"Mahindra CIE Automotive Limited Q1 CY16 Results Conference Call"

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MODERATOR: **MR. NISHANT VASS – EQUITY RESEARCH ANALYST, ICICI SECURITIES**

Moderator: Ladies and Gentlemen, Good Day and Welcome to the Mahindra CIE Automotive Q1 CY16 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 '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Nishant Vass – ICICI Securities. Thank you and over to you, Mr. Vass.

Nishant Vass: Thank you, Aman. I welcome everybody for the conference call of Mahindra CIE Automotive. With the management team we have presenting Mr. Hemant Luthra – Chairman, Mahindra CIE Automotive; Mr. Ramaswami – Managing Director, Mahindra CIE Automotive; Mr. Pedro Echegaray – Chief Executive Officer, Mahindra CIE Automotive; Mr. Sanjay Joglekar – Chief Financial Officer, Mahindra CIE Automotive and Mr. Vikas Sinha – Sr. Vice President Strategy, Mahindra CIE Automotive**.** I will give it to the management to take forward.

Management: Hemant, we request you to give opening remarks, please.

Hemant Luthra: Good morning, everybody. I am calling from Spain, where I am here for the CIE Board meeting tomorrow. Thank you for joining us and thank you for accommodating me at this hour, I was told that we were originally planned for a little bit earlier to make sure that the flight landed on time.

I do not need to make an opening speech; I think the numbers speak for themselves. The standalone results have seen nice handsome increase from last quarter to this quarter and increase in the EBITDA, despite the fact that the revenues were almost flat, we'd see the same thing happening in the subsidiaries where again we see a substantial increase in EBITDA in spite of the fact that the revenues have not increased that much. And obviously the consolidated results speak for themselves.

As we go through the call and respond to your questions you will get some reassurance about the fact that the process of recovery in different parts of the world is on and we are hoping that the met department is right, and if the met department is right than Mahindra agricultural tractors will also happen to add to the demand. But more than this I do not want to add, I just want to be able to respond to your questions, feel free to ask them and I will pass them around to whoever is most competent, directly involved in responding to them**.** Go ahead, Nishant.

Moderator: Thank you very much. We will now begin the question-and-answer session. Our first question is from the line of Ronak Sarda from Axis Capital. Please go ahead.

Ronak Sarda: So first question was on the European market update which we normally provide. The IHS data, is it available now because it was not part of the Press Release and I think the numbers are maybe out today or maybe after the Press Release was sent out.

Vikas Sinha: No, we will have to check on that, we have not yet checked that. So if it is out we will see.

Ronak Sarda: And a related question, if we look at the HCV data for Europe, I mean the data which comes out for more than 3.5 ton vehicles and the Europe CVs are growing in double-digits but the revenue for Forgings, Europe is flattish almost YOY, so is it largely because of the commodity pass through which impacts the number or this year this time around it was also because of the revenue loss because we have been shifting machinery from the Jeco plant or it is combination?

Vikas Sinha: No Ronak, one, the data which we are referring to are registration, sales data, purely domestic sales. Now since the large part of European production is also for exports, normally what we have seen that the production data for the last few quarters has been much lower than the registration data. So let us wait for the data, then we will have to look at that. So I do not think we are very much behind the market, when we looked at the production data last time for last few quarters what we saw that our growth was really in line with how the production growth was behaving. So we will have to examine that in greater detail.

Ronak Sarda: And a similar question on the standalone operations, the steel price, I mean when does that YOY de-growth comes into the base, I mean is it largely full year of CY16 also, I guess we have the high-base of steel of last year and will continue to see lower revenue growth or can you pinpoint where exactly do those lower steel price come into a base for us?

Vikas Sinha: No, the steel prices as decided in that quarter itself, so but if you look at the quarterly trend in the steel price it has been falling for the last six to eight quarters, I think there was I think some strengthening in this quarter but it is yet not like fully there. So if it turns around you will get the effect, but for the last six to eight quarters it has been continuously coming down, not just the steel even the scrap has been coming down, and drastically frankly.

Ronak Sarda: So that is what I need from you is, I mean can you pinpoint which quarter maybe we can see the steel prices actually coming in the base as per the current prices, so it comes in Q3 or I mean is there any data which you can help us out?

Pedro Echegaray: Yes, the Indian Government just announced one month ago two actions, one is the import duty increase, now it is 20% and what is more important than that it is the minimum import price which will probably make the prices of steel recover. At this moment what I can say is that steel prices are not dropping any more, some steel mills have announced price increases but so far we are still buying at the same prices as last quarter. But what is for sure is that the prices will not continue dropping. This has entered in effect; I think it was mid of March.

Moderator: Thank you. Our next question is from the line of Hitesh Goel from Kotak Securities. Please go ahead.

Hitesh Goel: Sir, can you share the customer wise breakdown on the standalone side, I mean as I know that M&M and Tata Motors is around 55% of standalone sales, 45% M&M and 10% Tata Motors. But if you can give us some breakdown of exports, scrap and other customers and how on a

YOY basis the sales of these customers have grown because that will give us some sense how much is the steel price impact and how much actually is the impact due to volume.

