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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, 5 th Floor, Plot No. C/1, G Block, Bandra Kurla Complex, Bandra (E), Mumbai - 400 051. NSE Scrip Code: MAHINDCIE
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Dear Sir / Madam,

Sub: Transcript of Mahindra CIE Automotive Limited Q4 CY 2020 Earnings Conference Call

Pursuant to Regulation 30 read with Para A of Schedule III and Regulation 46(2) the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 and our letter dated 16th February, 2021 in respect of advance intimation for Q4 CY2020 Earnings Conference Call, please find enclosed herewith transcript of the said call held on 22nd February, 2021.

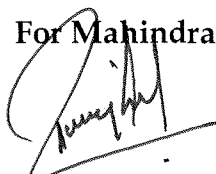
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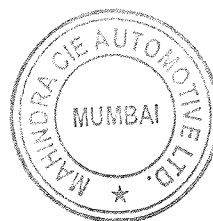
For Mahindra CIE Automotive Limited



Pankaj Goyal
Company Secretary and Compliance Officer

Membership No: A 29614

Encl: as above





“Mahindra CIE Automotive Limited
Q4 CY2020 Earnings Conference Call”

February 22, 2021



ANALYST: MR. NISHANT VASS – ICICI SECURITIES LIMITED

MANAGEMENT: MR. ANDER ARENAZA ALVAREZ – CHIEF EXECUTIVE OFFICER - MAHINDRA CIE AUTOMOTIVE LIMITED
MR. K. JAYAPRAKASH – CHIEF FINANCIAL OFFICER - MAHINDRA CIE AUTOMOTIVE LIMITED
MR. VIKAS CHANDRA SINHA – SENIOR VICE PRESIDENT, STRATEGY, MAHINDRA CIE AUTOMOTIVE LIMITED
MR. OROITZ LAFUENTE – GLOBAL BUSINESS CONTROLLER - MAHINDRA CIE AUTOMOTIVE LIMITED
MR. SWAPNIL SOUDAGAR -DY. GENERAL MANAGER, STRATEGY, INVESTOR RELATIONS AND MERGERS & ACQUISITIONS – MAHINDRA CIE AUTOMOTIVE LIMITED

Moderator: Ladies and gentlemen, good day and welcome to Q4 CY2020 Mahindra CIE Earnings call hosted by ICICI Securities Limited. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Nishant Vass from ICICI Securities Limited. Thank you, and over to you, Sir!

Nishant Vass: Thanks, Mallika. Good day, everyone. Thanks for joining us today for the Mahindra CIE Automotive Earnings Call. The management is represented by Mr. Ander Arenaza Álvarez, the CEO; Mr. K. Jayaprakash, the CFO; Mr. Vikas Chandra Sinha; our Senior Vice President, Strategy; and Mr. Oroitz Lafuente, Business Controller. Now I hand over the call to the management for the opening remarks, and then we will have the Q&A. Over to you, Sir!

Vikas Chandra Sinha: I will present MCIE results for the Q4 C2020 and full year C2020. The year gone by has been extraordinary. It started as a continuation of the tough year that we had faced in 2019, but then the COVID-19 prices took everything out of gear. Q2 C2020 was the worst quarter that the industry has seen. The demand just collapsed due to the lockdown.

At MCIE, crisis management groups, to handle the pandemic were constituted at each plant to review the situation and react as warranted. All our plants have been functioning normally since May of last year, with a focus on renewing and continuing operations in a safe and sustainable manner. We have striven to provide a safe working environment for our workforce.

We at MCIE quickly initiated programs for cost reduction, cash protection and reduction in breakeven point, the results of which can be seen in our Q4 C2020 and CY2020 financial. Q3 C2020 onwards, the automobile demand in all segments revised faster than expected, and thankfully, Q4 C2020 has continued the similar trend.

The MCIE team showed great resilience and ensured that the company was quickly on its way to normalcy and well-placed to exploit opportunities as market conditions became more favorable. We start with Page 5 of our presentation, where we have mentioned some key highlights for the year. Our parent company, CIE Automotive came to reinforce the stake in MCIE by increasing the share count from at 56.28% to 60.18% via open market transaction.

We would also like to mention that in the last 2 years, we have added many customers, more than 25 big and small to MCIE's portfolio. Page 7 shows the updated legal structure.

Pages 8 and 9 depict the sales splits by technology as well as geography. The end-use segments where MCIE operates and as the customers are also shown there for your benefit.

The Q4 C2020 results for MCIE India are on Page 11. Sales and EBITDA improved both on year-on-year as well as a sequential basis. Q4 C2020 revenue grew by 17% over Q4 C2019, while EBITDA and EBT grew by 43% and 78%, respectively, over the same period last year. We would like to especially mention that we have achieved an EBITDA of 15.3% and EBIT of 10.6% and EBT of 10.6% in Q4 C2020. The margin improvements are largely due to the cost reduction, cash protection and reduction in breakeven point programs initiated at the height of the pandemic.

On Page 12, we have the results for MCIE Europe in Q4 C2020. Sales in euro terms dropped by 3% compared to Q3 C2019. The EBITDA margin was at 12%, EBIT at 7% and EBT at 6.6%. Q4 C2020 margins have improved sequentially. That is as compared to Q3 C2020 and this despite a drop in sales. The margin is also affected due to the ongoing restructuring action, which impacted approximately 1% EBITDA margin in the quarter.

