# Bharat Forge Limited Q1 FY21 Earnings Conference Call

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**MANAGEMENT:** **MR. AMIT KALYANI – DEPUTY MANAGING DIRECTOR, BHARAT FORGE LIMITED**
**MR. SUBODH TANDALE – EXECUTIVE DIRECTOR, BHARAT FORGE LIMITED**
**MR. KISHORE SALETORE – CFO, BHARAT FORGE LIMITED**

**Moderator:** Ladies and Gentlemen, Good Day and Welcome to the Bharat Forge Limited Q1 FY 21 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 '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Amit Kalyani. Thank you and over to you, Sir.

**Amit Kalyani:** Good Afternoon Ladies and Gentlemen and thank you for joining us on our investor call. Good to be interacting with all of you after some very difficult times that we have all faced both personally and in our businesses. I have with me as is customary our finance team, our CFO and Head of IR, and we have teams from our customer facing side as well, so let me first give you a little bit of a highlight on the quarter. Quarter-1 was an unprecedented quarter where the lockdown started by end March and all of April was a washout, most of May was a washout, and we basically started production only in the month of June that too with the extreme lockdown in Pune we had I would say on an overall basis, the capacity utilization was approximately at 20%, but I am very glad to tell you that we used the two months to streamline processes, optimize costs, get more and more digital and focus on reducing costs. All these steps that we have taken, we will continue and keep increasing over the next three quarters and this time next year, you will see a very significant impact of these and there will be a significant impact on a quarter-by-quarter basis as well. As you have seen from the numbers for the first time in more than 10 years we have a loss for the quarter, something that we are very unhappy about, but when you are operating at these kind of levels I think there is really nothing one can do and it was very disappointing for us but I think the good side is that the company has responded very well, our teams have responded very well, and we are focusing a lot on our customers, we are beginning to see green shoots, we are seeing improvement in demand across every sector in the domestic market and some of our export markets as well.

The first quarter was a quarter of shutdowns and lockdowns for everyone and the very fact that you could not go to a dealership and buying a car obviously when you are locked down is not a priority. The domestic revival that we are seeing right now is quite substantial and we believe that it is driven both by the upcoming festive season and also by some changes in buying behavior and consumer behavior. We expect on a whole basis that our Q2 revenues will be lower than Q2 of last year, but our domestic revenues will be more or less equivalent as last year's Q2. There are certain elements of our export which are impacted such as oil and gas, which are lower, but which are also cyclical businesses and affected by the overall demand cycle and when that recovers they will bounce back, but on the other side if you look at the heavy truck market and the pass-car market in Europe and US, both are quite good. The ACT numbers that have come in on end of July came in at just above 20,000 and the overall projections for the year have been increased both for this year and for next year.

Coming to our overseas subsidiaries, we announced the results for the Jan to March quarter, we have posted a loss of 36 crores. The full impact of COVID, however, will be visible in the next quarter as well and we have disclosed during our Q4 interaction that the international operations will have a cash loss of about € 5 million for the first six months, so just to be clear we are talking about that kind of a figure for the first six months and there also we have restructuring going on with an external agency helping us and we hope that this will over the next few quarters see some impact and get us back to the right direction. One of the major let us say announcement that has happened that I am sure many of you would like to know more about is on the defence side. On Sunday there was an announcement made by the Defence Minister about 101 items that are put on the negative list which means that these 101 items have to be produced within the country, so this is an extremely good step, I think this is a step that recognizes the capability that exists within the country and also the areas within which India can be very quickly self-sufficient and eventually also a global player. This is good not just for big companies like us but also for the supply chain.

A lot of companies from the automotive supply chain, MSMEs etc. are companies that we are working with in the supply chain of our defence ecosystem and we hope that any order that we get will also provide them with a lot of good news as well. The one thing that we have done during this downturn is create increased customer focus in spite of not being able to physically meet the customer, look at how we can better serve the customer, be more proactive, be more faster, be more solution oriented, come up with innovations that can help solve customer problems and using our technology and knowledge get ourselves closer to our customers, so that is really all I wanted to say and I would be happy to take your questions now.