Vikas Sinha: Hitesh, if you look at the raw material impact would be for about, raw material is about 53% if you take an average, so it will be anywhere between 52% to 55% of our sales. Scrap which in the SEBI data you have the other operating income that will amount to anywhere between 7% to 9%, if you take around 8%, so that will give you to gauge what is the steel versus -- steel impact would be whatever increase or decrease, maybe a little bit more than half of that you can say shaving of our growth. Similarly scrap, you can have a look at that. In terms of M&M growth and Tata Motors growth, I have tried to separate that out. Sequentially if you look at it between Q4 C15 and Q1 C16 M&M grew including tractors about 5%, Tata Motors grew much faster, that was about over 30 but you have to remember that almost all of that growth is coming from MHCVs, passenger car has also grown but it is on a very small base. If you look at on an year-to -year basis M&M has grown about 14% and Tata Motors again 9%, again driven my MHCV. So that is the difference, exports is about 10%-12% for MCIE in India, so export would be more flattish so that will give you a brief idea of whatever is going on.

Hitesh Goel: So what is steel as percentage of sales in standalone

Vikas Sinha: For standalone it would be in the range of say anywhere between 52% to 55%, so maybe around if you take an average 53.5%, that will give you an idea.

Hitesh Goel: That is purely steel?

Vikas Sinha: Yes mostly, RM would be mostly steel, yes.

Hitesh Goel: So steel prices have declined by 20% on YOY basis, so that raw material cost would be around 10%, scrap would be around 2%-odd, so 12% drop because of that, right?

Vikas Sinha: Yes.

Hitesh Goel: And 10% - 12% this exports is flattish you are saying, this is in revenue terms of volume terms?

Vikas Sinha: I think this would be revenue terms.

Hitesh Goel: And you have given in your PPT M&M and Tata Motors in revenue terms have grown by 12% on a YOY basis?

Vikas Sinha: No, what I have given you is pure production number for M&M and Tata Motors.

Hitesh Goel: No, so what I am trying to understand, in other customers have your sales declined?

Vikas Sinha: No, no sales have not declined.

Hitesh Goel: And what are these other significant customers, if you do not want to give the breakdown but at least give the customers please?

Hemant Luthra: Why don't you go by verticals, approximately?

Sanjay Joglekar: Yes, that is how it is meant to be but we have actually published many times. Hitesh, we would have it but Vikas will tell you in two minutes.

Vikas Sinha: No, for example after that there are whole lot of customers that we have in this thing, it is in our Annual Report also, we published it, so I will just…

Management: Okay, I will see that.

Hemant Luthra: No, let us look at that, because let us try and answer the question which is that we may be KR who are our significant customer and yes we have some significant orders won also, so. And case of castings, I think you have got Honeywell and Cummins in the case of forgings and crank shafts you have got Maruti there in your order book and Gears, Romesh I think you have got Caterpillar and Turner in addition to Mahindra.

Vikas Sinha: Yes, Hemant we have put it in the Annual Report, I will go through that.

Hemant Luthra: I know you have got it, but I am saying that rather than fudge the question now let us just see if you can help them instead of turning them over to the Annual Report.

Sanjay Joglekar: So just give him two minutes Hemant.

Vikas Sinha: So forgings in India, the other main customer, there is Maruti Suzuki, there is Piaggio, there is Fiat and in India's stampings it is largely M&M and Tata Motors, for castings we have Honeywell, Cummins, Hyundai, JCB, Automotive Axle, New Holland, Dana and John Deere. Then we have magnetic products and there we supply to a whole host of customers in this magnetic space, Denso, Sumida, Varroc, Intica, Mitsuba. Composites in India is largely to the switch gear market which is L&T Switchgear, Phoenix and we have started to supply in the automotive space to TVS, M&M and Volvo. And gears which will not be in MCIE standalone but would be a subsidiary, Gears India, there we supply to Eaton, Caterpillar, New Holland, BEML Bharat Earth Movers Limited. And therefore I said for treating the others, so if you have M&M plus Tata Motors and exports that will account for say close to 65% to 67%, after that there are a whole slew of customers that you are looking at and it is best to probably look at the overall market growth as a surrogate for that.

Hitesh Goel: And so related to that, just a question, so the main question here is that M&M plus Tata Motors have 55% of the sales, so what all new orders have you won with these other customers or diversified into new customers that can diversify your sales mix from M&M and Tata Motors in the next one or two years, if you can give that answer as well please.

Pedro Echegaray: We are participating in all new projects from Mahindra & Mahindra, Jeeto, TUV, KUV, the new launched truck we are in all of them and we are participating in most of the new launches of Tata. So I would say that we are growing at the same rate as they are growing.

Hitesh Goel: So in next two years no significant additions in terms of new customers will come in?

Hemant Luthra: Hitesh let me, because I am not "handicapped", with inverted commas and I am half joking of not sitting in the same room as my CFO who will then say that I am saying putting my foot in my mouth and I cannot say at his face, we have said this more than once that the strategy is that we are going to reduce our dependence on Tata and Mahindra, we are not going to reduce the volume being shipped to them but we will reduce their share in our total wallet. So all our M&A strategy is to shift away from the geography of Pune where we are centrally located and maybe move much more to the south and the north. And one or two years you have given me a luxury of a long time, but things will happen before that to reduce the dependence of MCIE standalone on Mahindra and Tata. As a strategy I think we would like to see the share of Mahindra and Tata drop by 5% to 7% per year going forward. And if you look at Mahindra CIE consolidated, you will of course find that the share of Mahindra and Tata is much smaller than the numbers that Vikas has told. So just watch this space, we are making very serious efforts to reduce our dependence because we do not like Mahindra we love Mahindra, they are shareholder, we love Tata, we love every customer but we want customer diversity.