On Page 13, we see the consolidated MCIE Q4 C2020 results, which is a combination of the results in India and Europe. After the huge drop of Q2 due to the virus impact, our company has recovered normal turnover and margin levels, and the EBITDA recovery plan is showing results. The EBITDA margin has improved to 13.7% as compared to 12.7% in Q4 C2019, and the EBIT margin is at 8.9% compared to 7.9% in similar quarter last year, and EBT margin of 8.6% as compared to 7.3% in Q4 C2019. A point to be noted of the Q4 C2020 results.

In Q4 C2020, the share of India and the consolidated sales was 52%. The first time it has crossed 50%. The share of consolidated Q4 Q C2020 EBT contributed by MCIE India was higher at 54%, reflecting the margin improvements in India. This trend is expected to continue, with the Indian business slated to grow much faster than Europe. The full year C2020 results for MCIE India around Page 15. Sales dropped by 18% compared to C2019, EBITDA margin of 11.7%, EBIT of 5.7% and EBT of 4.8%, reflect the strong business recovery in Q3 and Q4 quarters and the internal efficiencies improvements. On Page 16, we have the full year results of the C2020 for MCIE Europe.

There has been a 28% fall in sales vis-à-vis full year C2019. EBITDA margin was at 7.6% and EBT at 3%, and EBT at 2%. As mentioned in earlier call actions taken to adapt to the new market reality resulted in restructuring costs and over by CY 2020. On Page 17, we have the C2020 consolidated results of MCIE, which are a combination of a disappointing first quarter, a loss second quarter and resurgent third and fourth quarters. In C2020, there was a 23% drop in sales, despite a tough year, we reacted with alacrity and strongly to the changing market conditions and put measures.

Measures that have put us in a stronger position to continue growing adequately, the EBITDA margin for the year is 9.6%; EBIT, 4.3%; and EBT at 3.4%. On Page 20, you will see our abridged consolidated balance sheet. The return ratios for the full year CY2020 reflect the more than 20% drop in sales, but the effect of the measures that we have taken is shown by the prorated return ratio of Q4 C2020. If we just consider Q4 C2020, we achieved a RONA of about 10% and ROE of 9.1%. Our overall net debt has increased by about Rs.1.2 billion to Rs.12.75 billion, but this includes an increase of Rs.2608 million due to changes Ind-AS 16 accounting standards and Rs.1512 million increased due to exchange rate impact.

The cash flows are shown on Page 21. Our cash generation has been strong that we generated an operating cash flow of 51% of the EBITDA. There was a Capex of Rs.2761 million in C2020 on a consolidated basis, which was slightly higher than what we had talked about previously, but it was largely because of the more than expected resurging demand in India.

On Page 24, we have laid out NPI strategy. We have laid out the differentiating principle business strategy, opportunities and risks. We believe that exports from India is a huge opportunity and that digitalization of operations can push up our plant efficiency. We are also keeping a keen eye on EV penetration across markets and reacting economy. On Page 26, we have chartered MCIE's stock performance as compared to relevant indices and market cap.

The next few pages talk about the market statistics and forecasts from relevant sources, followed by the results submitted to SEBI in the prescribed format. In conclusion, let us assure you that we continue to focus on growth, customer satisfaction and leaner operation, with more productive routines to deliver better operating results. This is consistent with our aim of generating better returns on both equity and capital employed in the coming years. So with that, I thank you for your time, and now we proceed to the Q&A. Back to you, Nishant!

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Bharat Sheth from Quest Investment Advisors. Please go ahead.

Bharat Sheth: Congratulations Ander and Vikas and team for a good set of numbers. So just taking, I mean, the first part on the India part, you said that almost we have touched, I mean Rs.1000 Crores quarterly run rate in this quarter, and we expect to grow an EBITDA is at 15% plus. So how do we really look at CY2021? And what would be the concern in growing at this pace?

Ander Arenaza Alvarez: Yes. From my side, we expect to have a positive and strong calendar year 2021, okay. What we know from the market is that we expect Indian market growing 23% - 24% this year compared to the 2020. That was clearly affected by the COVID. So we expect to see the

market at the same level or even above 2019 market levels, okay. So in that sense, what we expect is our business to continue performing well. At least in the last months, we saw a fantastic performance of the automotive market in India. The Q4 was really, really strong thanks to the, let us say, good performance of the festive season, and this momentum is still there, okay. So until now, what we can see is we are quite optimistic for the Indian market evolution in 2021, and we expect to continue improving our company results and margins.

Bharat Sheth:

So taking forward, I mean, let us say, approximately Rs.4000 Crores kind of run rate, so in this quarter, we have hit, I mean, 15% plus EBITDA margin. So do you think this margin has peaked out or still there is a room to improve the margin from here? Or how do we see the impact of the raw material prices increasing so overall, if you can give some color on the margins front?

Ander Arenaza Alvarez:

Yes. So yes, you properly mentioned that the raw materials are growing, the prices are going up, and that can happen in slight affect margins in the short term, then all the raw material prices are indexed with our customers, so we pass-through the price increases to the customers. So in the long term, we do not see a big negative effect, okay, apart from that mathematical effect that the raw material is a little bit higher, and so our turnover will be a little bit higher, but we think that this first target of 15% margin that we have for India, we already hit it. Now we expect to consolidate those margins, and in the future, we have our internal target to reach the CIE margins that, as you know, we are approximately at 17%, 18% in global CIE margins. So we expect to hit those in the future, okay. Probably, it will take time, but we expect to continue improving our internal efficiencies and to continue also with the volume effect that we expect to have and with the consolidation that we are expecting to have in certain businesses, I think we will be able to continue improving our margins in the future.

