



“Mahindra Forgings Limited
Conference Call”

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ANANDRATHI



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MR. THOMAS KOERNER
MR. K. RAMASWAMI
MR. BURKARD RAUSCH
MR. DEVEN KATARIA
MR. VIKAS SINHA**

Moderator: Ladies and gentlemen, good day and welcome to the Q4 FY'13 Earnings Conference Call, of Mahindra Forgings, hosted by Anand Rathi Shares and Stock Brokers. As a reminder for the duration of the conference all participants' lines are in listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this conference call, please signal an operator by pressing "*" and then "0" on your touchtone phone. Please note that this conference has been recorded. I would now like to hand the conference over to Mr. Nirav Bhatt. Thank you and over to you Sir.

Nirav Bhatt: Thank you operator. Hi everyone welcome to the fourth quarter FY'13 Results Conference Call of Mahindra Forgings. Today we have with us Mr. Sanjay Joglekar, EVP and CFO, Systech Sector, Mr. K. Ramaswamy, MD, Mahindra Forgings Limited, Mr. Ajay Mantry, CFO Mahindra Forgings Limited, Mr. Thomas Koerner, CEO, Mahindra Forgings, Europe, Mr. Burkard Rausch, CFO, Mahindra Forgings, Europe, Mr. Vikas Sinha, Head, Strategy Systech Sector and Mr. Deven Kataria, Senior VP, Business development of Systech. So without further delay, I handover the floor to Mr. Sanjay Joglekar. Sir if you could just give us a small brief about the quarter, over to you Sir.

Sanjay Joglekar: Thank you, and thanks to all who have joined the call, just one small correction that Ajay Mantry, had to travel suddenly and he is not in a position to join, rest are all on the call. We have declared the results and also given a press release, which is a more clarificatory. I will just give a short brief and then quickly open to questions.

In Q4 if you see the Mahindra Forgings India's standalone results, it recorded a revenue of 109 Crores with 20 Crores EBITDA and 16 Crores PAT whereas for the year ended the revenue was 440 Crores with 66 Crores EBITDA and 41 Crores PAT. Both are a significant growth over previous periods, the respective Q4 as well as the full year.

However if you come to the consolidated results, the situation is completely different and that is primarily due to the market downturn, which took place in the second half or starting with almost from the end of Q2 bringing down the business radically, which you would have noticed even in Q3 results. As a result at a consolidated level the Q4 revenue is 564 Crores with a minus 26 (-26) Crores EBITDA and minus 69 (-69) Crores of PAT, whereas for the year the revenue is 2216 Crores with 43 Crores EBITDA but the PAT is minus 114 (-114) Crores.

For Q4 while we have explained in the press release, I may mention here that, that usual currency translation loss or gain are also included and the revenue includes a gain of 28 Crores in Q4 but EBITDA includes a currency transition loss of 12 Crores, meaning without which the EBITDA here will be actually minus 14 Crores in Q4 at a consolidated level.

These are the overall results and we have my colleagues from India, from Germany available here. We can talk about what the results are, how the future looks like and what steps are being taken to ensure that the things come back on track. I can leave it open to questions now.

- Moderator:** Thank you very much Sir. We will now begin the question and answer session.
- Nirav Bhatt:** I just wanted to check on the demand scenario in Europe Sir are we seeing any signs of pickup may be in Germany or in other countries?
- Sanjay Joglekar:** Thomas would you like to answer this please?
- Thomas Koerner:** Yes I would like to answer this question. Good afternoon ladies and gentlemen. My name is Thomas Koerner I am the CEO of Mahindra Forgings in Europe. To answer your question, yes, we see a light at the end of the tunnel and we have received the information from the major customers of ours that they will increase their demands with in the next month.
- Nirav Bhatt:** Okay, and in terms of our current ongoing contracts I believe we do have Actros, as we are present on platforms for Actros. So are we seeing players like Daimler launching new platforms of coming up with new products or is that going very slow Sir?
- Thomas Koerner:** They are known as the new SFTP program, which is exactly the new Actros you mentioned it before and we are now into ramp up of the new Actros and because of the legislation for Euro-VI there is no alternative to the new Actros so the internal planning of this major customers is at the new SFTP program will raise within the next month.
- Nirav Bhatt:** Sir if you could throw little more light on this currency translation gain on the loss that we had this is mainly due to stock valuation if I am not wrong right Sir?
- Sanjay Joglekar:** Yes, see in the revenue what happens that as per our accounting practice the revenue is recorded at average rate during the quarter or during the year and that is why there was a gain, whereas the stock valuation is done at the month end of the two quarters. So there was a loss of about 12 Crores in the stock valuation, you are right it is mainly due to stock valuation. It is a notional loss there is nothing to do with any forex covering it is just the translation of the results of European company into Indian rupees for the sake of consolidation.
- Nirav Bhatt:** Right and Sir what would be the utilization levels in Europe at the moment, asset utilization levels?
- Burkard Rausch:** Right now we are running somewhere around 70% depending from price-to-price but in average it is somewhere around that.
- Nirav Bhatt:** Okay and this question is mainly for Ramaswamy. Sir our Indian operations did see a good quarter relatively apart from UV's, I believe tractors are slow so in which subsectors are we seeing growth coming from, in passenger cars, UV's or I think tractors is weak right, it did shrink about 2%?
- K. Ramaswami:** Right in the fourth quarter we have not seen any growth. You would see there was hardly any growth related to last year and we believe the market to remain depressed unless something very

