

24th July, 2019

BSE Limited Corporate Relationship Department, P. J. Towers, Dalal Street, Fort, Mumbai - 400 001. BSE Scrip Code: 532756	National Stock Exchange of India Limited Corporate Relationship Department, Exchange Plaza, 5 th Floor, Plot No. C/1, G Block, Bandra Kurla Complex, Bandra (E), Mumbai - 400 051. NSE Scrip Code: MAHINDCIE
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Subject: Transcript of Mahindra CIE Automotive Ltd Q2CY19 Results Conference Call

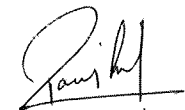
Dear Sir/Madam,

Pursuant to Regulation 30 read with Para A of Schedule III and Regulation 46(2) the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 and our letter dated 16th July, 2019 in respect of Mahindra CIE Automotive Ltd Q2CY19 Results Conference Call on 22nd July, 2019, 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,
For Mahindra CIE Automotive Limited



Pankaj V. Goyal
Company Secretary and Compliance Officer
Membership No.: A 29614
Encl.: as above





“Mahindra CIE Limited
Q2 CY2019 Results Conference Call”

July 22, 2019



ANALYST: MR. NISHANT VASS – ICICI SECURITIES

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

Moderator: Ladies and gentlemen good day and welcome to the Mahindra CIE Q2 CY2019 Results Conference Call hosted by ICICI Securities. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Nishant Vass from ICICI Securities. Thank you and over to you Sir!

Nishant Vass: Thanks Steven. Good day everyone and thanks for joining us for the call today. From the management side, we are represented by Mr. Ander Arenaza Alvarez, CEO, Mr. K Jayaprakash, the CFO, Mr. Vikas Sinha, Senior Vice President, Strategy and Mr. Oroitz Lafuente, the Global Business Controller. Now I would like to hand over the call to the management for their initial remarks. Over to you Sir!

Vikas Sinha: This is Vikas. Good Afternoon to all of you and good morning to those who are joining from Europe. I welcome all of you on this call as also Ander Arenaza, our CEO.

I will present MCIE results for the second quarter of CY19. This is also the first quarter since Aurangabad Electricals acquisition and includes the AEL numbers.

Before starting with the results I would like to state that after a long time this has been an exceptionally difficult quarter in terms of the market scenario, both in India as well as Europe. In India, it was perhaps the worst quarter in two decades as far as market demand goes. The June month has especially been harsh with a sudden and steep drop in growth across all segments. Additionally, our customers have tried to reduce the inventory levels closing factories during certain days. We too have been affected by this nosedive and inventory correction in the market. That said, MCIE has always been striving to perform better than the market and we are happy to state that we continue with that trend in this quarter as well.

We start with India results on page 3, which show growth in Q2C19 in both revenue and profits due to the AEL acquisition. The EBITDA margin for the India businesses in Q2C19 was 13.1%, the AEL acquisition reducing the consolidated margin. AEL recorded sales of INR 2160mn and a EBITDA margin of 11.2%. MCIE India had reported an EBITDA margin of 16.3% in Q1C19 but this included the financial income from the cash which had been made ready for the AEL acquisition, without this one-time income the equivalent EBITDA % was about 15%. The EBITDA has grown by -3% vs 2QCY18, EBIT by -17% and EBT by -8%, margins being negatively affected by volume drop.

In Q2 C19 without AEL the drop in sales for MCIE India is 12% which is still better than the fall in demand from our Key customers which fell by 15.2%. We have taken cognizance

of the tougher market condition and have an EBITDA margin recovery plan on going. We are aligned to the market reality and cost adjustments are being done to current sales level. The precipitous drop in June meant that we did not have enough time to make these adjustments in this quarter. While we think that the next 2-3 quarters might be turbulent for market demand in India, we still remain cautiously optimistic. This is based the normal forecast for the monsoon this year, the festival season and the expected pre buying demand from BS6 implementation.

On page 4, we have the results for MCIE India's H1C19 performance which shows the impact of the positive performance over 2 quarters. The revenue has grown to INR 17,172 Million. To be noted here is the fact that even without AEL there has been a sales drop of just 4.8% despite the key market segments being worse. EBITDA margin in H1C19 was 14.6% and EBIT has stayed above our target at 10.4%. This includes the one time financial income of Q1C19 explained earlier.

MCIE Europe results for Q2C19 are shown on page 5. Please note that the Q2C18 numbers have been restated without Stokes. In Europe too, we have performed better than the underlying market which has fallen by 7% for light vehicles and the commercial vehicle market has seen degrowth as well. Sales have degrown by 3% vis a vis Q2C18 but all of this is on account of exchange rate translation impact and the sales are flat in Euro terms. There is drop in EBITDA margin compared to Q2C18. Pls bear in mind that the EBITDA margin of Q2C18 was positively affected to the extent of 1% by the steel price increase agreed to by customers and received from them retroactively from 1 Jan 2018. There was a buildup of stock last year. Both these factors had pushed up the EBITDA margins in Q2C18. We have however retained our EBITDA margins at 13.1% as compared Q1C19. In absolute terms, EBITDA has grown -10% vs Q2C18, EBIT by -13% and EBT by -13%. Going forward, we are concentrating on maintaining profitability levels in a falling market scenario.

