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07th May, 2024

BSE Limited Corporate Relationship Department, P. J. Towers, Dalal Street, Fort, Mumbai – 400 001. **BSE Scrip Code: 532756**	**National Stock Exchange of India Limited** Corporate Relationship Department, Exchange Plaza, 5th Floor, Plot No. C/1, G Block, Bandra Kurla Complex, Bandra (E), Mumbai – 400 051. **NSE Scrip Code: CIEINDIA**

Dear Sir / Madam,

Sub: Transcript of CIE Automotive India Limited Q1 CY2024 Post Result Conference Call

Pursuant to Regulation 30 read with Para A of Schedule III and Regulation 46(2) the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 and our letter dated 02nd May, 2024 respect of advance intimation in relation to Q1CY24 Results Conference Call, please find enclosed herewith transcripts of the said call held on 03rd May, 2024.

The same is being uploaded on the website of the Company i.e. www.cie-india.com.

Kindly acknowledge the receipt and take the same on the records.

Thanking you

Yours faithfully,

For CIE Automotive India Limited

PANKAJ VIJAY GOYAL Digitally signed by PANKAJ VIJAY GOYAL Date: 2024.05.07 14:29:45 +05'30'

Pankaj Goyal
Company Secretary, Chief Compliance Officer, and Head- Legal
Membership No.: F13037
Encl: as above

"CIE Automotive India Limited
Q1 CY '24 Earnings Conference Call"
May 03, 2024

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

MODERATOR: **MR. BASUDEB BANERJEE – ICICI SECURITIES**

Moderator: Ladies and gentlemen, good day, and welcome to CIE Automotive India Limited Q1 CY '24 Earnings 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 the star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the call over to Mr. Basudeb Banerjee. Thank you, and over to you, sir.

Basudeb Banerjee: Thanks, Steve. Good afternoon, good morning to the participants as per their locations. And thanks to management of CIE Automotive India Limited for giving us the opportunity to host the call. We have with us Mr. Ander Alvarez, CEO; Mr. K. Jayaprakash, CFO; Mr. Vikas Sinha, VP Strategy; and Mr. Oroitz Lafuente, Business Controller, representing the CIE management. Without wasting any time over to the management for their initial comments.

Vikas Sinha: Yes. Thanks, Basudeb. I hope I am audible.

Basudeb Banerjee: Yes, sir.

Vikas Sinha: Good day, friends. I welcome all of you on this call as also Ander Alvarez, our CEO. We're going to talk about CIE India results for Q1 C '24 we follow the calendar year so the first quarter of calendar year 2024. At the outset, we would like to mention that Bill Forge Mexico, that is BF Mexico, is now a subsidiary of CIE Galfor post the equity infusion in the BF Mexico done by CIE Galfor. Please note this slight change in the legal structure.

Now we start with the business results of the India operations of CIE India for Q1 C '24, which are on page seven of the uploaded presentation. Sales grew by 6% to 14,388 million versus Q1 C '23. In this quarter, the EBITDA of the Indian operations was INR2,684 million, EBIT INR2,126 million and EBT INR2,053 million. While sales grew by 6% year-on-year, EBITDA grew by 18%, EBIT, 24% and EBT 25% in the India operations year-on-year versus Q1 C '23.

EBITDA margin in Q1 C '24 was at 18.7%, but this includes a one-off subsidy benefit in our aluminum business, without that subsidy, the recurrent EBITDA margin in the India business for Q1 C '24 is 17.2%, which is higher both year-on-year and sequentially versus 16.7% in Q1 C '23 and 16.5% in Q4 C '23.

The market scenario in India in Q1 C '24 was mixed. The light vehicles and two-wheeler production have grown, but the tractor and MHCV markets have shrunk in this quarter. the two-wheeler market has shown good growth on the back of recovering rural and suburban demand, and we expect this trend to continue. Light vehicles are expected to continue growing at a steady rate. We also expect the tractor market to recover slightly in the second half of the year.

In our earlier calls, we had talked about some of our new orders, especially in the EV space being delayed. We expect these to start ramping up in the second half of CY '24. The results of the European operation of CIE India for Q1 C '24 are on page eight. We recorded sales of 8,941 million, which represents a drop of 7% year-on-year. It is pertinent to note that Q1 C '23 was an exceptional quarter in terms of sales with pent-up demand driving up sales in the European light vehicle market, the higher base of Q1 C '23 has contributed to the sales drop year-on-year.

If one looks at sequential growth, sales in Q1 C '24 grew by 22% versus Q4 C '23. In Q1 C '24, the EBITDA margin in our European operations was -- EBITDA was INR1,435 million; EBIT, INR1,130 million; and 986 million, which meant an EBITDA margin of 16%, EBIT of 12.6% and EBT of 11%. The EBITDA margin in the European operations in Q1 C '24 was adversely affected by lower sales and also because of stock reduction. This stock reduction took place because of Easter holidays falling in the first quarter of this year, while last year, it was in the second quarter. So that effect on margin is there.

