

# BHARAT FORGE

July 2, 2020

To,

**BSE Limited,**  
1st Floor, New Trading Ring,  
Rotunda Building, P.J. Towers,  
Dalal Street, Fort,  
Mumbai - 400 001  
**BSE SCRIP CODE – 500493**

**National Stock Exchange of India Ltd.,**  
'Exchange Plaza',  
Bandra-Kurla Complex, Bandra (East)  
Mumbai- 400 051  
Symbol: **BHARATFORG**  
Series: **EQ**

Dear Sir,

**Sub: Transcript of Earnings Conference Call**

We are enclosing herewith transcript of conference call with analysts, which took place on June 29, 2020, after announcement of Audited Financial Results for quarter and year ended March 31, 2020.

The said transcript will also be uploaded on website of the Company.

Please take note of the same.

Thanking you,

Yours faithfully,  
**For Bharat Forge Limited**



**Tejaswini Chaudhari**  
Company Secretary

Encl: As Above



**KALYANI**  
GROUP COMPANY

**BHARAT FORGE**



**“Bharat Forge Limited Q4 FY20 Earnings Conference Call”**

**June 29, 2020**

**MANAGEMENT: MR. AMIT B. KALYANI – DEPUTY MANAGING DIRECTOR,  
BHARAT FORGE LIMITED**

**Moderator:** Ladies and gentlemen, good day and welcome to the Bharat Forge Q4 FY20 earnings conference call.

As a reminder, all participants' 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 touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Amit Kalyani. Thank you and over to you, sir.

**Amit B Kalyani:** Good afternoon ladies and gentlemen and welcome to our FY20 year-end con-call. I hope everybody is well. These are very challenging times that we are facing, but I think challenging times bring out the best in Bharat Forge, and I am very happy to report that our plants in India are now operational and functioning. They are not functioning at 100% capacity because we are meeting the demand that is required but all our facilities are running efficiently, and we have no illnesses or incidents of any kind so far. We are taking all precautions including digital mapping of temperature of all the employees on an ongoing basis so that we prevent any kind of COVID related issues.

Last year started with high hopes for everyone. It was a year at the end of which the commercial vehicle sector would have transitioned to BS-VI. So, there was an expectation from all the CV manufacturers that there would be a pre-buy effect because of the BS-VI emission norms and the cost associated with that and everybody started building up capacity and ramping up production in anticipation of this and therefore we had a very strong Q1 but then things started declining from Q2 onwards.

As a company, we were on track that Q4 performance would have been on par with Q3; however, in the last 13-odd days, we were unable to ship out about 200 crores' worth of goods, both export and domestic, and that has impacted our earnings by about 90 crores for the quarter. However, looking at the bigger picture, there are some trends that are clearly emerging. I think if you look at Bharat Forge as a company, we have gained momentum and market share in various critical sectors both in India and abroad, especially for the BS-VI products, especially for the passenger car sector both in India and abroad. Including the new areas of drivetrain and powertrain that we are targeting. We are making good progress. Machined crankshafts for passenger cars, we are making good progress. In fact, we have won new orders during the lockdown as well.

Many of you had commented on the slow pace of progress which was aerospace, and we have put a lot of focus on it. Aerospace sector is one which has been damaged the most due to the Coronavirus crisis. As you are aware, flights in most countries are still suspended, especially international flights, and therefore, the usage of aircraft and the buying of new aircrafts and production of new aircrafts are also severely impacted. So, ordinarily this would impact our business and impact our overall sales in the aerospace business which we were projecting to grow, but in the last 6 odd months, we have been engaged with 2 or 3 new customers in the aerospace supply chain. I am very happy to report that during the lockdown period, we have won

a significant amount of business, due to which in spite of the downturn in the aerospace market, we will have a sequential YOY growth. And we are well on track to achieve a 40-50 million number of revenue in the next 2 to 3 years. If we are lucky and the market rebounds, this could even be higher.

One of the other sectors where we have had a very severe impact is oil & gas. That's one of the largest parts of our industrial business which is down substantially and that is because it is directly related to the oil & gas prices globally and therefore the production in North America. However, in oil & gas, also we have acquired 3 new customers for new products and hopefully in the next 2 years, we will also start seeing growth in this sector. Business is not going to go to zero here but it is severely going to be impacted. On the flip side, with the whole infrastructure push in the US and the big \$3 billion stimulus plus the \$1.5 billion infrastructure stimulus that is planned, we expect that our big infra customers in the US such as Caterpillar and Cummins will see a lot of progress and we will see a lot of new demand.

