

July 29, 2016

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

Subject: Recording of Q2CY16 Results Conference Call

Dear Sir/Madam,

Pursuant to Regulation 30 read with Para A of Schedule III and Regulation 46(2) the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 and our letter dated July 26, 2016 in respect of the schedule of results conference call, please find enclosed herewith recording of the Q2CY16 results conference call held on July 27, 2016.

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

Thanking you,

Yours faithfully,

For Mahindra CIE Automotive Limited


Krishnan Shankar

Company Secretary & Head - Legal

Encl: As above





**“Mahindra CIE Automotive Limited Q2 CY’16 Earnings
Conference Call”**

July 27, 2016



MANAGEMENT: **MR. HEMANT LUTHRA – CHAIRMAN, MAHINDRA CIE
AUTOMOTIVE LIMITED**
**MR. K. RAMASWAMI – MANAGING DIRECTOR,
MAHINDRA CIE AUTOMOTIVE LIMITED**
**MR. PEDRO ECHEGARAY – EXECUTIVE DIRECTOR,
MAHINDRA CIE AUTOMOTIVE LIMITED**
**MR. SANJAY JOGLEKAR – CHIEF FINANCIAL OFFICER,
MAHINDRA CIE AUTOMOTIVE LIMITED**
**MR. ROMESH KAUL – CEO, COMPOSITES DIVISION &
MANAGING DIRECTOR, MAHINDRA GEARS**
**MR. VIKAS C. SINHA – SENIOR VICE PRESIDENT,
STRATEGY, MAHINDRA CIE AUTOMOTIVE LIMITED**

MODERATOR: **MR. JEETENDRA KHATRI – ICICI SECURITIES**

Moderator: Ladies and Gentlemen, Good Day and Welcome to the Mahindra CIE Automotive Q2 CY'16 Earnings Conference Call hosted by ICICI Securities Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal the operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Jeetendra Khatri. Thank you and over to you, sir.

Jeetendra Khatri: Hello! and Good Afternoon, Everybody. Thank you for joining us today for the Mahindra CIE Automotive Conference Call. From the management side, we have represented by Mr. Hemant Luthra – Chairman; Mr. K. Ramaswami – Managing Director; Mr. Pedro Echegaray – Executive Director; Mr. Sanjay Joglekar – Chief Financial Officer; Mr. Romesh Kaul – CEO, Composites Division and M.D. Mahindra Gears and Mr. Vikas Sinha – Senior Vice President, Strategy. I would now like to hand over the call to management for initial remarks.

Hemant Luthra: Good Afternoon, Everybody and thank you for being on the call. This is Hemant Luthra and I am the Chairman of the company and I just wanted to make some opening remarks and then let you people spend as much time on the Q&A.

So, we have seen the standalone results, sequential quarter-on-quarter are better, the consolidated results are better and performance of the subsidiaries is better. Everywhere there has been a marginal improvement, there is some disappointment for us also with respect to volumes, but I think the operating team have done a fantastic job in improving the margins all around.

We have some pretty similar kind of good news that is coming from overseas which we will breakup in how we are doing and our subsidiaries in Europe and respond your questions.

One question that I wanted to take head on which was the announcement yesterday about the fact that we now have had Mr. Ander Arenaza coming onboard as CEO. I just want to make sure that people do not misunderstand this appointment. KR as Managing Director looking after the Forging and Castings business and the Magnetic Products business has done fantastic job. Mr. Romesh Kaul has done fantastic job. As we go forward, what we are seeing is that we need to leverage the synergy between India and Europe much more than what we have been able to do this thus far. In order to optimize that synergy we have taken a call that let us have somebody from CIE also take responsibility for making sure that we harness the synergy as much as possible and Ander is probably based in outside the country, he is going to help us with our market India to our global customers so that product is produced in the most optimum place and the most optimum cost and he is going to help us in respect of transfer of technology. So the role for Ander is while he is the CEO, takes the responsibility the way it is going to be broken up is that we continue to do the operations over here under the guidelines of Romesh and KR and Pedro and Anders helps us to optimize the synergy right across the system. So I do not want any speculation and that is why I am killing it right here that this is something which we need and we needed particularly because we are eyeing a number of

organic and inorganic opportunities which are coming our way and therefore we should have an organization that can leverage those inorganic and organic opportunity.

I will turn it over back to the conference coordinator for questions and we will farm out the response to those questions depending on who in our team is the most competent to handle them. You might also do me a favor for those people who are asking questions, make our job a little bit easier if you want to direct them at somebody whether it is Pedro or Sanjay or KR, Sanjay is the CFO, Pedro is the Executive Director looking after the Stampings business just now, Romesh is looking after the Gears and Composites and KR is looking after Castings and Forgings and Magnetic Products.

Moderator: Thank you. Ladies and Gentlemen, we will now begin the Question-and-Answer Session. We will take the first question from the line of Akshay Saxsena from Credit Suisse. Please go ahead.

Akshay Saxsena: My first question is on your India business. Here you have been alluding to that revenue growth has been impacted by commodity pass-through. Now, I know that you have a wide range of segments, so you cannot exactly give a volume number, but in say something like Forging, can you say how much was the tonnage growth so that we can understand that how much has been the adverse pricing impact?

K Ramawami: Probably I will come back and J.P. is just trying to gather this information.

Akshay Saxsena: But just directionally so is revenue declined 3%, just wanted to understand how much was the volume impact probably in that if your revenues down 3% YoY but that is okay. Also, if I look at financials, the raw materials-to-sales, that has seen a big contraction on sequential basis. So what is driving the same? With the steel prices and scrap prices now moving up, will it lead to both the revenue growth and raw material increasing going forward?

