B H A R A T F O R G E

February 16, 2019

To,

BSE Limited,
1st Floor, New Trading Ring,
Rotunda Building, P.J. Towers,
Dalal Street, Fort,
Mumbai - 400 001
BSE SCRIP CODE – 500493

National Stock Exchange of India Ltd.,
'Exchange Plaza',
Bandra-Kurla Complex, Bandra (East)
Mumbai- 400 051
Symbol: **BHARATFORG**
Series: **EQ**

Dear Sir,

Sub: Transcript of Analysts Conference Call

We are enclosing herewith transcript of conference call with analysts, which took place on February 13, 2019, after announcement of Unaudited Financial Results for quarter and nine months ended December 31, 2018.

The said transcript will also be uploaded on website of the Company.

Please take note of the same.

Thanking you,

Yours faithfully,
For Bharat Forge Limited

TEJASWINI R CHAUDHARI
Digitally signed by TEJASWINI R CHAUDHARI
Date: 2019.02.16 12:40:33 +05'30'

Tejaswini Chaudhari
Company Secretary

Encl: As Above

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“Bharat Forge Limited Q3 FY19 Earnings Conference Call”

February 13, 2019

MANAGEMENT: MR. AMIT B. KALYANI – EXECUTIVE DIRECTOR, BHARAT FORGE LIMITED

Moderator: Ladies and gentlemen, Good day and welcome to the Bharat Forge Q3 FY19, earnings conference call.

I now hand the conference over to Mr. Amit Kalyani. Thank you and over to you Sir.

Amit B Kalyani: Good afternoon ladies and gentlemen and thank you for your attendance on our conference call. I have with me our finance team, investor relations, and strategic business. As is customary, I will take you through a few highlights and then open up for Q&A.

To start out, we have had a fairly strong performance for the quarter. It has been our 8th consecutive quarter of growth of revenue and profit across all our verticals and geographies. Our total revenue was 1693 crores which is about 22% higher than last year, and despite the pressure of raw materials and energy, our EBITDA was 28.8% which is within the range we had guided. We have had very strong performance from all our major sectors, but I would like to highlight the industrial sector as being one which has grown the most for the quarter both in India as well as exports. Our balance sheet remains strong. Our ROCE is now at 24.8% in spite of strategic investments that we have made. Our new facilities in Baramati and Nellore are near completion and should commence production in the next 2 quarters and provide us headroom for another 1000 crores of revenue. Looking ahead into the next quarter, we expect to see the demand sustaining at current levels. The domestic market for commercial vehicles is currently witnessing some inventory correction which should get eased out by the end of this month or early next month. So, we should be in good shape next year. Let me also comment on the Class 8 market in the US. Please understand that the order intake that we are seeing now is for deliveries 18 to 24 months out. So, the order intake or the order pipeline that is already there is more than sufficient to retain the levels for this year, so similar to the 325,000 that we are at this year. Just to put a little more granular numbers. The automotive exports was about 513 crores, industrial exports was about 463 crores. Domestic automotive was 330 crores and domestic industrial was 269 crores.

I will give you a little bit of an update on our investments in Tork and Tevva Motors. We have had a very good progress in both the companies. We are driving a lot of miles on the Tevva vehicles which have been sold to UPS. So, we are collecting a lot of data. The Tork vehicles are under testing with beta build and we are making good progress. We have had some interaction with potential dealers as well and the reaction has been very satisfying, in fact rather exuberant. So, I think we are now heading from the development phase into the pre-build phase and shortly into the preproduction phase. So, I think in terms of schedule, we are doing quite well there. I think that is all I really want to say and I am happy to take your Q&A now.

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin the question and answer session.

The first question is from the line of Kapil Singh from Nomura Securities. Please go ahead.

Kapil Singh: Congrats on a good set of results. My first question is I want to know what is the revenue opportunity that you see in the next couple of years from the new segments or new orders in which we are not present today or where we are ramping up?

Amit B Kalyani: Can you elaborate a little more? That is a very open-ended question.

Kapil Singh: We are present traditionally in segments like US trucks and India trucks and oil & gas. I would say these are traditional segments which would largely grow at the industry rates but then we have won some new orders maybe some market share wins. So, what is the additional revenue over and above the industry growth that we can expect from what the company has been able to win in the next 2 years?