On page 6 we have the H1C19 results for MCIE Europe. There has been a 6% increase in Sales vis-à-vis first half of C18. The EBITDA has grown by 2%, EBIT by 1% and EBT by 3%.

And now, if we go to slide 7, we will see the consolidated the Q2 C19 results which are a combination of the tougher market condition evolution in both India and Europe and AEL integration: 5% growth in sales, -7% growth in EBITDA, -15% growth in EBIT and -11% growth in EBT when compared with same quarter of last year. Despite a fall in EBITDA margin to 13.1%, the comparative EBIT has not fallen by that much and is at 9.0%.

On Slide 8, we have the H1 C19 consolidated results of MCIE which are a combination of the positive first quarter evolution in both India and Europe and AEL integration in a tougher second quarter. In H1C19 there was 7% growth in Sales, 2% in EBITDA and no

change in EBIT and EBT compared to H1C18. The point to be noted is that even without AEL, sales in H1C19 has grown by 2% and EBIT% has been maintained at close to 10% despite the tougher market environment.

Now we move to Slide 10 where we have disclosed the Balance sheet position for the half year ended 30 Jun 2019. RONA is slightly lower at 14.1% due to the acquisition of AEL but ROE has improved to 12.4%. Net Financial Debt/ EBITDA is also close to 1 despite the cash outgo due to the acquisition. You will also notice from our SEBI results that there has been strong cash generation despite negative market evolution.

In conclusion I would like to say that the market demand remains uncertain, but every mini crisis is also an opportunity, as the adage goes. On the back of CIE's proven business model, MCIE will emerge a stronger company once the demand stabilizes. We are already working to adapt our companies to the new scenario demonstrating our reactivity, managerial speed and business resilience. We assure all our stakeholders MCIE continues to remain calm in this turbulence. Thank you and now we proceed to Q&A.

Moderator: Thank you very much. We will now begin the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Yash Gupta from Prince Group. Please go ahead.

Yash Gupta: Thank you for the opportunity Sir. Sir in the previous concall in the AGM, management was confident about the growth in the European business then what suddenly happened in the last three odd months that changed the complete scenario?

Ander A. Alvarez: This is Ander Alvarez speaking. In Europe, we had this first quarter with a very strong phase growth and in the second quarter there has been a slight reduction in the growth so we had this flat quarter in 2019. The main reason of this flat quarter is coming from the automotive passenger car reduction that is slight degrowth in the market of something like 5% to 6% is the reduction, but let us say the commercial vehicle market the drop has been higher. That is the main reason of this reduction from Q1 to Q2.

Yash Gupta: My second question is in the Indian auto business there is an overall slowdown in the Indian auto business, as per your experience is there a permanent erosion of demand in India or it is just a part of auto cycle?

Vikas Sinha: This is Vikas here. At this stage we do not think that there is a structural change in the demand as you are aware I think because of the impending BS-VI there is a whole lot of inventory confusion that is there in the pipeline. Also OEMs are waiting to be closer to BS-VI to introduce newer models plus there is the crisis on lending as we are aware so all of these factors are contributing a lot to whatever is happening on the demand side. Once these factors clear up we will see if there are any more structural factors, but as of now we do

think that these are the main reasons why the demand has come down and in the long term and in the medium term I guess the demand will come back.

Yash Gupta: We can say that in the next six months to a year it will be a more challenging time ahead?

Vikas Sinha: As I said in my opening remarks I think two to three quarters of uncertain demand. of course we have to factor in the Diwali season, which is coming so this will probably lead to some recovery plus the pre-buying for BS-VI, so there could be factors, so all that we are looking at is some uncertainty in the market, but let us see how it pans out. I have said in my remarks we are trying to adjust our cost to whatever demand exists. In Q2 I think between April, May and June, the June month was extremely difficult, so we did not have enough time to adjust some of our costs, so maybe we will be able to handle our margins much better going forward, but yes the market situation remains volatile for the next few months.

Yash Gupta: Last question on the financial part, the provision has been increased by around to be Rs.130 Crores and the debtors has also been increasing is there any change in the policy by the company or this is the question on the quality of the debtors?

K Jayaprakash: There is no significant increase in the provision.

Yash Gupta: For CY2018 and CY2017 we see there is an increase in the provision of Rs.130 Crores?

K Jayaprakash: No it is the same number. You are looking at the standalone balance sheet or the consolidated balance sheet?

Yash Gupta: Consolidated.

K Jayaprakash: I am sorry I am not able to see, which line are you talking about?

Yash Gupta: I will just collect the exact page number and will get back to you on the line.

K Jayaprakash: Please tell me where are you seeing the provision.

Yash Gupta: Sure. Thank you.

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

Jinesh Gandhi: My question pertains to the India business, you indicated that you are working on EBITDA margin recovery plan and corporate initiatives can you throw more light on that?

Ander A. Alvarez: Let us say that this market reduction has been deeper than expected in the last quarter mainly because of the inventory regulation done by our customers and factory shutdowns during some days most of the customers they stopped production, so we are now adopting our cost structure to the new situation, so we expect that in the next quarter we will recuperate at least part of this margins that we lost in this quarter. This has been something I would say that is normal to reduce margins when the volume goes down and we are now adapting. We have this cost cutting activities already done in several units. All the units they take a little bit more time to adjust, but we see that we will improve our margins in the next quarter so let us say that yes the market is tough, margins have gone down slightly in the last quarter, but we still are in a very calm situation because of the payment. We will continue improving our margins in the next quarters. I am sure that the market will come after this BS-VI implementation and let us say after the financial situation and the credit situation in the market is corrected, so in the midterm we expect we are quite optimistic and we will continue our growth strategy and let us say we are generating cash and ratios will improve in the future.