In India as well, the mining sector, the agri sector, the defense sector are the three sectors where we see and hope for good demand. The agri sector is already buoyant. The mining sector now being opened up to private industries should start throwing up demand. And the defense sector where we have many products which are ready, tested, and approved, as soon as I guess the lockdown is over and other distractions for the government are handled, then we should hope to see some new order revenues coming in. In spite of all the headwinds, as a company, we expect that this year will be a challenge year, but it will be a year where we will have profit, we will have reasonable numbers overall. We are predicting that sales will be down overall over last year. How much we don't know because every country has had a different kind of recovery. China has had a v-shaped recovery. Other countries have had a swoosh-shaped recovery. Some countries have had a flat, no recovery yet. So, it remains to be seen.

However, the fundamentals of our company are very strong. We have strengthened a lot of things by learning new skill during the lockdown such as working digitally, becoming more efficient. In fact, I am happy to say that within 1 week of starting, we were able to run most of our equipment that we did start running at full utilization. So, we didn't have any lag impact. We had no issues with migrant labor or any of the kind and we are ready to supply to all our customers based on their demand. Also, we are hopeful that we will get additional share of revenue because many of our customers are looking at sourcing more locally. Also, there are US customers that are looking at sourcing from new sources away from some existing sources where they want to de-risk from. So, overall, we see that there is a silver lining going forward in the realignment of global supply chains.

One of the measures that I want to highlight is that during the lockdown, the company has accelerated the cost reduction measures that we had started last year. By September of last year, it was clear that the second half of the year was going to be difficult and we had taken effect and measures to reduce cost – both in fixed cost and variable cost, in every area. And to that, we have added another 25% to 30% of additional cost reduction during the lockdown, and once both these measures are fully implemented by quarter 4, it will help our margins get back to the

previous levels even if the sales values don't get back to previous levels. So, we will see a margin accretion once sales values go back to previous levels.

Bharat Forge has always enjoyed a strong operating leverage. We expect that will get enhanced due to these factors and we expect especially in Europe some of our supply chain equivalents, people who are present in this part of the supply chain may not actually make it through the entire Corona crisis and there will be a flight to safety in sense of suppliers. So, customers will look at stronger and more steady suppliers rather than looking at only the most conventional option.

Overall, the company will concentrate on being nimble. We will address the dynamic demands of our customers, work more closely with them. In fact, we have a whole new digital exercise on working digitally in a collaborative mode with our customers. We will focus on cash flow generation, cash flow preservation. We have no plans of any CAPEX. We will win new business through the customer-facing approach and the cost optimization that we have undertaken and we will continue to build upon whatever we have achieved in the last few years.

Coming to the subsidiaries, the subsidiaries have been badly affected by the sudden shutdown, but both Germany and Sweden have short-time work provisions where the government pays 80% of the salary of the person when they are on short-time work. So, that has negated some of the negative impact of the fixed cost on the operations and we have a complete restructuring going on manpower and overall cost reduction where we will have a very substantial double-digit cost reduction over the next 2 years which will help this company operate in a profitable manner even at 20% to 30% lower capacity utilization. We have set very tough targets for our overseas subsidiaries and this time we have not just set targets, but we have put in place a team of external plus internal experts who will make this happen in a time bound manner with quarterly measurements.

One of the items you may have noticed is that we have taken an impairment charge of about 89 crores in the investment in Tevva Motors. Tevva Motors is a company that we invested in, in the UK, which has developed electric range extender hybrid trucks. These are ICV sized trucks which are in the 9- to 14-tonne category and these can be applied to trucks and buses. The main reason we invested in this company is that we wanted to have the advantage of this knowledge and technology and a license of the technology to be able to produce and supply these components to our customers in India. We do not intend to become a vehicle manufacturer. However, we do want to be a supplier into the electric vehicle supply chain. That was the reason to invest in Tevva Motors. We are a significant minority shareholder with a 35% stake. There are other shareholders, and Tevva was in advanced stages of 2 major events. One was they had received a technology grant from the UK government and they were at advanced stages of a large investment by a US company which wanted to commercialize their technology. However, because of the COVID scenario, that has not fructified and there is lack of clarity at BFL over the UK government funding as well. It is clear that the UK government will provide the funding but there is a precondition for existing shareholders to also come up with a matching contribution. And therefore, to be prudent, we are taking a charge on our investment in this

company. However, we still have access to the technology, and we are bringing the technology to India. We have a team of about 30 people across power electronics, control electronics, battery technology, embedded systems, who will localize the technology and be able to offer it to our customers, two of whom we're already in active discussions.

