"Mahindra CIE Automotive Limited Q4 FY15 Results Conference Call"

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Moderator: Ladies and gentlemen good day and welcome to the Mahindra CIE Automotive Q4 FY15 Results 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 '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Nishant Vass from ICICI Securities. Thank you and over to you sir.

Nishant Vass: Thank you Margreth. Hi good afternoon everyone. Thanks for joining us today for the Mahindra CIE Conference Call. From the management side today we are represented by Mr. Hemant Luthra – Chairman, CIE Automotive, Mr. K. Ramaswami – Managing Director at Mahindra CIE Automotive, Mr. Pedro Echegaray – Executive Director, Mahindra CIE Automotive, Mr. Sanjay Joglekar – CFO, Mahindra CIE Automotive, and Mr. Vikas Sinha – Vice President, Strategy, Mahindra CIE Automotive. Now I would like to hand over the call to the management for the initial remarks.

Vikas Sinha: Before I hand it over to Mr. Luthra for opening remarks, just a note of apology to start with. We had uploaded a presentation on the stock exchanges at around 8.30 in the morning. Page #29 of that presentation had the balance sheet. Because of oversight on our part the wrong numbers were put up. So we have now put up an updated presentation with the right numbers which is equivalent to whatever we put up to SEBI last night, so apologies for this inconvenience. So the actual debt numbers are about 1492 crores. You can refer to the updated presentation on the website now and if you need it you can give your email ID to me, I will send it across. So with that I hand you over to Mr. Hemant Luthra for the opening remarks.

Hemant Luthra: Obviously we are pleased with the results. This is the first consolidated result of the company and therefore you might see some differences between what the EBITDA numbers look like with the one-time gains and losses filtered out. And if you look at the Q4 performance at the standalone level we are about the same with the EBITDA percentage, marginal reduction of about 0.3%. But if you look at the consolidated results the EBITDA without the one-time gains and losses had moved up from 7.8% to 11.6% in the 4th Quarter. We are very pleased with that and more pleased because we think it is sustainable.

As far as the consolidated full year is concerned once again pretty much the same story that EBITDA without the one-time gains and losses at the standalone level, there is a marginal reduction of 0.8% at the standalone level which reflects what's happening and slowing down in India whereas at the consolidated level we have got an EBITDA margin increase from 7.5% to 9.6%. I think it's nice to have a situation when you have some problems in Brazil, at CIE, NAFTA which is North America makes up when we have some problems in India, our Forging subsidiaries in Europe make up and that was the whole logic behind this whole alliance that we put together. Many of you may have also seen that the results that CIE has put out as a result of its latest analysis to investors which are public and the numbers that have been broken down give us in India a bit of a challenge to meet those standards and which we are trying to. So in addition to the numbers for the sake of convenience of the rest of you CIE in calendar year 2014 in Europe finished at about 17.3% EBITDA. Mahindra CIE in Europe finished at 12.7% EBITDA and India and Asia in CIE's books using the same IFRS Standards finished at about 11% EBITDA.

For the latest quarter, CIE in Europe has done 17% EBITDA. Mahindra CIE in Europe has done 12.1% EBITDA and India has done for the 1st Quarter in CIE's books, 4th Quarter in ours, India/China has done about 10%.

So I think there is head room for us to grow and what you will see from the report and what has been put on the website that which businesses has done what and you will see that the Forgings business has done an outstanding job of managing the costs and the profit and has increased its EBITDA to north of 16%. The Stamping business is challenged because of the slowdown at Mahindra and Tata and our dependence on them. The Casting business is improved but not to the point where we wanted to and where we think it can go but on and on without trying to crow about it, I believe these results are satisfactory and while you have the standalone and consolidated results we have for your convenience also filtered out the results for the subsidiaries which includes all the companies in Europe, both CIE and what used to be Mahindra Forgings and Stokes. And the normalized EBITDA for Q3 for F15 was 7.8% and the normalized EBITDA for these subsidiaries for Q4 F15 serial quarter is 13%.

That's pretty much what I want to say. We can talk about strategy; we can talk about future growth after we have answered your questions. So over to you for questions.

Moderator: Thank you very much. We will now begin with the question and answer session. The first question is from the line of Hitesh Goel from Kotak. Please go ahead.

Hitesh Goel: Hello and congratulations on a good set of results. Sir, can you give us a sense why the margins in the Mahindra CIE subsidiary business mainly Europe improved significantly from 3rd Quarter to 4th Quarter? This is my first question. Secondly, can you give us a sense what is the debt reduction during the year on a consolidated basis and how has it come? Has it come through Operations or there is some Working Capital improvements as well? And my third question would be if you can give us a sense on CAPEX for the 3-4 years, how it is going to pan out. Thanks.

Hemant Luthra: Sanjay can you handle the debt question and then I'll return.

Sanjay Joglekar: So there were three questions. The first question is about the subsidiary's EBITDA, why it has gone up. And subsidiary's EBITDA as we explained last quarter we had done a lot of clean up in Metalcastello and now the Metalcastello has come to the normal level of profitability and as a result the Q4 what the improvement Hemant pointed out in subsidiaries is almost mainly on account of Metalcastello's results.

Hitesh Goel: So what would be the Metalcastello EBITDA?