Jinesh Gandhi: When you are talking of adapting cost structure is it largely on manpower side or any other cost areas also we are targeting to reduce in short term?

Ander A. Alvarez: What we are talking about is mainly about the labour cost and the structural cost is clear, but also we are adapting our structural cost and let us say overheads and so on in order to improve our situation so we will use this time of let us say the drop or reduction to improve our internal efficiencies also. You know that sometimes when you are growing you are not focusing your efforts in the cost. Now as the market is going down we will focus our efforts on the cost cutting and we will improve our efficiencies even more than in the past.

Jinesh Gandhi: Understood and second question pertains again to India business particularly on Bill Forge and Aurangabad Electric given that they have higher exposure to two wheelers how do you see this increasing noise around electrification of particularly two wheelers and three wheelers influencing business for Bill Forge and Aurangabad Electric what percentage of their business comes from power train components?

Vikas Sinha: Thanks Ander. As far as Bill Forge is concerned not much will be affected because they are not into the power train side they are more into races and retainers of two wheelers Bill Forge is a major player in that product category. As far as Aurangabad is concerned I think 15% to 20% is related to the power train, so that is the situation. It is not about what percentage is going to be affected. I think the entire two wheeler industry is going to be affected by that and what emerges we have to see. In fact the numbers as of now are not much in terms in the market of 25 million vehicles I think you are talking about some lakhs of electric two wheelers, most of these electric two wheelers have lead acid battery based so we have to wait and watch as to how this changes and as I said as far as Bill Forge and AEL

are concerned it is not that big very purely in product category terms, but the entire industry will get affected so we will really have to wait and watch at this stage.

Jinesh Gandhi: Sure and there is a new opportunity open up particularly for Aurangabad Electric on aluminum dye casting side because of electrification though they might not have products right now, but technology becomes more relevant in electric vehicles?

Vikas Sinha: We assume that will be the case because I think electrification would mean moving towards more aluminum parts. That assumption is what we are also going along, those parts have to be developed and then we will see how it goes.

Jinesh Gandhi: Last question is on standalone P&L so if you look at standalone P&L our effective tax rate has been about 37% in Q2 and about 36% plus in first half is a sustainable rate or there were any one offs in this?

K Jayaprakash: We are at 36% Jinesh and I think it will remain around that number with some disallowances and all.

Jinesh Gandhi: Understood great. Thanks. I will come back in queue.

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

Priya Ranjan: Thanks for taking my question. One thing is on the commodity price reduction so is our number reflected of the steel price drop or we have to still take price cut in future related to the steel price drop?

K Jayaprakash: Part of it has come in.

Priya Ranjan: In terms of the growth outlook now there has been significant reduction in the European truck market as you mentioned so how do we see it say going forward in say the current run rate for third quarter in Europe for the commercial vehicle side?

Ander A. Alvarez: Commercial vehicles in Europe are let us say reducing their percentage importantly in the last quarter. I would say that after this drop in the last quarter it will remain more or less flat to the end of the year that is what we see in our forecast, so this drop has happened in the last quarter and we will remain at this level during the year. That is our expectation.

Priya Ranjan: How much we can actually recuperate from say passenger side going up and as well as Metalcastello the new orders, which we have bought probably in the last year, so I think the ramp up will also be there so can we expect some kind of offset from that side?

- Ander A. Alvarez:** Metalcastello got these new business last year and we were ramping up during 2018 and also during the first quarter of 2019. Now we are at the top of this growth and we will have a slight growth, but not much in the next couple of quarters and regarding the passenger cars in the other business that we have in Europe we saw a slight reduction, but we will keep let us say at the same level in the next quarter so we do not see further reductions there.
- Priya Ranjan:** Any thought on say Mexico ramp up how it is progressing both in terms of topline as well as the margin challenges, which we have witnessed in the past?
- Ander A. Alvarez:** Yes in Mexico we have seen certain growth in the last quarter, but we expect to continue growing and regarding the margins yes we have already solved our operational issues and margins are growing and we expect to finally have a standard margin situation in Mexico by the end of the year.
- Priya Ranjan:** With the market correction and valuations coming down can it open up another acquisition opportunity in inorganic growth in India?
- Ander A. Alvarez:** Let us say that we are always open to the inorganic growth and acquisitions so let us say that after the integration of Aurangabad you saw that market where our cash generation remains strong and we absorb it perfectly and our debt is only a little with higher than one time EBITDA that means that our financial situation is very solid. So yes we are open for new acquisitions in the next mid-term. Let us say that we do not expect in the very, very short term to make any acquisition, but let us say in the mid-term I would say that yes we are ready to open our portfolio and add something new.
- Priya Ranjan:** Sure. Thanks. That is all from my side.
- Moderator:** Thank you. The next question is from the line of Ujjwal Shah from Quest Investment Advisors. Please go ahead.
- Ujjwal Shah:** Thank you for taking my questions. Ander, just wanted your outlook on new piece considering second half of the year going to see a lot of holiday season also coming in and also wanted to know in 1Q we were expecting our CV business to do as good as they did in 1Q and 2Q so has there been order cancellations from CV OEMs and you just stated that you expect CV to now stabilize at current level, how confident are we of achieving that kind of a growth from CV side?
- Vikas Sinha:** No Ujjwal, your question is for Europe or India?
- Ujjwal Shah:** For Europe.
- Vikas Sinha:** Okay.