So, we will offer not only the whole solution, but even individual components as and when needed by individual customers. So, while we are taking an impairment charge on the investment we have made, looking back, I think we have saved about 3 to 4 years of time and lots of learning that has been accelerated by leveraging the Tevva investment, and we will bring the technology into India and use that to support our local customers.

Although the current scenario is very difficult, and it's really hard to give you a prediction on what is going to happen, I'm very confident of one thing that Bharat Forge will be amongst the best in its category in India, and we will definitely emerge stronger, and we hope that as the dust settles and the Corona crisis is, let's say, more subdued and God willing if we get a vaccine or something and then things could have a very quick bounce back, but notwithstanding any of that, we will not have red figures for the year. And we will build a foundation for a stronger tomorrow. And as a company, we have a big moat, and we will use this year to deepen that moat and make it even stronger and bigger for the future.

One of the areas that I didn't cover is in Atmanirbhar Bharat as we talk about it, we expect that 2 areas or 3 areas will have big opportunity in India. One is the mining sector, the other is agricultural sector, and the third is the defense sector.

In the mining sector, we have developed a lot of products over the last few years. So, we are in the growth phase there. In the agri sector, we have a lot of products. In fact, we have developed a lot of products in the last 2 years, which are on the automation side of agri, which means harvesters, pickers, and those kind of things.

On the defense side, we already have 3 or 4 major products that are ready, tested, and ready for full-scale production and supply. Any one of these that gets a kicker will provide a big boost to Bharat Forge's numbers. We don't need any investment for this. We already have capacities. We already have the manpower. All we have to do is produce and ship.

That's really all I wanted to say. I and our team would be happy to take your questions.

**Moderator:** Ladies and gentlemen, we will now begin the question & answer session. The first question is from the line of Kapil Singh from Nomura Securities. Please go ahead.

**Kapil R Singh:** Firstly, I wanted to get a sense of where are we in each of the segments in terms of current production levels?

**Amit B Kalyani:** Q1, we had almost no production for 2 months. We will only have production for 1 month this quarter. But we will have pretty robust production for 1 month. I think we will be at between 60% to 70% capacity utilization of 1 month.

**Kapil R Singh:** Any thoughts at where are we operating as for each of the segments, for example, domestic CV, export CV?

**Amit B Kalyani:** As per our knowledge, the first quarter CV production in India, i.e., medium and heavy commercial vehicle, it is somewhere in the region of 6000 to 7000 trucks as far as our understanding goes. If you consider that the installed capacity is 600,000 roughly, i.e., 50,000 a month or 150,000 a quarter, we are talking about 6000 to 7000 which is like 5% or 6%. So, you can't even talk about capacity utilization. It's a nightmare.

**Kapil R Singh:** And overseas business?

**Amit B Kalyani:** Overseas is substantially better. I would say, US market is running at about 50% and Europe would be at maybe about 40%. But please understand that this is still the Corona-impacted period. The passenger car sector in US is operating at, I would say, about 70% and Europe would be at about 50% to 55%. India passenger car sector, I would say, is probably at about 25%. Only maybe SUV sector is operating slightly higher than that.

**Kapil R Singh:** Any outlook you have to share or it's too early to say right now?

**Amit B Kalyani:** I spoke to 2 customers on Friday and nobody knows. Except for the tractor customers, nobody has a clue what's happening. You open the newspaper today, Maharashtra will extend the lockdown. When you read such things, the common man also gets even more perplexed. Now in Tamil Nadu also, they had opened up the manufacturing. Again after 10 days, they shut it down. This creates a lot of uncertainty, a lot of costs. So, now people are taking a wait-and-watch approach saying that what is the point of starting if I have to close it again in 10 days. So, everybody is being cautious.