Sanjay Joglekar: We are not talking company-wise results at the moment because they are not even in the public domain. We will take it up when we publish the Annual Report. So I am making this statement only to satisfy your query that why the results have improved, it is mainly on account of Metalcastello.

Hitesh Goel: Okay. So it is fair to say that on a Q-on-Q basis Mahindra CIE European business ex of Metalcastello and CIE Auto Forge is similar margins now.

Sanjay Joglekar: Yes it is similar margin that is a logical conclusion.

Hitesh Goel: And my second question was on the debt side how much debt reduction has happened in this year and how has it come, through Operations or Working Capital reduction has also happened?

Sanjay Joglekar: The Consolidated Debt is around 1400 crores at the end of March. I think we have given it in the Balance Sheet. What was the debt amount last year? I don't have a comparable number here but if I remember the last year's debt was in the range of around 1600 to 1700 crores and basically the results which have come of the debt reduction are due to the repayment of loans mainly out of the Operational results.

Hitesh Goel: Okay. So no Working Capital reduction has happened as such?

Sanjay Joglekar: Working Capital reduction has also happened. It's a combination of both.

Hitesh Goel: Okay. So 1700 crores has come down to around 1500 crores, right?

Sanjay Joglekar: So it is around 1400 crores debt now and I think it was 17 but Hitesh we can talk exact numbers little later on.

Hitesh Goel: Okay sir. And can you give us a sense on the CAPEX number for two years out? So basically what I am looking at a five year kind of CAPEX number because your debt reduction could be pretty significant if we factor in the kind of margins you are reporting right now.

Sanjay Joglekar: To tell you the similar thing which we have been talking that over next 2-3 years we do not have any plans for any significant investments as we have got sufficient capacity available in India and Europe. So there will be a maintenance related CAPEX in all the companies which we have stated will be usual in the range of about 250 crores on a consolidated basis.

Hitesh Goel: My last question to pitch in one more, can you talk about this one-off which you have been talking about because in the results it's not pretty clear, so if you can give us a sense on these one-offs which have happened in this year?

Sanjay Joglekar: So we can take the consolidated results for that?

Hitesh Goel: Yes sir, if you can talk on the consolidated results.

Sanjay Joglekar: Alright. So see the consolidated EBITDA here is about 4.4 billion or 440 crores which comes to without one-time gains and losses is about 532 crores. Now see, what has happened is that one is that we have taken a provision in consolidated accounts on account of write-off of some goodwill for Metalcastello. This is what we did when you consolidated some of the goodwill for various subsidiaries comes in, while all the goodwill could be sustainable on the basis of accounting the calculations, in our own estimate we felt that for the size of Metalcastello the goodwill is little higher. So making a stricter test for goodwill impairment we have taken a call to write-off goodwill of about 165 crores in Metalcastello. This is something approximately I would say is over and above the value of investments in Metalcastello. That portion gets written-off and this is the main adjustment which has been done in the PAT results. If we want to talk about EBITDA, see EBITDA had already some extraordinary numbers like in Metalcastello there was an inventory write-off. Then we had some restructuring cost in Metalcastello. In MFE we had those repairs to the press which happened in the 1st Quarter, the 12000 ton press which is functioning most efficiently now. Now all these numbers I think total up to approximately something like about 50 to 55 crores and that is something which is non-repetitive. In addition to that you will also find that in standalone we have shown that the normalized EBITDA is higher by about 8 crores and that is due to also there a Provision of about 8 crores taken in Q4 there again because of the merger we decided to take a, let's say, full view at all the Liabilities, Contingent Liabilities, Provisions, somewhere it was excess, somewhere it was short so net net again on a stricter and conservative basis we felt it's better to take a Provision of 8 crores now so that the future is clean and clear.

Hemant Luthra: I just want to add one thing because this question comes up again and again. If we take an overall view of how much capacity we have got may be we have got about 30% capacity being underutilized today in India and may be of the same order in Europe, in Mahindra CIE plant and therefore any CAPEX that we are looking at as Sanjay described is a maintenance CAPEX. However, in terms of growth one of the big things that has happened is that we decided to form an alliance and therefore do this equity swap so that we could use each other's capacity. If something happens it will be to see can we find some kind of a capacity swap as a strategy with some possible Asian OEM transplants and their component suppliers so that we could use the capacity of component suppliers in Indonesia, Thailand, Japan and they could use our capacity in Latin America. It's too early to talk about any success but if you want to think about what our overall strategy will be, that will be the direction in which we will look. It is also possible that because CIE believes that India is a key part of its business, it is also possible that if the valuation is correct as they seem to have done just now, and we find a potential candidate who can add to our product mix or add to our geographic diversity we will possibly look at that assuming that it will be value accretive.

Hitesh Goel: So sir on that part to clarify…..

Hemant Luthra: Somebody needs to make sure that you are not monopolizing all the questions. I love the questions but just I am making sure that you don't everybody get their time. Your last question and then I will ask somebody else, if there are no more you can always come back.

Hitesh Goel: No problem sir. Sorry. My last question, I just wanted to understand should we build in a 2x asset turnover? That would be the right way to look at CAPEX from FY18 onwards?