Amit B Kalyani: There are opportunities in three areas. One is, greater content per vehicle coming out of either new technology due to things like Euro 6 or due to greater outsourcing. The second is opportunities in new products like industrial turbochargers and rail turbochargers which we make, opportunities in defense products which are not the big programs but let us say the consumables that we are supplying, the routine products that we supply, then the light-weighting centre that we have set up which initially we will get to 300 crores within the next 3 years and then substantially multiply that in the next 2 to 3 years. If you look at all this, each bucket is an opportunity size of 400-500 crores. The rail around 300 crores, defense could be 500-600 crores, aerospace is a 500-crore opportunity, light-weighting is 500-600 crore opportunity. If you put all this together plus the traditional growth, passenger car, new project that we have in that, etc., that should be an opportunity size of somewhere in the region of 2500 crores.

Kapil Singh: Would it be right to say over the next 3 to 4 years?

Amit B Kalyani: Yes, absolutely.

Kapil Singh: The second question was related to financials. We have not really seen a reduction in net debt levels. Could you comment on that? Also the interest cost and other incomes?

Amit B Kalyani: That is because we are spending CAPEX. We are spending currently about between 700 and 750 crores in CAPEX right now this year. Plant in Nellore plus our new Baramati plant plus the strategic investments we have made in Tork and Tevva.

Kapil Singh: This year's full year CAPEX and investment should be about 750 crores?

Amit B Kalyani: Yes. 750.

Kapil Singh: And next year?

Amit B Kalyani: Next year we don't have any large investments lined up. It will just be normal CAPEX because this will have ramp up. So, it will be about 250-300 crores at the most next year.

Kapil Singh: Could you also comment on Tevva and Tork if they would require any investments next year?

Amit B Kalyani: As of now, we don't have any plans, but obviously they will need growth capital at an appropriate point in time which I think we will relook at, but we don't own that 100%. There are other investors as well.

Moderator: The next question is from the line of Amyn Pirani from Deutsche Bank. Please go ahead.

Amyn Pirani: My first question is specifically on the defense side on the ATAGS order which has been in the news for some time but there seems to be delays on the ordering side. Is there any update on that?

Amit B Kalyani: No update on that.

Amyn Pirani: I think there was something that 150 guns, the ordering process has started.

Amit B Kalyani: The only thing I can say is that we won the Golden Peacock Award yesterday for innovation in technology development for the ATAGS development that we did. We just heard that yesterday and the award will be next month in Dubai.

Amyn Pirani: I hope the orders also follow soon enough.

Amit B Kalyani: I hope so too.

Amyn Pirani: Just on Tevva which seems to be an interesting investment that you have made. This is basically add-on machinery which gets added to the vehicle?

Amit B Kalyani: No, you can build a brand-new truck which is electric. It can have electric with an onboard generator. The idea is that in Europe especially for the medium and light commercial vehicles which are used for Amazon and UPS and all this kind of delivery. Typically, in the cities nowadays in Europe, they don't allow combustion vehicles to come in, especially you go to Amsterdam, you go to Belgium, you go to Copenhagen and all the Scandinavian and very environmentally sensitive countries. So, what the companies have to do is today they have to use a normal truck, bring it to the outside of the city, and then transfer it to another vehicle which is very inefficient and very expensive. Our vehicle with an onboard charger, it runs on the highway, say going from the airport to the city outskirts, say 50-60 km it will run in either electric or hybrid mode and then once it is in the city, it runs in fully electric mode which is cloud-based system. So, there is no fiddle that the driver can do, it is automatic. Each city has set a perimeter that once you are within this perimeter, you have to be in electric mode. So, our cloud-based system automatically based on that perimeter will convert it into electric vehicle and then when it is outside that, it can run in whichever mode based on how much battery life it has. Beauty of this system is that there is no range limitation. So, you can run 500 km, 600 km no problem; start, stop, anything; and this is why UPS is excited and this is why they are getting these vehicles from us. Obviously, UPS has a huge vehicle requirement. So, they are doing all their rigorous testing, etc., but I think so far it has been very successful.

Amyn Pirani: And this is a solution which obviously works on existing fleet as well?

Amit B Kalyani: It works on repowering existing and on white label manufacturing and we can even provide the motive solution to anybody. It could be any current manufacturer or new manufacturer or even a white label.

Amyn Pirani: Do you think there is an opportunity for such a product in India according to you?