We have 2 black swan events taking place right now. You have two of them hitting India at one time: one which is impacting the whole world, one which is impacting us to our northeast.

**Kapil R Singh:** Sir, the second question is on cost reduction. Any numbers to share?

**Amit B Kalyani:** No. I'm not going to share any numbers, but it will be very substantial, and it will have a substantive long-term impact on our cost structure. It's structural changes, not just cost reduction.

**Kapil R Singh:** Sir, how much is our monthly fixed cost currently?

**Amit B Kalyani:** 60 crores.

**Moderator:** The next question is from the line of Ronak Sarda from Systematix. Please go ahead.

**Ronak Sarda:** Sir, first question on the Tevva Motors. You highlighted the reasons for write-off, but is there some capital requirement for Tevva itself and we'll have to invest in it?

**Amit B Kalyani:** No, we are not investing anything in this company right now.

**Ronak Sarda:** So, when you meant a large US investor was supposed, our stake would have got diluted?

**Amit B Kalyani:** Yes. Absolutely.

**Ronak Sarda:** But we are fairly confident on the utilization of their technology in India, which we have discussed?

**Amit B Kalyani:** Yes.

**Ronak Sarda:** That plan doesn't change?

**Amit B Kalyani:** No. It doesn't change. It might get a little delayed because of the whole overall situation right now, but that's all. We don't lose any.

**Ronak Sarda:** Secondly, I wanted to understand on the supply side. You highlighted the fixed cost impact, but on the raw material side, how's the situation right now? Are we seeing any benefits or the production is too small to see any benefit on that side?

**Amit B Kalyani:** You're absolutely right. Right now, the production is so low, but obviously, if there is less demand than supply availability, then companies which are able to pay and which have the ability to buy will have an advantage.

**Ronak Sarda:** At the same time, how are we looking at the INR benefit, the rupee depreciation? It's almost a 10% to 12% benefit there.

**Amit B Kalyani:** We will get some benefit on the rupee because we have a 1-year rolling hedging strategy. So, only on the open portion, we will get a benefit. Nobody had anticipated such a big drop in revenue either. We have to take that into account because if you see where we were at, we were at roughly \$520 million of exports. From that, if you substantially go down, then there will be an impact. But realization will be, I would say, similar to last year.

**Ronak Sarda:** And the final question is on the Nellore facility. Will the Q1 and the Q2 numbers include the Nellore facility?

**Amit B Kalyani:** No. There will be no revenue in Q1 and Q2. Because of the lockdown, it was shut. We have just started last week, and we have submitted samples to our customers for final validation and that revenues will only start from Q3 and Q4.

**Ronak Sarda:** So, all the H1 numbers will be capitalized in that sense.

**Amit B Kalyani:** We are not capitalizing any numbers. All our variable cost, manpower cost are all being charged off.

**Ronak Sarda:** It's already part of the P&L right now?



**Amit B Kalyani:** Yes, we don't capitalize any costs.

**Moderator:** The next question is from the line of Aryn Pirani from CLSA. Please go ahead.

**Aryn Pirani:** My first question was on the balance sheet. Even this year despite a weak revenue year, you managed to keep your debt under control. As we look into next year, operating cash flows will again be under some pressure, but how are you looking at working capital and CAPEX from the point of view of free cash flow generation and debt?

**Amit B Kalyani:** First of all, low CAPEX. Second, on working capital, we expect that our receivables should be higher than our payables because we have a larger amount of exports from the past that are getting paid off now. So, we will have a strong cash flow which will help increase our cash balance by the end of the year.

**Aryn Pirani:** So, there are no concerns on hitting any debt covenants this year, right? I don't think that should be a problem.

**Amit B Kalyani:** Absolutely none.

**Aryn Pirani:** In the oil & gas business, obviously, this year, revenues have almost halved, and you have given a 2- to 3-year timeline of growth, but apart from the oil price, what is it that would drive the coming back of the business?

**Amit B Kalyani:** That's a good question because it is not just driven by oil price. This is an industry that now has been declared as a critical industry by the US government because it helps insulate them from geopolitical issues. If you look at 20 years ago, the Middle East had a big impact. Anything that happened in the Middle East had a big impact on the US economy because they were solely dependent on other countries for oil. Now the US is a net exporter of oil. So the cost of supporting that is something that I think the US government has decided to live with.

