idea about the company what is something like exports and what is something like domestic sales actually just to have a breakup for the MCIE as a consolidated entity?

Vikas Sinha: Sagar, since we are geographically diversified company, it is best to look at it from an India-Europe perspective. MCIE India roughly about 15% would be exports and that includes all divisions and all segments.

Sagar Shah: MCIE Europe?

Vikas Sinha: MCIE Europe will be largely domestic because the entire European business is like if you supply from Germany to Spain, I am not considering that as exports, I am just saying if it is going out of Europe, and then that would be in the range of 2% to 4%.

Moderator: Thank you. We take the next question from the line of Anand Dubey, an individual Investor. Please go ahead.

Anand Dubey: Sir, my question regarding, can we share the consolidated PAT for FY '18 Q1?

K. Jayaprakash: I responded to earlier question just take whatever has been the CY '17 average rate of PAT which is about 30% to 31%.

Anand Dubey: Sir, my second question, how do you see regarding about your margin, will we increase or is it at the same level, EBITDA margin for next quarter onwards?

Vikas Sinha: Of course, we would not like to make any forward-looking statement, but as Ander has pointed out repeatedly in this call, our journey of margin improvement is still ongoing and we are quite confident that the trajectory of improvement will continue, so beyond that let me not say anything more.

Anand Dubey: Sir, my third question can you share the breakup for product wise like Bill Forge, gears, stamping, and component?

Vikas Sinha: Normally, Anand, we would request you not to look at our company in that fashion, we call ourselves a diversified company and that is our differentiating point from other companies and that is the reason why, we say performance in one division complements and supplements the performance in other divisions. Therefore we would like you to look at our company as diversified product, technologies, end-user segments, and customers. As a company which is diversified. We urge you to look at India as a whole and Europe as a whole and that is the reason why we present our results in this fashion, so that is what we would request you to look at.

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

Sandeep Baid: Vikas, you mentioned that for Europe from a longer term perspective, we should look at growth in line with industry while Ander talked about consolidation which is happening on the vendor side and better quality companies are taking away market share from the other smaller players, so in that context would you say that from a medium-to-longer term perspective also it is possible for MCIE to grow at a faster pace in the industry?

Vikas Sinha: This consolidation phenomenon that you are seeing, we do not know how long this will continue, of course, if this is available to us we will partake of that opportunity, but in the medium-to-long term as of now the best way to look at it is to look at in line with market growth.

Sandeep Baid: Secondly, on the India business now along with Bill Forge I think we crossed the 15% EBITDA margin this quarter. Over the next couple of years, would it be fair to assume that ex-Bill Forge also the India business will do about 15% or kind of EBITDA margin?

Hemant Luthra: I would not see why not.

Vikas Sinha: Of course, as Ander pointed out, we are still some percentage points below what the CIE expectations are from many of our divisions, therefore, the expectation is that it would go up.

Ander Arenaza Alvarez: My answer would be, yes, at least we need to reach that. We are working very hard to go to that point and we have a strong action plan, very robust action plan. I am sure that we will be at least close to that.

Sandeep Baid: Lastly, over the last few months there have been these talks about trade walls between US and China and Germany, now in case there is any escalation between say US and Europe, do we see our business getting impacted in anyway because I assume some of the auto companies would be exporting to US in a big way?

Ander Arenaza Alvarez: We were discussing this point yesterday in the Board. My view is that in the short-term at least during all this last month, we have not had any single negative impact due to these comments, threats from one side to another side, so let us say that we did not see any impact yet. My view is that probably and of course this is only my personal view. My view is that there will be an arrangement and agreement between the different areas especially I think Europe with the state that they have will have good agreement for sure. The new NAFTA agreement is also under review and everybody thinks it will be signed soon, so I would say that regulations will come down in the next quarters, months. The only problem I see is in China where let us say discussion between US and China will be there, but they are not affecting to us, so as the summary I would say that I do not expect this will affect us, I think that lot of European cars are exported to the States that is true, but also huge amount of American cars are imported to Europe, so I do not see any negative impact. I think the risk is more coming from the US and China, but I think it will not affect to Europe and not affect India.

Moderator: Thank you. That was the last question. I would now like to hand the floor over to the management for their closing comments.

Hemant Luthra: Ladies and Gentlemen, thank you for being on the call. We have discussed a number of issues about growth, assets, people, and the only thing that we have not touched upon is how it has come about. For those of you who were present at the shareholder meeting, my apologies for trying to say something which is repetitive, but I would just like to close this call with a very famous saying from a very well-known industrialist and philanthropist Carnegie Mellon. He was responsible for the development of Railways in the US, he was responsible for development of steel, and he was responsible for the creation of one of the finest universities, When asked what he was most happy about and what would he like to be remembered for, he responded by asking that the epitaph on his grave should read here lies the man who had the wisdom to keep in his employ people better than himself. I am privileged to be part of the team in which all of the people those who are on this call and others who are not, are better than me and who are and will continue to serve you the shareholders to the best of their ability. Thank you very much for your time.

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

Note: This statement has been edited to ensure quality