- Ujjwal Shah:** So for Europe in 1Q we were expecting our CV business performance,
- Vikas Sinha:** So when you say 1Q you mean Q2 CY2019 for us?
- Ujjwal Shah:** Yes.
- Vikas Sinha:** Okay.
- Ujjwal Shah:** So in the previous quarter we were expecting growth to be sustained in our 2Q?
- Vikas Sinha:** Yes. So with your permission may I, rephrase the question?
- Ujjwal Shah:** Sure, please go, thanks Sir.
- Vikas Sinha:** So essentially what I gather is that in Q1 the CV business had grown and we were expecting Q2 C2019 to show similar growth in the CV business, but unfortunately that has not happened, so what is will this stabilize or will this further go down is that the question you are asking, Ujjwal?
- Ujjwal Shah:** Yes. Was it that there were order cancellations because we were confident of that growth, so were there any order cancellations from OEMs, are we seeing some more pain on the CV side is what I want to understand?
- Ander A. Alvarez:** We have not had order cancellations from the customers in the commercial vehicle business; it has been mainly just market drop from our customers, okay, so that has been the reality in this quarter. For the next quarters we expect to stay at that same level and we do not expect to have let us say further drop in the end of the year, okay that is the situation where we are in this moment in Europe. In regard to the passenger car vehicle market we saw a slight decrease also in this quarter and we expect to have this more or less this level by the end of the year also, so we see that there has been a drop and then we do not see further drop in the next quarter, let us see I mean this is depending on how the market is deploying.
- Moderator:** Sir the line for Mr Ander is disconnected.
- Vikas Sinha:** Okay. So we will wait for him to come back till then let us go back and take other questions.
- Moderator:** Sure. Should I promote the next participant?
- Vikas Sinha:** Yes.
- Ujjwal Shah:** No I have a few more questions if I can.

- Vikas Sinha:** So we will try and substitute for Ander in the meantime.
- Ujjwal Shah:** No worries, no worries, Vikas, something on the India piece so what kind of growth or degrowth did Bill Forge and AEL see during the quarter?
- Vikas Sinha:** Of course AEL, there is nothing to compare with as far as the previous quarter is concerned, but Bill Forge being more two wheeler and export dependent was there was hardly any degrowth, it was mostly flat.
- Ujjwal Shah:** Okay and even margins were sustained, do we see margin compression for Bill Forge as well?
- Vikas Sinha:** Aurangabad Electricals we have talked about the margin, we have given the margin separately, Bill Forge is largely in the same range. There was some minor adjustment here and there, but Bill Forge margins are stable.
- Ujjwal Shah:** Okay and because we were expecting post our acquisition that we will try and expand AEL margins considering the weak scenario right now, do we think margin expansion at AEL is possible during next 6 to 12 months or we might have to wait for demand to revive and only post that we can see margin expansion at AEL?
- Vikas Sinha:** If Ander is back, I will let him answer that.
- Moderator:** Yes Sir, he is connected.
- Ander A. Alvarez:** I am here, sorry, the connection was lost. Regarding the Aurangabad Electrical margins, yes we expect to have improvement in this margin in the next quarter, okay, we are working already on that, we have the team supporting let us say the technical improvement from Europe in Aurangabad, so we expect to slightly increase our margins slowly, so that is our strategy to get the standard margins of our businesses in India, okay that is our main target.
- Ujjwal Shah:** Sure and lastly Ander just wanted your outlook for Europe business margins, can it be sustained at current levels or considering the tough market scenario there might be some hit at margins as well?
- Ander A. Alvarez:** No we do not expect to reduce the margins and I would say yes they are positive, I would say that we should recuperate a little bit of margins that we lost in this drop, let us say unexpected drop that happened so made it fast in the second quarter, okay, so we will adapt to our cost structure to any situation and we expect to recuperate our margins. The volumes and the kind of the equation regarding the volumes we think that the market is not clear yet and we expect to be more or less flat in the next quarters but we expect some improvement in the margins by the end of the year.