Secondly, this is a very different kind of oil & gas industry compared to these big offshore oil wells and oil rigs that you are probably picturing in your mind. There is literally a concept called wildcatters, which means somebody buys a piece of land in Odessa, Texas, puts in \$0.5 million, gets a \$5 million loan, and drills up a pad, and if they're lucky, they can make \$3 to \$4 million a year of cash flow out of that. It's a very entrepreneurial business. There are hundreds of people who are involved in this. There are probably a few dozen oilfield services companies. And these are people who are able to be very flexible and very nimble because they are like that. They are not these big behemoth companies. And you're not drilling somewhere in the middle of the ocean and have to fly people out in helicopters and back. It's not that kind of environment. It's a very frugal kind of environment. I would urge you to do a Google search of shale fracking site in Permian Basin or in Midland Texas area, it will give you a good sense of what I mean. 3 years ago or 4 years ago, the common knowledge was that fracking is only competitive at \$70 of oil and above. Then they brought it down to 55, then they brought it down to 35. I'm confident that,

that is a very innovative approach that they have taken to this. They could even bring it down to 20 bucks and at 20 bucks, I think they will be able to compete with anyone.

- Moderator:** The next question is from the line of Pramod Amthe from CGS-CIMB. Please go ahead.
- Pramod Amthe:** Amit, first is with regard to the investments. Have you done – other than Tevva – other investment test cases?
- Amit B Kalyani:** Yes, absolutely.
- Pramod Amthe:** You also have a 2-wheeler EV business investments and others. Is there a risk there also? You may have to put in more money.
- Amit B Kalyani:** No, we have a good line of sight to revenue there. And in the Tork Motors business, we are going to, again, supply drivelines to 3-wheeler companies. That is going to be our first line of business. We are not going to make vehicles; we are only going to supply the driveline.
- Pramod Amthe:** Considering that your outlook is decently optimistic on the passenger vehicle business and the wins there, how do you see some of the incentives given in the global market? And would you be beneficial in any of the markets there with your suppliers?
- Amit B Kalyani:** One of the reasons we are growing our passenger car engagement substantially is because we have developed a fairly unique range of products, both on the chassis components and structural components in aluminum in India. We also make aluminum forgings in India, which we supply to both Indian and non-Indian customers. We make structural components in aluminum in India, which we export outside, and we make both driveline and powertrain components which we are now exporting. A combination of these factors is what is giving us a pretty good growth opportunity in the global passenger car market. And a lot of the products that we are making, in fact, everything, except the engine components, go into both hybrid and electric vehicles. So, the range of applicability is also fairly large.
- Moderator:** The next question is from the line of Sahil Kedia from Bank of America. Please go ahead.
- Sahil Kedia:** I had 2 questions. One, you mentioned that you guys are looking at gaining market share. This, obviously, is credit to your balance sheet and the profile that you've built over the years. What are the areas that you could be looking to gain to see that market share? And how should we think about this in your core segments?
- Amit B Kalyani:** Every sector. Whether it is rail; whether it is truck; whether it is passenger car; whether it is agricultural equipment, which is tractors; whether it is defense. And in defense, I don't mean the big programs, I even mean the components. There are consumables, there are things that are used in the day-to-day running of the fleet and those kinds of products also we see a huge demand. Aerospace also we expect to gain substantial new business which we've already signed during the lockdown. I'm very proud of our team here, which has managed to develop products, get them certified, and put them in front of the customer for validation during and just before the

lockdown and take them through the whole process of documentation during the lockdown so that we are able to get contracts signed.

**Sahil Kedia:** Just on that, there are many products where the process of validation from a customer can be very long time, typically 12 months, 18 months, in some cases even more, are you seeing a change in the way customers are approaching the new orders?

**Amit B Kalyani:** Let me answer that in a little different way. For an aerospace customer, they'll always go through the entire validation process as an issue. But suppose I'm already making a turbine blade for them. If I'm making 3 families of blades and they want a fourth family, they don't have to start with every piece of my equipment. They only have to actually validate the part that I make through a testing process which is probably 3 to 4 months or maybe 6 months at the most. It's not 2 years. But if they had to do that with any new suppliers, it would take 2 to 3 years. The family of products now have a baseline. Only the individual product performance has to be tested, not the manufacturing process.