Hitesh Goel: Thank you, Hemant. And my last question is, if you look at QonQ basis in standalone operation, gross margins actually expanded, can you tell me why, please, because your top-line has not expanded much?

Vikas Sinha: Eventually why have the margins in India expanded, maybe KR…

Hitesh Goel: No, gross margin.

Hemant Luthra: KR, why don't you just talk about what has happened in forging, where the margins have expanded and then we can ask Pedro there, he can step in also Vikas can…KR, why don't you talk about what you have been doing to reduce the costs and how despite the volume coming down you have reduced and improved your profits?

K. Ramaswami: On forgings there is a growth on quarter-to-quarter basis to the extent of 10% to 11% in terms of revenues, the margins have grown basically by cost controls and also trying to rationalize on some of the products. In the case of foundry, there is hardly any quarter quarter-to-quarter but we have done significant improvement in terms of controlling material cost and more importantly on rationalization of products. And we have looked at parts that do not make money and we are trying to weed out those parts and stay focused on parts that give us better margins. So overall if I have to say, I think I must say quarter-on-quarter there has been very good control on cost and we have started focusing, especially in the last quarter on rationalizing the product to render each product more profitable.

Hemant Luthra: I don't know, we do not break this up just now but even if you look at the strategy of rationalizing product is not just applicable to India, it is just applicable for the consolidated company too. And in that consolidated company the most visible funds are where we have in our gear business, we did our products more quite drastically and therefore things have improved quite dramatically in Europe and they will continue to do so when we do the same things with the forgings business in Europe.

K Ramaswami: Hemant, I just want to add one point. If you look at this discussion on Mahindra and Tata Motors and companies dependent on that, this discussion I just wanted to clarify our position. If you look at MCIE as a whole, one -third of the business comes from all India operations and so even if you are 50% dependent on Mahindra and Tata Motors, for a company as a whole the dependence comes down to say 30% or 50%, around 15%. So it is not that MCIE as a whole is completely dependent only on these two customers. Secondly, these two customers are important to us and we will continue to grow with these customers, but given our overall business growth that we have in mind the percentage dependence on them will come down but independently these customers we are continuing to stay focus to grow.

Moderator: Our next question is from the line of Basudeb Banerjee from Antique Stock Broking. Please go ahead.

Basudeb Banerjee: Continuing with the previous question by Hitesh, if I see your raw material to sales is like five year low of around 51%, so broadly how to look at the sustainability of that, is it due to mix structurally or is it due to low raw material prices or it is purely due to internal cost cutting aspects which you are carrying, so how to look at that from a forward looking basis?

Hemant Luthra: Sorry, you said that raw material is at a historic low, is it?

Basudeb Banerjee: Almost five year low sir, at a standalone level..

Hemant Luthra: Vikas, you want to say something or ask KR or anybody who wants to jump in?

K. Ramaswami: Yes, I would probably try and answer this question. There has been a drop in the raw material prices in the last eight to nine months but it is nowhere near 20% drop, I would say it varies from business to business because we are in varied business, in case of forging for example the raw material drop in prices by itself i.e. if you take per ton raw material price and the price drop that has taken place, it is around anywhere between Rs.1,000 to Rs.1,500 per ton and it is something like 3% to 4% is the price drop in raw material. I think obviously the drop is being factored in by customers and they index it on selling price, but if you look at the percentage obviously there will be a drop in raw material price. So since the raw material price would remain low, if you start getting into rationalize product where the contribution from variable costs other than raw material is higher and that is one of the reasons and I think in the last quarter we have stayed focused on selecting the products which make more sense in terms of operating profit. So there is a constant effect of raw material dropping down a little bit and therefore it has an impact of raw material cost as a percentage of sale and product rationalization and yield improvement we have constantly been working on yield improvement, each of the divisions have specific targets for yield improvement which renders the lower raw material cost year-on-year. I would imagine, as long as the raw material costs are on the downward trend that is exhibited in the last nine months, 10 months, the raw material cost as a percentage of sale would keep coming down. But if the raw material price for example, if it goes up as it is being started by the various steel mills they, have already asked for price increase, and if there is an increase raw material cost as a percentage of sale will also go up. So there is an impact because of pluses and minuses on the raw material cost, but what is sustainable is the effort that we are taking in terms of rationalization and in terms of yield improvement.

Basudeb Banerjee: So broadly right way to look at it is on a per ton basis if your spread is remaining the same and because of price getting passed on your denominator is also falling, so percentage margin is lower?

