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SEC/2023/080

28th April, 2023

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

Dear Sir / Madam,

Sub: Transcript of Mahindra CIE Automotive Limited Q1 CY 23 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 21st April, 2023 in respect of advance intimation for Q1 CY 23 Earnings Conference Call, please find enclosed herewith transcript of the said call held on 26th April, 2023.

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

PANKAJ VIJAY GOYAL
Digitally signed by PANKAJ VIJAY GOYAL
Date: 2023.04.28 21:22:53 +05'30'

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

"Mahindra CIE Limited

Q1 CY '23 Earnings Conference Call"

April 26, 2023

MANAGEMENT:	**MR. ANDER ALVAREZ – CHIEF EXECUTIVE OFFICER – MAHINDRA CIE LIMITED** **MR. K. JAYAPRAKASH – CHIEF FINANCIAL OFFICER – MAHINDRA CIE LIMITED** **MR. VIKAS SINHA – SENIOR VICE PRESIDENT, STRATEGY – MAHINDRA CIE LIMITED** **MR. OROITZ LAFUENTE – BUSINESS CONTROLLER – MAHINDRA CIE LIMITED** **MR. SWAPNIL SOUDAGAR – DEPUTY GENERAL MANAGER, STRATEGY – MAHINDRA CIE LIMITED**
MODERATOR:	**MR. BASUDEB BANERJEE – ICICI SECURITIES LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to Mahindra CIE Q1 CY '23 Earnings Conference Call hosted by ICICI Securities. 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 this conference call, please signal an operator by pressing star, then zero 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. Thanks to the senior management of Mahindra CIE Automotive Limited for giving us the opportunity to host the call. The management is represented by Mr. Ander Alvarez, CEO. Mr. K. Jayaprakash, CFO. Mr. Vikas Sinha, Senior VP Strategy. Mr. Oroitz Lafuente, Business Controller. And Mr. Swapnil Soudagar, DGM Strategy. So without wasting any time, I'd like to hand over the call to the senior management of Mahindra CIE, to take over. Thanks.

Vikas Sinha: Yes, thanks, Basudeb. Good afternoon, everyone, and good morning to those, who are joining from Europe. I welcome all of you. As also Ander, our CEO, we are going to talk about the MCIE results from January 2023 to March 2023, quarter 1 of calendar year '23, Q1 CY '23. At the outset, we would like to bring to your attention that, during this quarter, M&M has reduced its shareholding in MCIE from 9.25% to 3.19%.

We would also like to update on the name change. We have applied to the registrar of companies for changing our name from Mahindra CIE Automotive Limited to CIE Automotive India Limited. The approval is expected in the coming weeks. We now start with MCIE India results for Q1 CY '23, which are on page six. Sales grew to INR13,541 million from INR12,022 million in Q1 CY '22, which represents a 13% growth year-on-year.

In this quarter, our EBITDA was INR2,267 million, EBIT INR1,718 million, and EBT INR1,639 million in MCIE India. Thus, sales in MCIE India grew 13% year-on-year, EBITDA 25%, EBIT 28%, and EBT 24%. The EBITDA margin for India in Q1 CY '23, was 16.7% compared to 15.1%, in Q1 CY '22, and an operational EBITDA margin of 15.7% in Q4 CY '22. Please note that in Q4 CY '22, there was a one-time impact of EBITDA of INR378 million. That is on profit of land sale, due to which the reported EBITDA margin in Q4 CY '22 for MCIE India vertical, was 18.5%.

Now, the India business has grown on the backdrop of a mixed market scenario. The light vehicles market has grown at 9.5% year-on-year, in this quarter, but the two-wheeler market has fallen. We would also like to point out that Q1 seasonally, is normally a good quarter, it being the last quarter of the financial year. Now, we move to MCIE Europe results, for Q1 CY '23, which are on page seven. Sales grew to INR9,666 million from INR7,533 million in Q1 CY '22, which represents a 28% growth year-on-year. This increase in sales is helped by a 6.6% gain in forex and a 17% growth, in the light vehicle market year-on-year, in this quarter.

Please note, that the forecast for the subsequent quarters in the light vehicle market, show a much lower growth rate, on account of rising interest rates and uncertainties, in the economy. The Q1 CY '23 EBITDA, in Europe was INR1,699 million, EBIT INR1,423 million and EBT INR1,265 million. The sales grew 28% year-on-year, EBITDA 55%, EBIT 67% and EBT 52%, in Europe.

EBITDA margin in Europe in Q1 CY '23 was 17.6% compared to 14.5% in Q1 CY '22 and 14.6% in Q4 CY '22. This improvement in margins was a combination of higher sales and lower energy costs. And now, if we go to page eight, we will see the consolidated results, which are a combination of the evolution, in both India and in Europe.

In Q1 CY '23, MCI on a consolidated basis achieved sales of INR23,206 million and EBITDA of INR3,966 million, which is a margin of 17.5%, and EBIT of INR3,141 million, which is at a margin of 13.5%, and an EBT of INR2,904 at an EBIT margin of 12.5%. These margins are the highest margins, we have achieved in MCI history, and this aligns our results with CIE ratios globally. In closing, we would like to state that, we continue to focus on internal improvements and building, a stronger company, and with these, we will strive to take advantage of all the opportunities that, come our way. With that, we can proceed with Q&A.

