Mahindra CIE

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SEC/2022/23

25th February, 2022

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

Dear Sir / Madam,

Sub: Transcript of Mahindra CIE Automotive Limited Q4 CY 21 & 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 16th February, 2022 in respect of advance intimation for Q4 CY 21 & CY 21 Earnings Conference Call, please find enclosed herewith transcript of the said call held on 23rd February, 2022.

The same is 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

MAHINDRA CIE AUTOMOTIVE LTD. MUMBAI

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

“Mahindra CIE Automotive Limited
Q4 CY21 and CY21 Earnings Conference Call”

February 23, 2022

ANALYST:	**MR. BASUDEB BANERJEE – ICICI SECURITIES LIMITED**
MANAGEMENT:	**MR. ANDER ARENAZA ALVAREZ – ED & CEO - MAHINDRA CIE AUTOMOTIVE LIMITED** **MR. K. JAYAPRAKASH – CFO - 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 Mahindra CIE Q4 CY2021 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. Basudeb Banerjee from ICICI Securities. Thank you, and over to you, Mr. Banerjee!

Basudeb Banerjee: Thanks, Nirav. Good afternoon, all and thanks to management of Mahindra CIE for giving us the opportunity to host the call. We have with us Mr. Ander – ED & CEO of Mahindra CIE; Mr. Oroitz - Chief Business Controller of Mahindra CIE; Mr. K. Jayaprakash – Chief Financial Officer; along with strategy IR team led by Mr. Vikas Sinha, and Mr. Swapnil Soudagar. Over to you Vikas for the call! Thanks.

Vikas Sinha: Thanks, Basudeb and thanks to all for joining. Good afternoon and good morning to those who are joining in from other geographies. I welcome all of you on this call as well as Ander Arenaza, our CEO. I will present MCIE Results for the Q4 C2021 the quarter four for calendar year 2021 we follow a calendar year and full year C2021 results. I welcome all of you on this call as also Ander Arenaza, our CEO.

We experienced a great deal of business volatility in 2021. The first quarter was an excellent one, continuing the upturn from the latter half of 2020. India experienced a devastating second wave of the coronavirus pandemic in April & May, making Q2C21 a difficult quarter. The bad luck continued onto Q3C21 as the semiconductor shortage plaguing the automotive industry peaked, both in India and Europe. The fourth quarter continued to be affected by semiconductor chip shortage and was thrown into further chaos with the recurrence of the pandemic, especially in Europe. The year also saw a steep jump in input costs as steel, mineral, energy, and shipping prices, all experienced large increases.

We start with the page 5, where we have shown the updated legal structure. During this year CIE has marginally increased its stake in MCIE to 60.76% from 60.18%.

The Q4C21 results for MCIE India are on page 7. This quarter was affected by the sharp slowdown in the tractor and 2W segments which shrunk significantly both on year-on-year and sequential basis. This slowdown was largely attributable to loss of rural income as the delta wave hit the interiors hard and slowdown in govt spending on rural projects as the govt machinery focused on vaccinations. The tractor segment is also a victim of high base effect, having enjoyed a boom in the pandemic period that greatly helped when other segments were not doing well. Tractors & 2W are expected to be sluggish in the next two quarters. With the chip crisis easing, the light vehicle segment saw a marked improvement and this trend should continue. The truck segment continues to recover gradually from a low base. Sales though improved both on a year on year as well as sequential basis but that was largely due to RM inflation. In constant price terms, sales were lower by 5% compared to Q4C20 – much better than the underlying market. Input cost inflation reduced margins by 2% vs Q4C20. One time costs due to VRS at stampings division further reduced margins by 1.2% in this quarter but will lower costs in this division going forward. Due to these factors, EBITDA margin of 12% in Q4C21 is lower both year on year vs Q4C20 as well as sequentially vs Q3C21. Taking these two factors into account, we are actually holding on to the efficiency levels reached in the previous quarters even at slightly lower sales computed at constant RM prices.

On page 8, we have the results for MCIE Europe in Q4C21. This quarter was badly affected by drop in demand due to chip shortage as well as steep increases in input costs – steel, logistics & power. Sales dropped by 3% compared to Q4C20 but it translated into a 19% drop at constant RM prices. The twin effects of a sharp drop in demand and steep increase in costs is seen on the EBITDA margins which at 9.1% were lower on a year- on- year basis, sequential basis and compared to Q4C19. We are negotiating hard to share some of the non-RM cost increases with our customers while implementing efficiency measures in parallel.

On page 9 we see the consolidated MCIE Q4 C21 results which is a combination of the results in India and Europe. We have seen this as an unprecedented quarter which was affected by drop in demand and rise in input costs. Consolidated sales were INR 19.4bn- 4% higher than Q4C20, EBITDA INR 2.08bn –18% lowery-o-y, EBIT INR 1.253bn – 25% lower y-o-y, EBT INR 1.13bn – 30% lower y-o-y.

The Full Year C21 results for MCIE India are on page 11. Sales increased by 46% vs C20. Even factoring RM inflation, this was higher growth than the underlying market. The EBITDA margin of 14.1%, EBIT margin of 9.7% and EBT margin of 9.1% - all much higher than C20. This reflects strong sales and margin recovery after the covid impact of 2020. We would like to reiterate that these numbers include the one-time VRS at one of our divisions in Q4C20. The PAT% is further affected by a one time deferred tax liability on Billforge in a previous quarter.