The European light vehicle market has degrown by 3% in Q1 C '24 after a period of high growth of 13% in 2023. These trends are expected to continue with IHS forecasting European light vehicle production in 2024 to be 2% lower than in 2023. The slowdown in the US construction equipment market continues and is expected to start picking up towards the end of the year. Sales at Metalcastello will thus be adversely affected in this calendar year.

And now if we go to page nine, we will see the consolidated results. In Q1 C '24, CIE India on a consolidated basis achieved sales of INR23,329 million; EBITDA of INR4,119 million at a margin of 17.7%; EBIT of 3,255 million at 14%; and EBT of INR3,039 million at 13%. The margins have increased on both a year-on-year and sequential basis. These are the highest quarterly margins that CIE India has achieved on a consolidated basis. And these margins are now aligning quite well with CIE ratios globally.

In closing, we would like to state that we continue to focus on growth and growing with our customers so that we can take advantage of all opportunities that come our way.

And now we can proceed to Q&A.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Jinesh Gandhi from Ambit Capital.

Jinesh Gandhi: Accounted in the India financial. That's correct understanding, right?

Vikas Sinha: Jinesh, I think you just got cut off in the initial part. Can you repeat your question, please?

Jinesh Gandhi: The Mexico business still continues to be reported in the India business, India financial, right? It's not in the reflected in the report?

Vikas Sinha: Yes.

Jinesh Gandhi: Okay. And secondly, INR22 crores of grant for the prior period for Aurangabad Electric, that is accounted in other income or is part of other operating income?

Vikas Sinha: Other income, Jinesh.

Jinesh Gandhi: Got it. And coming to the European business. So how was the decline on a Euro basis, I mean, on Rupee basis obviously there is 7%, would be Euro basis be close to 11% or so?

Vikas Sinha: Ander, the question is, what is the decline in Europe on a euro basis without taking into account forex in this quarter?

Ander Alvarez: It is about 2% drop. The forex impact has been -- the forex impact has been 2% of positive impact. So we need to reduce 2%. The forex impact is plus 2%. That is the impact that we had, but on the other hand, we also had the negative impact of the raw material price decrease, okay? The steel price decrease and the impact of this decrease is approximately also 2%. So both effects are compensated. So we are balance. So we can say that the figures that you see are in line with the rupee's value.

Jinesh Gandhi: Got it. And for Metalcastello, now what's the run rate of revenues we are doing? I mean this effectively would be the third quarter of decline. So are we now well below EUR60 million? Or we are holding into that run rate?

Ander Alvarez: Okay. In Metalcastello, we had -- since, let's say, the second half of the last year, we saw an important decline on the sales, especially because of the American US market of off road vehicles drop. This is -- as you know, this is a cyclical business, and we are now in the bottom side of the cycle, especially because of the elections that are happening in the US at the end of this year, okay?

During this period, all the investments, big investments in the -- in earth moving activities and mining and so on are, let's say, a slowdown and reduced, and we expect this to at the end of this year or beginning next year. During this quarter, what we have done is we have reduced our expenses. We have reduced the, let's say, the contract labors, and we have aligned the company to the new sales scenario.

And we will -- we are selling now at approximately EUR5 million per month. This is about between EUR50 million and EUR60 million this year, instead of the EUR75 million, EUR80 million we were at the beginning of last year.

Jinesh Gandhi: So one more question before I fall back in queue. So the European EV business is clearly witnessing relatively slower pace of electrification. So are we seeing increase in other ordering for the ICE business and also wouldn't this in turn also result in lower capex for the new EV orders which you are getting? How does it in turn in our Europe business?

Ander Alvarez: Okay. The EV business in Europe is slowing down slightly during this beginning of the year, the calendar year '24, mainly because of the, let's say, elimination of subsidies in certain countries like Germany. I see business is more or less stable. We keep the same let's say, sales on the internal combustion engine components. This business remains stable, but the electrification components are a little bit delayed.

All the programs are being delayed and all the carmakers are now OEMs are suffering because of this lower-than-expected electric vehicle sales. Considering this, however, we see that this electrification will come, and we will see these electric vehicles growth in the future, in the near future, but probably lower than we expected 1 or 2 years ago.

Regarding the new orders that we are getting in Europe approximately 40% of the new orders that we got are for electric vehicles. So the evolution and the, let's say, the transition from the internal combustion engine to the electric vehicle components will happen smoothly as we are -- our, let's say, new order portfolio are aligned with this transition, and we are increasing our electric vehicle component business.

For example, one explanation of the delay of the electrification is happening in Metalcastello too, where we got a very, very important business for the electric vehicle components, gears, especially for the US market. And these programs are not coming yet. The sales are very, very low. We are far below our expected sales on these components.

But we all -- let's say, the market and all our customers are informing us and saying us that this transition and this growth of the electric vehicle component will come in the next quarters. So we are ready to start producing in these components. But unfortunately, the market is not helping us.

Moderator: Next question is from the line of Nitish Rege from ChrysCapital.

Nitish Rege: So I just wanted to know whether we are able to grow our business from our non-anchor customers, customers ex-Mahindra, Bajaj, Tata. And if you could just share how much are revenue from non-anchor customers has increased in CY '23 in this quarter?