K. Ramaswami: If you look at the first six months... while I am still waiting for the numbers that you have sought, first six months the impact has been like this. So the revenue growth is directly dependent on not only the Forging tonnage but also on the machining value add that we do, we do quite a bit of Crankshafts machining and value add that we do. There has been a significant movement in terms of that, because we have got into new business with Mahindra during the first six months of this year as compared to the previous six months in terms of participating in the new vehicles and where we are supplying fully finished Crankshafts. It has just started and we expect the volumes to really stabilize in the next six months which will be not tonnage growth but revenue growth due to value addition. As far as the revenue itself is concerned in the first six months there has been a drop in raw material price and therefore the adjustment that is done with the customers for indexing based on the raw material price and there is a drop in revenue numbers, because of the raw material price drop. However, I am not very sure which is speculative to say that these scrap prices are strengthening or raw material prices are strengthening, because we have not felt the impact of that, the raw material prices have remained low in the first six months and it has remained low even as of now and this scrap

prices while there is lot of talk about strengthening we are not able to really see the scrap prices strengthening especially from what we buy as scrap in our Castings division for example.

Akshay Saxsena: What about raw materials-to-sales, why has that come down sharply on a quarter-on-quarter basis?

K. Ramaswami: We have been able to negotiate good deals both with customers as well as with the steel suppliers. That is one of the reasons why it has significantly dropped.

Akshay Saxsena: So these levels are sustainable going forward?

K. Ramaswami: Again, part of it is definitely sustainable like whatever we have dealt in terms of indexing with customers is probably sustainable but with respect to steel mills and steel suppliers it would depend on basically demand/supply equation to an extent it is offsetting the huge drop that we had in scrap prices in the last one year or so.

Akshay Saxsena: One of our other goals has been to bring down the dependence on Mahindra and Tata Motors. So, do we have any target timelines now and will the same be largely driven by M&A only given the diversification into new customers in existing businesses is probably taking some more time?

K. Ramaswami: Yes, I think the idea and the intent of reducing our dependent on single customer continues to be very strong with us and we are working on that, but we need to understand that being OEM customers, it takes so much time to get into new customers. While we are talking about this in the last several calls, we have made progress in the first six months, I would say, we have started growing business with other customers in a very significant manner. However, the share of Mahindra business cannot drop immediately because until we stabilize and grow with other customers there is no point in dropping because it will have an impact on revenue. Bottom line is we have had at least if you take Forging or Casting division, at least we have had two or three customers who will give significant business six months from now or I would say a quarter from now it will begin and it will really ramp up six months from now which will increase our revenue and then we would talk about actually reducing our dependent on one customer by growing with other customers. I think we are in the right track at least in the Casting and Forging division. Having said that, being an OEM supplier, we do not have any aftermarket. Being an OEM supplier, it will take that much more time to really get our parts approved and then ramp up and to be in full production.

Akshay Saxsena: But you are saying that in next couple of quarters some new orders should start in both Forging and Casting or ...?

K. Ramaswami: We have already started because this is based on the efforts that we have been taking in the last 8-9-months. We are going to add two more customers and it will start in the next quarter in terms of ramping up of volume, we are planning to supply machine Crankshafts to new

customers which will give significant growth in revenue not necessarily in tonnage and this is based on the efforts that we have taken in the last 8-9-months.

- Akshay Saxena:** Finally a book-keeping question: What was the net debt at the consolidated level? What will be the tax rate for European operations, because that seem to be on lower side this quarter?
- Sanjay Joglekar:** Net debt at a consolidated level is now around Rs.700 crores, down from about Rs.1,000 crores in December '15. This is basically the reduction in working capital term loan generated out of the cash flow generated in the company. Tax rate, yes, I think there have been a lower provisioning in the quarter April-June in the subsidiaries but I would suggest you always take either six monthly or annual tax rate on an average. We have been around 25% of PBT as the tax rate.
- Hemant Luthra:** I want to supplement your question on that KR responded to in terms of all the stuff that he is doing in order to diversify the customer base and since you also yourself mentioned that probably is one of our strategies for inorganic growth. In fact, consciously we are looking at companies which are in a different geography with the different customer base and consciously we have been looking at companies that have got let us say not more than 15% concentration with a single customer and no overlap with Mahindra CIE. So hopefully all of those results would start to bear fruit, but that is absolutely conscious strategy.
- K. Ramaswami:** Just to close the loop on the previous question, actually our tonnage on Forging has gone up in CY'16 compared to CY'15 by something like around 1,000 tonnes or so in the first six months. The price reduction has had an impact on the revenue, just a matter of information
- Moderator:** Thank you. The next question is from the line of Jinesh Gandhi from Motilal Oswal Securities. Please go ahead.
- Jinesh Gandhi:** A couple of questions from my side: One is with respect to the numbers for 2Q CY'15, there is some restatement. Does that largely related to IND-AS or there is something beyond that?
- Sanjay Joglekar:** Restatement if you are talking in terms of the number, as we are stating that different quarters particularly in the subsidiaries, the exchange rates are different. So quarter-on-quarter we keep on restating at the current exchange rate. The IND-AS adjustments are there but they are not very significant.
- Jinesh Gandhi:** So from that perspective, if I have to compare our consol and subsidiary performance on actual exchange rates, how they would have performed?
- Sanjay Joglekar:** If you put this number at the same exchange rate, it is as good as considering the euro numbers. What is your question?
- Jinesh Gandhi:** When you consolidate in INR terms, generally, you do not use same exchange rate for all the period, right?