**Moderator:** Thank you very much. Ladies and Gentlemen, we will now begin the question and answer session. We take the first question from the line of Kapil Singh from Nomura Securities. Please go ahead.

**Kapil Singh:** Sir congrats, I think it was a pretty good result considering that we had only 20% utilization to achieve EBITDA breakeven was commendable and congrats to the entire team to put in this effort. Firstly, Sir you have talked about the revenue guidance especially for the domestic business, could you walk us through what are the areas where we are seeing recovery and what does this imply for domestic truck industry?

**Amit Kalyani:** Domestic truck Quarter-1 was a washout, there was almost no production, so Quarter-2 will see, the demand not anywhere near last year’s demand but significantly higher than Quarter-1 and the tractor industry, the pass-car industry or the industrial sector are all seeing fairly strong growth, so that is why I said on an overall basis in spite of the CV market being at one-third of its normal number, we will have domestic revenues almost equal to our normal domestic revenue as last year.

**Kapil Singh:** Sir, apart from CVs where else have you seen positive growth?

**Amit Kalyani:** Agriculture, construction and mining, industrial, and passenger cars.

**Kapil Singh:** Sir, second question is you talked about significant cost restructuring, could you give us a sense of how much cost we have brought down if we look at let us say revenue of FY20, how much cost improvement or percentage margin improvement do you think we can achieve with the cost reduction we have done if we had last year's revenue base?

**Amit Kalyani:** You will see it from next quarter, just wait because it is still work in progress, I think we have identified and actioned about 70% of the cost reduction, 30% is still underway, but I think we are very confident we know what is happening, give us some time. You will see that with lower sales, we will have margins equivalent to previous times.

**Kapil Singh:** Okay, third, Sir on the defence side, could you give some color as to what is the potential opportunity that you see for Bharat Forge in next two to three years and we have been waiting for sometime on the artillery guns order as well, does announcement of Sunday give you more visibility in terms of ordering taking place anytime soon?

**Amit Kalyani:** Well, the one thing it clearly tells us is that the products that we have focused on, all of them are meant for domestic manufacturing and in certain products such as artillery guns, it is very clear that there is nobody as competitive as us either on technology or on overall basis, so we are looking forward to the conclusion of our final trials. We have gone through I think four sets of trials for the first gun and three sets of trials for the second gun and we have four platforms that we have developed and once the last phase of trial is over, I think then we are ready for the sale process to begin and what is good about these products is that we will be able to supply these products on a global basis. There are many countries that have immense interest in our products and we hope that we are able to take advantage of this worldwide. The only thing I cannot tell you is the timeframe, because of COVID even the ranges were shut, so it is not usual time.

**Kapil Singh:** Okay Sir, thanks we look forward to visibility later on when we interact.

**Amit Kalyani:** Sure, thank you.

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

**Amin Pirani:** Thanks for the opportunity, just continuing with the defence question, so one of the items which is going to be embargo for imports from December this year itself, it will be 155-52 caliber gun, which I think is one of your major products and I think there was a plan at one time to have 3000 such gun, I mean you think these numbers will be changed dramatically or there could be some early ordering because the embargo is from December this year, any comments you have on that?

**Amit Kalyani:** I think the Government is very clear on the sectors where it wants domestic manufacturing where it believes that domestic companies are capable. Obviously, I cannot predict what others will do or what anybody will do, all I can say is that we have clarity as far as what it is that we have developed and its capability meeting domestic and global requirements and I do not know the number of 3000, but we have a capability to make a large number of these platforms and meet all the requirements that India has.

**Amit Pirani:** Okay, this question keeps coming up from the investor side, I mean the guns as well as the forging everything is in Bharat Forge or is there something in your subsidiary or KSSL if you can clarify?

**Amit Kalyani:** The guns per se will be made and sold for the domestic market by Bharat Forge, but for any other market it will be through KSSL, but all the components and systems will be made in Bharat Forge and the value capture of that will happen in Bharat Forge. When you have to bid for foreign contracts, there are lot of guarantees and warranties that one has to give over a long period of time, one does not want that to be, I do not want that to be in BFL and at the same time, we do not want BFL to be associated with any other factors at a global level.