different happens. Focus will be on exports and finding new business. That is where we are targeting our growth in the next year or in the current financial year.

- Nirav Bhatt:** What is the breakup of exports from overall sales for the Indian operation Sir?
- K. Ramaswami:** We have a target of significantly increasing the exports so if everything goes well we should be close to 10% of sales as our export. This would mean almost doubling our exports compared to the previous year so this is our target. Our short-term target is to double exports every year.
- Nirav Bhatt:** This would mainly be for passenger cars; UV's and tractors right Sir?
- K. Ramaswami:** The domestic market is poor for OE application in terms of passenger car and UV, Utility Vehicles, the exporters vary in products, depending on the requirement, it is not necessarily, and it could be related to trucks, it could be related to UV's or cars but at this point in time it is very difficult to say well it were fairly well defined. As far as export is concerned, we are diversifying our product range so it goes to various customers.
- Nirav Bhatt:** Okay, but then no specific geography that we export to heavily or anything of that sort right Sir?
- K. Ramaswami:** At Europe.
- Nirav Bhatt:** Mainly Europe and anyway it is a very small percentage of overall sales at the moment?
- K. Ramaswami:** So that is the reason we expect significant potential in growth and that is how the company should grow because of market in India will continue to remain, it is not depressed it will not definitely show a significant growth.
- Nirav Bhatt:** Okay and Sir what were our employee costs for the year in FY'13 in India as well as Europe and how have they moved and how are we in terms of negotiating new and for the next year how are we placed just on the employee cost front?
- K. Ramaswami:** Sanjay would you like to take that?
- Sanjay Joglekar:** I think the employee cost in Germany or let me say in Europe includes a small part in UK also. The total personal cost was about Euro 82 million, which clocked to something like a 32% of the revenue, generally we are at about 25% but this percentage has gone up because of sudden fall in the revenue, whereas in India the personal cost is in the range of about 6% to 7%.
- Nirav Bhatt:** Sir one question which probably keeps cropping again how are we in terms of consolidation, in terms of the entire business into one Sir? Where are we in terms of consolidating the entire business under Systech?
- Sanjay Joglekar:** It is slightly a different question, but yes I know that we have been talking about this for quite some time, and yes, we are in the activity advance stage.