Amit B Kalyani: In India, the opportunity is a little different. If you look at vehicles like school buses where they run on a fixed route, they are used for 2 hours in the day and 2 hours in the evening and then they are just parked. There, the running cost becomes a very big issue. Running cost of these vehicles in India on a per kilometer basis is one-third of a diesel bus. And then, with the subsidies that there are available and the excise duty reduction for hybrid vehicles or electric vehicles, this can be a game changer.

Amyn Pirani: Lastly, the opportunity that you mentioned, turbochargers for cars you are not supplying in any big way right now, right?

Amit B Kalyani: No, we don't make any turbochargers for cars. We make turbochargers for industrial engines such as marine engines, rail, all that kind of stuff.

Amyn Pirani: So, in the Nellore facility and Baramati going forward, are you looking at addressing that opportunity for turbochargers for the ICE engines?

Amit B Kalyani: No, that is a commodity product. We are not interested in that.

Moderator: The next question is from the line of Ronak Sarda from Systematix Shares. Please go ahead.

Ronak Sarda: A couple of questions. First is on your capacity expansion in Baramati and the Andhra Pradesh plant. Can you just help us understand what is the kind of expansion in Baramati?

Amit B Kalyani: We are setting up a new forging line and several new machining lines at Baramati both for engine and chassis components for cars and trucks, and in Nellore, we are setting up the center for light weighting technology which will produce lightweight components for passenger cars, commercial vehicles, hybrid vehicles, electric vehicles, and industrial products initially in aluminum and magnesium and in the future also in composites and carbon fiber.

Ronak Sarda: When you say 300 crores in 3 years, these are based on the order book which has been confirmed?

Amit B Kalyani: This is based on the initial capacity we have set up and some orders that we have and some that we are working on, let us say in testing phase and development phase.

Ronak Sarda: We know one of the suppliers, the supplies from Amtek has been distributed among the other.

Amit B Kalyani: We are actually not targeting anything that they did. This is a completely different product portfolio.

Ronak Sarda: But has their supplies been distributed now?

Amit B Kalyani: I have no idea because we are not targeting anything that they were doing.

Ronak Sarda: On the industrial side, we have seen decent recovery now for the last 2 or 3 quarters. Can you highlight both on domestic and exports what is driving that?

Amit B Kalyani: On the export front, basically it has been driven by aerospace & defense, rail, oil & gas, those are the biggest percentage growth. On the domestic front, it is grown by again aerospace & defense, little bit of agriculture, and some of the other niche areas which are industrial. That's really the big growth area and on the auto side, it has largely been driven by global commercial vehicles.

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

Jinesh Gandhi: Congrats on good set of numbers. My question pertains to oil & gas. In this quarter, would it be fair to say oil & gas revenues would have been highest ever?

Amit B Kalyani: Yes.

Jinesh Gandhi: And now we would be trending at run rate of about $100 million annualized?

Amit B Kalyani: No, it is significantly more than that.

Jinesh Gandhi: Any color which you can give on that?

Amit B Kalyani: It is running at somewhere in the region of $35-40 million quarter.

Jinesh Gandhi: But are we seeing growth here considering the oil prices where they are?

Amit B Kalyani: We will not get growth from the same product. So, we are working on new products and new customers as well. So, we do see growth coming.

Jinesh Gandhi: Okay. And you have talked about aerospace growth for both exports and India business. Can you share some update on how are we trending revenues in aerospace?

Amit B Kalyani: I think we have now hit a run rate of more than 100 crores and it is aerospace and defense, because we use the same production facility for both the products. So, both put together, we are running at a run rate of somewhere in the region of close to $15 million a quarter now.

Jinesh Gandhi: Both exports and domestic put together?

Amit B Kalyani: Yes.

Jinesh Gandhi: And this we expect it to be about $100 million in next 3 to 4 years?

Amit B Kalyani: $100 million is the minimum target to get to a base level and then grow it from there.

Jinesh Gandhi: I thought it was $100 million in each for exports and domestic.

Amit B Kalyani: Aerospace and defense always is clubbed together but eventually once they reach a certain momentum or certain critical mass, then they grow even much, much further. Then each subsector can also be that big. Even in industrial, our first target was to get to $100 million. Then you take each sector to $100 million and then you grow each sector even beyond that. Because we don't make dedicated investments, you only make dedicated investments in certain subsector once it reaches a certain critical mass.

Jinesh Gandhi: US Class 8 guidance for CY19 you indicated at about 350 odd?

Amit B Kalyani: 2019 is 335, and last year was 325.