Moderator: Thank you very much. We will now begin the question-and-answer session. Anyone who wishes to ask a question may press star and one on their touchtone telephone. If you wish to remove yourself from the question queue, you may press star and two. Participants are requested to use handsets, while asking a question. Ladies and gentlemen, we will wait for a moment, while the question queue assembles.

The first question is from the line of Nikhil Rungta from Nippon India Mutual Fund. Please go ahead.

Nikhil Rungta: Hi, sir. Thanks for the opportunity and congratulations, on a great set of numbers. Just one thing from my side, in Europe, we have posted very strong margins, during the quarter, you indicated, it's because of higher sales and lower energy costs. So, till what time or till how many quarters do you think, we will continue to get benefit of these lower energy costs?

Ander Alvarez: Hello, this is Ander Alvarez speaking. In Europe, you know that, during the last years, we have had a huge impact on the energy prices, especially, when the war in Ukraine started. Okay? There was a huge peak on energy prices, both electricity and gas. During the complete past year, we suffered a lot on this, because the process of passing through to the customers was difficult and was delayed. And hopefully, by the beginning of the year, the energy prices, have gone down. Importantly, we are now at about, we can say an average of around EUR100, EUR120 per megawatt.

So, that is the impact on this energy cost, in our margin is coming to normality. Okay? Considering that, we had already negotiated with the customers the pass-through processes, we have now recovered certain normality in our margins. So, this is one of the main reasons, to increase our margins in Europe.

Also, as Vikas explained in the presentation, the turnover, the volumes helped us also, because the market performed really well, in the first quarter. And what we see right now is that we can have certain uncertainties, on the volumes, but it seems that the energy prices, they continue in the range that, we are seeing now. Okay? This is something that, we cannot predict, but if the energy continues in the current range, both electricity and gas, because the gas is even below EUR50 per megawatt, when last year, we hit EUR180 in certain quarters, so now we are at

EUR50 per megawatt, that is something a rationale. We will be able to keep current margins in the next quarters. Okay? So, everything will depend on geopolitical movements. What's going on with the war in Ukraine, what will be the balance on the energy prices between the different countries. That will affect, of course, to the energy prices. But our expectation is that the energy prices will continue more or less stable, at these figures, and if that is the case, we will be able to keep on, with the current margins.

Nikhil Rungta: Okay. Sir, just to continue on this particular question, say, if there is a status quo on the geopolitical scenario, then can we assume that the 17% to 18% margin in MCIE Europe, will be in a position to sustain that, say, over medium to long term as well?

Ander Alvarez: Yes. I would say, that considering this scenario and volume, let's say that the volumes are fulfilled, the market continues running as it is now, yes, we should be in this range of margins.

Nikhil Rungta: Got it. And, sir, last question from my side. On MCI, India, I don't have anything to comment, continues to perform strongly. Just one thing on our discontinued operation during the quarter, we reported profit of approximately INR60 crores odd, INR70 crores odd, during the quarter?

So do you think, we will be in a position to get back basically, the goodwill or any impaired goodwill which we would have, which we would have written off, in the past quarter? Because given the book value of that discontinued operation now and the quarterly profitability, which it's reporting, do you think, we would be in a position to get a higher value, significantly higher value than that?

Ander Alvarez: Okay. In this, let's say, evolution of our German forging, we have had some one-offs, that are improving our accounts, in the last quarters, okay? Especially in this last quarter, we received the payment of several customers that, paid us the energy increase pass-through from the previous quarters, so it is because there are, in certain customers, we have delays in the application of the energy increases. So in this quarter, we recuperated these impacts. Also, we received a subsidy from the German government on energy.

So additionally, we have also one-off coming from, let's say, incident cost that we pass-through to our supplier. We had a quality issue coming from a supplier and we were able to pass-through this quality issue 100%, to the supplier. So these things made this really high results, in the first quarter. And what we see is that our selling process of the company continues, as we explained, in the last call. There is no any new information to share. We continue, the process is moving on. We have several interested parties and we are working with them.

We have prepared and exchanged several information with them. So, we continue with the process of the sale, of the company. So let's say that we are optimistic that, we will be able in the next quarters, we will be able to successfully close this operation.

Nikhil Rungta: Perfect, and sir, what would be our capacity expansion plan in Metalcastello given that, we were working at a high-capacity utilization there and we are getting good traction from big customers, both from Europe as well as from US?

Ander Alvarez: In Metalcastello, in the last years, we have been adding capacity. We have been adding new machinery, state-of-the-art machinery, with several power scavenging machines. And these are the best-in-class machinery that, we are now using to produce gears in Metalcastello. The fact is that we have been also picking up to EUR75 million, EUR78 million, turnover in Metalcastello, that is the highest turnover that, we have ever had in the company.