Vikas Sinha: No. Nitish, let me answer this question. We have talked about this in the past about our portfolio approach to our customers, which helps us derisk, which helps us maintain our margin. And we have talked about that our anchor customers, which are four, and we are dividing Mahindra into two, auto sector and tractors, auto sector and farm equipment sector as Mahindra calls them, Maruti and Bajaj, which together would be in the range of roughly 50% to 55%.

And after that, we have a whole range of customers who are in the range of 3% to 5% of sales, including Tata Motors, Ashok Leyland, Hyundai, Kia, Bosch. There are many. There are many, maybe about 10 or 11 customers. And what -- and then there is a tail and there is a long tail. We have close to about 50 customers in India over INR1 crores. So of course, the anchor customers are also growing. And then the focus is on -- I told you those 10, 11 customers. And then they are -- and then they will grow.

If you remember, we have always mentioned that we have made significant investments beginning from '21 -- from calendar year '21 just after COVID and those investments are backed by orders. It's just that some of the orders, the ramp-up has been delayed, which we have explained in some of our earlier calls, especially the orders that we have got for our new plant at CIE Hosur.

Some of the orders for the EV business at aluminum and at Bill Forge. So those are delayed. And those are a mix of both anchor and these customers that we are growing. And in fact, we do expect in the second half of this year for some of the orders to ramp back. So to answer your question, I don't have a specific number to report as to how much they have grown. But yes, they are -- both the anchor customers and that 10, 11 customers that you're talking about are -- that we are talking about are very important for our long-term growth strategy as well as margin strategy.

Nitish Rege: Okay. And the next question is for Ander. I just wanted to understand, are you happy with the India growth? Do you think we could do something better to improve our growth?

Ander Alvarez: Okay. Let's say that we are satisfied how the business and the evolution of the management is doing in our all Indian verticals. The growth that we are expecting is higher than the growth that we have shown in the last quarters, but mainly because of the delay that Vikas explained before. I mean, we have certain big projects with important delays in our customers. It is not our, let's say, mistake or lack of management. It's due to the delay in the launch of the new projects from our customers. And these launches are happening, and we are already ramping up those projects.

So as Vikas said, we expect to show to the market higher growth in the next quarters. Probably by the third and the fourth quarter let's say, by the end of the year, we will see this jump happening finally. Most of these programs are for export programs. And this -- you know that this -- sometimes there are certain delays on these launches, especially when we are talking about new technologies like electric vehicles or new products that we are -- our customers are launching also in India.

So my view is that we expect to have better growth in the next future. Right now, we are a little bit above the market, the weighted average market in this moment. The market grew in this quarter approximately 4%. You need to consider that the both commercial vehicles and tractor business dropped approximately 15% this quarter.

And that means that the average growth of the market is -- according to our portfolio is approximately 4%. And our growth is around 6%. So we are a little bit above the market. But you are right that we expect to have better growth and higher growth in the next quarters.

Vikas Sinha: Nitish, can I add something to that, if you allow me a bit on digression?

Nitish Rege: Yes, yes, sir.

Vikas Sinha: Now when Ander talks about what is ramping back, like, of course, we are seeing a very good response to the XUV 3X0 where we have substantial business for stampings and gears. Mahindra is also launching their Urban -- those small commercial vehicles, 0.8 to 1.5 tons. We are also very hopeful about that. Of course, Mahindra's pure BEV vehicles, but those are for later, maybe not in this year. Then at Bajaj, we are again, Triumph is doing well.

So there we are -- the CNG bike for Bajaj is again something that we are very looking forward to. There are a lot of export orders that Ander talked about in electric vehicles. We have talked about the orders for shafts from Bill Forge. We have orders at our aluminum business also. Maruti is launching new SUVs. So for our crankshaft business, that's something that we are, again, looking forward to. Tractors, I think in Mahindra, the K2 Series, it is something that, again, is -- we think it will do well.

And of course, there are a lot of resourcing projects from our existing customers. So that's the reason why there has been a delay because to answer your question, have we been able to grow both in our anchor customers or beyond? The answer is yes, both in our anchor customers and 10, 11 customers, and that's the reason why I have taken the liberty to talk about some of the models that we are eagerly waiting for.

So that will hopefully give you a kind of preview as to why we think we are confident. And it is, as Ander said, it is more a market phenomena that the growth has slowed down, and I will talk about that and that's why I took the permission for a little bit of degression now. So if you look at the 3-year period from C '21 to C '23, three calendar years. Overall, our growth is quite good. On an organic basis, we have grown 40% in these 3 years because that's what I've said. We have been investing a lot. Unfortunately, the growth has been bunched up. And in the last 2, 3 quarters, the growth has been less than expected.

But overall, this 40% growth on an organic basis compares very well with what everybody else has done in the market, and we have done a check on at least 12 to 15 of the players who are in our peer group, and it compares well with that. But over and above that, with this growth of 40% between these 3 years, we have shown perhaps one of the profit growth on the higher side compared to -- if you do a peer benchmarking.