**Amit Pirani:** Understood, and when we had met last year in October, there was a kind of an outlook that defence revenues which were around 500 crores in FY ’19 could double by FY ’23, has that changed materially because of what has happened in the last six months or you think that trajectory can still continue and does that include anything from the regulation change that happened two days ago?

**Amit Kalyani:** That figure that we had given you, doubling by 23 was based on component supplies and small programs, that will still happen and all these big programs are above and beyond that.

**Amit Pirani:** Understood and that is very helpful, and just lastly this quarter the raw material number was very high, was it some inventory one-time issue or something if you can explain?

**Amit Kalyani:** Our sales were 17,000 tons, our production was about 15,000 tons, so there was an inventory impact, de-inventorization of raw material, therefore, if you see the manufacturing expenses is lower, but the operating margin is still more or less the same.

**Moderator:** Thank you. The next question is from the line of Pramod Amte from CGS CIMB. Please go ahead.

**Pramod Amte:** First one is with regard to the international subsidiaries, have you got any fiscal benefits in the March quarter or similarly in June quarter?

**Amit Kalyani:** No, we do not get any fiscal benefits, all we have is in Germany there is something called short-time work where people can stay at home and 80% of their salary is paid for by the Government and small percentage of their allowances are paid by us and that is it.

**Pramod Amte:** Is it a significant amount to help you or?

**Amit Kalyani:** It does not help you, it is just instead of laying people off, you just make them stay at home and their cost is 80% covered by the Government.

**Pramod Amte:** The second one is with regard to defence, with this announcement, do you see any new products to be addressed and does that open up new opportunities, one? Second, how you plan to approach, do you have capabilities in-house or you will be looking for some external technology support to do them?

**Amit Kalyani:** We have created a strategy of three horizons. Horizon-One are products like our artillery guns, some of the armored vehicles, and some of the specialty vehicles are between Horizon-One and Horizon-Two and Horizon-Three are a lot of products that come into the electronics and high-tech domain. We have even high-tech products in Horizon-One such as the product that we have in our joint-venture Kalyani Rafael Advance Systems, so the point is that we have an extremely wide Horizon of products. Now, based on the announcements, we will deepen our capability within these product segments and add strength in areas that we need, but I do not think we are going to go in to newer areas. For example, we are not going to get into making ships or something, that is not something that we are interested in.

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

**Binay Singh:** Hi team, thanks for the opportunity. On the defence side like if you were to take more like a five-year view, what will be sort of your aspirational revenue target and linked to that do you expect any incremental spending on investments or CAPEX this year in FY21 and FY22?

**Amit Kalyani:** We do not expect any incremental spending for CAPEX in existing products in FY21-22, there is one product which we have a license for which we have developed which we will be setting up a plant based on some high probability of orders and that will be somewhere in the 50 to 60 crores maybe over two year kind.

**Binay Singh:** What sort of an aspirational revenue target will you have over a five-year period?

**Amit Kalyani:** This answer is if I give you a low number you will say India is such a big importer you should be more ambitious, if I give you a high figure you think that I am crazy, so it is a no-win scenario, but let us just say that the way we have built the non-automotive business as a big part of our overall manufacturing similarly even the defence business can become a big vertical for us.

**Binay Singh:** Great and best wishes for that, and just lastly one follow-up question on export, so you said in Quarter-2 exports will be lower than previous year and you mentioned that oil and gas business is down very sharply so is it fair to assume that ex-oil and gas business, the other segments are actually seeing very similar levels versus last year?

**Amit Kalyani:** Honestly, the figures are changing day by day, give us a little more time but I think directionally we are heading in the same direction, we are not at the same level we are still lower but we are seeing growth for sure.

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

**Ronak Sarda:** Thanks for the opportunity and congrats on decent set of numbers, Amit, first question on the exports side, we saw ACT research had the production targets for Class 8 trucks, can you just walk us through how that will change the production, is it more back ended towards Q3 or has the change in production already being reflected and similarly oil and gas how do you see the change in production volumes, is it again more Q3 or Q4 driven or can there be some benefits coming in this quarter itself?