Bharat Sheth:

And Ander, on the Europe business, if you will compare, I mean, euro terms, in CY2018, we did, I mean, €561 million kind of run rate annual, whereas as per, I mean, the C2020 is roughly around €350 million to €360 million, so which is almost, say, 40% decline. So how do we see now Europe business and margin? Vikas said that in Q4, there was a 1% impact because of restructuring. So how do we see the margins?

Ander Arenaza Alvarez:

Okay. In Europe, the situation is a little bit different than in India. As you know, we have 1 business with, let us say, lower performance than the other. Our German forgings where the margins are lower, so we accomplish kind of downsizing of the business to consolidate the more profitable component, and the result of this reduction is that the size of the business in Europe is a little bit smaller than previously. This kind of, sign of this transaction is that our Indian business is now bigger than European one. I mean in the past, we were 60% in Europe and 40% in India. Right now, we are 52% in India and 48% in Europe, okay? So what we see is that this German business will consolidate or at least after the downsizing, we consolidated this business and both CIE automotive forgings in Europe, and

Metalcastello businesses are growing back again, okay, and the margins on these businesses are nice, are solid and are improving. So overall, we see kind of flat European business and a growing Indian business. That is the average of our evolution.

Bharat Sheth: And Ander, I mean when do we expect, I mean, to reach the run rate of CY2018 when our revenue was around €560 million in Europe business, and last thing, on the semiconductor, if you can, any impact of this shortage of global semiconductor on our business?

Ander Arenaza Alvarez: We do not see the amount, let us say, the size of the business that we had in 2018 in the near-term in Europe, okay. We see the market is far lower than that. Those volumes that we had in Europe in 2018, especially the commercial vehicle cycle, it is still far to reach those figures. So probably in the next 2, 3 years, we will not see those figures, and coming back to the semiconductor issue, it is true that there is a big noise in the market due to the lack of semiconductors in the automotive industry. We saw certain impact, but very, very limited, okay. I think perhaps we saw 2%, 3%, 4% of impact due to this semiconductor issue, and as far as all our customers are saying as they consider that this is a temporary impact and they will recuperate all these volumes in the second half of the year, okay. So till now, we saw a very, very limited impact in Europe. We had certain impact in India in the last quarter, in 2020, but as you saw, the impact is not relevant, and till now, at least, we are not worried because of the impact of this semiconductor issue because we think that this is temporary subject that will be solved in the next months.

Bharat Sheth: Thank you and if have more question, I will come back again back to you. Thank you very much.

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

Jinesh K. Gandhi: First, clarification on this restructuring cost, which indicated the 1 percentage point impact is in fourth quarter and in Europe, right?

Vikas Chandra Sinha: Yes. That is right.

Jinesh K. Gandhi: And this would be pertaining to, restructuring costs will be pertaining to reduction in headcount or something else?

Ander Arenaza Alvarez: Yes, mainly the reduction in headcount, yes. There we are applying social plans, we are providing for headcount reductions, thinking that the volumes in the future will be low especially in our German forging plants. So those are the restructuring costs that we accomplished. Also, we had certain restructuring costs in our Italian plant in Metalcastello, but all this, the plan is already finished, and we are already with definitive amount of headcount in those plants.

Jinesh K. Gandhi: Got it. Got it, and second question pertains to the European business. What are the trends which we are seeing in German side so far and how the production schedules looking for next couple of months, especially considering the second wave in Europe?

Ander Arenaza Alvarez: Okay. It is true that the automotive market is, especially due to the impact of the pandemic, the third wave of the COVID-19 pandemic, the sales on the market are approximately 25%, 23% below January 2020, but the production from our customers that the demand is still quite strong, okay? So we do not see this drop on the sales, and in the next months, what we see also in our forecasts from the customers is that the market continues quite strong and quite stable. So we think that there is an inventory correction probably going on in the market, and we think that the beginning of the year will be also in line with the last quarter and perhaps even a little bit stronger than Q4 2020.

Jinesh K. Gandhi: Okay. Okay. So effectively, the forecast of IHS Global of about 15% growth in light vehicle sales, you fairly are comfortable with that kind of growth for CY2021?

Ander Arenaza Alvarez: Yes, yes. What we, as you know, 2020 was a very complicated year, so taking 2020 as a reference is a complicated thing. So, we would prefer to compare against 2019. That was a standard year, and in Europe, what we will see a 10% drop compared to 2019, something like that, I mean, between 10% to 5% less than 2019, and in India, what we expect is to have the same or perhaps a little bit bigger figures than 2019.

Jinesh K. Gandhi: Okay. Okay. Third question pertains to primarily your commentary on adding 25 customers between 2019 and 2020. So question here is, by when do you see the full ramp-up with these customers? And what would be the contribution of these customers currently? And how do you see that going up in the next 2 to 3 years?

Vikas Chandra Sinha: Jinesh, as far as time taken, it takes about 18 to 24 months to start having an impact on the P&L, so that is what it will take. In terms of how much I will, like we have talked about generic terms of year's, but new sales in a year, we expect that to be now 25% of year's sales would come from new customers and products added, so, which earlier used to be 15% in terms of internal targets. So that is the kind of difference that we are trying to target. Otherwise, let me not speculate on this size of this.

Jinesh K. Gandhi: Yes, sorry. One more last question on the ROE side, on the consolidated side, for the fourth quarter, we indicated about 9.1% ROEs. What is the target for ROEs over the next 3 years or so? And what would be the roadmap for retaining the same?