On page 12 we have the Full year results of C21 for MCIE Europe. There has been an 28% growth in Sales vis-à-vis full year C20. EBITDA margin in C21 was 12.6%, EBIT margin 8.4% and EBT margin 7.6% - all much higher than C20. These margins are very close to the pre pandemic margins achieved in C19 even though sales are much lower – C21 sales in Europe were less by about INR 3bn compared to C19 without even taking into account the impact of RM inflation. Despite volatile sales, C21 shows a relevant improvement in operations due to restructuring actions taken in C20.

On page 13, we have the C21 consolidated results of MCIE which are a combination of a good first quarter, a subdued second quarter, a resurgent third quarter and a challenging fourth quarter. 2020 was severely affected by global lockdowns and it would be more appropriate to compare the performance with 2019. In C21 there was a 37% growth in Sales over C20 and 5% over C19. C21 sales of INR 79.5bn is our best ever annual sales performance though partly helped by RM inflation. Also, pls note that this is the first time that India has achieved higher sales compared to Europe. Despite demand volatility due to the semiconductor crisis and rising cost pressure on RM, energy, and logistics profitability is better compared to both C20 and C19. Compared to C19 we have improved our EBITDA margin to 13.4% as against 13.2% in C19. EBIT% was same at 9% and EBT% was slightly higher at 8.4% vis-à-vis 8.3% inC19. PAT % achieved was 4.9% but this was negatively affected by a one time deferred tax liability on Bill Forge goodwill. In absolute terms C21 consolidated EBITDA is INR 10.6bn, EBIT INR 7.2bn & EBT INR 6.65bn.

On Page 15 you will see our abridged consolidated Balance Sheet. The return ratios for C21 reflect a return to pre pandemic levels reflected in a RONA of 11% and operational ROE of 10%. Our strategy to focus on creating leaner operations and productive routines is helping us deliver better operating results despite severe business conditions, consistent with our aim of generating better Returns on both Equity and Capital Employed. Our overall net debt also decreased to end the year at INR 7.8 billion.

The cash flows are shown on page 16. Our cash generation has been strong where we generated an Operating CF of 67% of the EBITDA. The MCIE board has recommended the payment of dividends. MCIE will pay a dividend of Rs 2,5/share in line with the top limit of 25% of the net consolidated profit as stated in the dividend policy. This is our first dividend payout and it gives us immense pleasure to announce it. The actual payout is expected to happen in the month of May'22 after approval in the AGM scheduled in the last week of April

Slide 16 also shows that capex was INR 5.418bn in C21 on a consolidated basis which was slightly higher than what we have mentioned previously. It was largely because of the stronger than expected order book in India. New plants were launched in India in the forgings and aluminium verticals, the castings plant was upgraded and plans to increase capacity were put in place at the magnetics and gears verticals. The key highlights on slide 20 also mention these developments.

Traditional powertrains (petrol & diesel) accounted for approx. 60% of passenger car registrations in Europe in 2021, down from the roughly 75% share they enjoyed in 2020. This proportion is expected to reduce further. HEVs constituted roughly 20% and PHEVs & BEVs 9% each of the European market in 2021. The direction of change is heading in the direction of these non-traditional powertrains. In India, this change will be more gradual with the first segments to make the transition being 2&3 Wheelers and buses. During the year, there was frenetic activity in the electric 2Wheeler segment with many start-ups coming up and existing players also announcing future plans.

On Slide 21, we have an update on EV adoption. It is note worthy to mention that a significant chunk of orders that we have booked in CY21 were EV orders. We had announced earlier that Metalcastello, our Italian business had received a large sized order from a US based transmissions supplier to EV OEMs. We are capturing projects in the EV space in Europe as well as conducting trials and successfully developing the Aluminium forging capability. In India, the EV & Hybrid order book has swelled to over to much higher levels than what we spoke in our last call, Q4C21 seeing many order wins. In India we have gotten orders from leading 2W, 3W & 4W EV OEMs – traditional & new entrants. We have showcased on the slide just a few of our products in the EV space. We would like to highlight the diversity of parts shown.

Slide 22, talks in brief about our overall strategy which has remained unchanged from previous years. There is however a greater focus on digitization and automation to boost efficiencies. We also recognize that human resource management is becoming even more important in the post pandemic world. We are rededicating ourselves to make sure that we deliver the employee value proposition that we have articulated.

Slides 23,24 and 25 give updates on our revenue split, segmental dependence and MCIE's stock performance as compared to relevant Indexes and Market cap. The next few pages talk about the market statistics and forecasts from relevant sources followed by the results submitted to SEBI in the prescribed format.

The last two years have shown that we operate in a world which is unpredictable and MCIE has responded very well to these challenges. Our effort is to ensure that all our plants continue their journey to be world class. We are confident that we can utilise future opportunities and face future challenges with agility in order to meet the shareholders' expectation of sustainable growth and profitability.Thank you very much and with that we can now proceed to Q&A.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Jinesh Gandhi from Motilal Oswal Financial Services. Please go ahead.

