Mahindra CIE Automotive Limited
Suite F9D, Grand Hyatt Plaza (Lobby Level),
Off Western, Express Highway, Santacruz (E),
Mumbai- 400 055, India
Tel: +91 22 62411031
Fax: +91 22 62411030
www.mahindracie.com
mcie.investors@cie-india.com

SEC/2021/110

19th October, 2021

BSE Limited Corporate Relationship Department P.J. Towers, Dalal Street, Fort, Mumbai 400001 **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 – 400051 **NSE Scrip code: MAHINDCIE**

Dear Sir / Madam,

Sub: Transcript of Mahindra CIE Automotive Limited Q3 CY 21 Earnings 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 7th October, 2021 in respect of advance intimation for Q3 CY 21 Earnings Conference Call, please find enclosed herewith transcript of the said call held on 14th October, 2021.

The same is also being uploaded on the website of the Company i.e. www.mahindracie.com.

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

Thanking you.

Yours faithfully,

For Mahindra CIE Automotive Limited

Pankaj Goyal
Company Secretary and Compliance Officer
Membership No.: A 29614
Encl: as above

MAHINDRA CIE AUTOMOTIVE LTD. MUMBAI

“Mahindra CIE Automotive Limited Q3 CY21 Earnings Conference Call”

October 14, 2021

ANALYST: **MR. NISHANT VASS – ICICI SECURITIES LIMITED**

MANAGEMENT: **MR. ANDER ARENAZA ALVAREZ – CHIEF EXECUTIVE OFFICER - MAHINDRA CIE AUTOMOTIVE LIMITED**
MR. K. JAYAPRAKASH – CHIEF FINANCIAL OFFICER - MAHINDRA CIE AUTOMOTIVE LIMITED
MR. VIKAS SINHA – SENIOR VICE PRESIDENT, STRATEGY - MAHINDRA CIE AUTOMOTIVE LIMITED
MR. OROITZ LAFUENTE – CHIEF BUSINESS CONTROLLER - MAHINDRA CIE AUTOMOTIVE LIMITED
MR. SWAPNIL SOUDAGAR - DGM, STRATEGY - MAHINDRA CIE AUTOMOTIVE LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the Mahindra CIE Q3 CY21 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 an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Nishant Vass from ICICI Securities Limited. Thank you, and over to you, Sir!

Nishant Vass: Thanks Steven. Good evening everyone in India and good day everyone in the rest of the world. Thanks for joining us today for this call. From the management side, today we are represented by Mr. Ander Arenaza Alvarez, the CEO; Mr. K. Jayaprakash, the CFO; Mr. Vikas Sinha, Senior VP, Strategy, Mr. Oroitz Lafuente, the Chief Business Controller and Mr. Swapnil Soudagar, DGM, Strategy. Now I would like to hand over the call to the management for their initial remarks. Over to you Vikas!

Vikas Sinha: Good evening everyone and good afternoon to those who are joining from Europe. I welcome you all on this call as also Ander Arenaza, our CEO. I hope and wish that all your loved ones are taking care and are safe.

Thank you for attending the call despite such a late starting time for Asian investors, but this was necessitated due to the markets being closed tomorrow in India because of Dussehrra.

Q3 C21 began on an optimistic note which was reflected in our previous results call. India had quickly recovered from an eviscerating second wave of the pandemic in Q2 C21 while Europe was well placed with a fast paced vaccination program. However Q3 C21 has been hit by an ongoing crisis that all of us underestimated. The semiconductor or chip crisis as it is called, which has burgeoned into a medium-term issue and is now expected to last for a few more months.

The light vehicle production in both Europe and India as well as truck production in Europe has been affected. IHS estimates light vehicle production in 2021 compared to 2022 to grow by 8% to 9% in India and about 1% in Europe. These are much lower than earlier estimates and thus Q4 C21 will be a challenge. The saving grace is that the demand sentiment is still strong and we think that almost all the demand lost would be recovered in 2022 and subsequent years.

Tractors and two-wheelers in India have not been affected much by the chip crisis, but they are following different growth paths. With a decent monsoon and continuing investment in rural infrastructure the Indian tractor market is expected to remain stable in the near-term, but the growth rates will be modest given the very high base of 2020. Two-wheelers demand in India is recovering slower than expected from the second wave especially in rural India. Exports of two-wheelers continue to do well and two-wheeler OEMS with greater export presence have an advantage.

Steel prices continue to remain high but stable. Other commodity prices have shown a marked increase this quarter. On top of this we are now possibly looking at an evolving power crisis in India due to coal shortage and an increase in energy price in Europe. A putative third wave of pandemic could hit India despite the high vaccination numbers and the situation post Diwali will be critical. All these issues have added to the uncertainty in the environment that we as a business are functioning in. We will continue to focus completely on our primary task of ensuring that our profitability is least affected in case of any such occurrence.

Now having made a litany of risk factors, let me add, that the festive season always brings cheer and optimism and we definitely look forward to that. As we all know the same quarter last year that is Q3 C2020 was slowly recovering after global lockdowns and it may not be appropriate to make year-on-year comparisons of Q3 C21 just with Q3 C2020 when the base was lower instead we will make a comparison with both Q3 C2020 and Q3 C2019 and also sequentially with Q2 C21 performance.