**Sahil Kedia:** So in effect, you will see a faster, I would say, P&L impact or revenue impact from some of these orders because the validation time, whatever incremental validation that you need to get, is much smaller than what you've got in the past. Is that the right way thinking about it?

**Amit B Kalyani:** Yes, that is true.

**Sahil Kedia:** The second question I have is that you guys are large exporters, are you guys facing issues on the export side from just availability of shares or whatever?

**Amit B Kalyani:** No.

**Sahil Kedia:** No issues, right? So your export side is still okay. It's more a demand issue there. Is that right?

**Amit B Kalyani:** See, in the end of the fourth quarter, there was a complete shutdown of JNPT. It started with that villages around JNPT preventing any trucks from going in or coming out. And then JNPT itself shutdown. That was the time when all this happened. And then during the initial start-up phase of the plant, there was trouble getting containers and getting trucks, but not anymore. Now it's streamlined. And again, our team has done a great job in getting stuff together.

**Sahil Kedia:** So, demand is an issue, but from a timeline perspective, you guys are still supplying on the earlier timelines that you would normally do?

**Amit B Kalyani:** Yes, we have not delayed or shut down a single customer anywhere in the world.

**Moderator:** The next question is from the line of Binay Singh from Morgan Stanley. Please go ahead.

**Binay Singh:** My first question is on the cost structure. Very encouraging to see your comments that you are embarking on a structural cost change. Could you share a little bit more about it? And what are the areas in which you're looking at some examples of that?

**Amit B Kalyani:** Every area. We're looking at energy, manpower. We're looking at even consolidating facilities. We have certain older facilities where for historic reasons, when we had huge demand, we used to run them. So shutting some of those smaller lines down, older lines. For example, when we grew our front axle beam machining, we had lines that did 2000 pieces a month. And 5 lines of 2000 pieces a month is now replaced by 2 lines of 5000 pieces a month. So, you have 20% of the manpower or 30% of the manpower versus 3x as much productivity. Those are the kind of things we are doing. And we've also started a VRS. We have roughly about 40-odd people who have taken a VRS. So hopefully, this is something that we are going to also accelerate.

**Binay Singh:** And this program will run for the next 4 quarters, right?

**Amit B Kalyani:** Yes, of course. Every bucket is identified. It's now in the process of implementation. I'll give a simple example. Working digitally is, I think, a huge cost saver. Because right from travel to productivity issues, our productivity is improving, travel is reducing. I definitely see this as a big positive.

**Binay Singh:** I know that, that will be very encouraging to see as quarters go by. The second question is on aviation. Will it be fair to assume that in FY20, your aviation revenues would have been around \$3 million to \$4 million or would it be higher?