Jinesh Gandhi: I have few questions, first for the India business can you just throw some color on the order book, which we have won what percentage of order is for fuel agnostic products and for EV?

Vikas Sinha: Order book, we have mentioned in our slide that more than 20% this year. Roughly it would actually be between 25% and 30% of the new orders generated in C2021 were for EVs and hybrids in India.

Jinesh Gandhi: Any sense on the size of the order book, in terms of annual run rate of revenues?

Vikas Sinha: Annual run rate, it will get operationalized at different stages, but overall, we have talked about the Metalcastello orders in our previous calls and in India, the order book would be roughly in the range of about Rs.6 billion in the EV and hybrid space, but this is the order book. How it pans out on a year-to-year basis, we have to see based on how the SOP happens.

Jinesh Gandhi: Right, so 6 billion in the hybrid and EV space is the peak annual potential of the revenue in India. Secondly, in the India business part, the new plant which we have started for bill forge and AEL; are they focused on particular customers, are there enough orders on hand for this plant to ramp up capacities in CY2022 or this will be a more gradual ramp up?

Vikas Sinha: We have the relevant orders for these plants.

Jinesh Gandhi: Okay and that EV orders, which we are referring to are primarily on the aluminium side is that correct.

Vikas Sinha: No, they are across the board. It is not just on aluminum. As I said, of course AEL being more two-wheeler focus, so there is a lot of focus on EV and hybrid orders there, so bill forge and in other areas we have talked about. If you see the photographs, you will see a gear set, you will see a composite body part for three-wheelers because we are very strong in the three-wheeler EV space, you will see some stamping parts also, so it is all across.

Jinesh Gandhi: The reason I am asking is because considering the Bill forge and AEL both being focused in two-wheeler demand being relatively weak, could this plant be a drag on India business profitability in the near-term though in overall scheme of things it is relatively smaller, but can this be a drag from near-term perspective.

Vikas Sinha: Yes. We have also talked about in our talk, two-wheelers will be on the weaker side in the next coming quarters, but one exports in two-wheelers continue to be good and AEL has lot of deemed export orders that is also important and our key OEM there is very export-oriented Bajaj is almost 50% export, so that is also helpful and yes, these order books are there. There might be some drag, it will be foolhardy to say that any demand changes will have no effect, but as I said these plants are backed up by the order book.

Jinesh Gandhi: Got it. Second question pertains to the European business. We have talked about the aluminium forging trial grant has been going on. What kind of products are we looking at in the aluminium forging and who are the targeted customers? Any flavor on what kind of capacity are we looking to put up and timeline on commercialization or aluminium forging?

Vikas Sinha: I will ask Ander to do that, but I think in one of the previous calls, he had talked about. Ander, we are talking about what kind of aluminum forging parts in Europe we are looking at.

Ander Arenaza Alvarez: Good afternoon, everybody, the kind of produce that we are looking for in aluminium forging in Europe are more related to the suspension and to the chassis component in the cars instead of the production of the steel forging product that we already have here in production like crankshaft and this kind of product that we produce in our plants in Europe. In the future, we are looking for suspension parts mainly knuckles, suspension arms and these kinds of products for the chassis and suspension area of the cars.

Jinesh Gandhi: Okay. What kind of customers are we targeting this for? Any sense you can throw on that?

Ander Arenaza Alvarez: We are working very closely and developing with some different customers, the different projects, and I can say we have already had the first firm order for one of the customers, so we already got a success on getting the new order from the customer, although this first order is a small order is not a big chunk, but is the first part that we will start producing in a couple of years. This process is going on and we are very excited that we will get the bigger orders and further more orders in the next future.

Jinesh Gandhi: Okay. What kind of capacity do you plan to put for aluminium forging?

Ander Arenaza Alvarez: We are planning to add additional presses and also use in some of our current machineries when we will have the free capacity in the near future, so we will use also existing capacity. We will combine new capacity plus the existing capacity.

Jinesh Gandhi: With respect to the European business, can you indicate what kind of impact we saw of high energy prices in our forging business in fourth quarter and any sense on any further impact coming in first quarter of CY2022?

Ander Arenaza Alvarez: Yes. This quarter, especially since summer period I mean from August, September the energy prices went up in Europe, especially in Spain, in Italy, in France. We have this hike of the energy prices coming back from the gas price increase that the electricity in Europe is generated in several ways, but the most important generation is the gas powered and so the gas price going up created this energy price increase, so we suffered that in the last quarter of the year. For the first quarter, we also have this impact but in this sense, we are already working and let us say all the suppliers, automotive suppliers, and producers in Europe are working and dealing with the customers to pass through this energy cost increases. With most of them, we are reaching an indexation agreement in order to pass through this specific and special a cost increase that is out of our control.

Jinesh Gandhi: Got it and with respect to the European order book, would you be able to indicate what kind of order book we have with respect to the annualized generate of revenues on that side and what EV part orders we have got there?