Given this late call I understand that our investor presentation for this quarter may not have been seen by many. I will highlight the key points as always. We start with Q3 C21 results for MCIE India on page #7. Q3 C21 sales in India were at Rs.10682 million, which is 30% higher compared to Q3 C2020, 20% higher compared to Q3 C2019 and 22% higher compared to Q2 C21. These growths are higher than the underlying market growth rates.

MCIE India EBITDA margin in Q3 C21 was 15.1%. This was higher than the 13.6% achieved in Q3 C2020 or the 13.1% in Q3 C2019 or the 13.9% in Q2 C21. The twin focus in India on growth and operational improvement that we have spoken about in the last few calls is working.

On page #8 we have the Q3 C21 results for MCIE Europe. Sales were at Rs.9119 million plus 11% versus Q3 C2020 and a negative of 2% versus Q3 C2019, but better than the underlying market. There is a sequential seasonal drop in Q3 sales compared to Q2 in Europe, but as we know that is because of the August holidays. Accordingly Q3 C21 sales were 15% lower than Q2 C21. This is similar to the drop of 17% sequentially between Q3 C2019 and Q2 C2019 sales. So that is nothing out of the ordinary that you see in the sequential drop there.

MCIE Europe EBITDA margin in Q3 C21 was 12.5%, this is versus 9.9% in Q3 C2020 and 11.5% in Q3 C2019. The improved profitability year-on-year is evidence of the fact that the restructuring actions taken last year have worked well. The margin is lower sequentially than Q2 C21, but that is attributable to the seasonal drop in sales explained above, and now, if we go to page #9 we will see the consolidated Q3 C21 results which are a combination of India and Europe results. Q3 C21 sales were Rs.19801 million plus 21% versus Q3 C2020 plus 11% versus Q3 C2019 and plus 2% versus Q2 C21 even sequentially also higher.

Consolidated EBITDA margin of 13.9% was higher than the 11.8% in Q3 C2020 and 12.2% in Q3 C2019. Consolidated EBIT in Q3 C21 was Rs.1924 million at 9.7% which is significantly higher than the Rs.1080 million at 6.6% percent achieved in Q3 C2020 as also the Rs.1396 million at 7.8% achieved in Q3 C2019. While not comparable due to the seasonal drop even then the Q3 C21 EBIT was even higher than the Rs.1828 million at 9.4% achieved in Q2 C21.

Similarly consolidated EBT in Q3 C21 was Rs.1790 million at 9% which is higher than the Rs.937 million at 5.7% in Q3 C2020 or the Rs.1198 million at 6.7% in Q3 C2019 or the Rs.1698 million at 8.7% in Q2 C21.

On page #11, we have the nine month C21 results for MCIE India sales was Rs.29904 million EBITDA of 14.9%, EBIT 10.4% and EBT 9.8%.

On page #12, we have the 9 month C21 MCIE Europe results. Sales were Rs.30164 million. EBITDA is 13.5%, EBIT 9.4% and EBT 8.6%.

On page #13, we present the consolidated 9 months C21 results of MCIE. Consolidated Q3 C21 sales were Rs.60068 million, EBITDA of 14.2%, EBIT 9.9%, EBT 9.2% and PAT 5.2%. Each of these numbers is higher than the corresponding figure in the pre-pandemic nine month C2019.

Let me emphasize that these results have been achieved despite the headwinds around the reduction in demand due to the chip crisis, increase in price of steel and other inputs like logistics and power and the continuing overhang of the pandemic this shows the resilience that MCIE has exhibited during trying times.

Regarding electric vehicles, we are happy to report that we have made progress in developing business in this area. Metalcastello has received a large size order of €20 million per annum from a US based transmission supplier to electric vehicle OEMs. In India we have received similar orders for transmission and driveline parts for both four-wheeler and two-wheelers at Bill forge. We will continue our strident efforts in this direction. Please appreciate that we are unable to say more given customer sensitivity.

In conclusion, we would like to state that despite functioning in an uncertain and rapidly evolving environment, MCIE has continued its stated path of growth and improving profitability. We look forward optimistically to the normalization of semiconductor supply which will be the key factor for the market recovery in next quarters.

We wish everyone on the call Happy Dussehra, Happy Vijayadashami, Happy Bijoya. May the festival spirit uplift our industry and now we 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 Nikhil Kale from Axis Capital. Please go ahead.

Nikhil Kale: Congratulations on a good set of numbers. My first question was on the India business. So despite, I mean, we have seen the growth that has happened in the different segments, we have outperformed the industry. So, if you could just provide some more color on the India business performance maybe talk about how the growth is panning out in the different businesses with stamping, castings, Aurangabad electrical so some more color on the India business performance?

Vikas Sinha: Thanks Nikhil. Ander the question is how India is growing at this rate and which parts of India are growing. I will just start off the answer and you can add to that. We have been saying that all our divisions in India are on a growth path and if you look at the capex figures also half yearly that we had presented there was a lot of investment going on in India. In fact this growth is spread across all divisions and it is not really just one division that is growing. With these remarks I will hand it over to Ander.