- Ujjwal Shah:** Thank you so much for the answers. Thanks a lot.
- Moderator:** Thank you. The next question is from the line of Jose Canovas from JB Capital Markets. Please go ahead.
- Jose Canovas:** Good morning and thank you for taking my questions. Actually most of them have already been answered, so I would just have a brief followup on Europe, so you say weak performance in Europe to what extent should it be explained by change in cycle of the commercial vehicle and to what extent is it because the situation of some of your clients and more specifically I would like to know how much has Daimler's tight situation impacted you and I do not know if you could provide the weight of Daimler in European sales? Thank you very much.
- Ander A Alvarez:** Okay let us say that Daimler is our main customer in the commercial vehicle business as we have in Europe, it is not the main customer for the rest of the business so the main profit in the European business is coming from the commercial vehicles clearly. The passenger car drop little a bit, but not too much, the drop can be about 5% or something like that in the passenger car market. The commercial vehicles dropped much more than that, okay, so in the consolidated business in Europe Daimler can be something like 10% of our business so it is not important, but in the commercial vehicle we have much more dependence on Daimler. I would say that the drop in the commercial vehicle has been general not related to one customer, much more in market situation market drops have been something general.
- Jose Canovas:** Okay. Thank you very much.
- Moderator:** Thank you. The next question is from the line of Srinath Krishnan from Acacia Partners. Please go ahead.
- Srinath Krishnan:** Thanks a lot. I have a couple of questions for Mr. Ander. The first question was on the stampings division. You know in your annual report you have mentioned about Rs.1000 Crores in size and I guess the dependency on Mahindra is also pretty high. You know what is the strategy here for this division, three to five years out, I guess in terms of OEM reducing Mahindra dependence or running down this business because I guess there is also a requirement to have the plant close to OEM and do you plan to expand into newer geographies in India?
- Ander A. Alvarez:** Okay lets us say that in our stamping business in India we have dependence on Mahindra & Mahindra that is clear we are working both in the SUVs within the Bolero and Scorpio those are the main products we supply to Mahindra & Mahindra and then we have also a big market in the tractor business with Mahindra & Mahindra base. The big drop we have in this let us say last quarter in India it has been mainly coming from this stamping business as you mentioned because in June for example Mahindra tractor production dropped by 60%. I

you would say that this is just an inventory regulation situation because we do not expect market going so deep in the next month so we will probably have some recuperation there. Having said that let us see that our strategy global is we are diversifying our customer portfolio in India and also in the stamping business we are opening our customer portfolio so we wanted to keep Mahindra as a customer and develop it if possible this is our reason and relations are very good, but we are also opening new customers and we are in the last stage of negotiations for big businesses with our customers and we expect to confirm those businesses in the next quarter. So yes we are doing our diversification on job commercially we are very active and we expect to succeed on that also in the next quarters.

Srinath Krishnan: So it would mainly be around Pune and where the existing stamping plant locations are right you know the customers who were close to your existing stamping locations?

Ander A. Alvarez: Yes, we have been in Pune, we have been in Nasik, we have been in Zaheerabad, we have been in Rudrapur, and we have been in Pantnagar, so yes are quite well expanded in India and yes we should be close to our customers, but I do not think we have a lack of presence in our stampings business line but we don't have a presence in the Chennai area so this could be a potential location for us if we got a new business from a customer located there.

Srinath Krishnan: Okay and my second question was on MFE you have mentioned in the past even at the time of acquisition of Mahindra that you wanted to rationalize your product portfolio to improve the margins, a share in this business you are more into trucks and tractors where the modern cycles are extremely long, how long do you think it would take further to know successfully implement the strategy because you have reduced your employee count by more than 30% since the acquisition, reduced your other expenditure, use presses more effectively, you have done multiple things, but I guess your margins are still below what you had guided so how long would this product rationalization strategy take?

Ander A Alvarez: Okay let us say what in the last year in Indian rationalization and it is true that in this commercial vehicle business with heavy parts with low volumes coming from the commercial vehicles the weight of the labor cost in the P&L is very high so Germany is a let us say complex and non competitive country to produce this kind of products so we are improving our cost structure, we are working a lot in order to get rationalize this present portfolio and eliminating the less profitable products and consolidating the business in the current three plants. We closed one plant in 2015-2016 which was the Jeco plant and let us say that we are continuously working in this organisation. The point is that we are improving our internal efficiencies, we have reduced our quality reductions, we have improved our delivery ratios with the customers and we are working very hard in order to improve our internal efficiencies to continue improving our margins. This quarter has been a little bit challenging for us because of the drop now we need to adapt again let us say in the midterm, we will continue having a profitable business also okay that is our main challenge in Europe let us say the rest of the businesses in Europe are performing very well.

The MFE has weaker business there and we are trying to organize and rationalize the business in order to make it more profitable so that is our challenge and that is where we are now putting our overall efforts.

Srinath Krishnan: Okay, Thanks a lot.

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

Shyam Sundar Sriram: Thanks for the opportunity Sir. My question is on the India growth. In the past India business has grown much stronger than the underlying production, this quarter we have seen a sharp decline if we exclude the AEL acquisition, I understand tractor business has been major factor for degrowth, which you also explained in the prior questions so other than that how we excluding tractor if you look at the other parts of the business PV and the LCV businesses how they performed with respect to the underlying production trends, are they weaker than, have we lost any business here in the recent past?

Vikas Sinha: Shyam we have lost no business. As you are rightly pointing out I think the tractor business was particularly difficult in the last month, frankly all segments were bad and the tractor business was very bad that is the only thing that I can say and if you look at April, May, June trends, the June was like, you just fell off a cliff that was the kind of growth pattern that we saw and that is why you are seeing we will not able to adjust some of our costs, so I do not think it was related to our losing any customer, we must know customer in fact as I pointed out in my initial remarks if you look at our weighted average customer portfolio we have actually grown like we are better off, I think we are still degrown, but we have degrown much less than what the weighted average customer portfolio has degrown by because there have been some small additions here and there in terms of customers as well as products, which we have talked about in the past so the situation is completely related to the market and there is absolutely no relation to our loss anywhere.

Shyam Sundar Sriram: If you can also help us understand how are the current capacity utilizations in India between forging, stampings, castings, just some broad ballpark numbers?