Also the reality is that, in the next quarters, we are monitoring the American market because that approximately 70% of our sales in Metalcastello are shipped to USA and we see a certain decline in the demand in USA, for the next quarters. Because of the interest rate increase, it seems that, the economy will cool off a little bit. So, however, we continue investing in the critical and most important machines and we have launched also a couple of machines, in the recent days.

So we adapt our capacity in Metalcastello but we do it slowly and let's say, with firm steps because we are not sure that the expansion in the USA, will continue in the next quarters. Let's see, we will wait until, we see that the market is really booming but we have certain doubts, in this moment.

Moderator: Sir, the line for the participants has been dropped. We move on to the next participant. The next question is from the line of Nitin Arora from Axis Mutual Fund.

Nitin Arora: Hi, thanks for taking my question. The first question was, if you can talk about on the overseas PV forging business, with respect to the electric rather the customer acquisition on the electric side, if you can touch base, on that part?

Management: Under in CIE forging, on our acquisition of our EV business.

Ander Alvarez: Okay, so we continue very active in the EV business. Let's say, new project acquisition and we are working with several customers. Of course, we have already got a new business for electric vehicle to, let's say for battery packs in, for a truck manufacturer. I cannot disclose the name of the truck manufacturer but this is a reality. So yes, we are step by step getting new and more and more businesses for electric vehicles and we are planning the transition as commented.

It is complicated because the transition, how the transition will happen is not clear yet. It seems that in the next four year or five years, there will be a jump for electric vehicles. Till now, we are working with all the car makers and with all the truck manufacturers, on this transition and we are very active on that. Ok, you not, we are working for the, let's say, different components in the electric cars, especially in the battery pack that, they are using also steel forging components and we are working on the chassis components that, they are using forged aluminum components.

So we already got two or three new businesses. Now the fourth one, with the truck battery pack components. So the transition is there. We have the overall, we can say that approximately, 1/3 of all our new businesses, are coming from electric vehicles. So that's more or less the percentage that, we have in average. But and this percentage will continue growing for sure in the next years. But now that's, the information, I can share with you.

Nitin Arora: That's helpful. Just going forward, let's say, on the same aspect of increasing the EV penetration in revenues and in order book for you and given our debt has come down a lot and I'm assuming next two years can be good in terms of your free cash flow. So does acquisition also come into the picture, where you can grow faster by acquiring something, in the electric side, let's say light weighting component companies or if you have something strategy, there in mind?

Ander Alvarez: We are quite active also in that field. Of course, we are interested in acquiring these kind of companies. Not so easy because the amount of companies working in this field are not many. Just two or three I would say. Okay, not all of them are ready to talk to us. But in principle, our strategy, my answer would be yes, we are interested in doing something, in that field. Also, we are especially in the Indian market, we are also very active looking, for different options to continue our inorganic growth trend okay.

The organic growth trend is moving, is being executed properly but the inorganic growth should come also. So we are trying to grow in both areas as, we already mentioned. We would like to grow 50% organic, 50% inorganic. That would be our strategy to grow faster than the market.

Nitin Arora: Thank you very much. I'll come back in the queue.

Ander Alvarez: Thank you.

Moderator: The next question is from the line of Prashant Kutty from Sundaram Mutual Fund.

Prashant Kutty: Yes, thank you for the opportunity. If you look at the European market, you seem to have grown much ahead of expectations and also much ahead of probably, the industry growth as well. While you just had about the EV part of it, are there any, is there a higher share of businesses which is actually also coming from the existing customers or any new customers have kind of gotten added, into this pack?

And just in addition to that, what's the outlook now, when you look at the Europe business? Because I presume, you always give a relatively lower outlook in terms of the Europe business. Is the outlook changing now, as far as the Europe business growth is concerned?

Ander Alvarez: Okay, yes. The growth of our European business is coming from mainly, the increase of the market. Also, we had an increase in market share in certain customers. And that in our mix of customers, some of them are performing better than the others.

Okay, so we were lucky this time and our mix of customers did much better than the competitors. Okay, so that's the main reason of having this outperformance over the market in this Q1. Okay, and regarding the future expectation for Europe, I would say that I'm not very optimistic regarding the continuing the growth. My view is probably, we will see a certain stabilization and a certain normalization of the market.

That's what, we see in our forecast and it seems that April, will be a little bit weaker and then in May and June, there is a recuperation. So let's say that we will see a European flat or a slight growth in Europe, in the next quarters.

Prashant Kutty: The second point is that you spoke about the margin side of it. Obviously, a large part of the benefit, you highlighted is, that it's been coming from energy costs, the reversing and you passing on the customer, passing it on to the customers. How much of it is actually driven by efficiency?

Because like you said, you're working a lot of internal efficiencies and you actually want to kind of mirror CIE margins. So how much of it you should actually expect to be sustainable in the future? And like you said in the past, the CIE margins are typically in the range of 18 plus numbers. Do you feel that we can kind of reach that faster than expected?