Vikas Chandra Sinha: So in terms of ROE and RONA. RONA, which is more of an internal target for us, RONA, we are looking at reaching a RONA of 15% and reach it as quickly as possible. In terms of roadmap, I think Ander answered that. The focus is on growing the India business. We expect the India business to grow quite well, not just that the market is going well, as we

said, we have added customers, so we expect it to grow beyond the market. So the share of India business, which in Q4 crossed 50% for the first time, that will keep on increasing. The margins in India, also Ander indicated, we do expect it over a period of time to expand towards the CIE margin. So this whole growth in India as well as the margin expansion in India is the main driver behind this increase in RONA. Of course, we are also looking at Capex intensity in India on how we can make do with less Capex in terms of all the production efficiency programs that we are organizing. So in terms of road map, a large part of this expansion of RONA will be because of what is happening in the India business. As far as Europe is concerned Ander answered that we are trying to stabilize this business, maybe there will be very little growth on the European side that we will try and consolidate the margin. So that would be the strategy, but the expansion in RONA will come mostly from the Indian business strategy.

Jinesh K. Gandhi:

Got it. I am done, thanks.

Moderator:

Thank you. The next question is from the line of Sunil Kothari from Unique PMS. Please go ahead.

Sunil Kothari:

Congratulations for good set of numbers. So general, my question is broad on understanding of looking at Indian government giving the support through PLI for manufacturing sector. We being a global player and very proud that Indian units also can manufacture, offer global quality so any thought process in medium-term may not be in the near-term, but medium-term to increase manufacturing base in India and reduce our, this German, maybe, forging business or some very low return giving units from the Europe? Is there any possibility? Any thought process like whenever since last 3, 4 years, we were increasing our exposure to India by acquisition also, like Aurangabad, this aluminum you previously, Bill Forge. So larger thought process on shifting production base from Europe to India, your thought process?

Vikas Chandra Sinha:

Thanks, Sunil. So I will answer first your question around PLI. Of course, we are also encouraged by PLI even though the exact details of the scheme are not available. What we are assuming is whenever there is an export push companies like us, and we are very much, we believe that we are very much on our journey to being world-class, so therefore, we should be in a position to exploit that, but the details are not available at the PLI scheme is concerned. Now on your second question about shifting production from Europe to India, as we have indicated in the past, yes, we are considering that possibility. We are spreading Metalcastello to India, it already has happened. There are other programs with other CIE companies also that we have been exploring both forgings and gears, and we have also been exploring shift from our German forging business to India, depending on wherever it is feasible, if the customer is okay with it. So it is not that when we talk about an export push, it does include some of these activities that we have talked about in the past.

Sunil Kothari: So would you like to say numbers, Vikas, during last 3 years, how much we have shifted or how much was exports to Indian manufacturing unit? And now over the quantum, what type of progress or targets we are carrying for next 3 years? Any solid numbers if you can tell?

Vikas Chandra Sinha: No. Let us, and I think, again, we have talked about it in the past. In response to Jinesh's question around how are we looking at new customers, where we have mentioned that our target is to have new sales to revenue every year of 25%. Similarly, we are looking at increasing the export business. Export business from India currently is roughly around 11% or 12% if you look at the entire Indian business, and we are seeking to increase that over the medium-term to 20%. So that is the kind of, just like on the orders book we are on the target on exports, we have this kind of targets that on a growing base of Indian business and as Ander has indicated, the Indian business will grow, grow much faster than the market as well as Europe. On that business, we hope to increase our exports from the existing 11% to 12% to about 20% through a variety of measures, including a shift from some of Europe, or tie ups with some of the CIE companies in Europe, explore new customers in Europe, like, for example, Bill Forge and AEL. They are strong European portfolio, which has developed as new customers there. So when you say what is the target, this is the target, to actually increase from roughly 11%, 12% to 20% over a growing base in the next few years. When I say next few years, we are talking about 3, 4 years.

Sunil Kothari: Great Vikas, one more thing is we were very confident about aluminum segment entering, and we entered the Aurangabad, and it seems that aluminum casting business will be giving you very good growth potential. So any your thought process or any further clarity on the possibilities and future prospects of this segment?

Vikas Chandra Sinha: Of the aluminum segment? As I said...

Sunil Kothari: Yes.

Vikas Chandra Sinha: If you go back to the presentation that we have calculated at the time of the acquisition that is somewhere around March 2019 or like around Q1 of 2019, we had, if you look at some of the things that we had talked about there in terms of exports, growing the size of the business growing. I think AEL is on track on delivering that. In fact, it is maybe the goals have shifted just by a year or so because of that, but otherwise, the same numbers, the same roadmap that we talked about in the, I think, January or February 2019 presentation, exactly, it has happened in a similar manner. So they have been doing very well, and we have talked about how they had increased the portfolio by looking at GDC exports in Europe. They have developed export customers in Europe. They were going very strong with the core customer in India. Of course, that cannot be neglected. One of the best OEMs that we serve, Bajaj. So it is an honor to be serving Bajaj. So they have done exactly as per that plan. So there has been no deviation from that plan, except maybe you can talk about 6

months here and there because of the COVID crisis. So they have been a good addition to us in that sense.

Sunil Kothari: So, any major Capex towards those segments? You feel that this can be a very major growing segment.

Vikas Chandra Sinha: Which one?

Sunil Kothari: Aluminum?