- Sanjay Joglekar:** When we are going to use we will publish to you. That is what the restatement I clarified.
- Jinesh Gandhi:** My question was just to understand also the impact of translation on consolidation. Would you be able to classify that?
- Sanjay Joglekar:** Which translation? You mean what numbers were given last year in April-June '15 and what numbers are given now, I do not have the last year April-June numbers in front of me, it is arithmetical addition and subtraction, nothing else.
- Jinesh Gandhi:** Last question pertains to our European subsidiaries. The top line which has been flattish to small negative growth, is it just because of commodity impact because if we look at the volume growth has been quite-quite sharp on the Passenger Vehicles side?
- Hemant Luthra:** There are two things that we have to address here. Pedro tell me if I go wrong, most of the work that we are doing is roughly in addressing the Truck market and this is what was historically known as Mahindra Forgings Europe. Then there is CIE Forgings Europe which has also been a part of our subsidiaries and that caters to the Car market but it is let us say slightly smaller. Now, in the case of Truck market, you know that this has not grown as fast as the Passenger market. The Passenger therefore you are seeing a mix...okay, I am not in a position to break it down. The CIE Forgings business which we had and which was run very efficiently is still doing as well as it all well has in fact it has improved. One place that we have had some problems is that the Mahindra Forgings business, I think we mentioned on the call last time also, that we shut down one plant in Jeco. As a result of shutting that plant down, we have had to move some products from Jeco to two other plants in Schoeneweiss and GSA. Some of these products have moved from Hammer to Press and location of machining has also changed and therefore for the first six months of the year we were burdened with some extra costs which could have affected us by about 200 basis points of urgent shipments and transport. As of June, that has come down to pretty much zero and we are looking forward to the fact that things have stabilized and therefore this urgent transport of moving goods around to long distance location have come down. The second problem that is now under control is that we had some machining that had been outsourced to Czechoslovakia. The outsourcing agents thought that he had us by the short and curly and wanted to do a retrospective increase in rates. We have declined to do that and we have moved all these machining back and we think that the second half of Europe will be better than the first half. Europe, I am talking about is the MFE part of it and then the CIE Forgings of course is continuing to do as well as all with us.
- Jinesh Gandhi:** Continuing on the same point, you indicated except cost has now been normalized so that is at the end of the quarter, right?
- Hemant Luthra:** I think it was an effort right through that when Jeco was shut down sometime late last year, you had to move product, you had to certify the new plants till the new plants were certified, you had to produce them on some machines, you had to get machining done somewhere and it takes up certain process to get the certification done. So, yes, the cost goes up for urgent

shipment but over a period of time it has come down and I think that by June I am assured by my team that going forward some of these urgent costs will not recur and the improvement on that. The loss that we had of about 200 basis points last quarter should go away.

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

Rounak Sarda: So my first question is on the India business. If I look at the Mahindra Auto volumes, Tractors, have grown significantly both YoY and QoQ basis. But that does not reflect in your revenues actually. I understand in UVs the product mix is changing from Scorpio, Bolero to the new vehicles but tractors I would believe the product mix is not as different as was it would be earlier and since it is almost 20% of our revenues, that is not reflecting in our top line for this quarter. You can explain that. That is my first question.

K. Ramaswami: The Tractor business obviously is improving in the last quarter. I would not know whether it is for six months but definitely it is seeing an upward trend and it is expected to continue to show an uptrend trend given the current status of monsoon; however, for Mahindra CIE business you need to look at what is the mix of Tractor business versus Automotive business and I would imagine the Automotive business is far more than the Tractors business, but the Tractors business was at a low ebb and it will pick up and therefore the future quarters given the monsoon we expect the Tractors business to continue to grow. The mix in Auto business also is not a negative trend I said although it had impacted the revenue in the first six months but in the long-term since we are participating in most of the new models that Mahindra is introducing and we are participating while the revenue value because the vehicles size itself is smaller than vehicles that they used to produce earlier the revenue value maybe lower but Mahindra CIE it is still positive because you find Mahindra has introduced lot of new models and they are just on ramp up and we of course given the competition and given all the other external factors we expect it to stabilize at a far higher level than what they have reached in the first half especially with respect to new models. The effect of other vehicles of Mahindra, I think since they are more rural dependent, maybe it will have a positive impact but we will have to wait and see depending on how the rural economy really grows.

Hemant Luthra: Just to supplement this, while KR is talking about business which is almost 50% of India, there is a Stampings business which Pedro has been managing and there is Gears business that Romesh manages and in the case of the Gears business it has grown quite handsomely, the Gears business is housed in a subsidiary and therefore given the constraints that we have about everything should be out in the public domain in equal manner, I cannot give you breakup by vertical, but all that I can give you is a flavor which is that Gears business has grown quite handsomely. Romesh, do you want to talk about without giving something which is not in the public domain?

Romesh Kaul: Yes, Gears business has seen a very significant increase both on half year-to-half year basis as well as quarter-on-quarter basis. I think we are a little ahead of the curve something that we are attempting reasonably successfully in Forging at the moment, but we are I think a little ahead

of the curve in terms of diversifying the customer base. Both Mahindra programs as well as non-Mahindra programs we have had good dividends in terms of intake of orders as well as conversion given the first half of this year. So, I think the growth numbers are very healthy; two-digit numbers. So that is as far as Gears is concerned.

Hemant Luthra:

Actually, I also want to add a few things because maybe they are not visible and therefore I can only talk qualitatively. In the case of Forgings and Castings, as I said, KR has done a fantastic job in managing the cost and keeping the margins and as soon as the volumes starts to come back which we are starting to see because of new orders and customer growth and customer diversification, those numbers should improve. We also have two other businesses which may not be that much of a size just now which is the Magnetic Products business and we have Composites business. They used to be a matter of concern whether they were growing well or not and their results are also embedded there. As we see tendencies toward light weighting, the Composites business is going to do well. Also, as we see in the Magnetic Products business, we have not provided only to the four-wheeler and the Passenger Car market, we are also looking at Magnetic products business that address the Two Wheeler market. So maybe KR, can you just tell us and Romesh, how much you have seen improvements in the businesses of Composites and Magnetic Products? You still have to remain within the constraints of the fact that we cannot give numbers by individual business.

K. Ramaswami:

On the Magnetic Products business, we have been growing significantly in Magnet business because we supply magnets not only to four-wheelers but also to two-wheelers and we have been going for investment in the last one year and those investments have started giving us revenue numbers. There are some business concerns with respect to the “cores” (Soft Ferrites) business which is other business that we do. What we have done is overall business we have tried to rationalize and we are confident of bringing especially the wages and labor cost significantly down in the next one year. Actions have already been taken and therefore we expect a reasonable growth in EBITDA. As such the EBITDA numbers in the last quarter as compared to the previous quarter are looking very-very positive.