Sanjay Joglekar: That is not the way we look at it.

Hitesh Goel: Okay fine. Thank you.

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

Jinesh Gandhi: I have a question pertaining to this one-off. Primarily if I look at consol EBITDA for 4th Quarter, adjusted versus reported, there is a gap of about 400 crores roughly.

Sanjay Joglekar: Sorry again please?

Jinesh Gandhi: Difference between your adjusted EBITDA and reported EBITDA is roughly about 390 crores odd.

Sanjay Joglekar: That's for Q4 correct?

Jinesh Gandhi: Consolidated Q4 numbers, right whereas we have indicated about 50-55 crores for inventory write-off in restructuring at Metalcastello and MFE and another 80 crores in India. What would be the balance amount?

Sanjay Joglekar: No, I said 8 crores in India, not 80 crores. And this difference that we are talking about, you are talking only Q4?

Jinesh Gandhi: Yes only Q4.

Sanjay Joglekar: So that is around only 45 crores. See, I explained you on the full year basis, some are in Q4 and some are in 12 month. I have all the breakup also.

Jinesh Gandhi: Right, not a problem I will take that offline. And second question pertains to the revenue growth of 12% in 4th Quarter. What are the key drivers for this, which businesses have grown so strong, India obviously have de-grown 7%, so balance growth obviously will be from Europe but which businesses in Europe have shown such a strong growth?

Sanjay Joglekar: It is primarily the CIE Forging company has shown a strong growth in revenue.

Jinesh Gandhi: Okay, so what kind of growth they have witnessed?

Hemant Luthra: I have got some results which were made public which is that….just one second let me look at the public results of CIE Automotive. The adjusted turnover of CIE Automotive grew by 15% between Q4 1st Quarter 2014 and 1st Quarter 2015, so that's pretty much all of Europe. As I said we don't break down plant-wise as to how much has come but CIE Automotive just for your benefit grew by about 15%.

Jinesh Gandhi: And this would be driven by any new customer additions or what would be the key reasons for this?

Hemant Luthra: A mix of everything. Let Pedro jump in. Pedro go ahead.

Pedro Echegaray: It's a combination of market growth. In last quarter for passenger cars and I have to remember that in ex-CIE Forging we work mainly for passenger cars, growth was 8.7% so yes, part of the growth is coming from additional market demand but in addition we also have some new orders, not new customers but some new orders from existing customers and both affects together took us to this 12% growth.

Hemant Luthra: Also you should remember that one of many reasons that we gave for the alliance which are now working well for us is that Mahindra CIE erstwhile Mahindra Forging Europe was mostly servicing the truck market and CIE was servicing the passenger car market. There's some natural hedge there and now the passenger car market is growing stronger and maybe when Europe comes back maybe the truck market will catch up again. Vikas is correcting me and giving me online numbers which say that Q4 the commercial vehicle also grew at 16% for F15 versus Q4 F14.

Jinesh Gandhi: Okay, so even Mahindra Forgings Europe grew strongly?

Hemant Luthra: Yes. All across there has been growth in Europe.

Vikas Sinha: Because Mahindra Forgings Europe and CIE Forging has the biggest part of our European business so both of them have grown decently.

Jinesh Gandhi: Okay.

Moderator: Thank you. The next question is from the line of Aniket Mhatre from Espirito Santo. Please go ahead.

Aniket Mhatre: Just a clarification on your margin numbers, when you talked about Mahindra Forgings Europe doing 12.1%, does it include Other Income and Operating Margins?

Hemant Luthra: No it should not. But there may be some differences between the fact that Mahindra Forging Europe as reported by CIE, Sanjay correct me if I am wrong…Yes go ahead Sanjay. Why doesn't Sanjay take that question?

Sanjay Joglekar: See there are differences in accounting as it is done under IFRS and under German or Indian GAAP and what happens there are certain provisions which are made under German GAAP and Indian GAAP are not required as per IFRS. IFRS sometimes recognizes them in advance or some go to your equity and that is the main reason why you find Mahindra Forging Europe EBITDA around 12% or whatever you said under IFRS.

Aniket Mhatre: Right. The reason I wanted to cross check was last year, if I am not mistaken, in the call you had indicated that Europe margins are around 7 - 8%, so that 7- 8% like-to-like would compare to 12 or it would be lower?

Sanjay Joglekar: See like-to-like we cannot make because the treatment is different under both, but our margins now around between 8 to 9% since this question is asked I would clarify one thing more that in the current Q4 quarter under consolidated we have not explained one as a one-time cost but there is one in MFE. In MFE under the German GAAP provision for pension accrual is required which has been done but under Indian GAAPs we have to follow a different method which basically takes the interest rate only at the year-end rate. Now as the interest rates have come down under the Indian GAAPs the provision for pension accrual is higher and it is higher by about 35 crore. So that would not be there in IFRS, for example. That 35 crore is a hit purely taken as per accounting practices but now that the interest rate for this purpose in Germany have come down to something like 1.6% and I really do not anticipate any other big fall going forward. This provision of 35 crore in MFE is not going to come every quarter..

Aniket Mhatre: Understood. Just one follow up question, you have also mentioned that your interest cost has come down in one of the slides, in Germany and Italy. So apart from that debt coming off has the interest cost has also come down? Is that the right way of understanding?