K. Ramaswami: Right, exactly. And if the raw material price goes up the raw material cost will also go up. But what is sustainable is the efforts that are being taken on the forging division. Just a word of caution, again when you take per ton basis on a combined businesses which are very different, stamping is a different material, foundry for example we use this scrap and several additives you cannot really arrive at per ton, so it is a little bit complex. But broadly you are right, as the raw material prices keep going up RM cost as a percentage will go up and if it keeps coming down it will come down. So what we are looking at is that is an external factor where we have very little influence on. What we are looking at is what we can do to make this sustainable in terms of raw material cost as a percentage of sales going down, that is why we are looking at product rationalization and yield improvement.

Hemant Luthra: Just one second, Sanjay do you want to add something?

Sanjay Joglekar: No, thanks, it is well explained, I have nothing to add.

Basudeb Banerjee: Dr. Pavan Goenka in a recent interaction said that for even Mahindra tractor business in recent months, even you said just now that steel prices have been moving up in recent months and there are chances that the cost of steel for you will also start inflating from maybe Q1 or Q2 onwards. So under that circumstance than chances of increasing raw material cost is also high for you?

Hemant Luthra: I am going to turn this over, I am taking this question myself. Do not automatically please assume that if the raw material costs are coming in the customer does not put pressure on us to reduce the prices. Similarly, do not automatically assume that if the raw material prices are going up we sit back. So it is a constant tussle between customer and ourselves and I think the good results that you are seeing is benefit of all the work that has been done by everybody. So that is what I want to say.

Basudeb Banerjee: That sounds good, sir. And second thing, sir as you give at a subsidiary level combined numbers, so if one needs to look at a slightly micro basis so can you see year-on-year margin movement for Mahindra CIE Europe and erstwhile Mahindra Forging Europe?

Vikas Sinha: Basudeb, will you please repeat the question.

Basudeb Banerjee: Sir, consolidated minus standalone at a subsidiary level, so the subsidiaries are a combination of your Mahindra CIE Europe operations and erstwhile Mahindra Europe operations, so one looking at the truck forging and one at the passenger car forging, so year-on-year EBITDA margin movement in those two businesses separately.

Hemant Luthra: I think I will turn this over to Sanjay because there is some stuff that we publish and there is some stuff that we do not. So I am turning this over to Sanjay.

Basudeb Banerjee: May not be from numerical perspective but on a qualitative basis how the margins are moving, how the recoveries in Mahindra Forging is happening.

Vikas Sinha: So Mahindra Forging recovery, Pedro will talk about that. And then as far as the erstwhile CIE Forgings in Spain and Lithuania business, it was doing well and continues to do well. As far as the turnaround in Germany is being talked about, Pedro will talk about it.

Basudeb Banerjee: So any delay in transition and all those things.

Pedro Echegaray: Yes. The turnaround in Germany continues, so we are showing improvements quarter-on-quarter, but it is taking longer than expected. So the improvement, the slope of improvement it is less than we initially expected but progress continues.

Basudeb Banerjee: So last quarter as I remember you said Q3 and Q4 broadly you are expecting the gestation period to be over, so now there can be slight chance of the transition percolating to the next quarter also then?

Pedro Echegaray: Correct. We have not yet completed the restructuring, the conversion from Jeco processes to the new plant's processes, that change has not been completed so it will be extended for a few more months.

Basudeb Banerjee: Sure, but it is pretty much encouraging that subsidiary level margins have recovered strongly despite yourself transitioning this quarter itself.

Pedro Echegaray: Yes, margins will have improved, you are right margins have improved versus last quarter and they will continue improving.

Basudeb Banerjee: So broadly when the transition is over one should expect revenue also to improve because no more bottlenecks will be there in protection?

Pedro Echegaray: No, revenue I do not see we are losing revenue because of this transition, we are having some extra cost but in terms of revenue we have not lost any orders or any projects because of this.

Basudeb Banerjee: So then how to look at the P&L as well, as you are saying you are not losing out on revenue terms and margin is also back to square one. So when the last mile transition gets over which part one should look at which should improve?

Vikas Sinha: Like you are talking about how much margin improvement would be, that is difficult to answer that question because of course in the past we have talked about there has been a certain reduction in the number of people, so that will be reflected in margins at some point of time. But as I said, let us wait and watch , we have to watch the results for a few more months before we say with confidence that everything is alright, as I said it is a very complicated thing. So let us wait and watch for some more months.

Basudeb Banerjee: So few more months means one more quarter then?

Vikas Sinha: It could be more than one quarter, but as I said let us not conjecture on what is what, let us look at…

Basudeb Banerjee: No, no but that is what I saying that anyhow your margins have recovered pretty well despite the transition process and revenue as Pedro sir said that nothing got impacted. So even if the transition continues you are delivering decent margins.

Vikas Sinha: Well, hopefully.

Pedro Echegaray: Our long-term goals have not changed, they remained unchanged, our long-term goals both for Europe and India.

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

Raghu Nandan: Sir, just one query, on the standalone business the other income was higher at 4 crores compared to previous quarter and corresponding period last year, what has lead to this jump sir?

Sanjay Joglekar: So I think Raghu this is some change in accounting but this will continue, so you can expect the non-operating income around this level.

Raghu Nandan: And I had a query on Metalcastello, we were working towards improving business there on the PV side and on the defense side, has there been any progress on that, anything you can share there, sir? Thank you.

Pedro Echegaray: No, we continue making contact with all those customers but we have not got any new significant orders from those sector, but we are making progress.