Jinesh Gandhi: Lastly, can you indicate the USD/INR rate which we realized in this quarter?

Amit B Kalyani: Just below 71.

Moderator: The next question is from the line of Sonal Gupta from UBS Securities. Please go ahead.

Sonal Gupta: There has been some slowdown in this quarter in the PV exports. Is this an aberration? Any thoughts there?

Amit B Kalyani: Yeah, this quarter there was aberration because of the model switch over and the WLTP emission norms in Europe, new emission testing standards that has been implemented in Germany where it has to be more like the actual driving conditions. In fact, next year we expect a fairly strong growth in PV exports because of our new programs and some of the new orders that we have won which will start ramping up from next year.

Sonal Gupta: On the domestic CV, you mentioned that there is inventory correction happening if I heard you correctly.

Amit B Kalyani: Correct, absolutely.

Sonal Gupta: Any thoughts on how the growth could shape up for FY20?

Amit B Kalyani: You have to understand that FY20 is a very important year for all the commercial vehicle manufacturers because from April 1st, they have to sell BS VI vehicles. BS VI vehicles have a huge price increase of somewhere in the region of between 12% to 15% and anywhere else in the world, there has been a significant pre-buy before emission change such as this.

Sonal Gupta: I understand that but given that the supreme court order says that 31st March is the last date of retail, then essentially you can't really stock up.

Amit B Kalyani: Exactly. What I am saying is the pre-buy will happen between say June-July to December because whatever they produce in December or at the most till the middle of January will get into the dealer and sale pipeline and finish by 31st of March. They will have to start producing switch over from January so that they can start producing and selling new vehicles from April 1st. Q4 will be slow because that is when the switch over will happen but we expect Q3 and part of Q2 to be strong based on what our customers are telling.

Moderator: The next question is from the line of Ashish Nigam from Axis Capital. Please go ahead.

Ashish Nigam: Congrats on a very strong quarter. You had mentioned in the past that there will be significant increase in content when we go from BS IV to BS VI with our BS VI enabled transmission products and precision forging rising. Can you quantify what is the content increase?

Amit B Kalyani: Lat us say that we are supplying just a crankshaft and a front axle beam. Now, there are 2 differences. One is that the Indian trucks typically have a 5.9 to 7.8 or 8 liter engine which is our heavy-duty trucks. In Europe, a heavy-duty truck is typically in the region of 12 to 13 liters. In the US, it ranges from 12.8 to 16 liters. So, the size of the engine is a little different. Therefore, the value of the components in it are slightly different, but if you were to look at the value of a crankshaft and a front axle beam and look at the value of all the other parts that we don't supply today, if you take 100 as a value of the front axle beam and the crankshaft, there is at least a potential to supply 50 to 60 additional on the transmission and driveline components and possibly another 20, 30 on light weighting and aluminum components. It is not going to happen immediately, but this is what we are aiming for over a period of the next 2 to 3 years.

Ashish Nigam: Okay, so let us assume this happens more towards FY22, etc.?

Amit B Kalyani: Yes, exactly.

Moderator: The next question is from the line of Pramod Amte from CGS CIMB. Please go ahead.

Pramod Amte: Congrats on good set of numbers. A couple of questions. The CAPEX or the investments you seemed to have upped. Can you give a split what's the CAPEX and how much you are investing this year and what's the reason for raising it?

Amit B Kalyani: We are investing 750 crores this year; 200 crores in Nellore, about 400 crores in Baramati in the CAPEX and then we have all the normal CAPEX of about 150 crores.

Pramod Amte: Is it because of the improved visibility you have raised the CAPEX as compared to start of the year or how should we think about it?

Amit B Kalyani: Well, it largely got bunched up. That is what has happened. Some of it should have happened last year but the orders and everything happened more this year. So, that is what has happened. Plus, on the aluminum side, the light weighting side, we see a very strong visibility. So, we are increasing one more line which we would have otherwise put next year, we are putting that this year. And on aluminum, we are also putting up machining facilities. Because we have got some export business as well, so we have put up machining facilities.

Pramod Amte: Coming to this Nellore facility since it is a new line of business and we need to model it accordingly, how should we look at it? Is your capacity booked? Would you be able to break even in the first year of operation or how much of your capacity is booked in that sense? Can you give us some data point?

Amit B Kalyani: I think in 3 years, we will hit 300 crores there. And the margins should be quite analogous to where we are today. The returns will be very good.

Pramod Amte: You said the starting point will be 300 crores?