Sanjay Joglekar: See, over the year may be I have explained in past calls also but what we have done in Germany and later in Italy also, during the bad times we had settled on some loans mainly from the Indian banks and while they were good rates but compared to European rates they were definitely higher. So from time to time we have replaced this loan after discussing with the Indian banks, with banks from Europe which is giving interest advantage of roughly 2 percentage points. However, in FY15 that full benefit has not come since it was done during the year.

Aniket Mhatre: Understood. So what is the average interest cost that we may take going forward?

Sanjay Joglekar: Well, in Europe you can take a cost on an average around 4 to 4.5%. Henceforth, we will continue to endeavor to reduce this further but at the moment you can take this cost.

Aniket Mhatre: Understood. Thanks so much, all the very best.

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

Ameen Pirani: Hi sir thanks for taking my questions. I joined a bit late so sorry if I ask some repetitive questions. Sir, on your European business side could you give some more highlights on how do you see the truck segment environment improving because some of your customers actually have reported strong order books at least in the last quarter. Are you seeing that coming through to your business as well?

Hemant Luthra: Yes, and I am going to let Pedro have the details to you so that we can see that both truck and car market are growing.

Pedro Echegaray: It is much easier to answer the question about passenger cars, explained our presentation. It is a steady growth. We are looking at an average….last year the average growth was 5.9%. For commercial vehicles it is quite unstable. It is true what you said for the last quarter growth was high and as well as our Order Book the same as for the market, the growth last quarter was 15.6%, for commercial vehicles bigger like 16 tons which is the kind of product that we are supplying. Nevertheless, you know that demand on trucks are very much dependent on the economy and the economy in Europe is still I would say unstable, mainly now because of the Greece, debt problem. I cannot give you any projection of growth for these commercial vehicles basically it will be depending on how the overall economy in Europe behaves. It is directly linked.

Ameen Pirani: Fair enough, that is helpful. And on your India side, you have mentioned repeatedly that obviously Mahindra and Tata are your key customers. Could you give us a sense as to how much or what part of their business in terms of say if a model comes out, do you get say 50% of a particular model or in terms of their newer launches which both of the companies have indicated, are you part of most of the new programs or what is your market share with them?

Hemant Luthra: I am going to turn that question over to KR because he knows his customer best and he will give you some news on that.

K. Ramaswami: With respect to these two customers while the business has not really improved in terms of production volume compared to last year, they are introducing a slew of new products and in most of these products, Mahindra for example, in most of these platforms be it be Stampings, be it be Gears, be it be Forging, we are nominated and we will be a major player in that nomination and lot of development activities are currently going on in various plants of Mahindra CIE in all to meet and the same thing as applicable to Tata. Tata is more relevant to Forging business and we are also into the latest vehicle that Tata Motors is introducing and therefore as the volumes of this new business picks up with Tata customers end, we expect our business to pick up as well because we are going to be major players.

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

Ronak Sarda: Sir quickly, I am going through your presentation which has been uploaded. For the Q4 and the full year numbers you have mentioned that the financial numbers of subsidiaries have been converted at 77.3 that's for both Q4 FY15 and Q4 FY14, right?

Sanjay Joglekar: Yes. Sorry this rate is used for the full year. There are some accounting guidelines on that, so every period end we are supposed to use an exchange rate. Now for the period ending March 2015, that is the 12 month period, we have used the exchange rate of 77.31. To make those numbers comparable we have done the same thing for March '14 also. Now, for December '14 we had of course used a difference exchange rate and it could have cost some difference in Q4 due to this exchange rate conversion but fortunately those two exchange rates are very close to each other and it does not cause any major difference otherwise I would have explained that.

Hemant Luthra: Also would it be true, Sanjay if I were to say that therefore whatever applies to the earnings and EBITDA also applies to the debt, so if the exchange rate is not 77 but 70 then the debt is also computed at that level? How does it work?

Sanjay Joglekar: Yes it's the same way but Hemant, I mean at the moment these numbers are comparable because we have used the same exchange rate.

Hemant Luthra: Okay.

Ronak Sarda: Right. And the SEBI release, basically the Schedule VI release which were uploaded BSE, for those consol year result, March '15 and March '14, that would be actual numbers that has not been changed for the exchange rate…?

Sanjay Joglekar: March '14 was not even consolidated. These are just not comparable.

Ronak Sarda: And March '15 would be at similar exchange rate or its….?

Sanjay Joglekar: Absolutely at the similar exchange rate. I mean that is the same which we have used for this presentation. We didn't want the numbers to be different from SEBI.

Ronak Sarda: Yes. Sir similarly if you can provide MFE numbers which you normally used to provide earlier, what was the revenue in Euro terms?

Sanjay Joglekar: As I already clarified on another question, I think the company-wise numbers we are not talking at the moment. They are not in public domain and we will come out little later when we are coming out with the Annual Report.

Ronak Sarda: Okay so the MFE numbers would be disclosed in the Annual Report?

Sanjay Joglekar: Yes. I mean that time we will be more open because we will have to make the subsidiaries numbers available, so that's not an issue. But as we have been saying I think generally the MFE revenue was annually in the range of about € 270 million. CIE Forging was in the range of around 170 or € 180 million.