Raghu Nandan: And on the net debt side, we were close to 1,000 crores, that figure remains sir?

Sanjay Joglekar: Well, I would say that our trend of debt reduction continues and the debt number generally we will disclose in June and December but what we have said that no we will continue to reduce the rate, continue to use the full fledged factoring, that is going very well and is on track.

Moderator: Thank you. Our next question is from the line of Mahesh Bendre from Way2wealth. Please go ahead.

Mahesh Bendre: Sir, the beginning of this calendar year has been modest for us, I mean in the first quarter the sales have declined by 1% on YOY basis and even the operating margins have declined by 90 basis points, so when we look for this current year what is the outlook, do we foresee a growth in the business and what could be the margins if one could look at?

Hemant Luthra: Sanjay, you were telling me about January-March last year being one of the best quarter, so why don't you talk about year-on-year that Mahesh is asking about.

Pedro Echegaray: Well, we are moderately optimistic about the short-term volumes growth, you know we are pretty much dependent on Mahindra, Mahindra is very much dependent on rural economy and we think that if the forecast of having a good monsoon and also with the Government Budget promoting rural economy we are seeing both the facts together will make Mahindra & Mahindra sales growth significantly not only in the farm equipment but also in the automotive division. So we expect to grow following Mahindra growth.

Mahesh Bendre: No, I was talking about overall company, I mean the standalone business I mean the standalone EBITDA contribution is roughly what 27% of the overall EBITDA for the last quarter. So the majority of profit is derived from the international subsidiary, so I was talking about company as a whole where do we see company moving over next anywhere between 12 to 15 months?

Sanjay Joglekar: Well in Europe revenue wise we are not really expecting any big growth to come, it is staying consistently on the last few quarters that in Europe our plan to improve margin does not depend on the revenue growth and particularly the margin improvement which was expected in Germany, irrespective of revenue. In India the margin will essentially depend on the revenue growth and as Pedro explained just now the market picks up if revenue growth our all plant heads like KR, Romesh, Pedro position the company in a way bringing the breakeven point down that with the growth of revenue we will expect the good improvement in margin.

Mahesh Bendre: Sir last question is, is it fair to assume that over next three to four quarters that we will probably would like to consolidated our operations in terms of sales growth and maybe one and half year down the line we will look for aggressive growth?

Sanjay Joglekar: I do not understand that question.

Mahesh Bendre: Sir last three four quarters we have either shown a de-growth in sales or a flat growth, so given the situation we are into is it fair to assume that over the next three, four quarters we would like to consolidate our domestic and international operations where growth may not be a priority for us?

Hemant Luthra: What is not, sorry Mahesh can you ask that again because I am not sure whether I understood about growth not being a priority for us?

Mahesh Bendre: No sir, I mean what I have seen is that last subsidiary international operations if I look at, out of last four quarters there were two quarters where there is a decline in the sales, one quarter last quarter was a flat and there was a 5% growth. So is it reasonable to assume that this performance will remain what it is for next four to five quarters?

Hemant Luthra: I could give you a helicopter view on this which is that we have always maintained that it takes a while to optimize what is happening in Europe under the old Mahindra Systech and combine that with whatever was being done by CIE. We are very satisfied with what has happened with CIE forging, we have taken some strong steps to make sure that we rationalize the number of people and therefore we shut the plant. But if you look at the historical track record of CIE and the historical track record of Mahindra CIE I am only going to be able to answer this on a qualitative basis. The growth for the last calendar year is not what is satisfactory for us, and therefore there are exact plans but I will not make any forward-looking statements. Please do not extrapolate what we have done in the last nine months or 12 months to mean that this is what we are satisfied with. The satisfaction will come when the growth goes back to the standard that CIE has kept for itself and therefore is setting for Mahindra CIE.

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

Jinesh Gandhi: Hi sir, couple of questions from my side. First is, would it be fair to say that this quarter margin expansion in Europe has been largely function of Jeco benefit coming through on the cost side?

Sanjay Joglekar: See, margin expansion in Europe, well let me say that all European companies have done well in this quarter compared to the sequential quarter. But you are right that it is largely influenced by the improvement in the margins in general.

Jinesh Gandhi: But Jeco benefits have started coming from this quarter, right?

Sanjay Joglekar: Yes, Jeco benefits in the sense that Jeco was closed into whatever the cost which were there in the last quarter have substantially come down as Pedro had explained over the last call, not that it is still full level but it will take maybe a few more quarters to come back to the full level.

Jinesh Gandhi: Any sense on what kind of margin expansion was driven because of Jeco in this quarter?

Sanjay Joglekar: It is difficult to distinguish like this, but when you are using the word Jeco I am taking generically that it is a measure of productivity improvement across Germany. Jeco was a plant which was €35 million of sale out of €250 million of everything. And it was closed and those sales have been transferred to other units in Germany, other units of our own companies. And this resulted into extra cost and the those extra costs are now till December end, particularly in October-December were there in the P&L, not shown as an exceptional cost as a part of the normal cost could not be distinguished because they were very spread like extra task, transportation cost, overtime. Now that has come substantially under control, if that is what you mean by Jeco effect. But irrespective of Jeco the productivity improvement throughout Germany are continuing and some of the plants have still not reached the peak of productivity which will come about in the coming quarters.