- Nirav Bhatt:** But would you be able to put a timeline to that or that would be difficult at this moment?
- Sanjay Joglekar:** It is difficult at this moment, but we are certainly contemplating to come to some definitive conclusions very soon. Just to clarify on the results of Indian company, the question came about the market, as you can see that in Q4 as well as for the entire year, the revenues have not grown, but very marginally grown for the year and for the quarter they are actually down compared to the previous quarter. The EBITDA and the profit after tax is India has gone significantly which is the result of all the operational improvements, in terms of yield improvement, lower rejections and various of those initiatives, which have been taken by the MFL management under Mr. Ramaswami.
- Nirav Bhatt:** So that is pretty commendable Sir and in terms of our Indian customers who are our key clients?
- K. Ramaswami:** Our major customers are Maruti, Tata Motors, and Mahindra & Mahindra.
- Nirav Bhatt:** Sir the breakup would be evenly spread in terms of revenues between these three?
- K. Ramaswami:** Between these three we would probably have 70% of our business.
- Nirav Bhatt:** That would be split almost equally?
- K. Ramaswami:** Yes, it changes depending on year-to-year. Last year was good year for Mahindra so our sales percentage Mahindra was good.
- Nirav Bhatt:** What is the kind of scenario in Europe on sales? Who are our key clients and largely the sales breakup?
- Burkard Rausch:** Key clients in Europe is the well known OEM's of the Truck industry, so Daimler, MAN, Volvo, Scania, Volvo, the whole package of truck manufactures makes about 60% of total sales.
- Nirav Bhatt:** That would be about 60% of total sales?
- Burkard Rausch:** Yes, for Europe.
- Moderator:** Thank you. As a reminder to all participants please press "*" and "1" at this time to ask questions.
- Nirav Bhatt:** If you could just throw more light on what steps you are taking in Europe that you just mentioned to actually counter the slowdown in terms of profitability operationally?
- K. Ramaswami:** Burkard would you like to state them something?
- Burkard Rausch:** Well facing the fact that volumes in Europe have slowed down, and customer demands have slowed down, we are in a situation to check our capacities and checking our cost structure and

the one point you have mentioned already before, which is very critical especially in Europe that is the personal expenses. So we are examining our capacities, what we can optimize in our processes, which section of products can be or has to be made somewhere else and can be shifted to Chakan so there is a very close link to our colleagues in Chakan to optimize our structure. In total checking our capacities from an outlook to see what is really necessary and what can be optimized in a sense of make or buy concentrating on, own core activities for the group, though there are a number of activities we are discussing together with our so-called task force that is team of Indian, German colleagues from different core competences and so the new structure of the whole forging activities is analyse and refined in a way to be successful for the future.

Sanjay Joglekar:

Just to clarify what the learning is that in the market in Europe or in general automotive market is going to face this kind of fevers so what we have to do is to see to is that the operations become sustainable, even though there is a 20% - 30% downturn meaning our breakeven point has to be brought down and that is what is all the focus is on which also includes operational improvements. In the last few calls I think we had explained about the breakdowns which happened particularly in the 12000 tonne press at Schoeneweiss and a very constructive efforts for those are going on for improving further on reducing the cycle time and reducing the rejections on that place and the preventive maintenance. So with all this we expect at over a period of time the European operations will become sustainable and very openly along with the German teams and Indian teams are studying together which is the best place to make which product.

Nirav Bhatt:

Sir also how much are we spending for maintaining these presses and you said we are taking steps to avoid snags in this so are we, is our maintenance cost going to spiral up significantly or anything you want to highlight here?

Sanjay Joglekar:

To my mind this is being done over a period of time and also during the next phase and I think the maintenance cost includes in the capitalized maintenance it is in the range of around Euro 15 million as the machine maintenance Burkard is that right?

Burkard Rausch:

Yes that is right.

Sanjay Joglekar:

So I do not expect that it will go spirally because it also includes a lot of breakdown maintenance and which probably substituted by the preventive maintenance, though not sharp increase is not anticipated at the moment.

Nirav Bhatt:

Right Sir. Operator if you signal for more questions till then if I will come back in the queue if I have more.

Moderator:

Ladies and gentlemen if you have any questions please press “*” and “1” at this time.