Ander Arenaza Alvarez: In Europe, we usually set an internal target of having a approximately 20% of our annual sales on our new order book, so this is the target we have. This year we already hit that figure, so let us say that our order book is really strong and especially in 2021, we were very successful on the electric component getting new products and the figure that we have approximately 75% of our new orders were devoted for new energy vehicles; hybrid or electric vehicles. This 74% which you can imagine that is highly affected by the big order that we got in Metalcastello and for an American transmission company for electric vehicles, but also in the forging side, we got CV joints for the electric cars and this kind of produce. I think the trend that we see in our new order portfolio is that more and more we are getting this electrification component in our portfolio, so the trend will continue. We expect to have a smooth transition for the current production to the new kind of vehicles that are coming in the future. Hopefully, probably this proves that the trend and the strategy that we are fulfilling in this moment is appropriate and let us say that the transition is becoming quite smooth, so we are quite satisfied in that sense.

Moderator: Sir, the line for the participant dropped. We move on to the next participant. The next question is from the line of Sunil Kothari from Unique Portfolio Management Service. Please go ahead.

Sunil Kothari: Thanks for opportunity Sir. My question is regarding Europe, just to understand in calendar year 2021, how much business we must have lost because of this faster transition to EV; any thought process on further your thought process for next year or maybe two years down the line because I think it is surprising at least for us also that we were not expecting this much transition to EV as a organization? What is the preparation and how strategy in terms of point of view strategy we are changing ourselves?

Vikas Sinha: Thanks Sunil. Ander just talked about what is happening on the EV side as far as MCIE Europe is concerned. He talked about that 20% of annual sales is the order book and it is pretty much strong. Out of the order book in C2021, almost 75% of new orders were in the EV and hybrid space, so to that extent we do expect a smooth transitioning to the new kind of vehicle. In terms of how much was lost due to EV's, EV transition in 2021, frankly we have not quantified that. The focus was more on how much was lost due to chip shortage rather than on EV, but as Ander stressed in the earlier part, I think there will be a smooth transition to EV parts as we talked about. He also in a question even prior to that he had talked about how we have got the first order in the aluminium forging space and aluminum forgings are mostly suspension and chassis components, so we will continue on this strategy. With this, as you rightly said yes, this transition has been accelerated post-pandemic. We have seen this take off and it has taken off much faster than what all of us had thought or anybody had thought earlier, so the transition is also being made in a similar fashion.

Sunil Kothari: Second question is, basically India is proving in terms of manufacturing Indian units and the way you are also investing in Indian manufacturing capability, it is proving to be beneficial as a group Mahindra CIE. Any thought process on a little speedier restructuring or maybe some tougher decision on German units or maybe reducing some plant and machinery and transferring to India? Any acceleration on those things because Europe is proving tougher divided in terms of passing on cost in terms of reducing cost or maybe a higher cost in terms of manpower. Any strategy change or thought process on moving from Europe to India in a faster manner?

Vikas Sinha: No. As we pointed out this is the first year when MCIE India has exceeded MCIE Europe in sales and this trend is going to continue, as you see the order book situation in India is strong. We are adding tremendous capacity in India also so this trend will continue. As far as Germany is concerned, we have said that we did some restructuring actions in 2020 we are reaping the benefits of that in 2021 plus we have been restructuring the product portfolio there and shedding of all the loss-making parts. These two decisions are tough in themselves and these are not easy decisions to take, both restructuring and shedding parts and dealing with customers who have been with us for long, they are extremely tough decisions, but for decisions even tougher than this, we will take a call. Right now, we think that whatever we are doing in Germany is working, but working slowly but definitely working and therefore we will continue on this. Any further rethink, we will let you know, but at this stage this is what we are doing. Ander, anything further to add?

Ander Arenaza Alvarez: Yes, I would say that you can see in Capex strategy and our growth strategy that we are focusing on our growing Capex in India rather than in Europe. Our strategy is to build the capacity in India to continue growing in that market rather than investing in Europe. Approximately 90% of our growing Capex last year was in India, so that is the clear strategy to continue developing the business in India, growing in India, and let us keep in Europe more stable. The proposal to move production from Europe to India, we already did this activity and we transferred part of the production from Germany to a CIE forgings in second plant. We also moved some production from Metalcastello to our gears division in Rajkot and Pune, and we are producing and exporting from India to Europe those products. We do not see value moving more parts because the realities that our capacities in India are also limited because we expect also Indian market to continue growing that is why we are adding a new capacity in India to continue and to cope with the growth of the demand that we expect in India in the next quarters. Let us say that we need to balance the capacities in both sides, we need to balance the P&L in both sides and that is what we are now trying to do and we hope to do it successfully in the next quarters. I hope that this growth trend that we all expect for a calendar year 2022 and the calendar year 2023 that after COVID and after the chip shortage that we are expect this demand to come. We will show important growth especially in India and that is the overall strategy.

Sunil Kothari: Great Sir thanks a lot, thanks for clarifying myself.

Moderator: Thank you very much. The next question is from the line of Shivam Prashar from Pandit Sales Agency. Please go ahead.

Shivam Prashar: Sir, I want to just ask that what is the disruption you are seeing in the commercial vehicle space on the overall basis. Can you throw some guidance on that?

Vikas Sinha: Disruption in the commercial vehicle market in the world is that the question.

Shivam Prashar: Yes.