Jinesh Gandhi: And sir second question pertains to our India operations where we have taken significant step towards diversifying our customer base, can you throw some light about new customer adds which have happened over last six to nine months and any timeline by when we can expect them to start contributing to our revenues?

Hemant Luthra: Before you come to this question which I leave Vikas to jump in or KR to jump in, before you leave Jeco here is what I want to say. You keep asking about the Jeco effect, in my opinion the Jeco effect has not, exactly as Sanjay said, has not yet played out in full because we have been moving some stuff from hammer to a press and because we have been trying to optimize machining across different locations, it is still WIP. And therefore the results that you see today we are not done with that improvement yet, so the results that you see today are hopefully going to improve even more as that improvements are done. On customer, KR, Vikas whoever wants to say can do so.

Vikas Sinha: Jinesh, as far as new orders are concerned we have always like there is nothing new to report, we have always said that we have had few breaks in the past which we have seen in our previous concalls. But specifically in this quarter there is nothing new that has happened and we will continue to work in that direction, but in this particular calendar year just because of new customers there will not be a very significant effect on our P&L, so it will take a little bit of time. So this quarter there is really nothing to report.

Jinesh Gandhi: No, no what I was trying to understand was how has been our journey so far in terms of adding new clients, in the past we have indicated we were in advance stage in order negotiation with couple of passenger vehicle OEMs, similarly you indicated about Caterpillar. So can you give a broader picture about how are we heading towards that aspiration?

Pedro Echegaray: KR, you want to make any comment latest commercial developments in forgings?

K. Ramaswami: Normally we start the business plan with specific customers in mind with whom we want to diversify, and I can report that so far we are on track. There are several things that we are doing, we have added one more customer from the auto segment eight to nine months ago in supply of crank shafts and that distance is significantly growing because the customers business is growing. Second, wherever we are supplying crank shafts in as forged condition we have started convincing the customer we have an extensive machining facility and we can give ready to assemble crank shafts. And this is existing customer but growing into value addition and this is also right on track. We are also looking at expanding it to new platforms, customers like Maruti and so far we see that we will be on track. But all this will result in increase sales maybe in the third quarter end or fourth quarter beginning. To broadly summarize, I think we are diversifying into new customers as well as new products with existing customers and so far both are on track at least in forging and foundry division.

Jinesh Gandhi: And at a company level as a whole for India operations should we expect this share of M&M and Tata Motors dropping by 5% to 7% in this calendar year or that should be more towards CY17?

K. Ramaswami: I do not think that is the aim, it depends like as I was saying earlier we would like to continue to grow with Tata and Mahindra but we are looking at diversification, therefore the percentage share will drop, whether it will drop by 5% or 10% I think at this point in time it is very difficult to estimate. So we are on two pronged strategy, one is to continue to strengthen our relationship with Mahindra and Tata Motors; second, in order to have a growth which is much better than what we can get, we are diversifying into new customers. So on a combined basis what will be the effect of percentage share on Tata or Mahindra is very difficult to predict at this point in time.

Jinesh Gandhi: And lastly, my question to Mr. Joglekar, since we are one of the first few companies to adopt Indian accounting standards, can you throw light on how it has influenced our P&L and more specifically our balance sheet?

Sanjay Joglekar: What more specifically on the balance sheet?

Jinesh Gandhi: What has been the impact of the Indian accounting standards?

Sanjay Joglekar: The impact of Indian accounting standards that is the IndAS, on P&L we have given in our note to SEBI but the impact has not been significant. Balance sheet, we have not yet published but basically you know the impact on balance sheet will be in the retained earnings due to the past adjustments which are supposed to be made, we are not really in those kind of transactions where you know which IndAS require, some are radical difference changes in the accounting. So on the whole we do not expect any significant effect on our accounts due to IndAS.

Jinesh Gandhi: But from what I understand there was impact on vendor OE relationship on the contracts where vendor used to supply tools and dyes, would that impact us as much or we are not…?

Sanjay Joglekar: No, no, se you are right, I mean these are various clauses under IndAS but there are various conditions which are required to be satisfied. But as our contracts are arms length and we really do not get into that track of IndAS I don't want tools or dyes or for even supplying to single customers, we are not affected. Like things like embedded lease for example which is more significant we are not affected.

Hemant Luthra: Nishant, do me a favor, since there are number of participants on the call, maybe might even be helpful if whoever is asking the question directs it, so you have got myself on the call, you have got Sanjay Joglekar as CFO, you have got Vikas as head of strategy, I am repeating it, we have got KR who looks after foundry and forging, we have got Pedro who is responsible for our coordination with Europe. So it might really help in getting a focused answer to all these questions if whoever is asking the question feel free to say I am hoping for a response from somebody particular, and if it is incomplete one of us will pitch in.

Moderator: Thank you. Our next question is from the line of Ashwin Shetty from Ambit Capital. Please go ahead.

Ashwin Shetty: Sir, this would be either to Pedro or Sanjay or Vikas. So just wanted to understand the, because of the Jeco plant closure we retrenched some close to 200 employees, whether the employee cost or savings on that is fully reflected in this quarter and whether that is the prime reason for quarter-on-quarter improvement in subsidiary's margin?