Ander Arenaza Alvarez: Yes, Vikas thank you. Good evening everybody. This is Ander Arenaza speaking. My feeling is that the Indian business performed very well in the third quarter in 2021. If you look at the figures we are already at the same level than the Q1. So, the first quarter that was this calendar year was very strong. The second one was affected by the COVID and in the third one despite the semiconductor shortage and our customer slowed down due to this semiconductor shortage. We showed that the Q3 results on turnover were up again at the same level at the Q1 and we have the expectation to continue growing in the next quarters. It is true that there is an uncertainty now in the Indian market due to this semiconductor issue and we could consider that during the next couple of quarters we will see certain volatility and uncertainty. But after that we think that there is a very strong sentiment comes in the customers in the automotive market and we expect that all the businesses will continue growing. Regarding the evolution of the performance of the different verticals I would say that all of them they perform equally or similarly. All the divisions are performing well and it is true that Vikas mentioned that we have the disadvantage of the high raw material prices, this is good for the turnover but it is affecting negatively the margin. So despite that we were about 15% EBITDA margin. So overall I think we are quite satisfied with the evolution and we are quite optimistic with the future we were expecting a much better end of the year that is true, I mean, in the last call we were really optimistic because all the customers were expecting a big jump by the end of the year unfortunately due to the semiconductor shortage this jump did not happen and the sales and the turnover will be a little bit lower than expected but this jump is still coming so we think that perhaps it will have a delay of four, six, eight months, but the positive trend will continue. I hope I answered your question?

Nikhil Kale: Yes and then secondly just on the Metalcastello front, how are you seeing growth over there? I think that segment was benefiting from a strong pickup in demand in North America. So what was the situation over there, what has the growth been in this quarter for Metalcastello?

Vikas Sinha: Yes, Ander the question is about Metalcastello. Is Metalcastello benefiting from the increase in demand in North America?

Ander Arenaza Alvarez: Yes, absolutely I would say that the Metalcastello is doing really, really well in this calendar year, you know that we had a very poor year especially starting mid of 2019 when the decline started and in 2020 we had a very weak year, but after that, after the elections in the USA passed and the COVID is also over I would say that in the demand from our American customer in Metalcastello is very, very high, is very strong and we are delivering a lot in fact we are adding also additional capacity and we are investing to be able to cope with the high demand. So, yes in this moment we are close to the 2019 figures and probably we will end that year very, very strongly. So, yes, this evolution of Metalcastello is very positive in the sense.

Nikhil Kale: Great thank you and just one last question on the number side. So, if I just look at the employee cost I think for the last two quarters we were around $3.6 billion on a consolidated basis whereas this quarter it saw declined to around $3.2 billion so any one offs there or is this like the sustainable number that we should be looking at going forward on a quarterly basis.

K. Jayaprakash: Yes, I think now you have to look at it from the fact that August was a closure period in Europe so you cannot take only this quarter number.

Nikhil Kale: Thanks.

Moderator: Thank you. The next question is from the line of Bharat Sheth from Quest Investment. Please go ahead.

Bharat Sheth: Congratulations Ander, Vikas and Jayaprakash on excellent performance in challenging time. Ander I have three, four questions. One is on, we have already won some order on electric vehicle front in Europe as well as India, but from medium-term perspective can you give little more color or elaborate what is our strategy to grow that electric vehicle business, new acquisition of the client as well as new businesses particularly in Europe the EV is penetrating much faster pace.

Ander Arenaza Alvarez: Let us say that the electric vehicle share in this moment in Europe is approximately 7% of the total market and the expectation is that this 7% will continue growing. This 7% are the pure battery electric vehicles then we have a hybrids and electric vehicles that we are already supplying a lot of components. In our company we are already delivering and producing components for electric vehicles, but as the share is very small our part of the pie is also very small. But what we are now having is we have all the new contracts, the new projects that we are being nominated from our customers most of them they are hybrid or electric vehicles so the trend that is in Europe is very clear and we will continue with that trend and we will probably increase our percentage of components for electric vehicles in the next years and this is a fact and regarding from the product strategy, Vikas already mentioned that we got a big business from an American customer to producer electric transmissions and we are going to invest and produce in a very important way with this €20 million per year to another business with this American customer from Metalcastello plant and also in our forgings in Spain or in our forgings in Germany we are also developing components for these electric vehicles. We mentioned in the previous call that we are developing the aluminum forging where we hope that we will have a news very soon and we will be able to disclose, we are not in the position to disclose anything yet but we are working very hard on this transition to this kind of products where we think that there will be a big opportunities for us in the future and coming back to India in India we are already working for certain customers for example in Mahindra we are producing gears or we have also from Bill forge producing components for electric vehicles and also we got certain new businesses for a one new electric bike customer so we are developing the business I would say that it is very complicated to give figures because the situation is evolving and every day we are developing and the market is moving to that direction in India I think the speed will be much lower and we do not expect a major impact in the next 10 years it is perhaps in the two-wheeler and three-wheeler where we will have certain entrance but for in Europe for example there will be a faster phase of the electrification and we will be ready to enter into that area so that is our view on this.

Bharat Sheth: Second question on our strategy to develop India as for export market so at this juncture where we are and how do we see our next two, three year time frame.