So it's not that we have neglected growth or we are not growing or losing share, nothing of that kind, it is just that some of our growth is bunched up. So if you look at this 3-year period, just to buttress the point on the bunching up, I also looked at the India growth performance for the last 6 quarters, starting from Q4 C '22, looked at our growth in India and the weighted average growth of the market. Now again, on this weighted average growth, I understand some of the numbers, at least in this quarter, there is some discrepancy between SIAM and IHS numbers. But be that as it may, like the trend, I will tell you is how it has bunched up.

So if you look at Q4 C '22, that is six quarters ago, the weighted average growth in India was roughly about 16%. We grew 26% at a recurrent EBITDA margin of 15.5%, in that particular quarter, there were certain one-off. If you look at Q1 C '23, the weighted average growth in India was close to minus 3%. We grew 13%. Our EBITDA margin was 16.7% in India. If you look at Q2 C '23, the weighted average growth in the market was roughly about 0.3% and India operations grew by roughly about 5%.

Our margins were 16.8% EBITDA margin. Q3 C '23, if you look at it, our weighted average growth in the market was roughly 2%. We grew at 1% lower than that, the first time we went below the weighted average market growth. Our margins were 16.7%. Q4 C '23, the weighted average growth 3.8%. We grew at 4%, so roughly in line with the market. In Q4 C '23, our margins were 16.5%.

Now if you look at Q1 C '24, like we are talking about 4.8%. I know there is some discrepancy in data, but anywhere between 4.5% to 5.5% is the weighted EBITDA market growth, and we have grown at 6%. So if you clearly look at it, we outperformed the market in Q4 to C '22 and Q1 C '23, handsomely. When Q2 C '23 was somewhat close to the market, Q3 C '23 when we went down below, Q4 and Q1 are more or less in line with the market. Q1 is slightly better than Q4.

So clearly, you see the trajectory is again going back. So this is the point that I'm trying to demonstrate, it is rather more toward -- more because of the bunching up and ramping up of orders. And in fact, as I said, more or less, we are very confident that both growth and margins, we'll be able to deliver on a longer-term basis.

And this data I'm trying to show you the bunching up data between C '21 to C '23 and this last six quarters, just to show you that on a longer-term basis, we have done well, both on growth as well as margins, and I think this performance will continue. Sorry for this digression. Nitish I hope that's okay.

Moderator: The next question is from the line of Sunil Gupta from HSBC Mutual Funds.

Sunil Gupta: So just wanted to understand, one, is there sort of reclassification on the other operating income in India? Because I mean, last year, we were doing INR90 crores plus every quarter. This quarter, it's dropped. So is there something of a reclassification into other income?

K. Jayaprakash: No, no. Vikas, if I can take that?

Vikas Sinha: Yes, only you can take that, JP.

K. Jayaprakash: No. So that's because we have started using the scrap generated by stamping within our foundry. So there has been no outside sale and use within the company.

Sunil Gupta: Okay. And the other income partly like you mentioned, there's a INR22 crores one-off subsidy, but otherwise, also, it's slightly on the higher side. So that's interest income, etcetera. Is that a way to look at it?

K. Jayaprakash: Yes.

Sunil Gupta: Okay. And just -- I mean, like I know you've had a lot of discussion already on the growth aspect. But I mean, just coming at it from a sequential standpoint, right, like all other things being equal, sequentially, we've seen good growth across categories, EVs, even MHCV, tractors also. So I'm just wondering the sort of 3% Q-o-Q growth that we're seeing for you seems to be, again, significantly below market.

Only two-wheeler were sort of flattish on a production basis Q-o-Q. So I'm just trying to understand like how do we -- is that because of certain product-specific reasons again? Or something of that sort? Or what else is explaining this?

Vikas Sinha: Sunil, if you look at sequentially, you are right about that. The difference would be 3% or 6% given what those numbers that you are citing. But within that, like, for example, in tractors, the difference, say, between our portfolio of tractors and the rest is a little worse off in that case. So if you look at it sequentially, say, between the Mahindra brand tractors and the Swaraj brand tractors.

Similarly, on the two-wheeler side, for example, Bajaj, because of exports was a little lesser than what you are seeing in terms of the flattish growth sequentially that you're talking about. So it is largely a mix of the specific customers that we are dealing with on a sequential basis. On year-on-year basis it has worked differently, on a sequential basis it has worked differently, because of the base effect. I think this -- all these things would just even out once you look at it on a full year basis.

Again, the point being, Sunil, I think it is really the delay in ramp-up of orders, which we do think will start happening in the second half of this year, especially -- in some cases, like stampings, XUV 3X0 already doing well. I think 6,000 roughly that 5,000 vehicles, and we expect it to go higher as we go along. So like that sequential thing versus year-on-year thing, it's basically because of that specific customer base that we are targeting.

Sunil Gupta: Got it. And just on the 3XO, I mean, like would the content be very different from the 3OO?

Vikas Sinha: No. It is the reworked version. If you look at our -- the stampings bit is the biggest part of our Mahindra business. So overall, if you look at Mahindra would be in the range of roughly about, that's in that related party transaction. The number is there, about roughly INR1,600 crores, INR1,700 crores. About 60% of that is coming through stampings. And stampings and gears are the biggest beneficiaries of XUV 3XO.