Romesh Kaul:

Composites, compared to this half of last year we have kind of doubled our performance in whichever way, not revenue terms of course, in terms of profitability, revenues also grown handsomely; two-digit number and we are on course adding new customers there. In fact, that is one business where Mahindra dependence has historically been very low, in fact, we are actually adding a lot of Mahindra work there in that business, for instance, particularly, Tractors as you pointed out, which are meant for export and so on. They lend themselves more to light weighting and usage of Composites. In India also we have participated in the newer models and we should see the results as we go forward. In several new platform developments, both inside and outside Mahindra in the Auto domain which was not so much a focus for us earlier. So, I think that is the story there. We have also had a very successful technology absorption; we had technology tie-up with an Italian firm and we have absorbed the technology very well in terms of enhancing both the capability and the qualitative nature of the materials that we produce for consumption in production of these Composites parts.

- Hemant Luthra:** Pedro is on the call and he can tell you a little bit about the Stampings business where we have new plants setting up in Zaheerabad, it was meant to service Mahindra's Tractors products, Dhruv Tractors, Mahindra products took longer to hit the market and now we have a different kind of a constraint that they want to ramp up volume much faster than what we are able to do. So it is a nice problem to have. But Pedro, do you want to say anything about the Stampings business?
- Pedro Echegaray:** Stampings business does follow more or less the same trend as KR and Romesh described for Auto and Tractor division. Tractor division is growing strongly at least in the first quarter, now has stabilized because of the monsoon. Our expectation is that after monsoon during the festive season will continue growing. Auto division depends on all models obviously production is declining while new models like TUV and KUV are doing better even though after the initial launch where the volumes were much higher because customer had to fill in all the distribution, after that production has stabilized. But Tractors demand continues strong and we are optimistic about that. Overall, in terms of tonnes, we are growing versus last year because of the new plant, Zaheerabad, both products built in Zaheerabad, Jeco and Dhruv project Tractor which is called Yuvo are selling well. As Hemant said, in the case of Yuvo Tractor, demand is exceeding the expectation and what were supposed to be a smooth ramp up has become very sharp ramp up which would deal to manage business we are struggling, but it is good in the long-term. In terms of margin and profitability, we keep improving basically through internal productivity actions and cost reductions and so on.
- Raunak Sarda:** Just if I try to summarize, if I look at the India business as such including the gears, can you quantify is the content per vehicle supplied for a Tractor much less than what you guys supply for a utility vehicle, can you give some color on that because what I am thinking is if QoQ Mahindra Tractors grew like 70% that should have at least shown some mid in your revenues QoQ which has not happened. So that is one thing. Second, if you can just help us out what is the India gears business as a percentage of total revenues... is it less than 10% of the total revenues or?
- Sanjay Joglekar:** It is about 9-10% of the India revenue.
- K Ramaswami:** To your first question, I will just give you some idea about the revenue, I think I understand that you are looking at Mahindra numbers vis-à-vis MCIE numbers as I understand. You will have to look at the overall revenue growth after considering the various impacts that has taken place on the India business due to raw materials. If you look at the raw materials for example it has dropped something like 4%. If I look at whatever raw materials price that has dropped from July to October '15 for example, it is about Rs.4,000 a ton. All these Rs.4,000 a ton is indexed by the customer and therefore the revenue numbers would drop let us say somewhere in the 4-5% range. If I look at Castings for example where we buy material, scrap prices because the input is scrap on castings, the input raw material price was \$24 or \$25 at some point in time and now it is hovering around Rs.18-19 or in the range of Rs.20. That means there is a 10% drop which is again indexed by the customer and it will have an impact on the revenue. So if you are looking at revenue growth of the business in terms of numbers, of

course, we have already shown that the EBITDA has significantly improved because of cost controls, but the revenue numbers obviously will drop because of the impact of negative movement of raw material prices, be it scrap or raw materials as such. Now, coming to Mahindra business, definitely, there has been a growth in the Tractor segment. It is very difficult for us to quantify and say because we are in Stampings, Gears, Forgings and Castings, it is very difficult to say what is the per vehicle PAT, but I can tell you that the Tractor business as such in terms of the total number is like we supply to Mahindra Tractors, it is about 20,000-25,000 will be the volume, these volumes by themselves are much smaller than what they produce in the Auto sector, maybe in the ratio of 2:1, I am just guessing, I may not be able to quantify the numbers off hand, but Automotive numbers are probably double the Tractor numbers. So you need to view it in that line. Second, all the new introduction and we are in basic industry like we are supplying Stampings, Forgings and Castings and all the new markets businesses that are coming in, in the Auto sector of Mahindra is also the lower CC vehicles, the lower weight parts and therefore the value that is getting added to these parts also will be significantly lower compared to the old Boleros and Scorpions. This does not mean that our profitability will get affected but it will definitely have its impact on the revenue numbers. That is why I think it is important to focus on whether the real EBITDA numbers are going up in terms of profit rather than just looking at revenue because there have been changes in the first six months compared to the previous six months, especially the impact of raw material downturn is quite significant and therefore the revenue will have its impact.

Raunak Sarda: But can we say that the impact of the commodities is now in base from going ahead, it is all in base and we will see some benefits now and not negative sense?

Romesh Kaul: As I said, the raw material prices are still not going up. While there is positive talk about raw material price will go up or scrap prices going up, we are not able to see it in the market as such. So at this point if I have to make a guess on future, it will be speculation.

Hemant Luthra: What I will do is offline I will request our Strategy Head, Vikas, to give you some estimate because I think yours is a legitimate question about how much rupee value we supply or to Mahindra products from across different verticals, we will try and pick that out for you.

Raunak Sarda: That will be very helpful.

Moderator: Thank you. The next question is from the line of Basudev Banerjee from Antique Finance. Please go ahead.

Basudev Banerjee: As you said that now government is focusing on the UVs more than 2000 CC and Mahindra is also coming out with sub-2000 CC products and going ahead Compact UVs seem to be order of the market down the line. So do you see that as a structural risk on the logic which you said in the call that down the line content per UV for Mahindra for the new models which were lower, so all the new launches going ahead should be on the lower end?