Ander Arenaza Alvarez: This is also one of our strategies in Mahindra CIE there we are developing if you look at our capex in the company I would say that 75% of the capex is concentrated in India and the remaining 25% in Europe so all our efforts are in reinforcing our capacity, our production capacity in India because we think that the internal market first internal market in India will grow I think there is a big room for improvement in India in the next year and also the export rate will continue growing in this moment we can be at something like 11%, 13% export rate in our production and we will continue growing and we have internal targets to be at 20% in the short-term okay that is the clear strategy also there is one important thing that is happening now that the logistics and the transport costs are increasing a lot especially all the ship rates has multiplied by four in the last month so that will probably create certain delays in the export rate because we think that most of our customers and especially after we looking at what happened with the semiconductor shortage they are now rethinking and redistributing their logistic routes for the components that they buy. So we think that in that sense there will be a local to local strategy reinforcements in the next year so considering this perhaps the export rate will continue growing but at the lower pace that we were expecting some months ago because of this impact of the logistic costs.

Bharat Sheth: And one on EBITDA improvement CIE has clearly laid down say 2.5% EBITDA improvement over next three years time frame. So in that journey where Mahindra CIE is placed how do we see EBITDA improvement from year on year?

Ander Arenaza Alvarez: We have also our internal targets and we are aligned with the CIE EBITDA improvement strategy. So we should show similar or the same trend than CIE this is clear. Of course in this moment because of the high increase or the strong increase of the raw material the margins are additional challenge for us especially the volumes are not there but once the volumes and the market comes again and we are again at the expected volume level I think that we will continue improving I think we have a lot of room of improvement I mean this is our main job I always talk about the internal efficiency to the teams and we have shown a big improvement in the last year but we are still far from the efficiency that we are getting the regions in CIE. So yes I think that the EBITDA margin improvement will continue that is our main target and we will be aligned with CIE.

Bharat Sheth: Sorry last question it is long. See Ander in our total capital employed little less than 50% is sitting goodwill and this goodwill is on account of several acquisition which are doing well except one Mahindra forging Germany which is approximately 500 to 600 Crore and which is known. So are we really evaluating of impairing doing any impairment of that goodwill.

Ander Arenaza Alvarez: No we are not thinking on making any impairment on the goodwill on Germany. Germany is true that it is one of our most the weakest businesses and lower margin businesses that we have however despite the situation that we had this year with the semiconductor issue and raw material increase and so on we will be able to have black figures in Germany so all the restructuring done was it is paying results and I think that we are in the good direction and the good will in Europe is it is a good will unified in all forgings in Germany plus the European businesses so let us say that the European business is covering all the goodwill with no issue we do not see a risk on that.

Bharat Sheth: And last question how do we see Europe business in Q4 vis-à-vis Q3 level.

Ander Arenaza Alvarez: This is a very good question because the reality when some three months ago when I was speaking to all of you about the optimistic view of the end of the year and I told that because we had the orders, we have firm orders from the customers with the EBITDTA the electronic data interchange system requested the programs for the next month and we see in three, four months in advance the demand and demand was for September, October, November was very good very, very high. Unfortunately just at the end of August they because of that they had no semiconductors to, they were not able to build the cars. So they can sell the order so and in September our deliveries were very, very low. In this moment we see a certain recovery, but the semiconductor issue is still there. So what we think is that the Q4 will be similar to Q3 something like that I mean that the expectation I mean is still weak and the recovery will come in 2022. We hope that will be quick Q1 2022 or q2 that is the expectation. So we see a challenge in Q4 and then probably we will see it is a promising calendar year 2022.

Bharat Sheth: Thank you and all the best. I have question I will come back in a queue.

Moderator: Thank you. The next question is from the line of Nihil Parekh from Tamohara Investment Managers. Please go ahead.

Nihil Parekh: Sir if you can just share what is the constant currency growth for the Europe division.

Vikas Sinha: Growth in Europe in euro terms in Q3.

Oroitz Lafuente: 11%.

Nihil Parekh: Euro terms right. Sir also on the euro business our commentary has been that the German forging business will more or less stay stagnant given robust order outlook from the CV companies, global CV companies bearing the semiconductor issue apart so how do we see our German foraging business over a medium-term say in next one or two years. I will just follow it up with another question.

Ander Arenaza Alvarez: Yes, that we were expecting a decline in our German business but as you said as the commercial vehicle market we expect that will perform well in the next 2022 and 2023 because we see the cycle will continue strong for the commercial vehicles we think that the company will continue at a good sales level. So we see a strong demand and we are already at the nice figures despite the semiconductor issue. Once this is solved I think that we will continue at least we will have a couple of good years in Germany, yes. We have an optimistic view of that.

Nihil Parekh: Sir if you could just give a medium-term outlook on how do you see Europe business shaping up over next couple of years.