Sunil Gupta: No, where I'm asking this question is like in the case of the Scorpio changeover, we lost content. So in the case of 3OO to 3XO changeover, we are gaining content or we were not there in 3OO earlier, and we are now getting...?

Vikas Sinha: No, we were there in 3OO, both in stampings as well as gears, and we are there in 3XO. The Bolero Scorpio thing is more of -- like the old Bolero and old Scorpio are very old models. I think the manufacturing philosophy was different almost 20 years ago when they were -- when they hit the market. In 3OO and 3XO there is no such change.

Moderator: The next question is from the line of Jyoti Singh from Arihant Capital Markets Limited. Please go ahead.

Jyoti Singh: Sir, I have two questions. First is on the XUV 3XO side. So if you can explain like how big is the order? And second, on the consolidated basis, if we see Europe, that is still a degrowth. So when we can expect a good recovery or you can say on a profit side. So as you were talking about second half, so is there any certainty on that side, if you can explain?

Vikas Sinha: First, I'll answer about your XUV 3XO, yes, as we told you, stampings and gears. Those are our main, which I guess was also there on XUV 3OO. It's a much better version of 3OO. So it is basically stampings and gears. And since it is stampings, as I told you, we have good orders on that.

As far as on your consolidated growth question is concerned, I think, yes, in India, we have grown 6%. And in Europe, we have dropped by 7%. So overall, we are looking at roughly about 1% growth. As soon as the India growth picks up and as we also told you, Q1 in Europe looks bad because of the very high base effect in Q1 of last year. So that base effect will also wear off. So you will not have such drastic year-on-year numbers going forward in Europe.

But the main thing is the India growth we expect to recover in the second half of the year, and that should drive growth. So on a consolidated basis, you will see an improvement to answer your question. And just to bolster, I'll request Ander to talk about the prospects of the European market-- we have talked a lot about India growth in the second half. I'll request Ander to talk about the prospects in the European market for the coming months.

Ander Alvarez: Yes. In Europe, we see, let's say, a flattish market in the next quarters, okay? The expectation of the -- for the car sales in Europe is about -- the total figure is about 17 million cars will be produced in this calendar year. So this is a drop of 2%, 3% compared to the previous year.

So we think that we will have a flat year. But as Vikas said, let's say that the comparison in Q1 '23 was very high, because that was the last strong quarter in Europe then we saw a certain decline during the next quarter. So the base will be different in the next quarter. So we will not be affected so much.

But I would like also to reinforce certain message on India, okay? Because the reality is that we are not concerned about our growth. The new order book last year was really good, and we fulfilled our targets. Additionally, in this first quarter, we already got additional new orders of -- in India of about INR3 billion per year more for the next year.

And what we are doing now is we are adding capacity, and we are expanding our plants in most of the verticals, okay? In the composites, in the stampings and forgings, we are adding capacity, and we are, let's say, expanding our plants to be ready for the growth as they come in. So in my opinion, this is just a temporary situation that we are having because of the main project that we launched in the last year, especially in the Hosur plant in Bill Forge, this is a little bit below our expectations.

Once the customers come, we will see an important jump and we will see that we are at the same level or even better than our peers, okay? So that's the view that we have on the market and, of course, we continue working in, let's say, in a very strong way to continue our growth story in India.

Jyoti Singh: Okay. Thank you so much, sir. And sir, last, if you can guide us on the capex side for the CY'24?

Ander Alvarez: The capex in our, let's say, you know that our guide is to have approximately 5% turnover, the sales -- 5% is the figure that we consider reasonable and very sound. In the first quarter, we had -- our capex, we spent was almost INR1 billion. This is a little bit less than 5%. We are at 4.2%, 4.3% over sales.

But in the next quarters, we will recover because some additional capex is coming. So we can say that 5% is the average where we are comfortable. And if we, let's say, make the split between Europe and India, all the growth capex is concentrated in -- mainly in India, okay? So the growth -- the capex is higher in India rather than in Europe.

Moderator: The next question is from the line of Pratik Kothari from Unique PMS. Please go ahead.

Pratik Kothari: Sir, on the capex again, I mean, can you highlight what are -- I mean are these new orders that you have won that we have to put this capex for -- how are we positioning this capex?

Vikas Sinha: So, Ander, the question is, where is the capex in India going? In which businesses?

Ander Alvarez: No. I think in all the verticals, we are growing. So we are adding capacity in all the verticals. So if we, let's say, make a deeper analysis on that, our composite business is growing importantly. So this year, we are growing around between 20% and 30% of growth in the composite business. So we are expanding -- we are building a new plant and the new shed and new machinery. So that is part of our capex.

Also in the stampings plant, we are adding one new press line that will be ready for start of production by July approximately, that's why we expect also a jump in the second half in the stampings division. In the forgings plant, we are also expanding our plant to add a new crankshaft machine line. So this is an additional investment that we are doing.