- Moderator:** As a reminder to all participants please press “*” and “1” at this time to ask questions. We are going to take our first question from the line of Amit Kasat from Standard Chartered. Please go ahead.
- Amit Kasat:** Good evening Sir. This is Amit from Standard Chartered. I just wanted to get the update on the status of One Systech because we have been discussing about that over the last few years, so any update on that?
- Sanjay Joglekar:** Well, Amit probably I have mentioned earlier but I would say that we are certainly working very seriously on this and at advanced stage, it is difficult for me to say but we are trying to come back to a decision very soon.
- Amit Kasat:** Is there any timeframe, which has been decided now, or it is still open in terms of time?
- Sanjay Joglekar:** As you said that it has been discussed for many years, so I am little bit hesitating in giving you any kind of timeline because whenever we declare something went wrong and we had to put the decision on hold. So I am just let us say, keeping my fingers crossed but assuring you that this is on our agenda, and we are going ahead.
- Amit Kasat:** Sir my second question in terms of do we have a order book which is there for our business, because I do believe that we do have a yearly contracts with most of the manufacturers, so how is our order book in terms of the outlook say for the next six months?
- Sanjay Joglekar:** Is it India and Europe both?
- Amit Kasat:** Yes, if you can give details of both.
- Sanjay Joglekar:** K. R. if you can narrate first please?
- K. Ramaswami:** In India the order book, we do not have annual contract because we only have normally share of business fixed with customers and the actual order and schedule would depend on production at customers end. However the current trend is fairly positive in the sense that it will not drop from what we are doing in the last quarter, the first quarter normally is very depressed quarter, but interestingly the first quarter appears to be normal and they are comparable with the last quarter of last year. Here so we also have bagged a few contracts for new part numbers, which we are going to develop and both in the domestic and the export market and so we expect, moderate growth this year relative to last year.
- Amit Kasat:** Okay, and how about the Europe?
- Burkard Rausch:** For Europe the situation has stabilized over the last months and what we saw last year that the rolling order book, which is not based on annual contract as well but the OEM’s shift their orders on a weekly or daily basis in to our system via EDI so the rolling order volumes we see have stabilized and the tendency is slightly increasing positively.

- Amit Kasat:** Okay, one last question from my side. Is there any incremental customer, which we have acquired in the last six months, both from the India perspective as well as from the international perspective a new customer added to our customer list?
- K. Ramaswami:** From India we have at least two or three new customers have been added.
- Amit Kasat:** Okay, is it possible for you to name it Sir?
- K. Ramaswami:** We are looking at Renault Nissan, also looking at new business from Suzuki Power Train which is now merged with Maruti and also looking at some new business form ZF.
- Amit Kasat:** Thank you Sir. Thanks very much.
- Thomas Koerner:** And from the European perspective we have to take in to consideration that we are supplier of almost all CV OEM's as well as supplier of at least all first tier and second tier of suppliers, which supply to the truck industry so there is almost not a new supplier but we are still developing additional and new projects, new parts for this existing suppliers.
- Amit Kasat:** Sir when we can see the traction in terms of the penetration with the same customer in terms of new products, you are picking up more business form the same customer when the traction will be seen in the revenue?
- Thomas Koerner:** We have a situation right now in Europe that from our major customer, which is Daimler there is a new truck coming to the market where we are still in the ramp up of these trucks and even Volvo and Renault these guys are bringing a new truck in autumn where we are participating a little bit more than from the existing trucks so you see that our R&D, our engineering is quite acceptable or accepted on the market and we received a couple of new products, couple of new orders for the next truck generations of the European truck manufacturers.
- Amit Kasat:** Okay, are we also the supplier for Daimler in India?
- Thomas Koerner:** We are supplying to Daimler in Germany and they are supplying a couple of parts directly to India and because these parts are not have local content right now but in the future we will see that these parts are going to happen in local content.
- K. Ramaswami:** We directly supply to Bharat Benz here, the Indian parts and they get assembled by tier 1 supplier and the parts go. So there are two parts one part is directly supplied to Bharat Benz the other part is supplied through our tier 1 supplier to Bharat Benz.
- Amit Kasath:** Thank you Sir. This is very, very helpful.
- Moderator:** Thank you. As a reminder to all participants please press "*" and "1" at this time to ask questions.

- Nirav Bhatt:** Sir a question from my side, have we seen any defense orders coming in, in any entity Sir?
- Deven Kataria:** I think directly within the defense segment we have had some discussions and we have approached customers in that space but I would not say that there is anything material across any of our companies; I think in India and in Europe we might do business with defense companies.
- Nirav Bhatt:** And would it be possible for you to share any name Sir as and what are we targeting?
- Deven Kataria:** I think most customers have no advertising clauses in this prospect so guys I do not think we are very comfortable with that.
- Nirav Bhatt:** That is all from my side. Operator any more questions.
- Moderator:** I will give one more reminder. Ladies and gentlemen if you have any questions please press “*” and “1” at this time.
- Sanjay Joglekar:** Okay, if there are no more questions maybe we can close and those who have questions can send a mail and some of you always meet me one-on-one also later on, which is also most welcome. We will be pleased to talk with you and explain to you the situation.
- Moderator:** Thank you Sir. On behalf of Anand Rathi Shares and Stockbrokers that concludes this conference call. Thank you for joining us. You may now disconnect your lines. Thank you.