Ander Arenaza Alvarez: I think Europe business will perform also as MFE Germany the European business will perform well. We expect the 2022 to be a good year and in 2023 also the expectation from the IHS showed a recovery that in Europe we had a big impact in this calendar year 2021 where we will be very close to 2020 I mean despite being a COVID year and this year will be a similar to 2021 and 2022 we expect a growth of the market of about 10%, 11% so that is what the analyst says and that is what we expect so in that sense we think that there will be a recovery of the business in Europe and the only concern or the main concern will be first semiconductor issue to be over this is something that we were expecting by this year and unfortunately will be in next year then to end definitively with the pandemic the COVID we think that we are all ahead of COVID but who knows I mean there could be additional impacts that are not forecasted but okay let us see we think that the in Europe now approximately 80% of the people is vaccinated with the two doses so their risk is very low so we are optimistic also and finally which can be a little bit boring also is the inflation that we can see in Europe close to 4% that is a much higher inflation than what we are used to so that could create certain difficulties especially energy impacts on the industry or labor increases. Those are the main issues but overall we think that the volumes will be okay and we will be able to manage this new scenario.

Nihil Parekh: Okay Sir one last question if you can just share revenue number from our Bill Forge Unit and Aluminium Forging division if possible for the quarter and for nine months?

Vikas Sinha: You know like Bill Forge is now a vertical of MCIE so we are so we will have to look at it. We do not actually look at it, separately at this point of time, a year of course is a subsidiary so that JP on AEL may be but before this is now part of MCIE.

Ander Arenaza Alvarez: AEL is approximately Rs.2.4 billion and that is the size of the AEL in Q3 and Bill Forge is similar.

Nihil Parekh: So if I can just repeat the number Rs.2.4 billion you mentioned for nine months?

Ander Arenaza Alvarez: That is right for three months for the last quarter.

Nihil Parekh: So AEL and Bill Forge number is the same?

Vikas Sinha: Roughly in the same range.

Ander Arenaza Alvarez: In the same range yes.

Nihil Parekh: All right. Thank you so much for answering my question Sir.

Moderator: Thank you. The next question is from the line of Nimish Shah Emkay Investment Managers. Please go ahead.

Nimish Shah: Thanks for this opportunity. I have a question for the Group business. If I have to just compare the quarter performance on a sequential basis so after adjusting for the drop in the revenues is it fair to say that we have further managed to reduce our cost in that segment for us and reduce our breakeven point because if I had to adjust for the drop-in revenue so I see that there would have been an improvement in our EBITDA margins?

Vikas Sinha: Nimish, are you referring to India or Europe?

Nimish Shah: Europe business?

Vikas Sinha: Oroitz the question is have we reduced our breakeven in Europe because in spite of a drop in revenues compared to Q2 you know the margins are still holding up that much so is there a drop in breakeven in Europe.

Oroitz Lafuente: No. The loss in margin for sequential quarter from Q2 to Q3 in Europe it is coming also for the increase on the raw material prices that is the steel price increase that values the margin from one quarter to another.

Nimish Shah: Another question, the auto PLI scheme there had been an option in the auto ancillary, auto component part for sunroof systems as well, so are we planning to introduce that products in MCIE India? Any thoughts on that?

Vikas Sinha: Ander the question is about sunroof, are we introducing sunroof in India through our sister company?

Ander Arenaza Alvarez: The sunroof business is being developed also in India, we are planning to do that and we have to analyze if we will include the Mahindra CIE or not mainly because of some marketing reasons okay the sunroof is a pure OEM directed business and as we are part of our name is Mahindra CIE some of our customers can consider us as a competitor. That is why we need to analyze that. I mean we have not yet made a decision on that it is just some marketing issues or analysis that we need to develop and we will decide.

Nimish Shah: That is it. Thank you.

Moderator: Thank you. The next question is from the line of Nitin Darmawat from Auram Capital. Please go ahead. Mr. Darmawat your line is in talk mode kindly go ahead with your question please. As there is no response from the current participant, we move to the next question from the line of Nagendra from Growthx Capital. Please go ahead.

Nagendra: Thank you for the opportunity and good set of numbers. Sir I have two questions basically one is regarding EV market so you said in the opening remarks you have received EV order in India and from Europe business also so I just wanted to know what is the quantum of EV orders in India and one more thing is last in concall, you said one-fourth of your revenue comes from the crankshaft business right Sir so with the transition of EV in the next four five year or ten years so how do you see how much it will impact going forward?

Vikas Sinha: Nagendra Ji, first part quantum of business in India as I said you know it is similar to the range that we put it for Europe but you know we cannot get into too much details on that because of customer sensitivity, but it is a large size business in India. The second question is one-fourth dependence on engine related products and not necessarily crankshaft. Crankshaft is only one part of that so it is not entirely crankshaft. It is lower in India, a little higher in Europe but you know more or less in the range of 20% to 25%. Of course, as the transition to EVs happen obviously these revenues will be affected and that is the reason why we are you know like whatever we have been doing in the EV space is to make sure that you know EV is not just a risk for us. EV is an opportunity. So that is the reason why we are looking at it. So you know as EVs will come into the picture engine parts related to ICE engine vehicles will become lesser and lesser obviously, they will not become 100% in one year but they will become lesser and lesser but they will be replaced by other EV parts and you know we will continue to get business in those areas as we are saying. We are working very hard on EV related stuff as Ander pointed out lot of our new RFQs in the area in Europe is actually on EV vehicles that we are discussing so yes it would be affected but as I said it is a transition and we will be able to transition, we should be able to transition and we are very confident about it.