So in the gears division, we are also -- we have finalized a new office building in order to, let's say, have additional free space in the production plant to continue our growth history, and we are also planning to invest in more capacity, especially in the higher value technologies like gear grinding and this kind of technologies. So those are some of the examples of the different projects that we are now investing for, and we expect to be ready during the second half of the year. So on top of that, the new programs that we are getting from the customers will require additional CapEx. So we are -- let's say, the business continues growing and continues the normal evolution.

Pratik Kothari: Okay. And sir, in India, we have a large tail of customers where -- I mean, the contribution from them is not much. And even our wallet share there is not higher. One, I mean, what -- I mean, what is our focus in terms of this long tail that we have? And what kind of conversations are we having with them? And what does it take to ramp this up to a respectable or a larger number?

Vikas Sinha: No. As I said, it is not about the long tail. It's about those 10, 11 customers in between that I talked to you about in the initial part of the conversation, like we are talking about Tata Motors, Ashok Leyland, Hyundai, Kia, John Deere, those kind of people. Those -- we are trying to grow. What it takes, it takes some time before you grow with them because once they are convinced about your abilities, they start growing with you.

And the rest, as and when we have a foot in the door, Beyond that, we have a foot in the door and whenever they want to grow with us, we are happy. Because the kind of customer base that we have in India is very varied and diverse. I don't think there are a lot of examples of this kind. So what does it take? Of course, it takes working with them over a long period of time to get that going.

Pratik Kothari: And -- I mean talking about acquiring this plastic business inorganically for a while, but I mean, obviously, the valuations don't match. Any possibility that we can try and think and do this internally, build it out organically?

Basudeb Banerjee: No organic -- that question is, are we -- do we have the capabilities? Does CIE have the capabilities to have -- to build a greenfield plastic plant? The answer is yes. Very clearly, yes. They have plants across the world. So CIE can help us put it there. But it's not about putting a plant. In our B2B business, specifically of the kind that we are manufacturing B2B business, I think having good anchor customers is very important for that business, and that's the reason why we thought that inorganic is the best way to go. Of course, as you rightly pointed out, inorganic is a 0/1 situation.

So it is not always not in our hands, whether we can do that or not do that. But the issue is getting an anchor customer. I'll give you an example. When we wanted to get into aluminum. We got our aluminum business at that time called Aurangabad Electrical, and then we got a strategic customer in Bajaj. So -- and if we had tried to build that over a period of time, it would have taken a much longer time than what it would take through the inorganic route.

So there are advantages, disadvantages. But yes, for plastics, given that in India, we don't have any plastics business, I think -- we think -- we still think M&A is the best way to proceed. But of course, as you rightly pointed out, M&A has its conditions and let's see about that.

Pratik Kothari: And sir, my last question on margins. I believe, currently, there would be some costs that would be fitting given the lack of delay in ramp-up, be it India or even Europe. Is it something substantial? And also if you can talk about this? I mean, the end target is this 19% which we intend to do and gear. We've been doing 17% for a while now. So this journey from 17% to 19% also. Some comment is appreciated.

Vikas Sinha: No. As I was demonstrating when I was talking about the quarterly numbers, so if you look at, again, the India quarterly EBITDA margins, I'll repeat that. So in Q4, C '22, we were 15.5%. And then we have been -- and in this quarter, we are ending at 17.2%. These are all recurrent numbers without any one-off that we are talking about. So we have gone from 15.5% to 17.2%. So that's an increase of 1.7 percentage on a very high base, given we are a diversified portfolio. It is not just machining, where you get higher EBITDA. 1.7% in a matter of 6 quarters. So that steady improvement will continue. Of course, in Europe, this time, you are seeing a lower margin because of the stock correction lower than -- it probably would have been lower because of lower sales, but you're also seeing that because of stock correction.

So overall, like Europe has been a little depressed in this quarter. But India has crossed 17% EBITDA margin for the first time, the way we calculate. I understand some of the colleagues on the call. They do it differently. But I'm saying from our -- from whatever we present, for the first time, we have crossed 17% in India in a very, very diversified portfolio, including things like Stampings and iron castings and aluminum casting. So this performance, which we think is very creditable will continue, but it will be slow and steady improvement. You're not going to see step jumps in profitability improvement.

To your other question, because there have been some delays in ramp-up. Some costs will be sitting. The answer is we understand this is the nature of our business. So we'll have to learn to tide over some of those things, and that is what we are trying to do. That's some extra costs sit during periods when capacity is less utilized. The answer is yes. But then that is the nature of our business. It's a B2B business. Some models work, some models don't, some models are delayed, some models are not. So that is something we have to find a way to deal with it. So that's what we are doing. Hopefully, that answers the question.

Moderator: Sir, the line for the current participant has been disconnected. We will move on to the next participant. The next question is from the line of Bharat Sheth from Quest Investment.

Bharat Sheth: So Vikas, just want coming to first question is on the margin in the Europe, as you rightly said that because of the price correction. How do we see for rest of the year, I mean, Europe margin and for the full year, again, bouncing back to same last year level?

Vikas Sinha: Ander, can I request you to take this? What is the prospect on European margins?