Ander Alvarez: Yes, okay. These margins that, we already got in the first quarter, we think not only that they are sustainable, we think that we should continue improving them, in the next quarter. We have room for improvement, especially in India, where we are negatively affected by the two-wheeler business drop. Once the two-wheeler comes back up or bounce back, we will be able to improve our margins. That is also an important thing. And in Europe, what we think is that we have been working very hard. Regarding your question of how much is coming from the internal efficiency? I would say that approximately one-third of this is coming from energy, one-third is coming from internal efficiency and one-third is coming from higher volume impact. So, the dilution of the fixed costs thanks to the higher volumes and bigger operations.

So my view, or at least my target, is to not only keep these margins but to continue improving them because as you saw that we are already at 17% EBITDA in the consolidated basis, but CIE target is 19%. So, I still have a lot of job to do, in order to reach this 19%. So that's our task, to make it a profitable business and sustainable business for the future.

Prashant Kutty: Last point over here, when you spoke about India, you said that you were largely impacted by two-wheelers. Is there any other impact, which is there or as far as the India margin is probably not being as high as your expectations, is there any other element which needs to be worked on because over there, like you said, the gap is far higher on the India business?

Ander Alvarez: I think, India business is performing really well. The main impact that we have is that we have three businesses affected by the two-wheelers, mainly aluminum AEL. We have a Bill Forge in Bangalore that is affected also by the two-wheeler and the magnet business that we have here in Pune is also affected. So these three businesses are negatively affected by the two-wheeler business performance.

Then of course, once the market comes, we all expect that there will be a recovery. We don't know when, but we expect that this will happen. We will see this recovery and the improvement of these three businesses will give us the additional support to continue improving our margins.

Prashant Kutty: Thank you so much and all the very best to you.

Ander Alvarez: Thank you. Thank you very much.

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

Jinesh Gandhi: Hi, sir. A couple of clarifications first. So, when we talk about M&A, this is largely for India, right? Or are we looking to acquire in Europe as well?

Ander Alvarez: Okay. No, yes, for M&A, what we are planning is mainly in India. Our target is clearly to focus on India. The thing that all our, even organic growth capex is also focused on India.

Jinesh Gandhi: Right. Secondly, for the European business, for the energy cost, the current quarter energy cost which we have accounted for is $100 to $220 per megawatt. And in coming quarters, if our spot price is trivial, then it will be at EUR50 per megawatt. Is that understanding, correct?

Ander Alvarez: I didn't catch the figures. Sorry, can you repeat them?

Jinesh Gandhi: One Q was at EUR100 to EUR120 per megawatt. And current is about EUR50 per megawatt.

Ander Alvarez: No, no, okay, we need to make a differentiation between the electricity and the gas, okay. In Electricity the previous we were at around EUR300 per megawatt last year in the third and beginning of the fourth quarter. And then now we are at EUR120, between EUR100 and EUR120 per megawatt. That is the reality in electricity. Okay.

And regarding the gas, the gas in the worst moments of the peak, we were at EUR180 per megawatt. That was also the third quarter of last year. And right now, we are about EUR50 per megawatt. And in the last month, it's quite stable. So, and the futures of the gas are also indicating that next year will be at around EUR50 per megawatt. So, that is the evolution of both electricity and gas.

Jinesh Gandhi: Okay, okay. So, if current spot prices prevail, then there would not be any material benefit coming to our margins in coming quarters?

Ander Alvarez: No, no. I think now, if the electricity and gas remains stable, we will remain also at the same level and stable and no impact not negative, not positive impact in our accounts in the future.

Jinesh Gandhi: Got it. And the third clarification was on MSP sale process. So you indicated we expected to complete it in next one or two quarters. Is that correct?

Ander Alvarez: Yes, yes. We continue the process. The process is quite active. And let's say that the market is showing a big interest in the company. So, we continue working hard and our interest is to do it as soon as possible. So, we expect that in one or two quarters, we will be able to give some feedback to the market. And of course, the strategy for our target is to close the operation before the end of the year.

Jinesh Gandhi: Got it. And on the EV exposure for our European operation, in the past we have talked about 20% to 25% of revenues coming from IC engines. Now with MSP exit, would that number still be same, or it will be on the higher side?

Ander Alvarez: I didn't catch. Vikas, can you take the question? I didn't understand.

Vikas Sinha: Yes, Jinesh, it will be higher because when we used to talk about dependence in Europe on IC engine parts, obviously a large part of our truck forging business was not in engines. It was largely in CIE forging. Germany was not on the engine side. So, obviously now the proportion of engine parts in our current portfolio in Europe is higher.

Jinesh Gandhi: And that would be roughly about 40% to 50%.

Vikas Sinha: We will have to do the calculations to see what our crankshaft dependence is. But yes, it will be higher than 25%.

Jinesh Gandhi: Okay, got it. And in terms of the EV components which we are getting in the European operation, you indicated that the battery pack is for the series is on steel forging. Is that understanding, correct?

Ander Alvarez: Yes.

Jinesh Gandhi: So, technically both steel forging and aluminum forging is finding acceptance on the EV component side and not just aluminum forging.