**Subodh Tandale:** Ronak, we have to take your question in two ways, one way it is definitely a positive trend and we are seeing this for the last two months particularly from a net order point of view, but you also have to remember that these net orders do not necessarily mean production in the respective period because the production can also be in subsequent month, so while all these augurs extremely well for us, we have to be cautious of the actual production that happens in the next six months to see what result it actually has on our demand, having said this, we have seen a slow traction towards increased demand already.

**Ronak Sarda:** Is that trend similar for oil and gas as well?

**Subodh Tandale:** No, at this point that is not the trend for oil and gas because oil and gas is also going through some structural changes as you are aware of, but the overall for the last few weeks the Brent prices are more or less stable in the 42 plus range, so if this continues for a couple of months more then there will be increased drilling activity and there would be financing for that because right now more than demand, it is the financing of these activities that is the bigger issue, so we will have to wait and watch but again the oil prices are staying and moving in the right direction.

**Ronak Sarda:** Got it, second question I think you answered it in a way but if we look at our other expenses, how do you see that trending over the next few quarters once the volumes come back, we have held it up pretty well in this quarter, how do you see that trend?

**Kishore Saletore:** I think on the administrative expenses, there are two major components one is on salary cost and the other is travel, marketing, and so on. On the salary cost, we have put in place a roadmap for a very strong reduction. It is not only reduction in manpower, we are actually looking at the entire activity and trying to go digital where each and every man position is being examined to see whether it can be done digitally, so as you can imagine it is a little long drawn exercise, but we hope that will give us a fair amount of benefit. If you see our salary cost for instance last year quarter it was about 125 crores, it is now down to about 115 crores and this is just the beginning so that is one part. The second thing is on the administrative expenses is in terms of travel, thanks to COVID I think the silver lining is that all of us have got used to zoom calls and MS teams and so on so everyone is working and it is working well, so I think the idea is to now focus on reducing that cost, also a lot of related cost in terms of marketing conferences etc. has also come down, so I think we will try and make an optimal mix of this, so these are some of the things which we are looking at in terms of the fixed cost reduction, I hope that answers your question.

**Ronak Sarda:** Yes, thanks for that, and just a clarification on the financial side, you did not highlight what was the standalone and consol net debt in the analyst update, do you have those numbers ready on the net debt today for standalone and consol?

**Kishore Saletore:** We can give that to you offline, I do not have it at the moment.

**Moderator:** Thank you. The next question is from the line of Jinesh Gandhi from Motilal Oswal Financial Services. Please go ahead.

**Jinesh Gandhi:** Sir, my first question pertains to defence, so given that our defence has its own timelines for order to revenue translation, can you indicate what are the milestones you would be watching internally for getting constructive on this opportunity in the defence end on the localization side?

**Amit Kalyani:** First of all, all the products that we are making are 100% local, they are 100% designed, engineered, developed, and the components are all local. We have as I mentioned artillery guns, three of which are already in advanced stages of testing, one which is in the final stages of testing, it has gone through all the tests. It is the user test which is now going on, which is going on this month. Once testing is over then you have as long as it meets the requirements, you have now under this new framework where 101 products have been put in the India list then I do not know what is going to be the new process whether it is discussion, negotiation, because that is still to come out, but you should expect that within a year of that hopefully we have more clarity on what is the volume and what is the orders.

**Jinesh Gandhi:** Okay, so once orders are placed then there will be about two or three years?

**Amit Kalyani:** In this case, once the orders are placed, we can start deliveries in less than three to four months may be even shorter and then obviously the deliveries will start at a smaller rate and then in three, four-five months the rate will increase.

**Jinesh Gandhi:** Understood, secondly on the domestic side you indicated about second quarter being flattish and you highlighted that would be driven by passenger vehicles, Agri, and industrial, so effectively are we indicating that passenger vehicles, Agri, and industrial will be coming on YOY basis enough to offset the decline in CV, because CV at least on the domestic side, we are not seeing any signs of recovery?