Vikas Sinha: Disruption in the commercial vehicle space, in India commercial vehicles are coming back quite steadily of course the base had fallen too low in the last two years and I think commercial vehicle is now seeing steady growth going back of course, getting back to the peaks of C2018 will take some time, but calendar year 2018 or F2019 in India that will take time, and I think the commercial vehicle market in Europe has also been doing pretty decently in the last year. Of course, Germany was little worse than overall Europe, but nevertheless it was also doing well and I think even Germany will expect it to catch up in the second half of this year. Now in terms of disruption to what is happening in Europe as of now that we will have to wait and watch to see what exactly happens, but as of now the commercial vehicle markets in both India and Europe are okay. Ander anything to add.

Shivam Prashar: One more question like if there is a significant EV disruption in the commercial vehicle space, can you throw some highlight on what percentage of the parts in our portfolio will be impacted by that?

Vikas Sinha: Disruption in the commercial vehicle due to EVs right.

Shivam Prashar: Yes, and the percentage of our product portfolio that would be impacted due to that.

Vikas Sinha: Electric commercial vehicles, frankly, we are not seeing that transition happening in the electric commercial vehicle space. Yes, some experiments are happening you are aware of what Tesla is doing and there are some experiments also happening at Daimler, but nevertheless as of now they are still experimental in terms of how much dependence do we have on commercial vehicles it is there in the presentation in the later half slides #22, #23 around 23, 24, 25 if you look at in Europe, you will see the dependence in India. In India our dependence on commercial vehicles is much lesser; in Europe it is slightly higher, roughly 35% to 40%. In India roughly about 5%, but we supply all kinds of parts in Europe if you look at it. We do not supply too much of engine parts though in the commercial vehicle market in Europe. A lot of the parts that we supply from our German operations are parts like I-beams, spider joints those kind of stuffs that is more chassis and suspension parts rather than engine parts, but at this moment we do not foresee too much disruption in the CV market due to electric CVs, but these technology things can change any time so it is not hard and fast, but as of now we have not seen that disruption.

Shivam Prashar: Okay Sir thank you so much.

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

Nikhil Kale: Thank you for taking my question. Firstly, just wanted to understand you have provided the growth for the quarter on a constant RM basis for both India and Europe. Can you also highlight similar numbers for the full year CY2021?

Vikas Sinha: JP basically the question is what is the impact of RM on a full year basis.

Oroitz Lafuente: Sorry can you repeat please.

Nikhil Kale: Sorry I did not get the first part. Could we just repeat what was the number for India?

Oroitz Lafuente: India around 8%. Europe around 14%

Nikhil Kale: Okay, noted. I just wanted to understand, you mentioned in the presentation that you passed on the price increases and that has had an optical impact on our EBITDA margins because we cannot pass on the margin, but also wanted to check, has there also been some under recovery of the higher commodity prices and if you could just quantify the impact if that is the case.

Vikas Sinha: Under recovery of steel prices?.

Nikhil Kale: Yes, the entire hike for the whatever price increase that you have taken in Q4 that is the question.

Vikas Sinha: Ander the question is have we recovered all the steel price increases; I think we have.

Ander Arenaza Alvarez: That has settled in the same quarter. The cost increases in the auto areas that we can divide the cost increases that we have in the Q4 and in the future also, one is the steel specifically this raw material and this is 100% pass through the customers so we have indexation systems with all the customers, so the steel is 100% pass through to the customers and the other area of the cost increases let us say the energy plus inflation plus transport costs and so on we are dealing with them with the customers to also pass through this cost to them. In this case, it is a more complicated because there is no history of how to index all these costs, but we are working with them and let us say the market is working with all of them and some of the customers are already proposed certain new rules to pass through these special costs that are quite relevant in our P&L. Those are the two ideas steel and raw materials mainly aluminum and everything are 100% pass-through with the indexation systems and the rest of the cost we are dealing a one-to-one with the customers with special agreements to pass through this cost.

Nikhil Kale: My next question was on the volume outlook. What is the kind of volume outlook that you have for the key end use segments for both in India and Europe? Just wanted to understand what kind of growth are you budgeting in going forward for the next year considering that we are obviously this year was kind of a recovery year with a new base and now we also have several challenges from say the semi-conductor shortages and all those things.

Vikas Sinha: With the tractor market being steady in India, we are looking at low growth maybe single digit growth for two-wheelers. For trucks and cars, we are looking at higher growth rates. Trucks definitely on our very low base, we are looking at good growth rates as you can see and passenger vehicles depending upon how the chip shortage goes through closer to double digit. These are the forecasts and there is nothing that what I am telling you is not available in the public domain, I am just using the forecasts that we normally use CRISIL and IHS as our partners for looking at this, so these are the figures from there. In Europe as I said again for cars that would be a good recovery again given the low base rate and the trucks are doing well, so as I said except for two-wheelers and tractors in the near-term, we also expect tractors to come back hopefully with the good monsoon we have had the luxury of four successive monsoons, so the law of averages can go against it, but if that does not happen, we do expect tractors also to start doing better towards the later end of the year. Nevertheless, we are expecting a decent market situation in the near-term except for these two segments tractors and two-wheelers in India.

Nikhil Kale: Just one last question from my side, if I just look at the slide 24 in the presentation, the end use segments for Europe, you have called out non-auto and others in Europe contributing to around 15%, this was something which was not there last year, it might have been part of car so just wanted to clarify what are the products here and for the last year was this kind of included in it.