Amit B Kalyani: That is in 3 years. That is the capacity we have invested for today. As we see 50% to 60% of this being ramped up, then we will start adding capacity.

Pramod Amte: But you also talk about 1000 crores coming from this new facility.

Amit B Kalyani: I said 1000 crores coming from Baramati plus Nellore current investment at full capacity based on the current investments made.

Pramod Amte: And you feel the order books are in hand to ramp it up to these levels?

Amit B Kalyani: Yes. Not 100% but we have enough confidence that this will be met.

Pramod Amte: As the industrial seems to be doing extremely well beyond the expectation, whereas if you look at the commentary of some of the global majors, there are warning signals coming in and people are raising alarms. Your trend is more of a market share gain than just the industry momentum or how should we look at it and how would you like to handle this considering the uncertainties?

Amit B Kalyani: There are 2-3 things. (A) We are looking at blue-sky opportunity in areas where other people are. (B) We are supplying components both for new build as well as for O&M. (C) We are creating our own products and solutions which go into a variety of industries right from energy, rail, marine, defense, etc., We have little, little tentacles into many different areas which is giving us tremendous growth opportunities because we have opened so many beachheads and so many plans that it is quite a huge magnification of the number of customers we had in the past. It has de-risked our business as well.

Moderator: The next question is from the line of Basudev Banerjee from Ambit Capital. Please go head.

Basudev Banerjee: Congrats for good set of numbers. If you can correct me what I understood is you said this 200 crores investment for Nellore after 3 years will derive 300 crores of peak revenue and the 400-crore investment in Baramati incrementally will derive the 700 crores.

Amit B Kalyani: Exactly, yes.

Basudev Banerjee: Can I know what is the present utilization of existing capacity?

Amit B Kalyani: It is at the same. Even our tonnage is more or less the same as last quarter. So, it is the same.

Basudev Banerjee: Overall, it will be 75 odd percent?

Amit B Kalyani: About 80%.

Basudev Banerjee: Looking at the quarterly numbers if I am missing out something, your sequentially realization per kg and gross profit per kg reported numbers have increased significantly. The forex gain is adjusted from other expenses. So, anything one-off in revenue?

Amit B Kalyani: There is a product mix. There are certain new products that have started ramping up. And we are not selling forging necessarily in many of these new sectors. We are selling products, we are not selling components. So, there is a big difference there. Contribution is high. We will not explain more than that but as we start selling products, yours margins will also go up.

Basudev Banerjee: Just wanted a color on the sustainability of this mix and correspondingly gross margin.

Amit B Kalyani: Both will continue growing. Now, as we are setting up more forging and machining facilities, once they come online, that will grow and as we keep adding new products, new products will grow. So, I think, as we have mentioned, the margins will remain in a band between 28% and 30%. I would rather look at how we grow our top line.

Moderator: The next question is from the line of Vaikam Kumar from JM Financial. Please go ahead.

Vaikam Kumar: Congratulations on a good set of numbers. You alluded to a rise in realization because of a better mix, but if you look at the RM per ton, it has come up slightly in a rising commodity price environment.

Amit B Kalyani: Can you explain what you are saying very clearly?

Vaikam Kumar: I am talking about the RM cost per ton.

Amit B Kalyani: That is because of the product mix because the realizations are high.

Vaikam Kumar: No, I am talking about per ton.

Amit B Kalyani: Yes, because we are not selling just components, we are selling products, and the product in the larger tonnage come into the tonnage. On certain products, the realization is not based on tonnage, it is on a product base.

Vaikam Kumar: In the press release, we have commented about some demand issues because of WLTP in Europe whereas our European subsidiaries as well as our exports to Europe have performed reasonably well. So, what are the issues?

Amit B Kalyani: The WLTP issues are only on passenger car.

Vaikam Kumar: What kind of impact are we seeing? Because on the overseas subsidiaries, we are seeing a 12% revenue growth.

Amit B Kalyani: That was largely from truck market and aluminum, not from conventional passenger car.

Vaikam Kumar: What would be a mix of CVs to passenger cars in Europe?

Amit B Kalyani: Europe passenger car to CV would be 2:10.

Moderator: The next question is from the line of Mahesh Bendre from Karvy. Please go ahead.

Mahesh Bendre: You highlighted that tonnage may not be a right way to look at for our company because we supply components. We are at the fag-end of this financial year now. Looking into FY20, what kind of growth we can see in terms of volume?