Ronak Sarda: The last question would be on the standalone numbers, can you help us with a margin outlook there? Can we see some margin expansion driven by operating leverage or how should one look at the standalone numbers?

Sanjay Joglekar: You can look at the current numbers but future margins you know well, we never give any guidance.

Hemant Luthra: I will give you guidance which Sanjay will not give and this is a light-hearted guidance. If KR is able to deliver those numbers and the volume has been flat or declining just figure out what we can do if the volume start to pick up, the other guideline that I can give you that there is a very nice healthy internal competition which shows that can CIE Forgings do better than in Spain and Lithuania than KR can do in India and that healthy contribution is for the benefit of our shareholders so we've already told you that the numbers in Europe tend to be higher than India because of the passenger car growth and the truck market growth and I suspect that the numbers in India will also start to come back. Now how much they have come back and what the budgets are I don't think we can forecast but if we can meet these numbers and the volumes are down will certainly beat these numbers and the volumes are up.

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

Srinath Krishnan: In the 4th Quarter European operations have grown by about 23%, wanted to understand on a Euro basis when next year comes in and the new customers that you have added what would be the growth that we would be expecting?

Hemant Luthra: It's a strange question coming from one of our oldest investors that you are asking for forward information about what the growth might be, okay. Give us a break I can't talk about that.

Srinath Krishnan: Yes and secondly in terms of CIE has a principle of operating working capital to be nil, when they acquire a company, we acquired company's working capital to be nil like what is the current level Mahindra CIE is at?

Hemant Luthra: I don't think anybody can say that the net working capital should be nil.

Srinath Krishnan: You have operating working capital equal to zero like when you acquire company that's what CIE presentation.

Sanjay Joglekar: Yes correct, you are right and I think always the efforts are made in that direction. Now Mahindra CIE also has been consistently reducing the net working capital. If I recollect I think our current working capital is in the range of around 8% of sales and you know nil you have to take it more or less at the idealistic situation. It's not necessary it happens practically everywhere even in CIE but the objective is that will let us set off the working capital, the current assets versus current liabilities meaning try to keep it as less as possible.

Hemant Luthra: The only other thing that I can add over here is that function of how much keep the working capital is also the determination of how desperate our suppliers and how much you can sub-stretch the supply chain without them increasing prices. So yes you can artificially make net working capital nil or you can make it at a sensible level but the idea should always be to maximize your P&L because at the moment we don't have any problem with respect to cash.

Sanjay Joglekar: So I'm just confirming I think our working capital is in the range of around 8% of revenues.

Srinath Krishnan: Okay.

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

Kapil Singh: Just wanted to understand what would be the peak capacity utilization at which companies in India and Europe can operate.

Sanjay Joglekar: We have been saying that we have around capacities available between 20 to 30%. If the volumes pick up we do not need any capital expenditure up to that level.

Hemant Luthra: Also I don't think it's a single number. I'm going to invite KR to talk about this capacity utilization because there are different ways to measure it, there are how many strokes, how much in the case of stamping how much possibility is optimum for plant capacity and plant net tons and making sure that things are up and running I'll ask KR to jump in.

K Ramaswami: I think depends on the way you look at capacity and peak utilization but on universal standpoint of view I would like to say that if the customers let's assume all our customers grow by 20% and do we have adequate capacity, answer is yes. Of course if the customer wants specific products which needs balancing capacity we might have to add capital in terms of balancing capacity but it will not be significant.

Kapil Singh: If I understand correctly then basically till another 25% odd revenue growth we would not require to do any CAPEX.

K Ramaswami: Yes you can take it as 20 to 25 because the way you compute capacity, it depends on the product mix and the kind of thing but there would be probably need for balancing capacities which we would call for CAPEX.

Kapil Singh: And secondly is it possible to get a sense of what is the revenue contribution coming in from M&M and Tata for Mahindra CIE, I mean this question was asked but I'm just asking it in a different manner.

K Ramaswami: It's difficult to compute, now that we have to look at it from a consolidated standpoint of view and also you must understand that Mahindra CIE India business out of the total business is probably only 30% so the contribution would if you look at it Mahindra CIE overall will be very less.

Kapil Singh: But on a standalone.

K Ramaswami: On a standalone basis yes it is significant for some business, for example for Stamping Mahindra is very important customer for Forging and Foundry yes and as well as for gears but it can range between 30% to 50%.

Kapil Singh: Do we have overall revenue share like out of total standalone revenues how much.

K Ramaswami: We need to compute that but I would to my ballpark figure it would be about 30-35%.

Kapil Singh: From M&M?

K Ramaswami: From standalone.

Hemant Luthra: Just to give you some comfort and those of you who have been following Mahindra's Fortune for a long time. We learned our lesson at the time of Tech Mahindra where it was then known as Mahindra British Telecom and at the time of Mahindra British Telecom 85 to 90% of the revenue used to come from British Telecom when it was known as Mahindra British Telecom and we couldn't do a successful IPO. After doing Tech Mahindra and diversifying away from one single customer and one single line you have seen what's happened the Mahindra British Telecom and MBT now at Tech Mahindra has gone market cap of 10 billion. If you look at our engineering services which started from 95% dependent on Mahindra. By the time we transferred that business to Tech Mahindra the revenue from Mahindra was less than 25%. So the intent will always be even on a standalone basis what KR was saying is Mahindra to be less dependent upon Mahindra CIE and Mahindra CIE to be less dependent so that there can be a good solid standalone arm's length relationship. However, yes in times of trouble Mahindra will treat Mahindra CIE as a preferred supplier but at arm's length pricing.