Ander A. Alvarez: Our capacity utilization can be now at 70% more or less and let us say that we have the capacity ready or then make jump that will come for sure in the next, I would say that is not in the next one or two quarters because let us say we do not see very clear market situation now, but once the BS-VI effect is already absorbed by the market we will see that the Indian market will come back to their growth rate that it has been in the past, let us say that we are ready, we are preparing our sales, we are improving internal efficiencies, we will use the strength to improve our cost structure so we expect to come back to the market even stronger than we were in the past

Shyam Sundar Sriram: Right and Ander when you mentioned capacity utilization at 70%, the stamping business be at a lower utilization currently?

Ander A. Alvarez: Yes. In the gasoline we have also now let us say we have big capacity available because of the drop in the market; however, let us say that we are now recuperating a part of the business and we had been awarded for the certain additional businesses so we expect to recuperate this big capacity again and in fact we are planning to make an improvement in our lines in order to increase our capacity for the future so that the strategy where we have investment plans already ready to let us say accomplish in the beginning of next year.

Shyam Sundar Sriram: Okay and on new stamping plant in Kanhe, have we started commercial production any order wins for that plant?

Ander A. Alvarez: No, we have not started the production yet, we expect to do it in the last quarter or this year, yes we are now in the last stage, everything is almost ready, now we are finishing the automation and we expect by the end of year to be ready to start production and to make formal inauguration of the plant.

Shyam Sundar Sriram: Sure thanks that helps. In Europe you mentioned that the CV business has been impacted how has been so within the passenger vehicle you also mentioned that we have seen a slight degrowth if you can which customer has seen a worst impact from our passenger vehicle perspective in Europe for us?

Ander A. Alvarez: Regarding the passenger vehicle, let us say that the decent growth has been about 5% between more or less the average, in certain customers we saw a little bit higher decline than this 5%, but overall we have seen that the drop will be approximately 5% as an average. It is true that certain customers have dropped a little bit higher than that and let us say that it is not a special or particular customer that is dropping higher than the others, I will say that more or less the average market drop.

Shyam Sundar Sriram: Okay because in Europe also because aided by the new Lithuania VW order we were doing better than the underlying markets and now we have started doing more or less in line with the market trends if I were to read from your statements, what factors is contributing to this growth more or less in line the market trends that you are seeing in Europe?

Ander A. Alvarez: Sorry I did not catch you.

Shyam Sundar Sriram: In Europe also on the passenger vehicle side we were growing better than the underlying market also aided by the new Lithuania VW order now as per your statements we seemed to be growing broadly in line with the market what has led to this in line performance vis-à-vis outperformance that we saw earlier?

Ander A. Alvarez: Vikas can you help me?

Vikas Sinha: Like Ander the question, Shyam if I can rephrase with your permission, I think the question being asked is we were growing faster in the market because of the Lithuania and the Metalcastello order and it was expected to continue for some time, so is that ended and now we will track the market or is there something more to it.

Ander A. Alvarez: In Metalcastello we have been growing more than the market due to the new orders, but now we are at the market situation, which are at the peak of these programs so we will continue now the market evolution and regarding the Lithuania, we have been growing also with the new orders and we expect we still have some room for growth there, but what we have been offset is because of some reduction in our lead acid plants with some customers dropping more than the market so Lithuania is still doing well, now if you know that we are close to taking the new orders and in the next quarters yes we effectively in line with the market perhaps a little bit better than the market.

Shyam Sundar Sriram: Okay understood and on the RDE norms that are going to come in Europe, do we see any inventory reduction that can happen going into the next quarter or so?

Ander A. Alvarez: No let us see in the next quarter at least in the planning coming from our customers let us say that we will see quite a stable situation now, except in Europe we have this summer holiday where we have approximately two weeks off in most of our customers so it will be more or less let us say the same trend of the previous quarter, we do not see any inventory reduction as we saw in India, at least in our product they are not reflected.

Shyam Sundar Sriram: Okay thanks. Just one last housekeeping question if I may, you mentioned India capacity utilization was 70% broadly how was that last year just to compare on YoY basis and if you can give some utilization levels in Europe as well? Thanks

Ander A. Alvarez: In India let me give the clarification that it is completely different from one business to another, but our previous capacity situation was I would say that we were close to 85%, 90% that was where we were previously now we have this drop and this additional capacity in India and we will need to take into account we have been investing and we have been adding additional capacity to cope with the respected growth that we were planning, so with capacity increase is there so in near future we expect to fulfill those capacities and regarding Europe let us say that in Europe we also got different situation depending on the plants, but we can be approximately 10% of the capacity utilization, so in our German Forges in the last year and in the first quarter 2019 we were fully working in weekends and now we have eliminated all these extra overtime and now we are approximately with the current level we are 100% of our capacity, so in Germany we do not see any capacity pressure right now either and in rest of the business we may be 85% those capacity levels that we are quite comfortable with.

Shyam Sundar Sriram: Thank you very much. That is it from my side.