Ander Alvarez: What we see is that in the next quarters, we will see, let's say, a flat market. And as you explained in the script Vikas, the drop of this margin in the first quarter was mainly because of the Easter holiday that happened at the end of the March. So we reduced our production. So we had a certain decline in the production in this quarter because of this holiday week.

Then we think that in the next quarters, despite the market will not be fantastic, and there will be no big growth, but we will recover, and we are in line to recover the margins that we had last year, okay? So we don't see any reason to lose that. I mean if everything goes as it goes now with energy prices under control and raw material prices under control. We think that our margins will be at the same level than last year. So we don't see any reason to reduce the margins.

Unfortunately, we don't see either growth or ramp up on the sales mainly because of the also Metalcastello market is negatively affected by the American U.S. market position during the year, and we expect this recovery to happen in the -- during next calendar year or at the end of this year.

Bharat Sheth: And now with the, say, infusion of the capital into this -- Bill Forge Mexico entity. So do we have any plant to ramp up for additional if you can give some color on the performance of that performance of that Bill Forge Mexican entity?

Ander Alvarez: Yes, that entity is also growing. We are now producing, let's say, at a higher pace than the previous quarters. And you know that we are producing CV-Joints components for different customers and the expectations are good for the near future. The company, let's say, we had big projects for the electric vehicles also in Bill Forge de Mexico and those projects have been a little bit delayed in the U.S. market also.

So that's the reason our growth was lower than expected. But right now, the company is performing well and is growing. So you will see in the next quarters how this company continues this trend. We are above $3 million of sales per month in the company. So we are at the level that we were expecting when we launched the plant. So we will be close to $40 million in the calendar year '24.

Bharat Sheth: And going -- and EBITDA side margin perspective, EBITDA margin perspective?

Ander Alvarez: So EBITDA margin in this business, we have been affected because of the huge raw material price increase that we had in the last year. And also because of the American market, the USMCA market is protected from the raw material point of view. The steel prices are really, really high, okay? That's means or the effect of this is that the, unfortunately, the margins are -- will grow, but the margins are lower. So we can be between 10% to 15% of EBITDA margins on those businesses.

Bharat Sheth: And last question on India entity. We have done some restructuring on the management level. We have elevated to division CEO, so how do we read that? And what is the purpose of that?

Ander Alvarez: Okay. The purpose of that is to structure properly the company, to prepare the organization for the growth in the next years, okay? The -- what we did is that we reinforced our main -- the best managers and the best executives that we have. We -- the CEO position for the different verticals so we assured also our succession plan for the future, and we also motivate them to continue growing as they did until now, okay? So the strategy is to reinforce the growth to reinforce the team and to prepare the organization for the future and to have a proper succession plan in place.

Moderator: The next question is from the line of Shriram, an Individual Investor.

Shriram: Can you share the revenue breakup in terms of power source? Like how much would be ICE, EV and power source neutral. Also, how much of your business depends on ICE? I mean like when the transition happens from ICE to EV, what would be the impact in terms of revenue?

Vikas Sinha: Let me take that. In India, of course, overall, we'll be 20% or thereabout or even lesser than that. In Europe, of course, we have two major businesses. I think if you look at it roughly, we are EUR350 million, out of which say about EUR65 million, EUR70 million is Metalcastello and the rest is forgings. So in that Forging business, crankshafts are a substantial part because we are one of the most important manufacturers of crankshafts in Europe.

So in Europe, that dependence is higher, but then we are among the main players of crankshaft. So the way to look at it, Shriram, is like this. depending on the transition. So for example, in India, if you are talking about 20%, we were about INR5,500 crores in C '23. And if you look at 20%, you are talking about somewhere INR1,100 crores dependence on ICE. Out of which, say, 60% will be four-wheelers and 20% -- 40% will be two-wheeler.

So the pace of transition will be very different between four-wheelers and two-wheelers as you look at it. And therefore -- and even if you look at the value-add risk that we are talking about, we might be expecting not, say, roughly, say, 25%, 30% penetration in the next 5 years for two-wheelers and maybe 7% to 10% for four-wheelers going forward. So if you do value very at risk, it is not very high. you're talking about less than INR500 crores value-add risk, maybe 3, 4 years down the line.

And that is something that any way we replace every year, as you might be aware, almost 10% to 15% of our business gets replaced, obsolete -- whatever is. So that's -- so really, there is not much risk in India, and that's the reason why we keep talking about this being more of an opportunity rather than a risk. In Europe, as Ander has pointed out repeatedly, I think because we are main players in crankshafts, when the EV transition happens, of course, there will be some effect in Europe, and that's the reason why we are preparing. He talked about how 60% of the new order book in Europe is EVs.

We have got very important orders at Metalcastello for EV transmission parts, for aluminum forgings for steel forgings, for batteries, etcetera. So we have enough orders to cover any transition in the European market. So -- but there again, you might be aware that the European EV penetration is also slowing down. In fact, on a YTD to YTD basis, Jan to March, I think EVs have lost -- battery electric vehicles have lost 1 percentage point in terms of penetration. In fact, hybrids have gone up by 5%. EVs have come down by 1%, and petrol and diesel, both have come down by 2% each. If you look at the ACEA data, and they have a very good database.