Ander Alvarez: In this case, it is development done with the final customer, with the OEM. And the best solution due to certain mechanical requirements of the components was the steel forge components for the truck market. In this case, we are talking about big batteries for class 8 trucks.

Jinesh Gandhi: Right, right. Got it. And lastly, this is a question on the consolidated interest cost. We have seen a substantial increase on a QQ basis. Is it largely due mark to the market of European operations in terms of balance sheet or there is something else in that?

JP: No, Jinesh. It is the actual interest cost increase in Europe. Until December, we had that higher. But from January, the rates have hit 3% plus on the working capital.

Jinesh Gandhi: And this number is what it should sustain given where interest rates are.

JP: Yes.

Jinesh Gandhi: Got it. Thanks. I will fall back in the queue.

Vikas Sinha: Yes. Thanks

Moderator: Thank you. Next question is from the line of Priyaranjan from HDFC Asset Management. Please go ahead.

Priyaranjan: Yes, thanks. Two questions. One is on the European side. So now the gas cost has normalized. So, you have got the pass-through of all the gases for the higher cost. Do we also have to pass through for the reduction in gas cost because now it is normalized? So, if we have to reduce our pricing for the gas component.

And secondly, you have also talked about whether there is some subsidy etcetera. We have got from the German government for the gas pricing, etcetera. So, is there any impact of that in the numbers?

Ander Alvarez: Yes. Okay. Yes, regarding the energy pass-through, of course, if the energy, the gas goes up, we have an agreement to apply those increases with the customers. If the prices go down, of course, we reduce the prices for our customers. So, it's a pass-through system. So, it is working in both directions. Okay. So that's the first comment.

And second comment, on the German activity. In Germany last year, there was a big-big increase on energy prices. And the government took certain subsidies or decided to apply certain subsidies to the companies. And these subsidies came with certain delay and after big paperwork and certain bureaucracy. And we have got this impact. It's approximately EUR1million from Germany in the first quarter '23. So, this is one shot that there is, it will not be repeated. I mean, there is no further impact in subsidies expected yet. Okay. So, everything will depend on energy evolution and, of course, government decision on subsidizing or not the industries.

Priyaranjan: I understood. So, the current year, the current quarter pricing was based on the $50 pricing? I mean, the $50 per megawatt or EUR50 per megawatt price?

Ander Alvarez: Yes.

Priyaranjan: Okay. And coming back to India, so just on the, if the two-wheeler industry doesn't recover and remains where it is, like, say, 15 million, 16 million industries, so how soon or how easy we can repurpose our capacities to drive for, say, to newer segments like, say, passenger car or truck market or LCVs? Is it easy to do that or do we have to do substantial capex for that?

Ander Alvarez: Okay. We are quite active on new projects, and we are launching all the new projects that we hired last year. So, let's say that there are a lot of projects in the pipeline in this moment, okay?

Rather than taking or getting new businesses that you know that the lead time of these new projects will take at least one and a half years, even two years, depending on the product. So, if we have to let it look for the short term, I think that our expectations are more in the projects that we have already launched in the pipeline, and we are waiting for the ramp-ups of our customers. So, I think that will be the proper approach to increase our sales.

And regarding the existing lines that are with lower load, mainly because of the two-wheeler market evolution, we are waiting until this market recovers, okay? So, we are not planning to refurbish the lines and eliminate this capacity because we strongly believe that this market will come back again, okay? Perhaps in three months or perhaps in six months, but we are now patiently waiting for this market to recover because we don't think that these low volumes will continue for long, okay?

Priyaranjan: And in terms of the capex, organic capex in, say, Europe, if we get some aluminum forging businesses, so are we ready to invest in capex in Europe as well, or we are more inclined towards capex in India?

Ander Alvarez: No, for the aluminum, we will invest capex in Europe also, okay? Just for this strategic EV component, aluminum forging, we will invest, and we will prepare, let's say, state-of-the-art lines in order to compete in the market properly, okay? Those are probably the only projects, investment projects, that we will have in Europe. And the rest of the investment, let's say that 80% of the capex in our company will be in India for the different verticals where we expect to continue growing in the next years.

Priyaranjan: Okay, thank you. That's all from me.

Moderator: Thank you. Next question is from the line of Nishit Jalan from Axis Capital. Please go ahead.

Nishit Jalan: Yes, Hi. Congratulations on a good set of numbers. I have two questions. One more clarification. So, in Europe, what you mentioned is there is a one-off benefit of subsidy which was about EUR1 million which came in Q1 which may not come going ahead. Are there any other one-off benefits that you got, let's say price hike from any of the customers pertaining to previous quarters which may not sustain going ahead Just wanted to understand if there are any one-off benefits beyond the EUR1 million subsidy from German government?

And second question is on India business. If you can highlight any new order wins or any new breakthroughs with existing customers or new customers that you have made in the last six months, either on the passenger vehicle two-wheeler or the commercial vehicle side, that would be very helpful. Thank you so much.

Ander Alvarez: Okay. No, let's say that the subsidies that we got in Germany, it was one-off. In the current, the rest of the accounts, we don't expect to have additional one-offs in the future. So, if the energy prices remain stable, we will see the same level of margins in the future. So, we expect stability there. There is no additional impact expected right now.