Pedro Echegaray: The headcount reduction has fully happened in last quarter of calendar year 2015, so that is finished. But in parallel we are incurring some extra cost in overtime, some lower productivity, some additional tooling, some additional production expenses because of this transfer and because of the conversion from hammer to press. So we have not yet recognized or recovered fully the savings from this headcount reduction which has already happened. So we expect still a few more months until we fully stabilize the production and the full impact of this headcount savings appears in full in our P&L.

Moderator: Thank you. Our next question is from the line of Akshit Gandhi from Aviva Life Insurance. Please go ahead.

Akshit Gandhi: I wanted to know at a consolidated level what is the gross debt and the net debt.

Sanjay Joglekar: I think I already answered this that our update last time consolidated was around 1,000 crores net debt and our let us say the plan to reduce it, the trend continues, we continue it with the factoring and of course repayments as well. Debt number we will publish in June and then in December.

Akshit Gandhi: Also one more question, if I see currently at the consolidated level roughly 80% of your net worth is accounted by goodwill on consolidated basis, as per IndAS 26 do we have any impairment risk on that goodwill which can hit the net worth?

Sanjay Joglekar: Impairment risk will come in case the business performance goes down, actually if you see some little bits which existed sometime in 2013 have substantially reduced after CIE has taken over and turnaround the performance.

Akshit Gandhi: And lastly, one important thing, IndAS 26 will be the ESOPs costs will start hitting above the EBITDA, so do we have any earnings risk from that factor?

Sanjay Joglekar: Between IndAS and I-GAAP there is no difference in accounting treatment of above and below, it was always above, but the difference is in method of accounting. Like earlier it was the intrinsic value now it is the fair value and fair value generally speaking the effect is higher than intrinsic value. So like we have issued ESOPs in the month of February now we are already accounting at fair value and to that extent the impact in P&L will be higher.

Moderator: Thank you. Our next question is from the line of Basudeb Banerjee from Antique Stock Broking. Please go ahead.

Basudeb Banerjee: A couple of follow-up questions. At a standalone level and at the subsidiary level on a year-on-year basis how much was the volume growth?

Sanjay Joglekar: The volume, as you have been saying, we cannot really exactly describe the volume growth because different units of different orders, somewhere it is tonnage, just go by numbers. So that is why we generally say let us talk in terms of revenue and revenue by and large, and maybe KR, Pedro can clarify, but as we are saying by and large they are flat, there is not much in particulars.

Pedro Echegaray: Yes, in the case of stamping it has been more or less flat.

Basudeb Banerjee: So just broadly to understand qualitatively how much has been the impact of metal deflation in both the segments, broadly in Europe the business is more or less uniform, standalone I agree it is more of a conglomerate of so many other diversified businesses.

Vikas Sinha: Basudeb, if you look at India roughly raw material is about 53% of our sales, scrap is roughly 8%, so that will give you an indication depending on, of course publicly available RM and scrap indices are available, they may not exact match what is happening with us but at least publicly you can have an idea, I think SIAM publishes those indices. So if you look at that a large part of our volume growth will be lost with this RM and scrap deflation. So after that more or less we are in tune with the market, of course then we cannot get into very specific micro segments that we are talking about, there has been a little bit slowdown on the export side, so that is also causing it. So I would say between RM, scrap and a little bit of slowdown on the export revenues we are very much in tune with what the market is growing at.

Basudeb Banerjee: And how to look at it similarly for Europe, sir?

Vikas Sinha: Europe, unfortunately for this quarter we do not have the production data, once we have the production data it is more or less in line with the production data.

Basudeb Banerjee: And last question is for Sanjay sir, if one looks at your quarterly standalone P&L so almost for last seven, eight quarters your other expenses broadly static around this 100, 105 crores mark also revenue not going much ahead but typically other expense also has its own inflation. So is it because of cost cutting initiatives internally or one can see a certain jump down the line?

Hemant Luthra: Let me have a little bit of fun here, why we would allow it to jump suddenly**. T**his is Mahindra CIE with the highest governance standards; we do not fudge expenses please.

Basudeb Banerjee: No, it is not about fudging sir, it is almost static for last two years so somewhere…

Hemant Luthra: No, good sign or bad sign?

Basudeb Banerjee: No very good sign where revenue has not grown, so fortunately your margin is still good.

Hemant Luthra: Allow me the pleasure of having a little bit of laugh about that question.

Moderator: Thank you. Ladies and Gentlemen, we have one last question from the line of Hitesh Goel from Kotak Securities. Please go ahead.

Hitesh Goel: Sir my last question is on new products, this is for Pedro. Sir basically you have spoken quite a bit about the new products that you are going to bring from CIE to India and now we are seeing that these new products mostly our growth will be in line with the new business that we have won with M&M and Tata Motors. Can you speak a bit about what the new products growth that is going to come in in Volkswagen, Renault, Nissan, all the customers which are strong in Europe, to get a sense what is happening there.