- Moderator:** Thank you. The next question is from the line of Mahesh Bendre from Karvy Stock Broking. Please go ahead.
- Mahesh Bendre:** Thank you for the opportunity. First question, are you surprised by the current slowdown in terms of intensity in auto industry?
- Vikas Sinha:** The answer is yes.
- Mahesh Bendre:** Sir because of this uncertainty and Indian city slowdown is, have we cut down any of the plant regarding the capital expenditure or expansion plans over the next two years?
- Vikas Sinha:** Capex for the next two years has it been affected by the slowdown?
- K Jayaprakash:** Of course we are being more careful with whatever decisions we are taking, but wherever new programs are coming we are going ahead with it.
- Mahesh Bendre:** So what is the capital expenditure plan for next 18 months?
- K Jayaprakash:** Will be around 4 to 5%.
- Mahesh Bendre:** 4 to 5% of consolidated assets?
- K Jayaprakash:** Yes.
- Mahesh Bendre:** Second part of the question is that because of this slowdown do you anticipate any change in the cash generation for company because we generate a lot of operating cash both from domestic and international business, so do you see any challenges on that front?
- K Jayaprakash:** This quarter the first half has been good, looking forward with your question is if I see any stress on the receivables front with good customer base I do not really see beyond a couple of days maybe, but not really affecting our good cash generation.
- Mahesh Bendre:** Sure. Last question we have been acquiring companies for the last two years so will we able to hold on because of the current slowdown and will we continue to our strategy with inorganic route or just we will hold on for some time to get established in the market?
- Vikash Sinha:** Mahesh, as Ander pointed out the inorganic strategy is also a part of our strategy, but we have made two acquisitions in 2016 and we are extremely careful with the acquisitions that we make, so we may keep on evaluating, but the final decision will be based on whether it fits in with our long-term goals or not, so yes we will keep looking, but as JP pointed out we are being very careful with capex, we will also be very careful with the inorganic capex if I may say so.

Mahesh Bendre: Last question just housekeeping question, is it possible to what kind of contribution came from Mahindra for this quarter end of sales and what kind of sales contribution on two wheeler and four wheeler, passenger vehicle, commercial vehicle for domestic sales, breakup of sales?

Vikash Sinha: We have not done the exact calculations around that, but even including AEL I think M&M continues to be a single largest customer close to third or maybe anywhere between third and fourth of our India revenues. As far as dependence on different segments is concerned in terms of rough dependence of course now the passenger vehicles and two wheeler segments are now larger segments, passenger vehicles used to be close to 50%, but that is after AEL acquisition has come down a bit, so between passenger vehicles and two wheelers I think we may be close to 60% of revenues in India. These are rough numbers, but since we have not made the exact calculation I think these are the rough pointers that is what we will talk about.

Mahesh Bendre: Passenger vehicle will be about 40% approximately and two-wheeler will be 20%?

Vikash Sinha: We will have to see, but yes passenger vehicles will be larger than two wheelers.

Mahesh Bendre: Thank you Sir.

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

Nikhil Kale: Thank you for taking my question. Just one question, we were just talking about the two wheeler side, so just wanted to understand you talked about inventory reduction by your customers, so what it to understand if it has also happened on the two wheeler side because the data that we are getting say the inventory at the dealer location that has been consistently rising for the two wheelers, so just wanted to know if there is a chance that the reduction that you have seen at PVs could also occur for two wheelers in the coming months, which could be a downside to your margin improvement plan?

Vikas Sinha: Nikhil you are absolutely right. If you look at the latest FADA release, of course the two wheeler inventory pipeline is much larger, I think we are talking about 55 to 60 days compared to about 30 to 35 days as far as four wheelers is concerned, but it could reflect greater stability in two wheeler demand. Essentially two wheeler has been the most stable of all the segments if you look across any segment be it passenger vehicles, LCV, M&HCV, tractors, three wheelers, I think two wheeler has been the most stable segment. I think what we would like to think is that this reflects the stability in the demand more than a risk for inventory reduction going forward, but nothing can be said for surety.

Nikhil Kale: Okay, thank you. That is it from my side.

- Moderator:** Thank you. The next question is from the line of Nikhil Vaishnav from ED Investments. Please go ahead.
- Nikhil Vaishnav:** I have just three questions. Firstly, what is the miscellaneous income of 21 Crores in other income for the year CY2018?
- K Jayaprakash:** We had this money, which we brought in from Europe, so out of 21 Crores it would be around 8 to 9 Crores.
- Nikhil Vaishnav:** Okay, any new customer added in this quarter?
- K Jayaprakash:** Yes. We have Kia, which is added in India. I think for this quarter that is what it would be.
- Nikhil Vaishnav:** Lastly, any more improvement in Stokes business, what are the guidelines for like realization of assets?
- K Jayaprakash:** In Stokes, all the provisions have been booked last year, so there will be no further loss to be accounted for. There will be some marginal income that could come.
- Nikhil Vaishnav:** Okay Sir. Thank you.
- Moderator:** Thank you. The next question is from the line of Saji John from Geojit Financial Services Limited. Please go ahead.
- Saji John:** I got one question. I just wanted to know like what is you are getting for the pre-buying going to happen from OEM side, so is there is any demand pickup or maybe because if I see that almost the inventory is around the elevated side, so could you please share some information on that?
- Vikas Sinha:** Hi Saji that is a million dollar question that you have asked. I think at this stage nobody is talking about anything which is two to three months down the line. I think all OEMs are focused on meeting the current challenges, so we cannot say anything definitively, but the festival season is also around the corner, so we hope that things will pick up, but you know definitively it is difficult to say anything at this stage.
- Saji John:** Thank you.
- Moderator:** Thank you. The next question is from the line of Bharat Sheth from Quest Investment. Please go ahead.
- Bharat Sheth:** Good afternoon Ander and Vikas. My question is related to AEL, so can you give some kind of perspective or your vision on this AEL from three years perceptive and the capex how do we want to grow this business apart from catering to domestic India as well as from

export perceptive and what kind of a margin that you would like to see for this AEL over the next three years?