- K. Ramaswami:** In a way what you say is right, the content of the new vehicles will be lower, but if you look at KUV for example, the kind of volumes that they are projected is almost double the volume of Scorpio and the KUV does well in the market which is again at this point in time speculative because there is so much of competition that is out there in the market, the volumes will actually be doubled. But you are right in a way that the content of these vehicles obviously will have to be less than what it was before because the vehicles are basically smaller, that is the fact of life. What Mahindra CIE is doing is we are looking at really diversifying our portfolio and not have this impact our revenue but in the short term being OEM customers profit will not suffer but there could be an impact on the revenue. Now, it is actually a double effect in the last six months where the raw material prices have been dropping and it has a 4-5% impact on the revenue number. So all I were saying is that let us not look at, yes, the revenue numbers, let us look at how the whole profitability works because the revenue numbers have been impacted because of the fluctuation in raw material price. Second, Mahindra CIE is seriously contemplating diversifying its business by reducing dependence on one customer and I think we have made some progress in the last six months and we will continue to focus on that to make further progress to reduce dependence on one or a few customers.
- Basudev Banerjee:** So basically the maximum risk potentially can be if Mahindra continues to lose their market share through these new launches and not doing well against competition and content per car being under this because of the lower in product, so theoretically that can be a risk?
- Hemant Luthra:** I do not know whether you say that maximum risk because yes, if the sky falls down also it is a huge risk, the world comes apart, it is a huge risk, if Mahindra volumes go down, we are diversifying elsewhere, if Mahindra volumes go down, it is one of the conscious decisions to reduce our share of wallet with Mahindra. If Mahindra volumes go down, the M&A strategy is happening. So at the moment I am not worried at all about what is happening in the future.
- Basudev Banerjee:** You said your consol net debt is down to Rs.700 crores from Rs.1,000 crores compared to December. So what has been the quantum of CAPEX year-to-date and what is the planned CAPEX for the full year?
- K. Ramaswami:** I am going to turn it over to Sanjay because this is a good question that you have asked because all the operating improvement while they have been put into place by Pedro, Romesh and KR, I think let us give Sanjay and his team also credit for what they have been able to do in terms of management of working capital and reduction of interest rates. So why do you not take over, Sanjay?
- Sanjay Joglekar:** I think the CAPEX you have said on a consolidated basis annualized will be around Rs.250-300 crores, this is of course barring if we take any expansion or any such projects. Other than that net debt has been reduced by generating operating cash flow which also includes reduction of working capital. As Hemant pointed out, the interest cost has significantly come down because of some innovative and aggressive means of financing doing factoring and reverse factoring, changing the loans and going basically from the high cost loans to low cost loans.

- Basudev Banerjee:** What has been the CAPEX year-to-date in first half?
- Sanjay Joglekar:** Year-to-date I do not have an exact number but you can say annualized will be around Rs.250-300 crores.
- Basudev Banerjee:** If bulk of the CAPEX is expected in second half, so majority of this reduction in net debt might get reversed?
- Sanjay Joglekar:** I am not publishing any first half CAPEX numbers.
- Hemant Luthra:** Let me give you another logical response to yours. As KR says that we manage to improve the profitability of the company by cost cutting and even though we are not working at full volume and we have got headroom. So I do not think there is a question of bulk of the CAPEX having to come being parked on the second half of the year and thereby I would not worry if I were in your place that debt will suddenly balloon. Secondly, KR has been talking about the fact that he will invest something in machining, Romesh has got nice problem which is that he has to keep up the growth that is happening in Gears and Pedro has just told you that there may be some expansion that is required, but nothing of the order that would say that the net debt will go up again.
- Moderator:** Thank you. The next question is from the line of Nishit Jalan from Kotak Securities. Please go ahead.
- Nishit Jalan:** Sir, you mentioned that Forging tonnage volumes are up 1,000 tonnes YoY in first half. Sir, can you share the absolute numbers or basically the growth in terms of percentage?
- K. Ramaswami:** I do not know whether I can share the absolute numbers but we have grown by 9% on tonnage, six months-to-six months figure.
- Nishit Jalan:** You mentioned that you have received two new orders in the Forgings and Castings segments. So has the revenue started already or it will start from next quarter?
- K. Ramaswami:** We are in the PPAP stage and we expect ramp up to begin about two months from now and in the last quarter really get into sizeable volume. These are actually value-added products. Instead of supplying Forgings we will supply machined components and therefore the tonnages may not really go up but the revenue numbers will go up.
- Nishit Jalan:** Sir, you mentioned that your machining mix with M&M has gone up or basically in the entity has gone up in the first half. Is it correct?
- K. Ramaswami:** That is right. In terms of number of products that we do for Mahindra & Mahindra it has gone up because we are getting into the new KUV and we are now supplying machined Crankshafts to them.

- Nishit Jalan:** Is increase in machining component the key reason for improvement in gross margin on a sequential basis?
- K. Ramaswami:** The raw material had its major impact. If you go into that analysis of the sequential basis, raw material would have had a major impact but machining components definitely adds value to the bottom line.
- Moderator:** Thank you. The next question is from the line of Nitesh Sharma from Phillip Capital. Please go ahead.
- Nitesh Sharma:** In the initial remarks you mentioned about swifter technology transfers from Europe to India. So any further color on the same what kind of newer technologies or newer products we are looking at and would we stand to benefit due to the emission norm changes going ahead?
- Hemant Luthra:** Maybe KR or Romesh you can individually talk about where you are bringing in Robotics and where you are bringing in mechanization and so on and so forth and what is on your wish list when you talk to Justino and Ander and ditto for Pedro.
- K. Ramaswami:** We are looking at automation in a serious manner and we have already initiated action. Probably will replicate whatever facility CIE has got here in India. In terms of automation, it is not really technology transfer from a Forging point of view, but definitely from a process point of view, it will take us several leaps ahead. But this would take about a year or year and a half from now until we are fully automated because there are several phases of automation and we would be monitoring each phase let us say the progress and milestones would be once in six months.
- Romesh Kaul:** In the area of Gears and also quickly I will touch upon in the area of Composites as well. In Gears, now that we are getting more and more business of exports and I think we are about very-very significant export number; we are about 45% exports in Gears. I think in order to improve the consistency and reliability of our operations, we have identified a few areas, things like inspection, in order to improve the consistency and reliability of our output in the area of inspection. It does away with manual elements and I think we are working on those in order to improve consistency. We are also looking at automation in the area of productivity improvement in certain bottleneck assets like KR talked about Forgings Automation are present and we are also looking at automation in the areas of material handling and so on. We are very conscious in this process that as the labor cost keeps going up, we are doing a very detailed analysis in terms of where automation adds value and does not. We do not do automation for the sake of automation. We do for the sake of reliability, consistency, productivity improvement and also make sure that our operations overall become reliable. In Composites, we are doing some Process Automation considering that our material manufacturing is a compound that we make which is a chemistry we mix materials and make compounds. We have identified the scope of automation on those processes and we are working on those processes as well. So, Automation has been an area of improvement, particularly as I said, quality, consistency and exploiting wherever we have bottleneck.