And regarding the businesses, the new businesses, we are very active in the new project allocation, and we have been awarded for several businesses recently. And yes, we have got new business. Yesterday I was informed that we got one for rail business from a customer. I cannot disclose the customer, but this is a very important customer here in India that has already awarded us a new business. So, let's say that we continue developing all the verticals in the standard way and the amount of new projects that we are getting are in line with our budget. So, let's say that we are optimistic in this sense.

I cannot disclose the details because that certain customer, they don't like to use their names or the product names in this kind of calls because they prefer to keep certain, let's say, low level on this. But the evolution of our company is solid. The new order allocation is also very interesting in this first quarter. And we continue with the same path that we had last year. So that's the evolution that we are having in this moment.

Nishit Jalan: Just one follow up here. I know you cannot mention the name of the product and customer but is there anything like an order book or let's say you have one order with X revenue potential annually that is still not translating into revenues and will come in the future. So basically what

I'm trying to gather is how much faster can you grow compared to the industry production. So just wanted to, whatever numbers you can share, that would be helpful?

And then additional part here is there are a couple of domestic passenger vehicle OEMs also which are launching EV models and they are your customers for different products. So are you getting any or have you got any orders for EV components in India also from your, from some of your existing customers who are planning to launch EV SUVs in the next couple of years?

Ander Alvarez: Yes, we have got several components for the EVs, even for, especially from Mahindra and from Tata. Okay. Both of them we have been very active, and we have been awarded with several projects for electric vehicles. Okay. So yes, we are active on that. So that process is going on. Okay.

Yes. As a summary, last year, last calendar year, we got EUR10 billion per year of additional orders in, let's say, in the complete year. Okay. So, this year we expect to get additional, this, the same figure or just in that, in that range. So, we will continue adding more projects. Of course, from the moment that we are nominated, till the start of production and I'm going to the, let's say, at the peak volumes, it takes usually two years to three years.

So there is a delay in the, in the, in the launch of this, of this product. But as we have been, we have been getting new businesses during all these years, we will continue our growth, but of course, providing our customers are successful with all these products. Okay.

Also, and this is important to say that we are starting now also a certain electric vehicle components production in India to deliver to Europe and the SOP will be in the next couple of months. So this will also give us an additional jump on sales and also our percentage in electric vehicles will continue growing. So yes, there is an evolution. I think probably all the companies, in our market are perceiving this change in the portfolios and slowly, slowly the electrification is entering into our order books and probably we will see this transition happening in the next year. Okay.

But what is not clear yet is the speed of this transition, okay. Because probably in certain regions, the speed, the transition will be much faster than other regions like India, where we can expect a lower transition, but the transition will be there for sure.

Nishit Jalan: Okay. Thank you very much for the detailed answer.

Vikas Sinha: Just to add to what Ander said, you know, we have discussed in the past also that in India we are dealing with two-wheeler OEMs, about two-wheeler EV OEMs, five or six. Ander has talked about the main four-wheeler EV OEMs and we are also very active in the three-wheeler EV space, where again, Mahindra is a very big customer of ours in the three-wheeler EV market. So, we have a comprehensive outreach to EV OEMs

Every year we keep accruing orders in the EV space. And your question on the overall order book, of course, we don't talk about an order book number because, you know, that is based on the kind of volumes that will come in the future. What we normally tell you is that 25% of our sales in a year we target getting from new orders, which we have got in the previous years. And the other thing that we have spoken about in the past is we want to beat overall market performance. If you look at the weighted average market performance, we want to beat that by 5% to 10% on a regular basis. So that's how we look at the scenario from on the sales perspective, okay?

Nishit Jalan: Thanks, Vikas. Maybe I will come back to you separately for more details. But thank you for the response both Ander and Vikas on the question. Thank you.

Vikas Sinha: Thank you to you.

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

Nikhil Kale: Yes, thank you for taking the question. Congrats on a very good set of numbers. Just on the subsidy part that you mentioned, that is in Germany. So I would presume that it is in part of the discontinued operation, right? So the reported Europe EBITDA is completely clean with no subsidies and retrospective kind of cost or compensation to customers. Is that understanding correct?

Ander Alvarez: Yes, it is correct. Yes, it is discontinued operation. It is in the profit, not in the EBITDA.

Nikhil Kale: Got it Thank you. And the second question was related to, we are hearing a lot about employee cost inflation in Europe in this year. And probably OEMs would be reluctant to kind of compensate you for that. So how are you looking at that? If you could just throw some color on that.

Ander Alvarez: Yes. Okay. You know that usually the inflation in Europe in the last eight years, ten years was very-very low. Even in certain years we have been with deflation or very close to zero. Unfortunately, in the last two years we have had a huge inflation. In 2021, in Spain, we had an inflation of 6.4%. In 2022, we had an inflation of 5.4% that is the impact.