Vikas Sinha: No, last year it might have been in others, so Nikhil let us get back to you Swapnil and I will get back to you with the details around these parts.

Nikhil Kale: Sure, thank you.

Moderator: Thank you. The next question is from the line of Sandeep Baid, individual investor. Please go ahead.

Sandeep Baid: Hi! Good afternoon. I have a more basic question as we keep reading that electric vehicles have much lesser number of parts as compared to ice engine and therefore I wanted to understand will the opportunity in the EV space for auto ancillary companies like yours will be much smaller than what we have on the ICE side or you think that at least in value terms the opportunity will be similar or larger that was my first question.

Vikas Sinha: Sandeep that is a difficult question to answer because we really do not know the answer to that question as yet completely because the entire ecosystem of the EV vehicles has not yet developed. As far as hybrids are concerned, whether they are the normal hybrids or the plug-in hybrids, we have an advantage because both parts for both power trains are required even though the traditional power train in hybrids is much smaller, but still parts both are required. In pure battery electric vehicles that question, I think you are talking about is probably more applicable to the pure battery electric vehicles. Let us see how this complete supply chain develops then we will be able to answer the question. Specifically in some areas for example in magnetics that we know of we do think there will be some reduction in the overall market availability, but in the gear side even though the number of gears are coming down, the overall available market is probably a little higher because the gears used are much more precise, bigger, and so on and so forth. The answer to your question as of now, we will have to hold the answer for a while and we can come back, yes that may happen, but that is applicable only to pure battery electric vehicles.

Sandeep Baid: Yes, I was referring to pure battery vehicle.

Vikas Sinha: Even in Europe that is still 9%, I really cannot answer that question I think we will have to wait for some more months before we can actually get back with that specific answer. As I said two areas that we have examined magnetics and gears, we have got different answers.

Sandeep Baid: We know what are the parts in a battery electric vehicle, but what you are saying is that which part will be manufactured in-house by the OEM which parts will be outsourced, those things are not very clear and therefore it may be difficult to hazard a guest today. Is that what you are saying?

Vikas Sinha: Yes, of course one can tear down a vehicle and see what parts are there what will be made in house, what will be outsourced, what will be imported, what is the exact tolerance levels required for the parts? As I said in gears for example the number of gears is less, but the precision levels are higher, so those kinds of things can happen so then the value changes accordingly. The answer to your question is yes, one can do a tear down and see the parts, but let the ecosystem evolve and then we will have more correct answers to the questions that you are posing.

Sandeep Baid: Second, you are looking beyond electric vehicles as people have started talking of hydrogen-powered vehicles. Have we applied our mind in that direction and what is our initial feel in terms of impact of that on our business positive or negative?

Vikas Sinha: I will give you a straight answer. We have not looked at hydrogen vehicles as a real possibility, as of now. What we do understand is that the basic architecture of a battery electric vehicle and a hydrogen electric vehicle is the same so basically the battery pack which is lithium-based lithium nickel based in the BEV will be replaced by the hydrogen fuel cell battery pack, but the basic other architecture will remain the same, so to that extent from a parts manufacturer perspective, it may not represent that bigger change but as I said we have not really looked at it. All that I am telling you is a theoretical answer, which may mean nothing, but we have not examined the hydrogen question beyond this theoretical aspect.

Sandeep Baid: I guess one is preoccupied with the electric vehicle. Thanks for your answers, just maybe if Ander has a feel on the size of the opportunity for our current business on the battery-operated vehicle that may be helpful is closer to the market but or we can discuss it at a later date.

Vikas Sinha: Ander. Is the market size reducing due to electric vehicles?

Ander Arenaza Alvarez: I think the market will change completely, but it will take some years to change, so there will be a smooth transition of 10 to 15 years to change completely. Our view is that we have challenges, but we have also big opportunities in this transition. What we expected on one side is true that there are less components that is a reality, the combustion engine plus the transmission for the combustion engine there are a lot of much more components than in electric power train, the electric motor plus a very simple gearbox and but the amount and the quality and the other value of these components are much higher. We see big opportunities in the aluminium housings, both for the electric motor or for the battery box or for the power electronics of the electric cars, so we are working there and we already have new orders for an Indian car maker for this. You saw in the presentation certain photos of the housing of the electric motor. I see opportunities, big opportunities there, then also in the all that these transmissions the crowns and gears that we are already making plus all the chassis and suspension components that will not change in this transition. My expectation also and the other message that I would like to give is that with this transition there will be a consolidation of the supply base in the world and especially in Europe where the transition probably will go faster than any other region in the world, I do not expect big changes in India in the next 10 years because of the electrification will come but probably more in the two-wheeler than in the four-wheeler and it will be quite a slow transition. In Europe, it will be faster and but, in this transition, this faster transition what we expect is that there will be a consolidation and we are already seeing and perceiving this consolidation, small companies will disappear some of them will go bankrupt, so the consolidation will support to the big companies and profitable and efficient companies like us, so that is the expectation we have. We see this as a challenge plus as a big opportunity and the last figures that I mentioned before with the 74 of our new orders coming from the electrified vehicles, it shows that we are in the right path. That is our expectation and we are optimistic in this transition.

Sandeep Baid: Thanks for your detailed response. Thank you.