So the question is the like penetration in Europe is also slowing down. And in India, it is very specific to some segments. So I don't think there is much of a risk in India. It is more of an opportunity as we get newer and newer orders. As we told you in India, for example, we have orders for shafts in our forgings business. We have orders for -- in the aluminum space. We have large orders in the composite space for 3-wheeler EVs. So we have a whole set of orders, which once it starts ramping up, we are very well prepared in India to take advantage of that opportunity.

In Europe, I think it will be more of transitioning from ICE to EV as and when it happens. But -- so I think we have -- we think we have a good strategy in place as far as EV is concerned, and we'll manage. And we'll -- we see that as an opportunity, actually.

Shriram: Okay so thanks for that elaborate answer. But how would the price shrink? I mean in terms of content per vehicle, how would that change?

Vikas Sinha: Look, it's as simple as that. You are looking at it at a macro level. I am looking at it from my company's perspective. So like if -- as I said, if I have -- my value-add risk is INR500 crores. So I have to cover that INR500 crores and have to grow beyond that. Yes, when it comes to shrinking or whatever that much as and when EVs become more mainstream, we'll have more data. But roughly 65% of EVs are agnostic to, like, for example, our Stampings business, our composites business our gear business, they won't be affected by this transition.

In fact, they will have more opportunities. They fall in that 65% space. But you have a 35% engine cost, which obviously will change. The nature of that will change. Right now, in an ICE engine, we use a lot of forgings. We use a lot of castings and machine parts. But when you go to battery, it will be something else.

For example, a lot of aluminum will be used, and that is what we have orders in our aluminum business in India. Those are for -- as Tata indigenize their power -- their battery -- the batteries in India. I think we are getting orders in that system. But in aluminum, which right now will be in forging, being a diversified maker, especially in India, we don't have that much of a problem from the question that you are asking.

Moderator: The next question is from the line of Jeetendra Khatri from Tata Mutual Funds.

Jeetendra Khatri: Yes. Sir, my question is, what's your thought on this new concept called gigacasting. We hear of it everywhere. Tesla were already trying it.

Vikas Sinha: No, that's for OEMs to worry about. We are part makers like -- so look, gigacasting is a way of making the bodies of the vehicles. And as and when it becomes more mainstream, we'll see because we are not involved in that process. We -- even in our Stampings business, we make the B class and C class stampings, which go, say, for in the door assembly or something like that. You will still require all of that. So yes, it's an interesting concept. But as of now, we don't see how it is going to affect our kind of parts. But to understand more, I'll refer to Ander, if he has something more to add on this technology.

Ander Alvarez: You answered properly, Vikas. These technologies are more orientated to the OEMs, okay? They produce -- the OEMs, the big like OEMs like Tesla was the initial -- the first OEM to introduce this concept of gigacasting, but they invest and they produce the components internally because those components are so big that cannot be transferred or transported from a supplier to the OEMs. So you need to be close to the factory. This is the first concept. So we don't see suppliers developing this because the -- this not -- possibility of transporting these components requires that the production is done in their own facilities.

Also, we think that the investment on these technologies is huge. I mean it's a very, very important investment. And for us, it would be big risk to accomplish that. So we are not considering the gigacasting. We think that this is a business for other kinds of producers, mainly OEMs.

Moderator: The next question is from the line of Bharat Sheth from Quest Investment.

Bharat Sheth: You are talking of developing aluminum forging. So any update on that?

Vikas Sinha: Ander, the aluminum forging Europe. Any update?

Ander Alvarez: No. We continue with our strategy of developing this technology. We are we have already invested and we are producing certain components, and we continue developing the business with our customers. There's no news, no different news than additional news from our last quarter comments that we did. So we continue -- and the ramp-up is there and that's the strategy to continue expanding this technology in the future that we expect to grow further.

And also, we are working in different steel forging components for the -- mainly for the battery pack, okay? So we are working on that. We are launching a big project with one of our main customers in Europe. So we continue diversifying the product entering into different components and preparing the transition to new era that is coming from in the future.

Bharat Sheth: So when do we expect -- I mean, to start, I mean, a kind of a noticeable or a good part of the revenue from this business?

Ander Alvarez: We think that we were expecting certain growth during these years in the next 2, 3 calendar years. But as explained before, the electrification process is slowing down in Europe in this moment. The new Euro VII norms that will be applied by the European Commission will -- or has been delayed until mid of 2027.

That means that the internal combustion engines and the standard cars will continue being produced in this period, and we will see a delay on the electrification process. That's our expectation. So we think that it will take some years to come. Probably 4, 5 years to see certain growth on these new components because the trend in Europe in this moment is that the -- let's say, the current situation, the electrification will slow down a little bit from the previous growth that we had in the last years.

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

Ander Alvarez: Okay. So thank you, everybody, for your good questions and well directed questions and your interest in our company. I hope we answered properly, and you had a good impression of our evolution as a company. So thank you, everybody, and thank you to all CIE India members because of the great job that they are doing in the company. So thank you, and see you next time.

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

Note: This statement has been edited to ensure quality