**Amit B Kalyani:** Yes, roughly about that much, aerospace. Not aviation, aerospace.

**Binay Singh:** And which are the geographies wherein you have been incremental

**Amit B Kalyani:** North America and Europe. And it will remain North America and Europe.

**Moderator:** The next question is from the line of Puneet Gulati from HSBC. Please go ahead.

**Puneet J Gulati:** The VRS expense, which you highlighted this time, is that done?

**Amit B Kalyani:** Yes. We will charge it off in the quarter where the VRS takes place.

**Puneet J Gulati:** So, is there more to come in 1Q and 2Q?

**Amit B Kalyani:** We have kept the VRS open. We want to affect a large reduction of manpower.

**Puneet J Gulati:** On your CAPEX side, what should be the maintenance CAPEX that you would still be incurring?

**Amit B Kalyani:** I don't anticipate more than 100 to 120 crores.

**Puneet J Gulati:** Both stand-alone and consolidated?

**Amit B Kalyani:** No, this is standalone.

- Puneet J Gulati:** And consolidated level?
- Amit B Kalyani:** I would say maybe 2-3 million.
- Puneet J Gulati:** Any issues that you're facing on your suppliers' side?
- Amit B Kalyani:** No, we have no issues. Our suppliers are basically raw material and then we have companies like Sandvik and all those machine tools and tooling suppliers. So, we don't have any issues on supply chain. The only issue we have on supply chain is for some of our raw material which is imported, which because of the lockdown has all been affected.
- Puneet J Gulati:** Last time around, you mentioned that there could be some potential acquisition opportunities coming with this consolidation. Are you seeing any of it as of now?
- Amit B Kalyani:** Yes, we have been approached by customers, but we will be very cautious about this. Unless we have a very good reason to do it and there is good management in place, I'm not going to put my balance sheet there.
- Puneet J Gulati:** Can you throw some more color.
- Amit B Kalyani:** No. It's too early. No acquisition unless we can meet face-to-face and go and visit these facilities. We're not going to make acquisitions over a Zoom call. I will promise you that.
- Moderator:** The next question is from the line of Jinesh Gandhi from Motilal Oswal Financial Services. Please go ahead.
- Jinesh K Gandhi:** Amit, can you throw some light on the cost-cutting side? You indicated you're looking to further reduce breakeven points. So, what would be our current breakeven point for India business? And how it would look like the year down the line?
- Amit B Kalyani:** We have a fixed cost of 60 crores a month right now. As long as I make a contribution operating margin of 60 crores, we'll be at a breakeven level on a cash basis.
- Jinesh K Gandhi:** The run rate to come down to 50 crores by end of this financial year given the cost-cutting initiative?
- Amit B Kalyani:** Yes. Definitely.
- Jinesh K Gandhi:** Secondly, with respect to the cash loss which you've indicated of EUR 5 million in 1H CY20, that is for the 6 months put together, right?
- Amit B Kalyani:** Yes, Jan to June. Correct.

- Jinesh K Gandhi:** Lastly, with respect to the US class 8 truck commentary, which you have indicated about 150,000 being one of the estimates, is that also an indication from your clients or this is more of external estimates which you are looking at?
- Amit B Kalyani:** This is the ACT Research number, it's about 140.
- Jinesh K Gandhi:** But are your clients also indicating on similar lines
- Amit B Kalyani:** Our clients don't talk about this nowadays. Especially when it's bad news, nobody wants to talk about it. And you have to rely more on these agencies like ACT and somebody else. But customers are not saying too much different.
- Jinesh K Gandhi:** Lastly, what is the impact of commodity prices in the fourth quarter? Was there a negative impact of that on our revenue growth or realization?
- Amit B Kalyani:** No, there was no impact of RM in the fourth quarter neither way.
- Moderator:** The next question is from the line of Sonal Gupta from UBS. Please go ahead.
- Sonal Gupta:** Just a couple of questions. One was, what is the rate at which we are hedged? What is the rate for USD?
- Amit B Kalyani:** Between 72 and 73.
- Sonal Gupta:** And this, like you mentioned, would be there for this year as well, right, FY21?
- Amit B Kalyani:** Yes.
- Sonal Gupta:** On the oil & gas side, like you said, it's a critical industry. I know we're facing pressure right now, but you said you gained like 3 more customers. If the production for the industry comes back, then your revenue should sort of bounce back, right?
- Amit B Kalyani:** Yes, absolutely.
- Sonal Gupta:** What was the revenue in this quarter for the oil & gas?
- Amit B Kalyani:** It was supposed to be 15 million. But we couldn't ship out about 6 to 7 million. So, it was about 7 million, roughly.
- Sonal Gupta:** You outlined the areas in terms of Atmanirbhar Bharat and stuff, but that will sort of, I guess, take some time to play out. But in terms of supply chain shifts, like you are saying that people are looking to diversify and de-risk and we have a lot of excess now.
- Amit B Kalyani:** Huge capacity, absolutely.