Vikas Chandra Sinha: Yes, aluminum will be a strong growth segment. Therefore, I referred you to those numbers. So if you remember, I think we had talked about a significant growth plan as far as AEL was concerned in that presentation, and I think it is as per that, if I am not wrong, on an annualized basis, they were at Rs.800 Crores, and they were talking about a significant expansion by roughly 40% to 50% on a 5-year basis. I think that continues.

Sunil Kothari: Thanks a lot Vikas, wish you good luck.

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

Nemish Shah: Congratulations on good set of numbers. So in the recent union budget, there was an amendment with respect to depreciation on goodwill shall not be claimed and reduction going forward. So just wanted to understand what will be impact will it have on our tax outgo? And what will be our effective tax rate going forward?

K. Jayaprakash: Okay. So you are right, there is a proposal to deny the depreciation on goodwill. So this will not have any impact on the P&L because we have been creating deferred tax liability for the reduction in current tax. So on the P&L, you will not see any difference. It will definitely have an impact on cash flow. We were saving a good amount not paying any current tax, but we will have to, going forward, pay current tax, but as far as the tax percentage is concerned, we should not see any difference, and we should maintain around 25%, 26% of average at consol level.

Nemish Shah: Understood. That is it from my side. Thank you.

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

Nikhil Kale: So my first question was on the new customer additions that you have talked about in the India business. So while you highlighted the revenues that you are targeting from our sales to these new customers and new products, would you please provide some more color on what technologies or end user segments are these customers are largely in? Also, when you

talk about new products, what kind of growth in content per vehicle are we looking at going forward over the next 2, 3 years, if you could provide some color on that?

Vikas Chandra Sinha: Thanks, Nikhil. The first question in which segments you have added, we have added all segments, whether it is forgings, foundry, magnetics, composites, maybe not so much in stamping. Other than that, in every segment of India we have added, every segment of that, and that is the reason why we are confident about the fact that India can grow much faster than what it has grown in the past. As far as your second question is concerned around content per vehicle, of course, we have not calculated in that fashion. For example, in forgings, even though we are going beyond crankshafts and metals, we are introducing new products, say, for example, warm forging in Chakan that we are introducing. So I may not be able to answer on content per vehicle, but we are adding different kind of products in gears, for example, the BS-VI gears are much more complicated and what they were. In magnetic products, we are adding all kinds of newer grades, like higher grades. If you see in magnetic, the grades matters, so we are moving up in terms of more complicated grades. In foundry, for example, we are adding only machined order. So going forward, our endeavor, of course, is to have more than 50% of new orders in foundry coming, which is both machines and cars, and not just cars, and we are creating a lot of capacity around machining and so on. So that is the kind of ways that we are going. Of course, on AEL, we have already explained in a previous question that AEL is focusing on GDC exports customers in Europe as well as on the core customer in India, which is doing very, very well, and therefore, we are expanding with them. Bill Forge we had already talked about earlier in terms of the kind of plans we had with exports and customers in India. In fact, Bill Forge and AEL, the good thing is, if you go back to our presentations that we had made at the time of the acquisition, most of the plans in terms of new orders that we talked about there has happened, and that is something that we would like to emphasize so whatever we had envisaged at that time has actually happened. So there is a strong order book there. So to answer your question, content per vehicle, frankly, we have not made that kind of calculation, but everywhere we are trying to move into what you would say better margin orders, whether it is machined castings or higher grade magnets and more complex gears or even in forging different kinds of product categories, so that is how we are doing things. Content per vehicle, I may not be able to answer you that question, but we can confidently say that we are moving towards more complex parts in terms of orders.

Nikhil Kale: Okay, and secondly, on the Europe side, I just wanted to check, are we done with all the restructuring activities that we are looking at? Or is there still, are there some sort of activities we will have to do, which can maybe be made to some restructuring costs next year and this year as well in CY2021?

Ander Arenaza Alvarez: Okay. Regarding restructuring activity in Europe, we provided during Q4 and during our 2020 last quarters, we provided all the costs that we expect in the next 2 or 3 quarters,

okay? So until now, we do not have any additional restructuring costs on mind, so we consider that at least in the next month, we will not have any additional restructuring cost.

Nikhil Kale: Okay. So would it be fair to assume that considering that we have already hit a very good margin level even of Q4, if I look at the margins, very good margins as per se? So going forward, assuming that once the corona, kind of next wave kind of dies down and the industry recovers over the next 2 to 3 years, assuming that we are not really ramping up the, our MFE business a lot, the margin should remain stable or maybe slightly improve going forward. The mix improves and even assuming that the top line grows at a stable low or mid single-digit rate.

Ander Arenaza Alvarez: Yes, what we expect is that unfortunately, in Europe, the market will not boom in the next years. I mean the expectation is we will recuperate partially the drop of 2020, and in the next years, we will see a slight recuperation, a slight recovery in Europe, but it will take 2, 3 years to get back to the 2018, 2019 volumes, okay. So, and this is regarding the volume, and also, you need to take it at that we have the our German forging downsizing activity, so the volumes will remain approximately flat, and coming back to the margins, what we expect this to keep or either to improve our margin. Despite this, the flat volumes, we expect to continue improving our margins thanks to our efficiency improvement activities and also to the different restructuring activities that we already did.

Nikhil Kale: And lastly just what is the kind of Capex that we are looking at for this year?

Vikas Chandra Sinha: JP, the Capex for CY2021, any indication about same as 5% to 6% of sales or like?

Ander Arenaza Alvarez: The Capex, you mean?