So yes, the salary increases, the salary that we have negotiated with our unions are, of course, considering these increases. So we are negotiating with the customers to pass through the inflation, at least partially with them. Of course, the discussions are there and, okay, it is becoming hard to get these pass-through, especially regarding the inflation, not with energy. Energy they already assume that it needs to be passed through and this is accepted. Also raw materials are accepted, but the inflation is more difficult.

So we are approaching in two ways. One is at least partial recovery from the customer and a certain, at least partial offset with internal efficiency improvements. Okay. That's the approach. What we have set as a target is that no, any loss, any sense of margin loss due to this. Okay. We need to be able either with the compensation plus the internal efficiency to compensate 100% of the inflation impact in our P&L.

Nikhil Kale: Okay. Got it. Thank you. That's my question.

Ander Alvarez: Thank you.

Moderator: Thank you. The next question is from the line of Nikhil Rungta from Nippon India Mutual Fund. Please go ahead

Nikhil Rungta: Yes. Hi, sir. Thanks for giving me the follow-up chance. You indicated that you will continue to look for inorganic opportunities as well. So just wanted to check what would be the cutoff ROCE which we would be looking at in our incremental acquisitions?

Vikas Sinha: Nikhil, it's difficult. You know that our M&A activity is focused on India. In India we have, the valuations as what they are. From what we normally look for is in three years to five years' time, the marginal return from any acquisition should go back to 15%. So that's the simple way of looking at it, if you look at it. Whatever price we buy today in three to five years times that should be adding that business should be at a marginal RONA of 15%. That's all.

Nikhil Rungta: Okay. And, sir, just one more clarification. Like the state which is left with M&M, I said that last year CIE already reached to a cutoff range of 5% till September itself. So incrementally, if M&M comes out with their remaining stake, CIE definitely might participate in the same, right?

Vikas Sinha: As, MCIE, we are not, like we cannot answer that question. But CIE has increased stake in MCIE in the past. So they will constructively look at the scenarios. But that is not something that is on the table as of now.

Nikhil Rungta: Got it. sir. Sure. That's all from my side. Thank you so much and all the best for the future.

Vikas Sinha: Thank you.

Moderator: The next question is from the line of Sunil Kothari from Unique Portfolio.

Sunil Kothari: Thanks for opportunity and very hearty congratulations to team. Vikas, my question is to you regarding this Indian growth, which we achieved roughly 13%. So, normally your objective is to grow 5% to 10% or maybe nearer to 10% than the industry growth. So if you can a little bit give detail about how industry separately has grown, which segment, like six tons or less than six tons or MHCV tractor, two-wheeler, and where we are in this objective?

Vikas Sinha: Of course, this quarter, if you look at, the less than six ton has grew by about 9%, 9.5% on a year basis.

Two wheelers, which is our next biggest, de-grew, it reduced by minus 3%. Trucks reduced by 8.8% and tractors showed a healthy growth of roughly about, plus almost over 30%, on a year-on-year basis because Q1 last year was quite low, in the tractor business.

So, weighted average would be somewhere in the range of 8% to 9%. So you have and we were at 13%. A little bit of that was due to Bajaj, because Bajaj and Maruti, both of them were much lower than the market growth. So, Bajaj de-grew by much larger than the market

Maruti was also lesser, much lesser than the 9.5% growth. Because of these two, because they have almost a 25% weightage in our India business, you are seeing a bit of a skew as far as, the outperformance is concerned. So that, that is the reason that, it could have been better, if you ask us, that way.

Sunil Kothari: And Vikas, recently after the Bajaj auto results and call, they are giving some indication of bottoming out process of domestic demand and maybe interest also. Do you feel or would you like to comment on two-wheeler demand scenario locally or maybe exports?

Vikas Sinha: Boss, has already commented. He said that three months to six months, we do expect the two-wheeler market to be better. And that is correct. If you look at the retail data, which FADA puts out, you are seeing an increase on month-on-month. And also you see the inventory data that they give out, that data is also coming down. So, both these factors, like we think, that at least, there is momentum, on the retail side. Of course, whether it will recover to previous highs is a different question. That may not happen. But, last three months, retail data is quite, like, optimistic. So January, February, March, all three have shown growth.

So we think, as Ander pointed out, we do think that the two-wheeler market will be better for sure, going forward.

Sunil Kothari: Great Vikas, basically CIE is now benchmarking every best performance in terms of profitability and growth. So that's why our expectation is a little bit more than, what you may be or you are doing. But I'm sure, you'll be doing better and better. This is it for that. Thank you very much.

Vikas Sinha: Sunil, just to add to that, as, we have been pointing out, we will keep on focusing on improving our operations, bringing it as much in line with CIE global, performance requirements. Market will go up and down, but our focus remains on becoming more and more competitive. So in one quarter or the other, as we keep on saying, you will see, depending on the customer portfolio, just like in India, we pointed out that our customer portfolio, did not help us as much in Q1. But the reverse is happening in Europe, as Ander pointed out. Our customer portfolio is actually helping us gain, sales growth in Europe in Q1.

So, because of the diversification, it is helping us. In India, the portfolio did not do as well, but in Europe, it did better. So, that will always be there. But the fact is, we will keep focusing on becoming more competitive, becoming more and more aligned with, CIE performance requirements globally. And as we keep repeating, if that happens, growth will follow.