Nagendra: So I think last time you shared you were entering into aluminium forging so that would be a much more focussed going forward Sir?

Vikas Sinha: Yes Ander just pointed out a few minutes back that in Spain and Germany both you know we are looking at converting some of our products into aluminium forged products and that is what we are developing and as and when you know that that market becomes bigger obviously we will participate in that market.

Nagendra: One last question Sir is there any company facing issue with the price rise of coal and electricity issues? Does the company have any impact on this scenario?

Vikas Sinha: As far as India is concerned as of now, currently we are not facing too much of an issue but going forward if it becomes a bigger issue that might be there might be some impact but as of now we can report that we are okay with this. JP you have anything to add? You know is the coal shortage causing problems for our plants in India as of now?

K. Jayaprakash: As of now nothing.

Nagendra: Thanks.

Moderator: Thank you. The next question is from the line of Ankit Merchant from Quest Investment. Please go ahead.

Ankit Merchant: My question is related more towards the strategy perspective is that CIE's global derives close to 23% from the roofing systems and then from interior also it derives so I understand we would not be entering those business in Europe but in India can we enter those particular business lines in India going ahead?

Vikas Sinha: No. As far as group system is concerned Ander has just answered a few minutes back that yes CIE as a group is evaluating India for roof systems and a decision will be taken in some time so let us wait for that analysis to be over.

Ankit Merchant: Okay and even the plastic systems right, the plastic interiors which we do?

Vikas Sinha: No plastics is one area where we have talked about both especially inorganically we have talked about in the past that we would definitely would like to look at look at that area but then you know in inorganic strategy if we have to see if there is something that matches our strategy only then we will do so yes both the areas we are looking at but let us see what happens.

Ankit Merchant: My second question is related to the capex guidance so you have been guiding close to 450 Crores in this year how much have we spent in CY2021 and in CY2022 have you decided how much we would be spending

Ander Arenaza Alvarez: Okay in CY2021 we are about Rs.4 billion already. We have invested importantly in the last month especially within our new subsidiary CIE Hosur, with expansion of the gear business and also in Bill Forge in Mexico so overall approximately we are at Rs.4 billion already this year and we will end slightly above that that figure in 2021. For the next year in this moment would we expect the things to continue the same trend and we consider that our capex will be approximately 5% of our turnover 5.5% in that range.

Ankit Merchant: Just one last question related to the tax rate are we seeing any change for 2021 or 2022 or any change in the tax rate?

K. Jayaprakash: I will take that, we have been saying we will be around 25% that is where we will be at consolidated level.

Ankit Merchant: Thank you so much.

Moderator: Thank you. The next question is from the line of Nishant Vass from ICICI Securities. Please go ahead.

Nishant Vass: Thanks for the opportunity. First question I understand you are not due to conscious customer confidentiality not talking about EV size and names but can you tell us about how the EV order experience is in terms of both product development because I presume some of these parts are completely new for Metalcastello as well as the India Bill Forge entity so how has that has how that experience of product development cycle has been, what is the customer feedback like with your product, are you competing with existing vendors on new programs or you are on completely new programs for them so what is the structure like in terms of the experience of product development and what are the learning's from it and how can you populate it for other products? The second side is from a GVA standpoint how does how do the EV products stack up vis-à-vis let us say the engine parts that you were doing specifically so how does the GVA stack up today? Those are my first questions.

Vikas Sinha: Ander two specific questions with respect to EV parts especially the Metalcastello order that we are talking about how has been the experience of product development in the EV space, what has been the feedback from customers on the product development and who are we competing against you know what kind of competitors are we experiencing in that space and last question are the gross value adds so I assume margins are the margins in this area same as what we what we experience in our traditional products or are they different?

Ander Arenaza Alvarez: The margins of the EV products are similar to the rest of the products, there is no big difference on that. What the difference in the in the EV product is that the complexity and the requirements of these products are well above the internal combustion engine components, the accuracy of the products and the tolerances are much tighter than the current production that we have okay so in that sense the product is more expensive because has more operations gear grinding operations and also tighter tolerances and more requirements and regarding the how the experience how was the experience of the development I mean the experience was very positive and I think that the customer clearly chose in us because of our capabilities and the good technical skills that our team in Metalcastello had and the impression or the feeling that we have both sides is very, very positive and the development is being done properly with no issues and regarding the competition is our competitors we have as the world is big and the competitors are anywhere in the world, some of them Indian some of them Europeans, Americans and we compete with them and I think that sometimes we will be the chosen one, sometimes they will be so in this moment what I can say is that we are competing properly and we are also working and so in that sense I think everything is evolving and of course there will be also a consolidation it is necessarily a lot of people is now good and it is now pushing a lot on the EV components. I think that at the end there will be always the big companies with the best technology, with the best management style, with the procedures that will be the winners in the future and also the financial capacity to be able to invest the required amount of money for this kind of components because now the old machines and chip machines are not valid anymore because the accuracy is required by the electric vehicle is much higher okay so I think that we will be one of the winners in this career and I think that we will be there growing as we did in the ICE components.

Nishant Vass: Thanks Ander. Ander if I can ask from an incremental capital investment standpoint I presume that most of the existing capacity that you would have for whether it is gears in Europe as well as Bill Forge you can horizontally deploy that for these products I would presume you would need more machining capacity but the baseline capacities that you have are fungible for these products. Is that understanding correct?