Moderator: Thank you. The next question is from the line of Raghu Nandan from Quant Capital. Please go ahead.

Raghu Nandan: Congratulations on a very good set of numbers with 240 crores profit on a consol basis. Most questions have been answered, just one clarification on the margin side. On the margins we have, if I just deduct standalone from consolidated so for the Q4 we have EBITDA margin of 13.1% and comparatively full-year it is 10%. So at this 13.1% on a sequential basis you said was mainly due to an improvement in the Metalcastello, is that correct Sir?

Sanjay Joglekar: That's correct.

Raghu Nandan: So first of all a very detailed presentation thank you for that. One of the aspirational goals I understand key would be to match historic highest EBITDA margin achieved by MFE pre-Lehman crisis in 2008. So going ahead what are the kind of triggers you see towards achieving those goals?

Sanjay Joglekar: See MFE had achieved around 12% and just now it is around 8 to 9% already.

Pedro Echegaray: Basically the structuring of MFE has two phases – first phase is almost completed which is basically making headcount in line with the current demand. Now it has been already completed and that helps taking us to an EBITDA margin around 8%. From now on we are concentrating in a process improvement and productivity improvement. It will definitely help us to further improve our margins and definitely we are confident that probably in 2 or 3 years we will be able to return to those margins that we have before the crisis.

Sanjay Joglekar: I will add something and Pedro is absolutely right that still all operational companies of MFE are not desired level of EBITDA margin. Now one of the steps that we have taken is the announcement of closer of JECO which was performing at a very low EBITDA margin and the business is being transferred to other plants of MFE in Germany that step itself will give some boost to the EBITDA margin and secondly in Europe well at the moment and MFE also we have a capacity of about 20% available. No one is predicting when this Europe market will come up but to certain extent if we get another €30-40 million of turnover in MFE and the contribution levels are around I think 40% if we see in the way we had calculated we don't expect any an addition to the fixed cost.

Raghu Nandan: That was very helpful. Just another query on the debt side so we have shown an improvement on debt between '14 to '15, going ahead mainly maintenance CAPEX happening so is it fair to assume that debt levels that is net debt-equity level should also see maybe half from the current levels over the next 2-3 years.

Sanjay Joglekar: Yes I think we have been saying that Raghu and we do maintain that.

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

Priya Ranjan: Just couple of things on the margin improvement and one-off related to JECO. So this quarter probably is not there for any one-off cost related to JECO so although one-off cost related to JECO will be booked in FY16 if I'm not wrong.

Sanjay Joglekar: No you are wrong but you complete the question and I will clarify.

Priya Ranjan: How much extra margin we can actually think of from the JECO plant closure?

Sanjay Joglekar: It is like this. In the JECO I think over a period of about six months that is what they announced in the end February, the business will be transferred to other companies. We had said that and this is all there on the stock exchange so nothing is confidential I think we expect cost of about €6 million which is mainly the redundancies.

However, the personnel cost saving will be in the range of €6 to 7 million. Now out of all this full-year impact will come obviously next year and in the quarter January to March we have a provision already made which is required as the German GAAP and that is €3 million.

Priya Ranjan: So half is actually done.

Sanjay Joglekar: Yes.

Priya Ranjan: The second part is on the growth in India I mean we have been talking about a growing market plus growth rates so we have to look at certain new customers, set up new customers so can you throw some light on the addition or when can we expect certain addition.

K Ramaswami: In the last year we have made progress in two directions, one is with the existing customers on all new products we have been nominated and so that puts us into lot of opportunities for the future. Second is there are one or two significant customers in the car industry with whom we have won business and we are actively developing those businesses in forging. In the case of casting we have again got into two major customers and we are close to finalizing deal with two car manufacturers this year which will give us business. Overall in casting we are also focusing on exports and we have one of these major German car manufacturer who is interested in sourcing Diff-Case Housing from us and that would involve development which we are actively pursuing now and this will give us significant business and also take us to the next leap in terms of quality.

Priya Ranjan: Which housing?

K Ramaswami: This differential case housing.

Priya Ranjan: I guess you are also talking to some other luxury car makers probably owned by one of the Indian OEM.

K Ramaswami: This is a German car manufacturer.

Priya Ranjan: And just on the Zaheerabad plant so I mean this plant has been commissioned so when can we expect the full ramp-up and probably some new customers may be there as well, right?

K Ramaswami: That from stamping.

Pedro Echegaray: I can explain that, we have recently started production in our Zaheerabad plant in April in this year and we have at this moment the only customer for that plant, it is Mahindra and we will be supplying products to both Mahindra Auto sector and in Tractor sector. The full capacity or full production will be achieved probably by the end of next calendar year so by the end of 2016.