Sunil Kothari: No doubt about that. Thank you. Thanks a lot.

Vikas Sinha: Yes. Thanks, Sunil.

Moderator: Thank you. Next question is from the line of Bharat Sheth, from Quest Investment Advisors. Please go ahead.

Bharat Sheth: Hi, Ander and the team. Congratulations. Vikas, you and JP also. My question for one, first is on the India business. Now, as we said that, this two-wheeler is expected to really do balance the, means full year, ‘23, ‘24, then the ‘22, ‘23. That is one.

Second, sector is expected to get some kind of a slowdown. So, in that, with that background, as well as for the export from India is expected to start or improve for EV products. So, how do we see India business growth for current year as well as next couple of year and what kind of a capex, that we are planning?

Vikas Sinha: No, Bharat, as we as Ander pointed out, 80% of our organic growth capex is aimed at India. And we have pointed out in earlier calls and in earlier meetings also is that this capex is across verticals in India. It's not as if it is concentrated in one or two, two verticals. It is across the board. So, all verticals are growing in India.

To answer your question, how should you look at growth in India? I think we maintain whatever we have said before that, whatever be the weighted average market growth, we will grow higher than that, 5% to 10% closer to, on the higher side rather than on the lower side. So, that remains, that remains our objective.

The reason why, we are saying that is, as again, Ander pointed out previously on this call itself, there are a lot of capacities that, will come on board. When the question was on are we shifting two-wheeler capacities elsewhere, the answer was that a lot of new projects are expected to come ramp up in the coming few quarters and that should help our growth profile.

So, there is absolutely from a perspective of India growth, there is no change in, whatever we have been saying.

Bharat Sheth: Second question is, if Ander is there, how do we see export from India? What he stated that, we'll start from next couple of months, for the EV related product. So what, if you can give some kind of a color, more detail, which kind of a product are we looking to export from India for EV business in Europe and what could be the potential?

Ander Alvarez: Yes, we are now starting the export of certain forged and pre-machined steel components, okay, for electric vehicle applications, in Europe. And this trend will continue and we will, let's say, we will see, important growth in that range.

Some years ago, we decided to increase our export rate that was at about 13%, 12% to 13%, in our company. And we wanted to increase this export rate to 25%, as a target. Okay.

Bharat Sheth: Correct.

Ander Alvarez: Fortunately, during the last two years, especially because of this, let's say, turbulences in the geopolitical area in the world, we saw that the transport cost, all the freight and everything were going up, in terms of cost dramatically. Also lack of ships to deliver the materials. So let's say everybody and all the car makers and the OEMs, they were really, really frightened. So they decided to go to the local-to-local strategies or at least to protect themselves better, than in the past.

So right now, when all the logistic issues have been already solved and there is certain stability, we don't know, what will happen, especially with the Ukrainian war situation. But it seems that, the situation is more stabilized and the logistic cost has come down again to a normal figure. So, it seems that the export will continue growing from India or China or Korea to Europe and the States.

Then there is a second important factor in this that, we are already internally debating because we have more and more pressure to calculate the CO2 footprint, of our products. And with this CO2 footprint reduction requirement, the long deliveries from overseas probably will be reduced or at least, it will be minimized in the future.

So, now we are trying to adapt to this new scenario. We will see what are the requirements from our customers. And as a company, as we are located in the different regions, we are proposing to go local for local as a main strategy. So, the export will continue growing, but it will not be a main strategy, mainly because of the two resources, I gave you. So, we see that the export rate will continue growing, but we need to see, what's going on in the market and with the geopolitical scenarios.

Bharat Sheth: And last question, if I, with your permission, in India business, we reported 16.7% and you say that, still there is room. So, what is our aspiration for India business margin, if you can give a little more color from two-year, three-year perspective?

Ander Alvarez: So we have this target to align our margins in India to CIE global margins. CIE global margins are around 18% and with a target to continue improving to 19%. So, I would say that, in the short term, our target would be to be at 18%. That is the short term. In the mid-term, we should hit CIE's targets, too.

Bharat Sheth: Thank you very much and all the best.

Ander Alvarez: Thank you.

Moderator: Thank you. The next question is from the line of Mahesh from LIC Mutual Fund. Please go ahead.

Mahesh: Hi, sir. My questions have been answered. Thank you so much.

Ander Alvarez: Okay. Thank you.

Moderator: Thank you very much. Ladies and gentlemen, we'll take that as the last question. I will now hand the conference over to the management for closing comments.

Ander Alvarez: Okay. As usual, I would like to say thank you to all the participants for the well directed and well-prepared questions. We hope that we properly answered and logically answered, all to all their questions. If anything is needed, you can contact either Vikas or Swapnil to continue with the further details. And as always also, I would like to say thank you to the Mahindra CIE team, for their fantastic job and commitment during all this quarter. So, I hope to see you in the next quarter, with similar results or even better. Thank you very much.

Moderator: Thank you very much. On behalf of ICICI Securities, 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