Moderator: Thank you. The next question is from the line of Vipul Agarwal from Motilal Oswal. Please go ahead.

Vipul Agarwal: Thanks for the opportunity. My question on the Capex. In CY2021, the Capex was higher at around 6.5% of the total sales. Do you expect CY2022 Capex to fall back to 5% of levels?

Ander Arenaza Alvarez: This will depend on the market and the new order revolution. Probably, we will reduce this Capex in this calendar year 2022 because this calendar year 2021 was leaded by big investments, the new plants in CIE Hosur that we have launched the new plant with all the investments related to these new products also we launched a new plant plus the purchase of the building and the land in Mexico, so that also increases the size of our Capex in this year. Additionally, we have the increase or the new plant that we launched in Aurangabad, so it is also a big investment there to continue growing and opening our aluminium activity to a bigger size induction machine that we already launched two big machines for the new products that we already got, so it was a very special year and as you can see that our growth strategy is there. This year probably, we will not be so aggressive in the Capex, but the 5% of ourselves this is the right figure that we will look for in the long-term so perhaps last year was a little bit higher, something like 6.5% to 6.6%, this year will be around 5% perhaps a little bit more depending on new produce that we can get. Yes, you are right. We should go a little bit lower in the Capex in 2022.

Vipul Agarwal: Thank you for that Sir. Second question is on the margins, what could be your sustainable margins over next two years for India and EU business?

Vikas Sinha: Sustainable margins, we will not make a forward-looking statement, but in India we were operating around 15% for the last two quarters. In Q3, we were over 15% and we were around that figure so that is something we would definitely like to reclaim and as far as Europe is concerned, the maximum that we have done in the recent past 13.5%, 14% so that is currently an internal benchmark that we have to reach very quickly. Over the more medium to long-term that if you look at the CIE website and the kind of targets that they have put for all of us, I think CIE expects an 18% EBITDA margin from its constituents for our parent company, so these are the immediate short-term and medium-term benchmarks that we could be looking at something that we have done max in the past both in India and Europe that is the short-term benchmark and the medium-term benchmark is obviously what CIE expects us to do, so these are the goal posts on which we are working.

Vipul Agarwal: Thank you for that Sir. My last question is on the PV demand in Europe side, I was just referring to an article where I was reading that PV sales growth is expected to be around 15% in European region, which would be on higher and that would be around say this kind of growth will come after almost a gap of say five to seven years. How do you see that going forward? Is it really going to happen in Europe or this is the base impact is there?

Vikas Sinha: No, that 15% is largely because of the base effect that you are talking about whatever figure, of course this year you are looking at a good figure because of the base effects. C2020, we had the pandemic. C2021, you had the chip crisis, which really impacted the European market. If I am not wrong, Swapnil, correct me, but the C2021 European passenger vehicle market figure is actually lower than C2020, so that is a roughly about the same. Actually if 4.4% lower if you look at in our presentation less than 6 ton the light vehicle market in Europe in C2021 was actually 4% lower than C2020, which itself was a pandemic affected year. You are seeing a correction because the chip shortage is getting less severe. You will have the growth numbers this year, but we know that long-term growth in the European car market is directly correlated to the GDP figure in Europe Whatever GDP figure Europe achieves that is the kind of growth numbers we have seen in the past so as and when this whole thing settles down you will see the European car market mirroring the European GDP growth figure.

Vipul Agarwal: Thank you Sir, that is all from my side.

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

Bharat Sheth: Hi! Good afternoon, Ander and Vikas. Thanks for the opportunity. Ander, to understand this our growth perspective in little better sense. Despite underlying market did not grew much in Q4 as well as overall calendar year 2021, but we have grown on constant raw material price also much better than them, so that is earlier what you were saying that we capturing a higher market share. In that scenario now when we are looking CY2022 and CY2023 underlying industry is expected to grow much higher, so do we expect our growth rate better than that.

Ander Arenaza Alvarez: I would say yes, our expectation is that the market will grow this calendar year 2022. Importantly, because we still see who inventory based in the dealers, we also see a certain constraints in the chip sourcing in our customers so we expect all this to create or generate additional demand in the near future, so we expect a development during the calendar year starting for probably a low Q1 improving in every quarter and ending with the very strong second half of the year that is my expectation that is what all our customers are safe. We expect to have this good market evolution and on top of that also we expect to continue growing above the market space. We have good expectations on the near future and we think that both regions India and Europe will perform above the market that is our expectation of this.

Bharat Sheth: Sir. With respect to that, you said that Q1 will be lower/softer so it will be softer than the Q4 or it will be softer than the last year calendar 2021.

Ander Arenaza Alvarez: The Q1 what I wanted to say is that the Q1 will still will be better and better than the Q4 that is what we all expect and that is what we all see and there is a certain recovery, but the recovery is lower because we still see certain chip shortage impact in certain customers, so the chip shortage has not been yet solved. They were saying that for the Q1, Q2 they will solve the shortage probably will take a little bit longer, but overall what we will see is a trend a positive trend, so we will see the growth happening and improving a quarter by quarter that is my understanding of the market revolution.

Bharat Sheth: With passing all of this steel and aluminium price and the way we are in negotiation for energy and logistic cost and some kind of operational benefit also available because of operating at higher capacity in full year 2022, so how much that operating leverage will help us in improving the margin from Q4 levels?