Priya Ranjan: The one of the Japanese manufacturer the pick-up truck manufacturer is setting up plant in Andhra Pradesh as well so you have any thought on the winning that customer as well in stamping?

Hemant Luthra: Which one is this?

Pedro Echegaray: I guess you're talking about Isuzu?

Priya Ranjan: Yes correct.

Pedro Echegaray: Yes we are in contact with them.

Priya Ranjan: And just on the strategy perspective; I was just looking at the CIE presentation. In that presentation they are talking about around €250 million of acquisition related CAPEX for the Indian entity I mean the Mahindra CIE entity so probably Hemant can throw some light on.

Hemant Luthra: €250 million CAPEX related to the India entity. I did not know that I have such a large cheque-book and I think it may not be related to one year, it will be related to many more. Second question if you go by the history of whatever we have done everything that we have to do has to be valued accretive. Third question as I mentioned on the call one of the reasons why the market cap of both CIE and Mahindra CIE has gone up is because we have not pursued CAPEX for the sake of CAPEX but have done equity swaps without worrying about who owns how much equity. So the four things that I mentioned is that we may have some geographic concentration in India that we may not be entirely comfortable with so we are in Pune, we are not adequately represented, in Chennai and maybe not adequately representative in North India so yes we are looking at possibilities because everybody is very pleased with what's going on. The Indian market is expensive for acquisitions and obviously we are working on something otherwise CIE Chairman would not have announced that we are looking for these kind of numbers. It will be value accretive, don't make me say anything more than that. One of other thing that I need to mention to you is that if you look at the history Mahindra happens to be the only company in the country where I think Anand Mahindra has reduced the family ownership from 40% to 25% or 26%. Mahindra & Mahindra was told that we were selling out and now everybody's saying that this is the master strategic stroke in which you swapped capacity and swapped equity and everybody is gone home laughing to the bank. There are many more ways than dolling out cash to make acquisitions. If you can achieve the same purpose of being able to service more customers by doing capacities swap you don't have to buy capacity so we will do it in a more sensible way because we have to deliver that 20% return on capital.

Priya Ranjan: Just one more clarification, in the presentation there is a mention about the Metalcastello is now owned by the Galfor I guess previously part of it was owned by some private equity company and even the Indian gears and transmission business is owned by CIE Automotive so has there any swap in the equity for these two entities?

Hemant Luthra: I think the answer lies in the fact that yes they used to be ICICI Ventures used to own a piece of Metalcastello and now that ICICI Ventures is exiting, Mahindra CIE owns 53% of Metalcastello and CIE Galfor owns 46% so it was just a convenience for us the way we could get optimum cost of debt to acquire the stake of ICICI Venture. As far as Mahindra Gears is concerned that is 76% that is owned by Mahindra CIE and 23% is owned by CIE too which is the parent of Mahindra CIE. So 23% might be the only thing that is not under CIE but everything else is under Mahindra CIE.

Priya Ranjan: I think the Galfor is 100% owned by Mahindra CIE?

Hemant Luthra: Yes absolutely, you can see it in the chart of the presentation.

Priya Ranjan: So any numbers which you can say I mean how much you have to give off to get the additional equity?

Hemant Luthra: buy out IVEN is it in the public domain or is not?

Sanjay Joglekar: No I think IVEN has been already bought out.

Hemant Luthra: So that's why I am saying his question is how much did you buy them out for?

Sanjay Joglekar: No that's something we can't say.

Priya Ranjan: Okay.

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

Pulkit Singhal: My first question is on the export opportunity for CIE and I'm referring to India and in next 2 to 3 years or even say five years. Secondly do you see any transfer business happening from the European entity to the Indian entity and that resulting in any kind of cost savings?

Hemant Luthra: The answer to both is, and I will let Pedro jump in, first phase consolidation get everything on the same cost structure. We know that we are comparing cost in India, Germany, Spain, Galfor, Legazpi are apples-to-apples and not apples-to-oranges. Second step first rate customers to move some stuff between Europe so that the supply chain does not become longer than what customers are comfortable with so some stuff that has been done in Germany can be done at a cheaper cost in Spain to that. And third step which Pedro is monitoring along with KR and we have the CIE team in town tomorrow and the day after is to start working on some of the stuff as to what should be moved from where to where and it is one company it is one ESOPS, everybody covered by the same thing so the CEO of Forgings in Spain covered by Mahindra CIE ESOPS, the CEO everything that happening in Metalcastello, Mahindra Gears, Forgings Europe, India's Sanjay Joglekar, myself, Pedro are all covered by the same incentives so I don't think there will be any other consideration other than maximizing the profitability of the company as a whole.

Pulkit Singhal: And can you talk more about this Phase-2 strategy of expansion in India and ASEAN to meet CIEs objectives and how big are we currently, how big can we get and I mean what are we talking about out here?