- Pedro Echegaray:** All new projects are 100% automated both in Stampings and Assembling. We all use robots to transfer parts from one press to next operation and also all our welding, assembly operations are only robotized, for example, our plant is Zaheerabad which is 100% robotized even though we still have some manual operations for those low volume products where the investment which is usually borne by the customer in automated tooling, it is not justified, truly for automation it is more expensive, sometimes the customer or low volume products we certainly go for manual tooling and fixtures, but our strategy is to go 100% for automation and Zaheerabad right now is state-of-the art Stampings and Welding Plant, not only in India but all over it is really comfortable to the level of automation that CIE has in other plants in Europe, Brazil, Mexico, etc.,
- Nitesh Sharma:** On Europe, if I understand correctly, the additional cost associated with Jeco transfer is now behind us and from Q3 CY'16 we are looking at 200 bps of additional margin because of these extra costs being behind?
- Hemant Luthra:** We said that we lost 200 basis points approximately because of the problems of that market. So I would like to believe that we should make up, but I cannot forecast and say I do not want to be told I am forecasting 200 basis points increase. I am telling you how much we have lost. The second thing that I wanted to point out is that I spoke to our friends in Germany a few minutes ago. Given the problems that have happened in Turkey, many OEMs are reconsidering the fact that they had outsourced work to Turkey and are bringing it back into the most favorable Europe. So we expect that the Forging operations in Germany and Spain which are where we are will benefit from the unfortunate occurrences in Turkey.
- Nitesh Sharma:** This would be an MFE primarily because only truck Crankshafts and other parts would have been exported?
- Hemant Luthra:** I am not fully aware of how much work is there but may be you are right... this is not a question of exported, if Daimler is buying from or a MAN or Scania he is buying from Germany and Spain, it depends on what equipment is lying where. So if we have a big presence Schoeneweiss and we have an equivalent hammer inside one of the Spanish forging plants, okay, some products were produced on the hammer and some products were produced on the press. So it is possible that a MAN or Scania which is sourcing from Turkey or even Daimler or BMW for passenger car, which is sourcing from Turkey might turn around and say that "I do not know how reliable the supply chain from Turkey is." So they are seeing an all round benefit that might come from the unfortunate occurrences in Turkey. Also to respond to it, some of the machining problems since you said that the urgent transport problem after shutting down Jeco some of the machining problems of moving stuff to Czech Republic, which they could not do, having a contract with somebody who did not deliver, those problems are also behind us, and their cost has been factored into the P&L. So I would like to believe that we should have better results going forward.
- Moderator:** Thank you. We will take the next question from the line of Priya Ranjan from Systematix Shares. Please go ahead.

- Priya Ranjan:** I think most of my questions has been answered, only part is regarding the growth we have been talking about the growth since last 2-years and we have not yet been able to make decent inroads into the new customer segment whether it is in India, whether this is to MFE, because in MFE I think the chairman has at some point of time talked about going back to the 300 million or 400 million revenue which used to be the earlier, there has been no such roadmap of line so far particularly on the growth front. So can you...?
- Sanjay Joglekar:** What did you say about MFE? I think we never said MFE revenue will grow to €300 or €400 million. You have been saying that we are not
- Priya Ranjan:** No, I think in one of the con call Chairman has said that the MFE revenue used to be this much and we are aspiring to go to that level again.
- Sanjay Joglekar:** No wait a minute, I think maybe there is some probably misunderstanding but about revenue in Europe, Vikas we have been consistently saying that we are not really very optimistic of any high growth revenue in Euro and particularly MFE we have been clarifying that since it is in the process of improving margins, there is a possibility that there will be some low margin products are actually taken out which would compensate the small revenue growth which could come, but MFE's performance improvement we have very emphatically stated irrespective of the revenue growth.
- Hemant Luthra:** Priya Ranjan, let me just since you have quoted the Chairman and the Chairman does not like to believe that he goes back on his word. During the pre-Lehman crisis the peak run rate in a quarter was of the order of €75 to €80 million. So yes at the peak run rate pre-Lehman crisis MFE may have done annual run rate of 300 million. Now once we come in here we have to make sure that the profitability is protected and therefore as Sanjay, Vikas, everybody has been at pains to point out is...and this has been particularly true in the gear company MetalCastello, where we have done a wholesale cleaning of unprofitable products and to the extent I think more than 25% have been discarded as a result of which the EBITDA has gone up by 25%. Now, you are absolutely right that I too am disappointed, I am not saying anything more, I too am disappointed that some of the inorganic growth that we were looking at has taken longer to come, but I also want to put some facts out there in which are public. AMTEC had sold or wanted to sell some of its assets, they were in the market. Obviously, we looked at them. In M&A and private equity, there is a nice saying which says that some of the best deals are the ones that you did not do. The Japanese paid close 9x EBITDA in Germany for making that acquisition that we were once looking at. But that was not the AMTEC asset, but a competitive asset to AMTEC asset, they paid 9x. I would not pay 9x even if I had to sacrifice growth. But, yes, because there is a DNA of growth inside Mahindra Systech and there is an even stronger DNA of growth to identify opportunities in CIE, we made 10-odd acquisitions over the last few years, they have made between 40 and 50, we are hopefully not going to have to disappoint you any further about growth. That is all that I can say just now because some of these situations are binary, but I do not think you will be disappointed next time around when we come around for this call.