Vikas Chandra Sinha: Yes, Capex for CY2021.

Ander Arenaza Alvarez: Yes, the Capex, we expect to be at between 5% to 6% of our turnover. That is the standard. In 2020, we were at a little bit less than 5% because it was a special year, but in the last 2 quarters, as you can see, we recuperated the standard investment levels, and we expect to be at this 5% to 6% of Capex in 2021. We can be close to Rs.4 billion.

Nikhil Kale: Thank you.

Moderator: Thank you. The next question is from the line of Basudeb Banerjee from AMBIT Capital. Please go ahead.

Basudeb Banerjee: Just continuing with the previous question, I was trying to understand with your revenue margin recovering back significantly, when one should think that breaking the jinx from 5% of revenue as Capex and look forward towards expansion and M&As?

Vikas Chandra Sinha: Basudeb, if I understand your question correctly, you are saying, do we propose to increase our Capex beyond 5% to 6% in case there is growth opportunity, right? And second question is around what are we doing around M&A?

Basudeb Banerjee: So to take it in a different way that typically where conservatism towards Capex and M&A, where outlook on EBITDA or cash flows was weak, that is why one remains conservative now with your numbers going back to normalcy. Is there any possibility of a sudden increase in the Capex outlook with sustainability of such good numbers?

Vikas Chandra Sinha: Okay. So Ander, the question is, will we venture to increase our Capex intensity beyond 5% to 6% of sales if demand required? So that is the first question, and are we looking at M&A? So I will quickly answer and then Ander can add to it. 5% to 6% of sales is on a consolidated basis. So as we have been saying, the growth opportunity that we see is largely in India, so therefore, the intensity in India is higher. It goes without saying. So we are looking, as we mentioned also in our transcript in Q4, there have been some Capex additions. We talked about the number that is slightly higher than what we have projected, largely because we have been investing in India. So in India, that number is anyway higher because we are chasing greater growth in India, and overall, it comes to around 5% to 6%. Can we go further ahead than 5% to 6% if required in India? Yes, we will if there is an opportunity, but we would like to hold the Capex intensity in a manner that it does not affect our RONA. As I said, one of the levers to increase the RONA is to look at the Capex intensity very carefully. Therefore, every Capex is evaluated very, very closely. That is number one. Number two, on M&A, as I said, M&A is an ongoing activity. We keep looking at it. Only if it fills any strategic gaps that we have, we will look at M&A. We will not look at M&A purely to fulfill any growth aspiration. I think we have enough opportunities to grow organically, so growth aspiration is not what is driving M&A. M&A is driven by our need to fill strategic gaps, and wherever we get such an opportunity, we will keep looking at it. So with that, I will ask Ander to add on these two as well.

Ander Arenaza Alvarez: I fully agree with your comments, Vikas, and perhaps just to reinforce the message that yes, now after the normalcy, it is now in our business with the proper margins and proper cash flow generation after COVID crisis, but I think that, yes, we are ready to continue our growth strategy, so yes, we are open for M&A activities and to continue developing our business in India, and regarding the Capex, those 5% to 6%, this is rule that we use because we want to keep all the financials under control, but it is true that if we see proper growth business with the proper return on investment, yes, we will accomplish it, okay? So our growth strategy remains intact, and we want to come back to the growth that we showed some years ago, and we expect to be there soon. Thank you.

Basudeb Banerjee: Sure. Second thing, sir, if I look at your consolidated minus stand-alone numbers, your interest outgo, ex of standalone seems to have declined substantially, whereas interest outgo for standalone has increased substantially. So if you can highlight why is this significant

reduction in ex standalone interest, any major debt reduction happened this quarter or how to look at it?

K. Jayaprakash: So the reduction that you see in India segment on the financial expenses in this quarter, particularly because of some exchange gains in Mexico. Otherwise, over the year, it has been coming down vis-à-vis 2019 has come down because we acquired AEL. There was some income in, last 2019, but in Q4, it is more particularly with the exchange gain.

Basudeb Banerjee: Surely. So one should not look at this sudden major decline as a...

K. Jayaprakash: No, I think you should see it like over the year, how is it coming down.

Basudeb Banerjee: Sure, and last question, sir, if I look at your gross margin as such, so it has improved sequentially. So from your business model perspective, how to look at the inflation of raw material, it must be a pass-through to customers, but how is the contracts changing how is the league, the lag time with the raw mat volatility, if you can highlight?

Vikas Chandra Sinha: JP, will you take that, raw materials?

K. Jayaprakash: I think on raw material, we have a pass-through. If your question is if it is going up, how it impacts our margins, it has a marginal impact because of the denominator, because of the mathematics that Ander mentioned. Other than that, we have 100% pass-through.

Basudeb Banerjee: And how should one infer the improving trajectory purely because of product mix and cost management initiatives, that is how one should look at it?

Vikas Chandra Sinha: Yes, but it is a mixture of cost efficiency improvement programs, breakeven focus on the equivalent reduction and a little bit of product mix, and as we talked about, we are looking at more value-added orders. So yes, it is a mixture of these 3.

Basudeb Banerjee: Sure, and last question as you highlighted, there are 100 bps of restructuring expense in Europe. In this quarter numbers I missed out, did you mention how long that will continue? Or is it just this quarter phenomena?