Amit B Kalyani: I am not going to give you a forward-looking statement on volume growth but we continue to focus on creating a strong above-market growth in all the markets that we are operating in and really that is all I want to say. I don't want to give you a forward-looking statement. We never do that, so I am not going to do that.

Mahesh Bendre: In the press release, we have mentioned that we are looking into next quarter, we expect demand sustaining current levels. So, are we talking about the similar performance in the 4th quarter what we have reported in terms of tonnage or sales?

Amit B Kalyani: Wholly similar.

Moderator: The next question is from the line of Priya Ranjan from Antique Stock Broking. Please go ahead.

Priya Ranjan: Just on machining mix, can you just throw some light on machining? And the second question is on railway opportunity. I think 2 to 3 years back, we had talked about around 300-400 crore opportunity might be created in the next 2 to 3 years, but that has never materialized. So, how come we have a confidence that in next 3 years, we can achieve another 300-400 crore annual run rate?

Amit B Kalyani: First of all, our machining mix is at about 55%. Once the new machining lines come up, it will increase. The second thing about rail. Just to give you a sense, our rail business totally today is about 50 crores, that's for 9 months. There has been a de-emphasis on diesels. In spite of that, we have developed new customers because there is a huge replacement demand worldwide and I think getting to 200 odd crores is not going to be particularly challenging.

Priya Ranjan: In terms of oil & gas, particularly on the shale gas side, we might be seeing some kind of tapering off of the growth or some cutback in the CAPEX side as well if I look at the CAPEX announcement for shale gas and all. So, how should we look at this business?

Amit B Kalyani: On shale gas, there are 3 factors that I would like you to understand. One is for new drills. For new drilling, there is a reduction possibly of 15% to 20% but for every well that is in active use and active production, there is a replacement cycle of products that happens at every certain number of hours. Thirdly, we have the largest number of wells active in the US in the Permian Basin today compared to any time in history and we are now developing new customers and new products for these sectors.

Priya Ranjan: So, if you can throw some light on the revenue which we are getting? How much is coming from the new drill side?

Amit B Kalyani: No, I am not going to get into that. I am sorry, but that is our confidential information. As I mentioned, our run rate is today at about $35-40 million quarterly and there is a strong potential that we can grow that in the next 2 years.

Moderator: The next question is from the line of Kapil Singh from Nomura Securities. Please go ahead.

Kapil Singh: Sir, just one housekeeping question. For the quarter, we had slightly higher other income and some dip in interest cost. Just wanted some color over there.

Amit B Kalyani: The other income, we received some dividend from our subsidiary in UK which does our sales and distribution and the second was our interest expenses have come down because of the IND-AS accounting standards.

Management: Part of exchange gets reclassified as interest cost. So, since in this quarter, we had a gain, part of that gain has gone and sat in interest cost.

Kapil Singh: How much is there in interest cost?

Management: It is about 8.5 crores.

Kapil Singh: This will otherwise be at similar level that we have been seeing in the last quarters?

Amit B Kalyani: Yeah, but interest has gone down, it is just a contra entry.

Management: In last quarter, if you remember, we had an unusually higher interest cost. That was part of exchange loss sitting in the interest cost. Now, since in this quarter, we have exchange gain, part of that gain is sitting in interest cost. If you normalize that, then it is comparable.

Moderator: The next question is from the line of Anupam Goswami from Stewart & Mackertich. Please go ahead.

Anupam Goswami: Just wanted more clarification on the tonnage side. Your tonnage has grown by only 2.6 and revenue whereas has grown by 21. You told about you are now producing new products which are components where there are higher realizations and due to this, am I correct on this part?

Amit B Kalyani: No, there is also raw material pass through.

Anupam Goswami: And is it because also the export realization is higher and maybe the export mix this time was higher, maybe because of that as well?

Amit B Kalyani: Export realization wasn't high, but we have had more machine products in certain areas and some value added products, yes.

Anupam Goswami: Sir, I missed your outlook on the Class 8 truck in calendar year 2019. Can you just once more clarify on that?

Amit B Kalyani: 335,000.

Moderator: The next question is from the line of Sonal Gupta from UBS securities.

Sonal Gupta: Amit, what would be the CAPEX for the subsidiaries? What sort of CAPEX do we see there?

Amit B Kalyani: Our normal CAPEX is in the region of 12 to 13 million and we are building one more aluminum plant in Europe which will be roughly 50 million over 2 years for which we have fully booked business.