- Priya Ranjan:** Can we say with confirmation since you guys have been in better place in terms of knowledge and actual ground situation that by end of this year or by early CY-'17 all the MFE problem particularly related to Jeco will be sorted out?
- Hemant Luthra:** I think I can confidently say that.
- Moderator:** Thank you. We will take the next question from Vivek Joshi, an individual investor. Please go ahead.
- Vivek Joshi:** So basically I wanted to ask that the company reports the consolidated numbers in the 'Investor Presentation' but does not report it to SEBI. Any particular reason for that?
- K. Ramaswami:** To report to SEBI in that format requires every subsidiary to undergo a limited review in audit in various countries, which is quite a cost in terms of time and money, but at the same time we are aware about the investor interest and our transparency. So we are declaring so called Pro Forma Results in the Investors Presentation.
- Vivek Joshi:** Another quick question is that earlier it was said that at some stage in point the other subsidiaries of CIE in the Forgings business I think would also be merged. So how far are we from that?
- Hemant Luthra:** Let me just say this that there is no doubt in our own mind that a public commitment has been made to shareholders that in order to ensure that there is no conflict of interest and governance is not conflicted so that when you export from India to US, it does not make a difference whether you export from India to US or Mexico to US or whatever. So that commitment that has been made stands. Okay? I think we have also said once before on this call that the only reason why it was not done the first time around in this and the deal was that we did not want an inflated size of the balance sheet, and the other thing was that had we done that and CIE had contributed that, then we would have gone beyond 75% between CIE and Mahindra and therefore we would have forced de-listing. Now, the merger process of those subsidiaries is a complex process, you get valuation, competition commission approval, you have to do all kinds of things to get that done. We want to trigger that process once we are sure that we can combine that process with one or two other things that are in the pipeline. So if I am looking at some targets and I am looking at merging those targets if I am looking and if those targets come to fruition shortly then rather than do multiple processes we will try and make it the most cost-effective process to do it once. When do the other targets come to being? Let me just keep working at it and make sure that we do what is needed to be done to make sure that the growth that we are all looking for happens.
- Moderator:** Thank you. We will take the next question from the line of Jinesh Gandhi from Motilal Oswal Securities. Please go ahead.

- Jinesh Gandhi:** Just to continue on my earlier questions with respect to the cost in European operations, the Jeco one off cost that is fully reflected in 2Q CY-'16 numbers and that will reduce substantially from 3Q onwards, is that correct?
- Hemant Luthra:** I have said that those costs are included in Q1 and Q2 and yes, I have said confidently that those problems seem to be behind us.
- Jinesh Gandhi:** The subsidiary EBITDA margin improvement is despite 200 basis points impact or that we have classified as since these are normalized numbers we have adjusted that?
- Hemant Luthra:** Yes, we have absorbed all cost without capitalizing them.
- Moderator:** Thank you. We will be taking the next question from the line of Mahesh Bendre from Way2Wealth Securities. Please go ahead.
- Mahesh Bendre:** We have been reporting a double-digit margin over last two quarters; this quarter 11.2%, last time it was 10.7%. So do you see we will be able to maintain these or do you see a significant improvement that may be...?
- Sanjay Joglekar:** This is something again is not for us to predict. We have given you our business projections and efforts and you should wait and see quarter-on-quarter how improvements are taking place. Like a professional management always strive for continuous improvement, we are doing the same.
- Hemant Luthra:** I will also answer your question by asking you to look at the Spanish Stock Exchange today and the Spanish Stock Exchange shows that the CIE is near an all-time high of 16-17, 16.97 is the share price, I think that is on the back of 15.5% or 16% EBITDA for the company. I have also mentioned to you that we like the healthy competition to make sure that Mahindra CIE is not treating its shareholders in any manner that can be construed as disappointing. So it is nice healthy internal competition. So I would only say that nobody in India can or nobody in Mahindra CIE Europe or India can rest on its oars with an 11.2% consolidated margin or whether I can keep growing at this rate but, no, this is not enough for us.
- Moderator:** Thank you. We will take the next question from the line of Nitesh Sharma from Phillip Capital. Please go ahead.
- Nitesh Sharma:** Sir, a small book-keeping question; in this quarter consol basis our PAT number was much higher as compared to the kind of EBITDA we reported. So anything in terms of the impact on other income due to Ind AS or lower depreciation? So sequentially EBITDA has grown by 8%; however, if look at the reported consol part it has grown by 34%.
- Sanjay Joglekar:** In between you have got interest coming, there is a lower interest so ...
- Nitesh Sharma:** So it is just lower interest or higher other income and depreciation also been lower due to some accounting changes?