Ander Arenaza Alvarez: Yes, yes many businesses are going to the machining and the finishing operations and let us say with the higher added value addition to the product.

Nishant Vass: My last question is on Bill Forge Mexico could you share an update as to where it is in terms of the timeline that you thought about and in terms of the progress if you can share some light on Bill Forge Mexico? Thanks.

Ander Arenaza Alvarez: In Bill Forge Mexico, we continue to our development as planned and we are receiving the additional machine, additional press by the end of the year. I mean during this quarter and it will be released from the supplier and will be assembled in the in the plant and the expectation is very good. The demand and the customers are pushing us a lot to increase our output from the plant, okay. So what we will see is that our Mexican plant will double the production next year. That is the size of the jump that we are going to live in next year and the expectation is good also so we are very busy because we are developing a lot of part numbers, I mean more than 15 different part numbers that we are now developing in this moment and with additional machinery that we are going to implement in next month so the evolution and the growth history continues in Mexico.

Nishant Vass: Thank you.

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

Nikhil Kale: Thanks. Just had one follow-up question on the Metalcastello cash flow EV orders when is that order expected to start the commercialization of that order, when does that happen and assuming that the volumes hold up in line with expectations by in what year will the order peak?

Vikas Sinha: Ander the question on the Metalcastello EV order is when does it start and when are the peak numbers achieved?

Ander Arenaza Alvarez: The program will start by the end of next year in calendar year 2022 and will start growing in a steady ramp during the I think it is three years something like that okay so we are checking exactly when the peak will happen but I think the peak will be something like 2025. I will confirm now okay. but the ramp starts slowly and as the electric vehicles are not yet they don't have the big share in USA yet so this growth will be a steady.

Nikhil Kale: Thank you.

Moderator: Thank you. The next question is from the line of Bharat Sheth from Quest Investment. Please go ahead.

Bharat Sheth: Thanks for second opportunity. Ander you said that we are working on product development for aluminium forging from Spain and Germany plants so what stage we are and how this technologically is different and do we expect the success of that product can really change the profile of German business?

Ander Arenaza Alvarez: We are now developing these products in our R&D center and with our different plants and from the technology point of view of course we are changing the steel to the aluminum that requires different process conditions. The concept of the presses are the same so we can use the existing process then first we need to add an additional heat treatment machinery and also machining and a crack detection, washing all the let us say auxiliary operations that we need to add okay so indeed in that sense all the development is being done we are working with a couple of customers very, very closely and developing the processes and the and all the concept of the production and we hope that we will be able to materialize and to get finally the orders soon; however, we continue working and what we want to do is we want to make a transition because we expect that in the next five years we will have a still massive consumption of our current products. You can imagine that the 2020 and 2021 has been a very, very weak year in terms of car production for next year only we expect the market to grow a little 11% or 10% minimum and for 2023 an additional 9%, 10% that means that we will see the market, world market at 90 million cars again full so it we think that there will be plenty of crankshafts and engines to be built in the next years so what we want on and our idea is to start entering into these aluminum forgings where we can ramp up these new product and balance our share of the internal combustion plus against the electric vehicle sector. That is the idea and in this moment what we expect is that we will make this transition smoothly in the next four or five years.

Bharat Sheth: Thank you very much. That is all.

Moderator: Thanks. The next question is from the line of Robert Jackson from Banco Santander. Please go ahead.

Robert Jackson: Good evening. Ander I have a question regarding you mentioned the raw materials, the higher raw material prices has been affecting you in the third quarter. I just wanted to know more or less the breakdown of your exposure to the spot market and to contract pricing because the steel prices have continued to rise over the last few months and are our rising or more stable now but looking ahead into if you have more annual contracts then next year is going to be much higher versus prices this year so it could give us an idea of why what the breakdown is?

Vikas Sinha: Robert, we could not catch the question. The question is in terms of you are bifurcating raw material prices into two effects what was those?

Robert Jackson: The question the question is your steel exposure, you buy steel on the on the spot market and you buy steel on annual contracts okay so I just wanted to know how much of that exposure is to spot which would have been affecting your third quarter or second floor and third water results because they are exposed to spots but if they are annual contracts they would not be affecting you this yet almost, it will affect you next year?

Ander Arenaza Alvarez: The answer is yes, almost 100% of our deal is under annual contracts. Every year, beginning of the year we close the contract for all the complete year and if there is any variation on the base price this is also a passed through the customer okay that is how we avoid being impacted negatively if something changes in the market so in that sense the base price steel base price is contracted annually from our purchasing teams so then there is the second concept of the steel price that is the sources is scrap sources and this is a valuable, this is fluctuating every month and we have a system to let us say apply this shortcut every three months to the customer so we calculate the average of the previous three months and we apply this in the following three months. So there is an integration system in place and that is why this can affect us a couple of months but in the average I mean during the year this is not affecting us that is the way. So coming back to the steel market situation in this moment what we expect is that for next year we will see additional increases that is what that market is saying us I mean the commodity prices are growing and we can expect in further increase for next year.