Vikas Chandra Sinha: I think Ander mentioned in a previous question that right now, we are not looking at anything more. This whole restructuring was spread over the year, not just in Q4. It was spread over the year, and it was both at Germany and Italy, but as of now, we are not looking at anymore, especially in Italy, of course, Europe, Germany is a bit more sticky, but as of now, we are not looking at more restructuring. Ander, if you have anything more to add to this?

Ander Arenaza Alvarez: No, no, that is correct. I mean we made all the provisioning during 2020, and now we are executing the plan, but all the costs are already provisioned, and now we do not expect any

further additional restructuring cost provisioning in the next quarters, okay? So we will see how the market develops and how the market behaves, and then we will decide, but not in the next couple of quarters.

Basudeb Banerjee: That is great sir. All the best, thanks.

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

Shyam Sundar Sriram: My question is to Ander. Ander in Europe, we have announced that we will venture into aluminum forging as to derisk our portfolio from the electric vehicle penetration that is happening now. Just trying to understand there, our parent CIE also has this HPDC aluminum casting, per se. If you can just give some examples of what are the use cases for aluminum forging in the EV? And how does it vary vis-à-vis the aluminum casting use cases from an electric vehicle perspective?

Ander Arenaza Alvarez: Okay. What we are now trying to do is to diversify our product portfolio by reducing our dependence on in certain plants on the engine components, okay, in the internal combustion engine components, and this strategy, one of the possibilities of this strategy is to go to the aluminum forging components. I mean, you know that the automotive industry, right now, the introduction of aluminum due to the weight reduction requirements in the cars is very important, okay. So we have different technologies in the aluminum. You can have the high-pressure die casting aluminum, is that what we produce in AEL, for example, this is high-pressure die casting. We have also gravity that we have in our AEL plant, and then you can have the low-pressure and other technologies that we do not have in CIE, okay, and regarding this aluminum forging, this is a very specific technology that we are now developing, and it is mainly to produce suspension and chassis components for the automotive industry that can be used in the battery electric vehicles or in the internal combustion vehicles. All this technology, what it is opening us, together with other components that we are also developing, still for chassis, components in our forgings. So what we try is to reduce and to have offset the potential drop that we can have in the future in Europe due to the battery electric vehicles growth. However, just as a comment, I mean, the expectation of having a pure battery electric vehicle in Europe is approximately in 2025, about 15%, and the impact that we could have in our total MCIE European business is less than 5% of the total turnover. So we have more than 5x to find solutions and to look for alternatives to offset a little bit this potential drop. So that is the explanation of all this strategy.

Shyam Sundar Sriram: Ander, just to clarify here a little bit more, so aluminum forging will be used largely for the load-bearing parts, is it, as opposed to casting which are used for all other parts per se? From a use case perspective, trying to understand the application, or use case of forging aluminum product.

Ander Arenaza Alvarez: Okay. The aluminum forging, the forging technology gets the much higher mechanical properties than the cast aluminum, okay? The cast aluminum is not big mechanical requirements, so for when the fab has important loads or big loads, like in the suspension or in the chassis components, then the aluminum forging is a potential good solution, okay? So that is from the application point of view, the forging is mainly in the chassis and suspension products.

Shyam Sundar Sriram: Thank you very much.

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

Bharat Sheth: Now this question is for Ander. I mean, Ander in the, of course, as you rightly said that to reach, I mean, CY2018, 2019 number will take a few years, but we are currently, in last quarter, we have already clocked over, around Rs.100 million turnover. So do we expect that this kind of a run rate will be able to maintain, I mean, subject to some seasonality or in the CY2021 and from there, kind of mid-single-digit to high single-digit kind of a growth in CY2021 and CY2022?

Ander Arenaza Alvarez: Okay. You see, we have a mix of different behavior in the different businesses that we have in Europe, okay? And in MCIE, let us say, in the passenger forgings and in the Metalcastello business, we see the growth, and in a couple of years, we will recover these 2018, 2019 figures. That is our expectation, okay. So we expect to recuperate those volumes in the next 2, 3 years, but coming back to German forging, in Germany, we do not expect to grow. We continue with our downsizing activity, that is why the balance will be kind of flat or slight growth expectation, and of course, it will depend on the commercial vehicle market cycle. You know that we had the peak of the cycle in 2018, 2019, beginning of 2019. Then we start the, let us say, the down trend on the commercial vehicle cycles, and we expect to start growing again in the next month, so let us see, but if the market goes up, we will probably recuperate and show some growth. Otherwise, we can see a kind of flat evolution.

Bharat Sheth: How confident are we, I mean, to sustain? I mean this Q4, I mean, adding the, after removing restructuring cost, our EBITDA margin is around 13%. So this comes sustaining that margin?

Ander Arenaza Alvarez: Yes, yes. We expect to be able to sustain and to keep these margins and even if our internal strategy is to continue improving those margins, okay? So that is clear from our side. So we, at least if the market behaves as it is as we expect in the next quarters, we will be able to keep or even to slightly improve these margins.