**Amit Kalyani:** There are three sectors where we are going to see domestic growth, one is Agri, the other is pass-car, and the third is industrial, and we have new customers in all three areas, new business in all three areas and market share gains in all three areas including in the CV sector, so because of this three-four factors, we should have a domestic which is flattish compared to last year.

**Jinesh Gandhi:** Lastly, on aerospace side given that in spite of COVID and some question marks on the structural changes happening in the aerospace industry, are you seeing any bit of communication from your customers about how they see uptick of the orders which have been placed to you?

**Amit Kalyani:** We have three categories of products that we supplying to aerospace, one which we supply into commercial aerospace where the manufacturing of those products has reduced quite substantially because of the demand. Second is we supply into engines used in business jets where the demand has actually gone up or is flat compared to last year, and then third is, we have now got new products going into categories that are used in replaceable parts, so between these three we will see growth in our export business in aerospace even next year.

**Jinesh Gandhi:** Okay, so broadly we still expect $ 100 million revenues in next three years?

**Amit Kalyani:** Directionally yes, 100 might become 85, 80, but yes because if the whole market is going to shrink then, but directionally yes.

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

**Puneet Gulati:** Good Evening, my first question is with respect to the raw material cost, so the raw material cost has fallen only?

**Amit Kalyani:** See very simple, we had de-inventorization of raw material cost due to higher shipments and production, that is why raw material cost has gone up, but if you look at the operating margin, it will reflect the balancing between the manufacturing expenses and raw material cost.

**Puneet Gulati:** That is why the other expense is lower and raw material is not?

**Amit Kalyani:** Exactly.

**Puneet Gulati:** Second, while you did comment on the revenue run rate for Q2 first in domestic business, is it also possible to give a color of how bad can Q2 for international be and what kind of uptick you are seeing from Q2 or decrease versus Q2 previous levels?

**Amit Kalyani:** It should be similar to I guess an average of Q1 it will be better than Q1 in overall numbers as such because we have more working days now, but in the overall scheme of things the CV market is seeing improvement, the pass-car markets are seeing slight improvements and the oil and gas markets are not really improving at all, so it should be very flattish I would say. Ex oil and gas it should be flattish.

**Moderator:** Thank you. The next question is from the line of Sonal Gupta from UBS. Please go ahead.

**Sonal Gupta:** Good Afternoon and thanks for taking my question, so just on the India business like you mentioned, last year if I remember correctly Q2 still had contribution for some defence contracts as well, so are we hitting now new contracts on the defence side and that business has come back or we won some new defence orders?

**Amit Kalyani:** No new orders yet, only our normal orders of the consumables that we supply.

**Sonal Gupta:** Right, nothing over and above that?

**Amit Kalyani:** Nothing significant.

**Sonal Gupta:** Just on the defence side, just going back to your comments from the CNBC interview, you mentioned about ESG criteria as well, so could you just highlight in terms of how you think that is sort of impacting how this business gets structured as well, my sense is partly with structuring is coming from there?

**Amit Kalyani:** Selling defence items in to a responsible nation like India is easy. Now, there are many countries that buy weapons where we do not know what they do with it. India has never been an aggressor anywhere, so I want to sell to places where it is safe to sell and where it is advisable to sell.

**Sonal Gupta:** Okay, got that. Just lastly on given that we had such a big break in terms of typically what happens in a cycle is that you see obviously the cuts earlier because the customers are reducing their inventory levels as well and so you have a double impact if the market is slowing down as there is a customer cutting inventory, so would you say that between Q1 and Q2 that phase what sort of get over for you and in fact you might switch over to the other phase where now that the demand is starting to move up , the customers have to start to rebuild inventory as well and so you could start seeing faster production growth than the industry production growth as well?

**Amit Kalyani:** When the inventory pipeline is emptied and as the production ramps up, obviously pipeline filling has to happen, but that depends on how aggressive the ramp up is. If the ramp up is gradual then the pipeline fill up is also gradual, if the ramp up is aggressive then that will happen aggressively, you are absolutely right, there is always a lead and lag effect in both the cases.