Ander Arenaza Alvarez: Yes, you are right and that is exactly what we are expecting, so we have first the expected growth that will support us in our margin is proven. This is stress improvement also we continue with our internal efficiency improvement activities so we are working hard and with every quarter we see improvement in our operations. With these two margin improvement actions, we think that we will be able to improve our margins back to our previous margins as Vikas said or even improve them really in the long-term so that is our expectation on the margin.

Bharat Sheth: Last question; since the kind of order book that we have built up for EV, when that will start reflecting in our revenue, from which quarter, without quoting the amount of the revenue in India as well as in Europe?

Ander Arenaza Alvarez: We will see these products, the electric vehicle’s introduction in the market is that it is very, very smooth and it is not like external cars or internal combustion engines, so what we expected is if there will be a transition, we will start having these electric vehicle sales in our portfolio. I would say starting in calendar year 2023 and then if they will be growing according to the market growth. All the businesses that we have got last year, we have a couple of years of development and then we will see how they evolve in the market.

Bharat Sheth: Do we also expect some kind of gross margin improvement from Q-o-Q from Q4 to Q1 level and then again coming back to our normal gross margin?

Ander Arenaza Alvarez: Yes. We expect to improve our margins from Q4 to Q1 of 2022, so last quarter calendar year 2021 was not good in terms of margins as there was a reduction in the margin. Of course, we are working hard to recuperate at least the previous market that we have. Yes, we can expect certain recovery and that is what we expect as we said before and also we have our internal targets to improve those markets of course.

Bharat Sheth: Last question for JP, what will be our tax rate for 2022 effective tax rate in India and Europe.

K. Jayaprakash: We would stay at about 24% for company as a whole.

Bharat Sheth: Thanks, and all the best.

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

Nikhil Kale: Yes, thanks for taking my question again. Just wanted to delve a bit deeper into some of the different divisions and the performance. Maybe if you could just talk about the MFE performance and what was the revenue and margin performance that you have done and that would be helpful?

Vikas Sinha: Obviously, we look at more our unit of analysis is more India and Europe, so generically we can say that we have done a lot of restructuring activities in 2020 as you are aware and there has been an improvement as far as Germany operations is concerned because of those restructuring activities. Of course, then there was also the negative impact of power and logistics cost towards the end of the year which is also there. Chip shortage, there was some effect on the truck market but not as much as the car market, so what we can tell you is that our position in C2021 in Germany has definitely improved vis-à-vis C2020 or even vis-à-vis C2019 if you compare on a pre-pandemic and pandemic level, but as I said normally if we look at India and Europe as the unit of analysis.

Nikhil Kale: Typically, we anyways publish the subsidy annual report so if you could just help me with the top line number for MFE in Europe as well that is fine.

K. Jayaprakash: The top line number in Germany, the margins are about 6% EBITDA margin.

Nikhil Kale: Sir, I can take it offline if it is not really available that is fine.

Vipul Agarwal: No he has mentioned the margin number which is more relevant so that number you have you can clearly see an improvement. We will come back to you with this also, there are two questions that you have asked us one is the non-auto parts in Europe as well as this sales number. We will come back to you on that.

Nikhil Kale: Sure, thank you.

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

Nemish Shah: Thanks for the opportunity. I just had one question. The new orders that we have signed for the EV and the hybrid vehicles both in India and Europe, just wanted to understand the margin profile. Will that be better than the current products that we have for the traditional engines?

Vikas Sinha: No, you should assume it to be the same. Whenever we take a new order, we follow similar rules and there is no difference in rules between taking orders for a traditional engine or an EV engine, so the same profitability rules, same return on investment tools apply for both kinds of orders. Internally we do not distinguish that.

K. Jayaprakash: Vikas I dropped out and I am back. if I do not know if that question was answered 180 million is the top line for MFE.

Vikas Sinha: Okay so one question is answered Nikhil that is €180 million. Mr. Shah is your question answered or we were talking about similar whether the margins are similar so from an internal standpoint we treat both RFQs same.

Nemish Shah: Sure yes, that is it from me. Got it, thank you.

Moderator: Thank you very much. As there are no further questions, I now hand the conference over to Mr. Basudeb Banerjee for closing comments.

Basudeb Banerjee: Thanks, Nirav, thanks to Mahindra CIE Management for giving us the opportunity and there are no more questions we would like to end the call. Thanks for participating.

Ander Arenaza Alvarez: I guess, I wanted to thank you to all participants for their well-directed and clever questions and I hope you got the proper answer from us after two complicated years in calendar year 2020 with the COVID and calendar year 2021 with the chip shortage, we have demonstrated our capacity to manage the company in a difficult environment maintaining our cash generation and preparing the company for the future, we expected the market recovery ahead of us especially during the second half of the calendar year 2022 and during calendar year 2023, we will continue growing and improving our internal efficiency and consolidating our company as one of the most reliable companies in the market. As always, I want to thank you to all Mahindra CIE team for their fantastic work in this difficult year and the commitment with our company. Thank you very much everybody.

Vikas Sinha: Thanks Ander thanks all for participating. Please have a good day thank you very much.

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

Note: This statement has been edited to ensure quality