- Bharat Sheth:** Currently, how much are EV contributing? I mean so EV contributing to European business top line?
- Vikas Chandra Sinha:** European business top line or like overall industry are we talking?
- Bharat Sheth:** No, I am talking of European-only entity.
- Vikas Chandra Sinha:** No, no, but are we talking about the contribution of electric vehicles to the European industry or to MCIE Europe?
- Bharat Sheth:** MCIE Europe.
- Ander Arenaza:** Okay, MCIE Europe. The impact is very, very small at this moment. I mean you need to think that the total, the battery electric vehicles share in Europe is now approach approximately 5%, and as we have the off-highway or the moving activities, commercial vehicle activities were the introduction of the matter electric vertical is very, very poor. We have, I do not know, can be 1% or less than 1% debt the share that we can have in battery electric vehicles, not relevant.
- Bharat Sheth:** And Vikas, in Indian operation, you stated that in each of our main business is aluminum forging or casting, we will look for more machine product. So currently, what level we are, I mean, in aluminum forging as well as casting our machine product contribution? And where do we really see from here on, I mean, over the next 2, 3 year time?
- Vikas Chandra Sinha:** No, no, no. When I talked about machining, it was specifically with related to casting, our casting business, our foundry business. In other areas, as you would be aware, Bill Forge, anyway, is very high on machining. I think almost 75% to 80% of their products are cast. So Bill Forge, anyway, it is very high. At our other forging business, I think because we are in crankshafts, so whichever customers ask for machine crankshafts, we give in the most customer do not ask for that. So they are in the range of 20%, 25%, but as I told you, in the forging business, we are looking beyond crankshafts and assets, which have been as being stake for some time. So the strategy there is, of course, machining. We are strong in machining there, but the strategy is to move beyond crankshafts and metals in that forging business so that machining part was specifically for our castings business, where we are focusing on machining as a strategy.
- Bharat Sheth:** So beyond, I mean, crankshafts and so other new product are really developing for, I mean, in this casting side, foundry business?
- Vikas Chandra Sinha:** Foundry. Yes, foundry, as I told you, foundry, most of the new orders are machine casting orders.

- Bharat Sheth:** And that is the component, I mean, if you can give some color?
- Vikas Chandra Sinha:** They have a range of components. So they have a lot of different kind of housing, etc., that they have, except they have cast crankshafts, except for that in most other components, there is ample opportunities for machining.
- Bharat Sheth:** And it is EV side or CV side of the business?
- Vikas Chandra Sinha:** It is a mix. It is a mix. As you know, the casting business is very, very diversified. So we see from tractors, light vehicles, heavy vehicles, they supply a whole lot of products.
- Bharat Sheth:** Okay, and would you like to give some color on what is happening on the Mexico plant?
- Vikas Chandra Sinha:** Bill Forge, Mexico? Ander, Bill Forge Mexico, update.
- Ander Arenaza Alvarez:** Mexican plant is performing very well in the last month. I mean we have implemented, let us say, a lot of cost improvement activities and efficiency activities. Our delivery ratios to the customers and the quality results have improved dramatically, and the growth expectation are, let us say, very important. Then what we are now launching and developing, I think approximately 15 different part numbers that will be launched in the next 12 months, and the growth expectations and the results expectations of the company are relevant, okay. So we are very happy with the development of the business. It took some time to get the proper knowledge and to train the team and to make all the technology transfer. That was some tough period, but in this moment, the company is, let us say, growing. We have 2 big programs with 2 big customers coming in the next months, so we will see a growth story in Mexico soon.
- Bharat Sheth:** Are we making EBITDA breakeven, full year or quarterly or if you, and when do we expect if we are not on margin perspective?
- Ander Arenaza Alvarez:** Yes, in the EBITDA margins, we are already at double-digit EBITDA margins, and we expect to have the, our internal target is to be approximately, at our Indian margin levels in the next year. Let us say, during the next year, we will be able to reach those margins. That is the expectation.
- Bharat Sheth:** Thanks and all the best Ander and Vikas and JP.
- Moderator:** Thank you. The next question is from the line of Nikhil Kale from Axis Capital. Please go ahead.
- Nikhil Kale:** Just one question, which is on the MCIE business. So very clearly, I mean, we are not really seeing a lot of growth happening there. Even if it happens, we are not really keen on expanding the business, the margins are low. So just wanted to understand, what is the long-

term strategy of how are you looking at this business? Because very clearly, from an overall perspective, this business will be pulling down our return ratios, so what is the strategy for this business going forward from a long-term perspective?

Ander Arenaza Alvarez: Okay. So, the strategy regarding Germany is to, let us say, continue with the downsizing of the company trying to obtain the minimal margins to keep them in the future, okay? So what we have been struggling in the last years due to the different cost impact in the labor cost to increase also with the energy cost increase, and finally, the drop of the market creates some difficulties on our business. However, we continue working very hard in order to reach at least the minimal margins so we can survive. So the decision was to reduce the loss-making products, eliminate all this lower-margin products and keep the most profitable product portfolio for the future. So the idea is to make an organized reduction of the activity and try to improve the margins after all the restructuring jobs that we have done.

Nikhil Kale: Okay, and what would be the, you talked about minimum margin level, so what would be that internal target at or above which it makes to kind of continue that business in terms of targets that you are looking at?

Ander Arenaza Alvarez: Yes. We already talked in different calls that we were expecting to reach the double-digit margin. That is our internal margin so that can give us the positive EBT with relatively, let us say, with a positive cash generation unit. That is the target that we have, and that is why we are fighting and trying to get those targets.

Nikhil Kale: Thank you.

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

Ander Arenaza Alvarez: So I would like just to thank you to all the participants for the questions, very clever and interesting questions, and I would like to say that the company, after a very difficult 2020, we did our job. We worked very hard and really proud of the evolution and the work of the management. In these difficult times, we showed that our flexibility and our resilience to, let us say, continue developing this business, reaching, again, the margins that we were expecting, and I think that we will have a bright future in front of us. So I would like to thank to my team for the fantastic job, and I hope you will trust on us in the future also. Thank you.

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

Note: This statement has been edited to ensure quality