Sonal Gupta: This is over you think FY19-20?

Amit B Kalyani: CAPEX on the new project started in 2018, it will continue in 2019, and finish in 2020.

Sonal Gupta: Okay. And 12 to 13 like you said is the maintenance sort of annual CAPEX?

Amit B Kalyani: Yeah, for the whole European and overseas subsidiaries.

Sonal Gupta: The US plant, when does that commence?

Amit B Kalyani: US plant we are not doing any CAPEX right now, but we will take a call based on what we are doing with our customers. We do have some ideas, but we are not doing it right now.

Sonal Gupta: So, that's not as of now?

Amit B Kalyani: We will talk about it when we are fully ready.

Sonal Gupta: I think previously you had mentioned that we are looking to set up a plant.

Amit B Kalyani: We are looking, I think we are still in the finalization stage.

Sonal Gupta: Any thoughts on the subsidiary performance, where it has been? I understand this quarter may have been impacted by WLTP, etc.

Amit B Kalyani: I will be honest that it has been not satisfactory. We have put in a plan by which in the next 1 year with a lot of help from our team in India, we will see the beginning of a significant and rather substantial turnaround going forward.

Sonal Gupta: Even if I leave aside this quarter, at best you are doing 7-8% or 8-9% EBITDA margin. Do we see that going into a step change from that into double digits or higher sort of a number?

Amit B Kalyani: In 2 years, as our aluminum business grows, that has a strong double-digit EBITDA margin. And at the same time, we are trying to increase the EBITDA margin at our normal steel-based subsidiaries also to a double digit, to 10% to 10.5%. So, the combination will give us a fairly good improvement.

Moderator: Question is from the line of Nishant Vass from ICICI Securities. Please go ahead.

Nishant Vass: I have a slightly strategic question. Bharat Forge as company, if you see over the last 10 to 15 years, has done a phenomenal job in terms of coming out cycles by diversifying into new segments, new businesses, new opportunities while improving profitability. Now, we are at the precipice of possibly the commercial side of business is probably getting into a similar moderation in terms of growth. Now, if I have to ask you in the next 5 years, because I see your capital allocation going into the non-automotive space and continuously in the aerospace and defense side, where would you think you would like to see your business from a commercial side to come down to as a share of overall revenue?

Amit B Kalyani: I don't necessarily expect it to come down because there are lot of things that we don't do and there is still a lot of inhouse manufacturing which over the next 3 to 5 years will get outsourced because simply they will have to invest purely on the EV and autonomous side. So, we have outsourcing opportunities, we have new sectors and new products within automotive, and we have huge new opportunities within industrial.

Nishant Vass: I will just commence from the fact that you made a comment on your call that you are more looking at products now incrementally and not looking at commodity segment.

Amit B Kalyani: One example is turbocharger, that is a product. You will see us getting into a whole new range of products for the automotive and industrial sector going forward.

Nishant Vass: Structurally, if I can ask you the cyclicality of the business, where do you see that moving over the next 5 to 6 years even if say tomorrow the same commercial vehicle cycle were to happen, cyclicality will be much lower for the business if say if I were to envisage in the next 5 years contingent on the underlying market scenario? I was just querying that is it right to assume that in the next cycle, say next 5 years, the cyclicality of our business and underlying dependence on say these Class 8 phenomena or the underlying market would be much lower?

Amit B Kalyani: It will get lower, it will go down to maybe 30% but please understand we are going to be creating a lot of new products for these markets also. Even with say 10% to 20% lower end markets, we may still be able to maintain or grow our business in revenue terms because of content per vehicle.

Moderator: Ladies and gentlemen, this was the last question of today. I now hand the conference over to Mr. Amit Kalyani for his closing comments. Over to you sir.

Amit B Kalyani: Ladies and gentlemen, thank you for your time and interest in our company. We believe in what we are doing, we have a strong product and technology strategy, and we are very well entrenched with all the new initiatives in the automotive industry worldwide and things are looking fairly robust, fairly good, and we look forward to your continued support. If any of you have any more detailed questions or you want to know more about what we are doing, please contact either Raj or someone from our finance team or send me a mail and we will be happy to have you come visit us and see what we are doing. Thank you very much. Have a nice evening.

Moderator: Thank you very much, sir. Ladies and gentlemen, on behalf of Bharat Forge, that concludes this conference call. Thank you for joining us, and you may now disconnect your lines.