**Sonal Gupta:** Right, like what we typically see is especially in the industrial sectors that you cater you, I mean most can be very, very sharp, it moves on both sides to that extent do we see that I mean maybe you will see a sharper recovery going forward in the next couple of quarters, I mean what I am trying to understand is that the inventory reduction phase is clearly over, right?

**Amit Kalyani:** Yes, inventory reduction phase is more or less over.

**Moderator:** Thank you. The next question is from the line of Shyam Sundar Sriram from Sundaram Mutual Fund. Please go ahead.

**Shyam Sundar Sriram:** Good Evening, thanks for taking my question, on the Nellore facility Sir, we have spoken about 200 crores revenue in the first phase and the production to commence from Q3, is it on track and is there any delay in terms of getting customer approvals for the products there?

**Amit Kalyani:** There is a four to five month delay on everything, plant commissioning is done, our samples for some customers have gone out, but because of the lockdown we were to shut down the plant.

**Shyam Sundar Sriram:** Right, Sir, so this 200 crores revenue maybe by FY 24 that is quite possible?

**Amit Kalyani:** FY24, that is a long time out, hopefully before that.

**Shyam Sundar Sriram:** Thanks, that helps Sir. In Europe, we were planning to add additional press lines for aluminum products, so if you can give some update on how is the Europe business panning out, we are also seeing an increased demand for hybrid cars and EVs in Europe, so is there any new opportunity that is now coming up for us and any update on our US aluminum expansion plans?

**Amit Kalyani:** So as you are aware, we announced that we are doing an expansion in Germany, this expansion is now complete, it is now in the ramp up phase, it is in the trial production phase, the plant has just been commissioned and this will take two years to ramp up to full capacity because lot of the orders are new and also because of COVID there has been a three-four months delay in everything, but this was a large investment almost € 60 million and this will almost close to double our capacity in Europe. We are doing an identical plant to that in the US in North Carolina and a lot of the customers are common, so we expect that both these put together should have a big growth, but right now everything is very nebulous because lots of customers, markets are down, customer production is down, so we will have to wait and watch when the ramp up happens, but I think we have a good technology, we have a good product, and it will work.

**Shyam Sundar Sriram:** This are largely for the passenger cars right, Sir in Europe?

**Amit Kalyani:** This is only for passenger cars, both hybrid and electric.

**Shyam Sundar Sriram:** Sir, on the passenger vehicle export side, you did mention that we are seeing good traction there, so our earlier plans of introduction of newer products is that catching up on the export front even as North America and Europe we are seeing good production improvement?

**Amit Kalyani:** Without going into too much details, I will only say that we have made tremendous breakthroughs into getting into new products, extremely complicated new products and these have a very good medium to long-term potential for the passenger car sector. These are products that we were absolutely not present in till very recently.

**Shyam Sundar Sriram:** These are largely driveline and transmission, Sir?

**Amit Kalyani:** Yes, driveline and transmission products, absolutely.

**Moderator:** Thank you. The next question is from the line of Joseph Jorge from IIFL. Please go ahead.

**Joseph Jorge:** Thank you for the opportunity, I had two questions, one was could you give us a sense of how much was Agri as a percentage of your standalone revenues maybe for the whole of FY '20 just to give a sense of the importance of the segment?

**Amit Kalyani:** I am sorry I do not have that because that goes into our industrial sector.

**Joseph Jorge:** Sir, the second question that I had was on defence, now the opportunity with respect to maybe 2000-3000 artillery guns some huge in terms of potential revenues, but I just want to understand based on your existing gross block, based on your existing capacity, how much can you actually deliver per annum maybe once you get the order?

**Amit Kalyani:** Let us look at artillery guns, break it up into the core components because the core components of the artillery gun are the barrel, the breach, the muzzle, everything that carries the charge and fires the round, we could remain probably close to I would say initially about 50 barrels a year going up to maybe in the second year about 100 and by optimization may be even up to 150 a year. I am talking about not just forging, I am talking about forging, machining, rifling, autofrettage, fully finished. If I had to talk about only forgings, we could probably make four or five a day, we have unlimited capacity on the forging side.