Hemant Luthra: See what you need to think about which people haven't focused on is that once upon a time there was Ford has carved out Visteon, General Motors had Delphi. Our friends Renault had Faurecia, there was Continental in Germany, all of these companies were based in high-cost Europe or high-cost America. Now you have got CIE based in Brazil, Mexico and the US and as per the last results that they have declared in Q1, NAFTA in Europe declared 20% EBITDA. You have got CIE in Spain which is the lowest cost in Europe and latest quarter showing 17% EBITDA. You had what was Mahindra Europe showing 12% EBITDA and you are now looking at a company which is almost $3 billion and as part of our strategy it could well be the replacement of a global what used to be Delphi and Visteon of a global LCC. So with this consolidation we are already amongst the top 75 automotive component companies in the world. Next question, what are we missing? We are missing a footprint in Asia. What do we get from a footprint in Asia? There are many Japanese companies which are present in India, they are present in Thailand which is the pickup capital of the world, they are present in Indonesia, and not all of them have got capacity in Latin America to meet the requirements of an Isuzu or Mazda or

Ford or Toyota and so on. Not all of them are present in India and therefore it makes eminent sense when we have a global trading partner like Mitsui who has invested in our steel business and Mitsui has also invested in GESTAMP stamping business and GESTAMP has invested in CIE and CIE has invested in Mahindra so there is a nice virtuous arrangement of Japanese connection also. Yes we are looking at options which will allow us to do the capacity swaps and perhaps equity swaps with Japanese and Asian companies.

Moderator: Thank you. The next question is from the line of Gagan Thareja from Comgest India. Please go ahead.

Gagan Thareja: Just one question, if I look at CIE Automotives April presentation, they indicate that by FY17 they are targeting €3 billion sales currently 2.1 2014 closing and if I then look at the 2013 presentation during the time of the merger, the presentation on Page #12 says that the sales mix in 2012 barely had anything in Asia and by 2017 they expect almost a third of sales from Asia. So if I put these two together essentially by 2017 you are targeting €1 billion sales in Asia for CIE Automotive. I'm just trying to understand how much will be organic, how much will be acquisition driven, will it be largely through India or will Mahindra CIE be the largest contributor here or CIE has other plans also?

Sanjay Joglekar: If you look at it I think that turnover from Asia or from Mahindra CIE it is talked at a Mahindra CIE consolidated level and Mahindra CIE at a consolidated level now is already about €700 million. If you talk about 2013 that time even Mahindra CIE India or its companies were not within CIE so that is one thing. Now secondly about possible expansions and growth I think Hemant explained and he will catch up but Hemant would you like to talk about it.

Hemant Luthra: Yes you are nice in extrapolating the numbers backwards and saying that it is going to be billion Euros in Asia and where is that going to come from and so let me address, put some first thing your mind at rest. CIE and Mahindra are mutually committed to each other than anything East of Spain is being done out of Mahindra CIE. They are also committed to each other that Mahindra will not entertain any further ambitions in the auto component business. So what you are seeing is Mahindra CIE has a vehicle for growth in India and Asia. Now organic growth KR has already pointed out to you that between 20 to 25% growth can come without CAPEX. I've also mentioned to you that we have some geographical issues with respect to not being present in the South so we are going to be looking at opportunities in the South. We may also be looking at opportunities in North India. KR is looking at the couple of options where because we could well become the

Number 1 forging company in the world, we are looking at a product mix and KR is looking at stuff which means currently in India which is complementary to our crankshaft business and our Steering Knuckle business and there are other forged products that we are looking at. I told you that we are looking and seeing whether we can replicate the strategy of an equity swap or a capacity swap with couple of Asian people and if you take into account the fact that CIE has already said that from 2017 they expect 1/3rd to come from India or from this region. They are not going to allow us to have grass grow under our feet and therefore I am keeping British Airways and Singapore Airlines and Lufthansa personally afloat by making sure that we deliver the growth that CIE is expecting from us. But its function of valuation today we might be more encouraged because there is a slowdown therefore we have to move fast. I can't say much more because all this stuff is binary, an inorganic deal is binary. I'm giving you a flavor of where we are, nothing outside Mahindra CIE East of Spain, nothing out of Mahindra CIE for Mahindra and auto components and leveraging the fact that and let me repeat it Mitsui is present as a partner of Mahindra and Mahindra Sanyo public knowledge Mitsui has invested in GESTAMP public knowledge, GESTAMP has invested in CIE public knowledge, Mahindra is invested in CIE public knowledge, Mitsui owns a piece of Toyota public knowledge, Mitsui owns a piece of Yamaha public knowledge, Mitsui owns a piece of Daihatsu public knowledge. Now how do we put these for these Japanese manufacturers based in Japan find exporting to Asia and Africa then next last frontier too expensive, should India be the logical place public knowledge? Now we start putting the facts together and you will see why CIE wants to grow Mahindra CIE.

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

Hitesh Goel: Vikas basically I just wanted to get a sense more on the debt and I will call you back for that later.

Vikas Sinha: Okay.

Moderator: Thank you. As there are no further questions, I would now like to hand the floor over to the management for closing comments.

Hemant Luthra: Nothing more from me, just some quick input as feedback. Nothing I think we have said it, we used more than our fair share of air time as we made this offer before. KR is available at the plant to help you understand the India piece in the different businesses Forging, Casting, and gears, etc. Sanjay and I and Pedro and Vikas are available to walk you through the numbers. Pedro more specifically can help you with integration. My office 24915143 in Bombay can coordinate meetings with any of us including KR, Sanjay, Vikas, Pedro, and myself.

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

Note: This statement has been edited to ensure quality