Robert Jackson: For the shorter term because of that indexing fixed system the pressure on the fourth quarter will continue because of that that because steel prices have continued to increase over the last few months so basically in terms of your margin for the next quarter will continue to be under pressure because of raw materials?

Ander Arenaza Alvarez: Yes, they the steel scrap surface pricing is high and we expected to that will continue high in this quarter yes. That is a good comment.

Robert Jackson: My second question is related to you mentioned that your current market share in not exactly did not say where but generally this growth in market share is because of competition, is not being able to be efficient enough and hence the market share will continue to increase longer term or is this more of a temporary gain in market share?

Ander Arenaza Alvarez: What we see is that clearly that we are gaining market share especially in all the Indian business mainly because I think some of our competitors and especially the smaller competitors some of them are struggling after the COVID and then with the shortage of the semiconductors and the low volumes they are struggling so in fact some of our for example something activities that we buy certain small components and we are integrating them at home because our suppliers are facing difficulties okay. So we think that this trend of gaining market share will continue in the future also we have a lot of pressure from the customers to increase the capacity that is why we are inducting importantly in India to be ready for this market share gain so I think that is the main reason of the customers concentrating on the most reliable partners to continue the growth because I think that they cannot afford stopping their lines or losing sales because of lack of supply after what happened with the semiconductors I think the strategy of our customers are now moving to the more reliable companies and I think all the big companies we have been benefited from this trend.

Robert Jackson: Just finally the export market is still not that relevant but it did help to compensate some of the weaker domestic markets but now or looking to the fourth quarter it is not going to be able to compensate at all the weaker domestic market so hence more weakness in the fourth quarter. Could that be a reasonable comment?

Ander Arenaza Alvarez: Yes the export market yes will be at the same level that Q3 I mean we expect to remain at the same 12%, 11%, 12%, 13%, that in that range.

Robert Jackson: Thank you very much for your answers.

Moderator: Thank you. The next question is from the line of Nitin Darmawat from Auram Capital. Please go ahead.

Nitin Darmawat: Thank you for the opportunity. I have couple of questions. You mentioned about the EVs wherein you mentioned that the products requires different kind of tolerances, more accuracy is required and they are expensive products so as the EV pie grows would we need additional capex for manufacturing these products or will be able to do it from our existing facilities only?

Ander Arenaza Alvarez: We will need additional capex especially for the finishing operations and we are already adding certain capacity so in the last year, we are also adding a capacity especially in the gear grinding and finishing operations where we can get these better characteristics on the product. so for sure we will need to continue adding capacity yes.

Vikas Sinha: Nitin just to make the point clear these are all incremental capex. It is not as if you know like as I said the overall as Ander mentioned the overall capex in YTD this year has been Rs.4 billion so it is not as if these are all incremental capex. It is like doing a higher tolerance part so for that you may require additional capex. So it does not mean you have to set up completely different lines or completely different plants in the same plant you will have to make those incremental capex.

Nitin Darmawat: Absolutely I understand. The second point with respect to EV only you mentioned that we have got some good traction now especially in US market and still they are you know size wise they are small so if I look at it from three years perspective or maybe five years perspective where do you see the revenue percentage going revenue contribution coming in from EV of the total pie for Mahindra CIE? You must be having some estimates and based on that you must be taking some extensions' so just wanted to understand your perspective on that?

Ander Arenaza Alvarez: What we think is that it will be different in Europe and in India what we think is that in India in four five years there will be the share of the electric vehicle will be very small yet so the share that we will have will be small also so we will be aligned with the market and if the market goes to 4% we expect to be at 4% in five years no more than that. In Europe we also expect to go aligned with the market and as in Europe with the sales will be faster than in India. What we see that our percentage in EV vehicles will continue will grow steadily to that percentage that we could expect. If we you ask me in four or five years we can be at 12%, 15% that should be the figure that we should have in the electric vehicle to be aligned with the with the market our strategy is to not to lose any internal conversion engine sales but also to be in line with the market so we can go and have a very healthy share between the both technologies and the electric one will continue growing and the other will start declining so but we do not see the decline yet I mean we will see the decline probably as we mentioned into the 2025-2026 not before that.

Vikas Sinha: Nitin just to clarify when we say EVs we mean battery electric vehicles. You know there are a whole host of other things like plug-in hybrids and hybrids which we consider as traditional business for us.

Nitin Darmawat: Thank you so much.

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

Vikas Sinha: Thanks and with that thank you very much for this late hour and I will over to Ander for his closing remarks.

Ander Arenaza Alvarez: I wanted to thank you to all the participants for the good questions and very clever questions that you made as usual. I hope I answered properly and you have the good impression of our company's strategy and results. I would say that this has been a very complex year or it has been a very complex year because of the COVID impact then the semiconductor shortage then the steel and the commodity price increases but despite this the company is performing well and we are in a very well mood to continue this trend, to continue growing and showing good results. As always I would like to thank to all my team to the great job they did in a difficult situation. So it is a big pleasure to lead such a good team and we hope that we will succeed all together. Thank you very much everybody.

Moderator: Thank you. Ladies and gentlemen on behalf of ICICI Securities that concludes this conference. Thank you all for joining us and you may now disconnect your lines.

Note: This statement has been edited to ensure quality