Pedro Echegaray: No, the growth in the short-term I refer to Mahindra and Tata because we expected, as the rural economy in India recovers we expect a strong growth in the next quarter for Mahindra. But if our plan to grow from western OEMs in the long-term remains the same, I mean we already got some orders from Renault, we already got some orders from Ford and General Motors, we continue making quotations for other customers like Volkswagen or Fiat, we still have no order from them but we are confident that we will get some. But all these commercial actions will only have an impact in our P&L in two or three years, first of all we have to get the order then we will have to develop the product, we will have to build a tooling which usually takes six to eight month, then the part in some cases if it is a safety product has to be extensively tested by the customer which may take a few more months. So the average lead time for such an order is usually around two years, so we do not expect any significant impact in our revenue from those customers before 2018. But we are making progress, we are talking about also machining, precision products in India which at this moment we do not do. So opportunities continue, we are working with those potential customers very closely.

Hitesh Goel: And sir my last question is, basically just wanted to get a sense, is your diesel market share of components in diesel passenger vehicles higher than petrol in Europe with CIE? So my question is basically in India, the diesel sales mix will continue to come down in passenger vehicle sales and petrol will to expand, is that a challenge for you?

Pedro Echegaray: No, I do not have exact data about which is our breakdown between petrol and diesel engines, but I do not think there is a significant difference. In the past, yes, because forge crank shafts were mainly used in diesel engines but in the latest petrol engines smaller with higher compression rates and turbo compressors they are all using forging crank shafts and that is also happening in India, Maruti is using forged crank shafts even for their petrol engines. So I do not think we are more dependent on the sales than petrol engines, no, it is probably similar.

Hemant Luthra: What was the question, sorry we had dropped out, what was the question?

Hitesh Goel: My question was basically just wanted to get a sense CIE market share in diesel passenger vehicle components higher than petrol in Europe, so because in India diesel will continue to decline over a period so just wanted to get a sense is that a challenge for Mahindra CIE.

Hemant Luthra: When you say diesel is going to decline are you saying that all diesel will decline forever?

Hitesh Goel: No, my meaning was that initially norm changes it will happen right, so diesel vehicles will come…

Hemant Luthra: Sorry?

Hitesh Goel: My understanding is that with Bharat Stage IV to VI your diesel vehicles will become very costly as compared to petrol because you have to introduce diesel particle filter, right. So my sense is that diesel sales mix in overall passenger vehicle sales will continue to come down. So wanted to get a sense, is that a challenge for Mahindra CIE.

Hemant Luthra: I think our customers and Mahindra have particularly announced also, I do not know whether you are talking about India or you are talking about Europe.

Hitesh Goel: No, I am talking about India.

Hemant Luthra: If you are talking about India I think our principle customers in India has announced that they have gone from a 2 liter engine to a 1.5 liter engine in diesel. I think they have also announced that while BS-IV to VI is a challenge it is not an insurmountable challenge. I think the Indian customer has also announced that they have petrol engines which are either announced or not that far away. And therefore while there maybe short-term challenges but long-term we do not have fears about Mahindra's future or Tata's future. In addition to that, if you say that there is a conscious policy to diversify away and not as KR said, it pains to point out that we will not diversify our way from Mahindra and Tata but they will reduce our share of wallet. And I have said that as a conscious strategy we are looking at M&A possibility that take us away from dependence on these two. So I am very optimistic about where we are going.

Hitesh Goel: And sir, given that CIE is very strong in technology globally, so why M&A is required given that your debt is reducing quite significantly and M&A will… why is that required, is it difficult to penetrate into the Japanese OEMs with CIE technology itself, why is it so difficult? Just wanted to get a sense.

Hemant Luthra: I do not think it is difficult, A, there is not a problem, first we have got technology of CIE from here to everywhere and if you have a follow-up question on technology with respect to stamping and forging and casting I will leave it for Pedro and KR who are eminently more qualified. But let us just look at this that the practical experience from somebody like me who has been a business development guy, it takes a long time to get a vendor certification, it takes a long time to get a breakthrough. And if you find the customer, if you find an M&A prospect and that M&A prospect is priced right and that M&A prospect has got a whole basket of customers to whom we can to cross selling then why should I only depend up on my technology, I think we have suffered from this problem as engineers and I happen to be one which is the NIH syndrome which is Not Invented Here syndrome, if it is not my technology it is not good. To me I think it is a completely rational way of looking at how to grow faster, and sometimes what happens is that you see situations where the second generation or the third generation does not want to continue what they have started before and therefore an opportunity presents itself, or if you see the, let us just be specific, an Amtech like situation where they need to divest some of their assets why would we not look at them, why would we just worry about whether they have the technology that can be replicated, why would we not take into account the fact that they are supplying to a Japanese customer, why would we not take into fact. So I am looking at options and we keep looking and Amtech is only an example because it is a public example of somebody who said that they want to sell some assets.

Moderator: Thank you. Ladies and Gentlemen, that was our last caller. On behalf of ICICI Securities that concludes this conference. Thank you for joining us and you may now disconnect your lines.

Hemant Luthra: Just one closing remark. As always we have said that for those of you who want more information that you have not been able to get on the call, feel free to call up Sanjay, Vikas through ICICI Securities, KR, whoever you think is useful to help you answer your questions in more details.

Moderator: Thank you very much. Ladies and Gentlemen, that concludes this conference. Thank you for joining us and you may now disconnect your lines.