Ander A. Alvarez: Currently the main customer is two wheeler and main customers are domestic in India with approximately 10% to 15% export rate. Our strategy in the Aurangabad Electrical is to grow the business especially for the passenger vehicle business. We would like to enter into the kind of products for passenger car, four wheeler business products that we produce in Europe and enter into these products in India, so this is one growth strategy. Of course we want to continue growing the two wheeler business where we are strong and we are seeing that we have room for growth there and we diversify in the two-wheeler customers we have already identified in India and finally we have a strong opportunity to grow with the export. We are now exporting a big chunk of our business to Germany and we have been awarded with several new programs in the last quarter and we will continue growing in the export rate where we will have a little bit better margins than in India. Overall, the current EBITDA margin is about 11.2% and our strategy to go to the minimum to the average that we have in India that is about 15%. This is our short midterm strategy to improve the margins in Aurangabad Electricals.

Bharat Sheth: Second thing to grow this for export market, how much capex we need to do and whether the export market will be for HPDC or gray casting?

Ander A. Alvarez: Aurangabad Electricals is all aluminum. So we have two technologies, high pressure die casting and gravity die casting and the growth we are expecting with the high pressure die casting. HPDC is where we will grow and this is the technology where we are adding capacity. We are adding capacity in injection machines and also in machining capabilities that we are increasing. We will invest and we will plan our capex according to the new products that we receive. Mainly the strategy is to increase the size of our injection machines where we are now working what we call in the small size range and we want to go up to deliver medium higher range where we have in our what are due for the confirmed actions.

Bharat Sheth: Then what kind of a capex plan that we have for AEL?

Ander A. Alvarez: In average, in all India, we have to get 5% of our sales and in AEL it is slightly higher because the growth rate that we expect is higher than the rest of the businesses. So I would say our capex is approximately 10% of the sales, but I cannot give you right now the figure. You can count on 10% of our sales.

Bharat Sheth: Okay, all the best Sir. Thank you.

Moderator: Thank you. The next question is from the line of Nikhil Vaishnav from ED Investments. Please go ahead.

- Nikhil Vaishnav:** Same followup question on the miscellaneous income. Miscellaneous income is of 21 Crores in other income for CY2018 and you are saying that Europe is around 8 to 9, what is the component of the income in this miscellaneous income?
- K Jayaprakash:** As I told you we had last year and even in the first quarter the money came to India, so it has been India actually.
- Nikhil Vaishnav:** No Sir, but basically if you are saying that if the financial debt goes into the other income, not the miscellaneous income?
- K Jayaprakash:** Where are you seeing this miscellaneous income, you are looking at the annual report of last year?
- Nikhil Vaishnav:** Yes, page number 161. Point number 26, last line 210 million.
- K Jayaprakash:** Which page are you referring to?
- Nikhil Vaishnav:** 161.
- Vikas Sinha:** Which point?
- Nikhil Vaishnav:** Point number 26, other income. In that other income miscellaneous income of 210 million.
- K Jayaprakash:** Okay, let me just check this and come back to you Nikhil.
- Nikhil Vaishnav:** Okay sure Sir.
- K Jayaprakash:** There are various components, so let me just pick up the major ones and then get back.
- Nikhil Vaishnav:** Okay, thank you.
- Vikas Sinha:** Nikhil can you send us an e-mail around this, sinha.vikas@mahindracie.com please.
- Nikhil Vaishnav:** Okay sure Sir, I will do that.
- Moderator:** Thank you. The next question is from the line of Shyam Sundar from Sundaram Mutual Fund. Please go ahead.
- Shyam Sundar:** You mentioned Kia production has started which product categories are we supplying them, is it the cranks or if you can give some colour on that?
- K Jayaprakash:** Cast crankshafts.

Shyam Sundar: Okay, got it. Sir other point on stocks we were planning to ship about two presses to India and supply from there, has there been any progress on that front?

Ander A. Alvarez: The presses are being disassembled in UK and transferred to India and in the meanwhile we have already started supply for Jaguar Land Rover from our Bill Forge plant in Bengaluru. This plant is working properly and we are making this transfer according to our plans.

Shyam Sundar: Sir, one more question. We were planning to integrate Brazil, Mexico and China plants into the Mahindra CIE fold, what is the progress on that and how do you see that happening over the next year or so?

Ander A. Alvarez: This is our strategic movement that is now in our minds and we plan to do that in the next quarters. Let us say that our idea remains the same, so we plan to integrate Mexican Forging, Brazilian forging plant and Chinese forging plant let us say three factories into Mahindra CIE within the next, I would say our next strategic plan we will show this integration, so I cannot give an exact date because it is something that we need to agree with the shareholders and then this needs to be done properly, but we plan to do that in the next strategic period.

Shyam Sundar: Okay got it Sir. Thank you. That is it from my side.

Moderator: Thank you. As there are no further questions, ladies and gentlemen, on behalf of ICICI Securities that concludes this conference. Thank you for joining us. You may now disconnect your lines.

Note: This statement has been edited to ensure quality