- Sanjay Joglekar:** The overall provision of our tax in Q2 that is April-June has been lower compared to Jan-March. In one of the questions earlier I mentioned that these are some quarterly variations do take place, but please always consider half yearly or may be preferably the annual tax rate which is currently about 25% of PBT, do not get into EBITDA, it is more related to earning before tax.
- Hemant Luthra:** You are looking at the number which is EBITDA growing from 1427 to 1533, the PAT growing from 538 to 715.
- Nitesh Sharma:** Correct, sir. So in between basically the lower interest has helped boosting the PAT?
- Sanjay Joglekar:** So if you see further down, because interest lower is always there, but the tax provision itself is lower in Q2 if you just do the arithmetic between EBT and PAT
- Moderator:** Thank you. We will take the next question from the line of Raghu Nandan for Quant Capital. Please go ahead.
- Raghu Nandan:** On Brexit what is our UK exposure? Also, do you expect Brexit to impact European auto production?
- Hemant Luthra:** On Brexit, European exposure is nothing because I think Stokes is a very small portion and there was a tongue-in-cheek comment from the economist which says that Germany exports cars to England and England exports raincoats to Europe. So I do not see Brexit affecting us in any significant manner whatsoever here. Pedro, do you want to add anything there?
- Pedro Echegaray:** As you say our dependency on Britain for both CIE and MCIE is very low and in any case everything will dependent on the negotiation between the European Union and the UK on how will be the commercial relationship in the future, but right now European Union has already stamped agreement with some regions or countries which are not part of the union and in those cases there are no import taxes, no duties. So quite probably UK will have a similar treatment. So I do not think specifically for the Auto industry there will be much impact. Definitely, UK growth will slow down, there will be impact in the banking sector, but other products assuming that they reach an agreement with no import taxes, no import duties, I do not see there will be any significant impact other than the overall slowdown in UK's economy.
- Raghu Nandan:** Also, on standalone business how much more VRS expenses, do we expect ahead?
- K Ramaswami:** VRS expense would depend on whether the business will grow, whether you have enough opportunities for productivity growth and therefore reduction in manpower. It is not necessary that we are going to introduce VRS Scheme across for. Having said that we have got our own growth plan as well as productivity improvement plan and it will get evolved over a period of time, we have done the first step in the last 6-months across Mahindra CIE in one plant and we are assessing the results and we will have to take a call based on that, #1, how effective it is and we think it is very-very effective; #2, it would depend on productivity improvement targets

that we agree with a workman as well as the growth numbers that we are projecting evolved. I do not think we have a number to state now.

Pedro Echegaray:

In Stampings, we are of course permanently analyzing any cost reduction opportunities and that includes the VRS. So we are exploring, but at this moment there is no specific plan or earlier where we are thinking and doing, but yes we are looking at it. In any case we consider that VRS financially equivalent to an investment. So if we finally go for VRS we will expect at least with per cent return the investments same as any other investment that we do in the group.

Raghu Nandan:

On standalone business again, we have been trying to achieve a breakthrough with western OEMs and then from there ramp it up. So just wanted to understand what is the progress there and how big is the business now or how it is expected to ramp up in quarters ahead?

K Ramaswami:

Like taking over from western business or let us say European business would depend on how our plans, now our subsidiaries are utilized outside. As of now I think all the subsidiaries have adequate capacity to meet the requirement and therefore there is no earthshaking hurry to move the business because they have adequate capacity. The big advantage in moving the business from there to India is the cost advantage. So the cost advantage needs to be weighed against the cost of not utilizing capacity currently in the Western segment and therefore how much you will see the total thing. We are evaluating on overall basis rather than just looking at shifting the business. Having said that, we are really focusing on improving export business. Today, if you look at Mahindra CIE, as Romesh was saying 45% of Gears is exported, 30% of Castings is exported to Western Europe, we will continue to grow on that path, but it would also depend on how we are utilizing the subsidiaries and what will be the cost benefit of transfer of business in terms of benefit that you will get in producing in India versus the cost that you will incur by not utilizing capacity in Europe. We are constantly at it and it is a dynamic thing and we continue to look at it on every quarter basis to see how India business can grow in terms of export.

Hemant Luthra:

I think there is another twist to that question because I heard that question saying that how successful are we being in addressing European OEMs in India. If that was your question there is I am sure KR also will have a different answer to it but I just want to add one more caveat before turning it over to KR, Pedro and Romesh is that we have broken into Maruti, this is the highest volume, we are supplying to Hyundai which is also the highest volume, and if you look at all the other European OEMs between Ford and Renault and others I do not know how much the volumes add up to compared to the overall market. Therefore I think your question would be very relevant in another context which is that in terms of our acquisition strategy why do not we look at stuff which has got high volume potential which is people who are supplying to the two-wheeler business so that we can supply to Honda, Hero, Yamaha and others. But going back to your question, KR, what are we doing with respect to Renault and who are the big ones who

- K Ramaswami:** Probably I took the question as western OEMs meaning supply to western OEMs outside. Look at the volume of the western OEMs stated in India, there are a few people who are very significant, one of the major players in India today in Automotive segment is Renault and we supply Crankshafts to them. The other major player is Ford and we supply parts from our Casting division to them. Now, these OEMs you need to understand that as they keep introducing new engines most of the parts like we are specializing in Crankshafts, Knuckles and some cheap metal parts as well as Castings. Many of them have not really indigenized the engine, but some of them have started this project and we are participating. Having said that we are not 100% there in western OEMs, because most of these volumes are not very significant. So they probably continue to import or they buy locally from less expensive source. But on major players like Hyundai, Maruti, Renault, including Ford, we supply parts.
- Pedro Echegaray:** Quite rapidly we have made some changes in our sales department with a specific objective to diversify our customer base and to increase our business not only with western OEMs but also with other customers like Tata or Ashok Leyland, etc., Having said so Stampings is a proximity business, so we have some limitations and at this moment because of the location of our plants where we have identified more opportunities to get new customers and new products in Pune area, in that area we are targeting specifically Tata commercial vehicles division is doing well, they are quite optimistic about the Tiago passenger cars sales also, and also we are in contact with General Motors, Fiat and other western OEMs, but all those are early stages, but in any cases will be a strategy which will give results only in the long run, I do not expect any significant impact in our revenue before probably 3-years.
- Moderator:** Thank you. Ladies and Gentlemen, that was the last question. I would now like to hand the conference over to the management for their closing comments.
- Hemant Luthra:** If that was the last question thank you very much for spending an hour and a half with us. For those of you who need more information, I think you know where to find us. All that we can say is just that more than once during the call we have a good team being strengthened by the fact that we now have a senior person from CIE helping us specifically with integration as the prospects of M&A succeeding in Greece, transfer of technology, M&A, moving products back and forth, and we remain optimistic. As I have mentioned once before on the call, I am not going to give any target-based things about when and what the price does, but our stock options are not really valuable unless the stock is double where it is today. So we are on the same side as you are.
- Moderator:** Thank you. Ladies and Gentlemen, on behalf of ICICI Securities that concludes this conference. Thank you for joining us and you may now disconnect your lines.

Note: This statement has been edited to ensure quality