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

**Amin Pirani:** Thanks for the opportunity again, my question was actually on the export non-auto ex-oil and gas, so this quarter also we have actually managed to do better than the other categories, so what are the component of non-oil and gas and what is the outlook there?

**Amit Kalyani:** This is basically sectors like construction equipment, mining equipment, large diesel engines etc., which have been used in US, Europe, lot of these makeshift hospitals etc. have been build for COVID, so lot of equipment to build this and a lot of power generation equipment have been used for powering all these, so this is what has driven that.

**Amin Pirani:** Okay, but this would not be sustainable right, I mean what is your outlook?

**Amit Kalyani:** I think if you read what most people in America are saying is that they are now realizing that their infrastructure is falling apart and they need to rebuild their infrastructure, so this could be just the beginning of a new infrastructure boom in the US.

**Moderator:** Thank you. The next question is from the line of Nitin Arora from Axis Mutual Fund. Please go ahead.

**Nitin Arora:** Sorry just harping on this defence thing, just a clarification, the import embargo on the items and the ordering, I am talking about with respect to what is being talked about from 2016, just because there is an import embargo does not mean that the ordering should come in right, that is something is separate and I am talking about these artillery contracts which even L&T got the first contract in the self-propelled track artillery gun, which also got tested in 2014-15, came eventually in 2018, so these two are separate things, having an importing embargo does not mean that tender is getting opened there, it is still on the testing side?

**Amit Kalyani:** What it means is that these products can no longer be imported, they have to be locally made, so the example you gave would no longer be valid because that was only assembly, it was not manufacturing.

**Nitin Arora:** Because when we look at the self-propelled track gun, L&T is competing with you and Nexter?

**Amit Kalyani:** You are absolutely wrong, L&T does not make guns, they only assemble.

**Nitin Arora:** That is absolutely correct, my question was not that, my question was that with respect to bidding contention what happened in 2016 or 17 were talked about recurring 1500 guns under Make in India, 1100 could be Make in India and 400 units a JV partner can make or you can import, does that completely extinguish now the whole average thing 1500 procurement?

**Amit Kalyani:** Now that category whatever has to be procured has to be Made in India.

**Nitin Arora:** Right, if I remove the value support of the guns, the consumables because when we saw L&T, I am just giving an example just to understand the value part more because when we look at the L&T and orders which though went very higher at 7000 crores and finally got renegotiated and went to down about 5000 crores, if I remove the procurement and let us say it is a procurement of 700 or 1000 guns, if I remove the consumables part, each gun would cost around 15 to 16 crores because what I understand these figures were somewhere 8 to 10 crores for at towed artillery gun, per gun cost in moving consumables or the value support of the life, is that the right way to look at it?

**Amit Kalyani:** The value of a gun depends on the level of technology and complexity and how advance it is and how sophisticated it is.

**Nitin Arora:** Let us say 155 mm.

**Amit Kalyani:** Even a 155 mm, the ATAGS gun is the most advanced gun in the world with 48 kilometers where every other gun is between 35 and 40, 7 kilometers cannot be measured in kilometers but in the lives of the soldiers, when you are 7 kilometers further away you can fire, it is immeasurable the value that it creates, so the point is that the value anywhere ranges between 12, 13, 14, 15 crores and then it depends on what kind of add-ons you have, what kind of other high-tech technology items that you put on top of it, so on and so forth, generally speaking it is 12 to 15 in that ballpark.

**Moderator:** Thank you. Ladies and Gentlemen, that was the last question for today. I would now like to hand the conference over to Mr. Amit Kalyani for his closing comments. Over to you, Sir.

**Amit Kalyani:** Ladies and Gentlemen, thank you very much for your encouragement and kind words and for all your interest in our business. I wish you all the best and stay safe and thank you very much.

**Moderator:** Thank you. On behalf of Bharat Forge Limited, that concludes this conference. Thank you all for joining and you may now disconnect your lines.