- Sonal Gupta:** So, to that extent, are there any quick wins or areas that you see?
- Amit B Kalyani:** Yes, it can happen. We do have the relationships. However, most countries are still not fully out of the lockdown. They're still just about ramping up. So, we need to wait a little longer to see the impacts of any of that.
- Sonal Gupta:** I was asking more from a medium-term view, 6 to 12 months....
- Amit B Kalyani:** Medium term, we have already engaged in a big way. We have some strategic engagement that we have started in these areas and you will see some pretty interesting things happening on this front.
- Sonal Gupta:** Just the last question. In the last couple of years, you have given these order win numbers, anything there in terms of FY20 or sort of difficult?
- Amit B Kalyani:** We had about 600 odd crores of wins last year.
- Sonal Gupta:** This is domestic plus export?
- Amit B Kalyani:** Yes.
- Moderator:** The next question is from the line of Jeetu Panjabi from EM Capital Advisors. Please go ahead.
- Jeetu Panjabi:** I had 2 questions. The first one is what is the outlook for the US and European truck markets as you see it? The market, obviously, now is pretty depressed, but is there any view that you have where you think there could be a very strong or positive outcome in 12 months?
- Amit B Kalyani:** On the US front, while the ACT Research and others are pointing out to a maybe 140-150 number in CY20, next year is projected to be 220, and if there is any of this second stimulus in infrastructure that the President of US has talked about, especially to attract manufacturing, like you may have seen this big investment of TSMC in Arizona, that itself is a \$12 billion investment. And to support that \$12 billion investment is a \$3 billion infrastructure investment that the state is making.
- Jeetu Panjabi:** And what about the European side? Do you have thoughts on that?
- Amit B Kalyani:** Europe is a little weaker. Europe is not one market in a sense. Europe also has political issues in terms of what's going to happen in Germany, so I don't know. But between 180 and 220 is the range, I'm being told, for Europe.
- Jeetu Panjabi:** The second question is, as you try and normalize out of this COVID crisis and whether that's 6 or 9 or 12 months from now, do you see any significant structural changes in the business that's going to change the dynamics of the business completely for you, either positively or negatively?
- Amit B Kalyani:** Can you give me an example of what you mean?

**Jeetu Panjabi:** Like a certain part of, the 10% of your business, which was always a great business, just completely disappears because this is never coming back or there is a brand new segment that comes in and is going to be very large....

**Amit B Kalyani:** We will always have something in horizon 2 and something in horizon 3 that we are working on. And you will see we'll make an announcement about some new things that we're doing as a group, maybe in a month or so, which are very unexpected from us as a company. But it's something that we have the ability to do and we will be in a lot more business areas, lot more domains going forward than just what we are in today. That's a given.

**Jeetu Panjabi:** On the negative side, is there any business where you see very, very bleak scenarios you don't expect?

**Amit B Kalyani:** Yes. I'll give you an example. If you look at diesel locomotives, everybody thought that GE is building a plant to make diesel locomotives in India, there's going to be a big opportunity. Then we, one day, decided that we are not going to make any more diesel locomotives. Then anybody who set up capacity for something like that, if you were only building a capacity or capability that can service one customer which is the Indian Railways, your future is finished whereas our approach is, we build a capacity that's world-class and capability that's world-class, and our facilities are fungible enough that we should be able to make, using the same equipment, products for large diesel engines, locomotives, marine engines, big compressors, nuclear power, etc., using the same equipment. That gives you some amount of de-risking. That is always the approach that we will take. What happens is, yes, 1 or 2 years, you may have a lull, but it's not that you have to shift some big investment.

**Moderator:** The next question is from the line of Ronak Sarda from Systematix. Please go ahead.

**Ronak Sarda:** Amit, my question is on the commercial vehicles side. Over the last few years, we have seen a sharp improvement in our product mix, both in terms of content supplied and the profitability as well. But at the same time, the domestic competitors have invested in a lot of new capacities, which took away some market share on the lower end of the product. Are you seeing, given the capacity in hand, we competing again in the low-value products for forging?

**Amit B Kalyani:** We will not compete in the low-value products of forging, but what will happen instead is that just like how we are reducing our fixed costs and moving towards the higher variable cost model, our customers will also start doing that. And they will only be able to do that with companies which have a strong management, strong technology, and strong balance sheet. So, business will flow to strong companies. And the product technology is going up substantially. And we've been supplying these products for the last 10 years. Nobody else in India has, for certain products, the capability.

**Ronak Sarda:** Similar to what happened with Amtek, do you see another round of consolidation happening in the industry in, let's say, next 12 to 18 months?



**Amit B Kalyani:** We know the leverage of most of the suppliers. Most suppliers today are buying steel with LCs. They can't get 2 days of credit with their suppliers.

**Ronak Sarda:** That answers my question. Thank you.

**Amit B Kalyani:** I'd like to say thank you, and I hope this has been useful to you. And I'd just like to say that we have a great team. We have a great company, and I think we have a great future. We will come out stronger and bigger and better out of this. And we look forward to your continued support and encouragement going forward.

And if you have any questions, please get in touch with any of our team members, or you can e-mail me also. I would be happy to answer your questions. Thank you very much, and have a wonderful day.

**Moderator:** Ladies and gentlemen, on behalf of Bharat Forge, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.