



# “CIE Automotive India Limited Q4 CY-23 Results Conference Call”

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**MODERATOR:** **MR. BASUDEB BANERJEE – ICICI SECURITIES**

**Moderator:** Ladies and gentlemen good day and welcome to CIE Automotive India Limited 4Q CY23 Results 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 the conference call, please signal an operator by pressing ‘\*’ then ‘0’ on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Basudeb Banerjee from ICICI Securities. Thank you and over to you sir.

**Basudeb Banerjee:** Hi thanks. Good morning, good afternoon as per locations to all the participants thanks to CIE India Auto Limited Management for giving us the opportunity to host the Call.

We have here in the call the senior management represented by Mr. Ander Alvarez – CEO, Mr. K. Jayaprakash – Chief Financial Officer, Mr. Vikas Sinha – Senior VP Strategy, Mr. Oroitz Lafuente – Business Controller and Mr. Swapnil Soudagar – DGM Strategy. So over to the senior management to take over.

**Vikas Sinha:** Thanks, Basudeb. Good morning, all. I welcome all of you on this call, as also Mr. Ander Arenaza, our CEO. We will present CIE India results for Q4 CY23 and full year CY23. I'll refer you to the presentation that we have uploaded.

**Let me begin with an “Overview” of the Company and if you refer to Page #5 of that Presentation, it shows the legal structure of the Company:**

In CY23 the name was changed to CIE Automotive India. Sale of the subsidiaries of CI Forgings Germany namely, our truck forgings business in Europe was completed in October 2023 but was effective from 1<sup>st</sup> July 2023. All the German forgings operations assets and liabilities were categorized assets and liabilities held for sale and classified as discontinued operation.

**Pages #6 and #7 of the same Presentation provide a bird's eye view of our Company:**

CIE Automotive India is a large, diversified auto components group with presence across many processes, product lines, locations and customers.

**We now start with Results of the India Operations for Q4 CY23 on Page #10:**

The quarter was a mixed bag from the market point of view. Tractors suffered a double digit drop versus the same quarter last year. Trucks were negative and light vehicles showed modest growth. The bright spot was the two wheelers which after struggling for the last few quarters showed robust growth. Sales at INR 13.9 billion were 4% higher year-on-year, largely in line with weighted average market growth. The India operations achieved an EBITDA margin of 16.5% in Q4 CY23 versus a recurrent EBITDA margin of 15.7% in Q4 CY22 and an EBITDA

margin of 16.7 in Q3 CY23. Please note that the recurrent EBITDA margin of 15.7% in Q4 CY22 is calculated after deducting a one-time profit of INR 378 million on land sale in that quarter. The Indian operations continue to retain EBITDA margins in spite of uneven market growth.

**On Page #11, we have the Q4 CY23 Results for our European operations:**

Sales of INR 7.3 billion in Q4 CY23 are same year-on-year versus Q4 CY22 and slightly higher than Q3 CY23 sequentially. While European production grew 7% in the quarter, this was largely due to Eastern Europe, production in western Europe grew merely by 3%. As explained in earlier calls Metalcastello is experiencing a decline since last 2 quarters due to drop in the US market. Both these factors have led to stagnation in sales figures in Europe in this quarter on a year-on-year basis. EBITDA margin in Q4 CY23 was 16.9% versus 14.5% in Q4 CY22 and 17.2% in Q3 CY23. As energy costs stabilized, EBITDA margins have consolidated around 17% and EBIT margin is around 13%. On Page #12, we see the consolidated CIE India Q4 CY23 results. Consolidated sales were INR 21.3 billion, which was 3% higher year-on-year, EBITDA INR 3.54 billion and EBIT INR 2.76 billion, both of which were roughly same year-on-year and EBT of INR 2.45 billion which was slightly lower. Please note that EBITDA, EBIT and EBT numbers of Q4 CY22 include an amount of INR 378 million on the one-time profit on land sale, so the last year numbers are higher because of this land sale.

**The full year CY23 Results for our Indian Operations are on Page #14:**

Sales increased by 5% versus CY22 to INR 55.3 billion. Automotive market growth in India in CY23 was uneven across segments quarters and customers. Light vehicles grew reasonably but two wheelers and tractors were underwhelming. The first quarter was good followed by a muted second quarter but the festive season was encouraging. The performance of our key customers was also mixed with some suffering negative or flat demand growth. We had reported last year that all the business verticals were expanding capacity. There was a delay in ramp up of some of these orders especially at CIE Hosur and aluminum verticals and this impacted our sales growth. We have positive expectations from these orders in C '24. The EBITDA margin of 16.7%, EBIT margin of 12.8% and EBT margin of 12.2% are all higher than CY22. EBITDA and EBIT were higher year-on-year by 10% and 12% respectively. Going ahead we expect to regain growth momentum in India while incrementally improving margins.

On Page #15, we have the Full Year Results of CY23 for our European operations with sales of INR 32.8 billion. There has been a 10% growth vis-à-vis the whole year C '22, largely in line with underlying market growth. Q1 CY23 sales growth was strong but the rest of the quarters were very weak. Positive exchange rate impact was offset by steel price increases. EBITDA margin in CY23 was 17.8% versus 14.5% in CY22, EBIT margin 14.5% versus 11.4% and EBT margin 12.2% versus 10.9%. EBITDA and EBIT were higher year-on-year by 35% and 40% respectively in absolute terms. While the market forecasts in Europe are muted we are quite

optimistic about our European business which has high margins, high returns and very good cash generation.

On Page #16, we have the CY23 Consolidated Results of CIE India:

Sales were INR 88.1 billion which is a growth of 7% versus CY22. The EBITDA margin was 17.1% versus 15.4% in CY22, EBIT 13.4% versus 11.8 and EBT 12.2 versus 11.6. As explained earlier the EBITDA EBIT and EBT margins and numbers for CY22 include that one time profit from land sale which I've repeated quite a few times. The consolidated PAT in CY23 is INR 11.25 billion versus negative INR 1.36 billion in CY22. The CY23 PAT includes profit from discontinued CFG operations that I had explained earlier of INR 3.275 billion. Adjusting for this the recurrent consolidated PAT in CY23 was INR 7.976 billion at 9.1% of consolidated sales. Likewise, the adjusted consolidated PAT for CY22 was INR 6.75 billion after adjusting the loss of INR 8.475 billion from discontinued operations and the gain of INR 378 million from land sale in India. Thus, recurrent PAT in CY23 grew by 18.4%. As we said the recurrent consolidated PAT in CY23 is INR 7.976 billion. The recurrent PAT in CY22 was 6.735 billion and this is the growth of 18.4% and this has been achieved when the sales have grown only by 7%. So even in a year of uneven sales growth across geographies, market segments and customers CIE India has delivered an impressive bottom-line growth.

On Page #18, you will see our abridged Consolidated Balance Sheet which shows the healthy state of CIE India. Return on net assets is 21.3%. The first time we have crossed the 20% mark. Return on equity is 18.8 and ROE of continued operations is 13.3. Net financial debt is negative INR 8.2 billion, so net financial debt is negative.

The cash flows are shown on Page #19. The Company generated operating cash flows to the extent of 60% of consolidated EBITDA. Growth CAPEX was INR 2.9 billion, 80% of which was spent on projects in India. Overall CAPEX was INR 4.57 billion, which is 5.2% of consolidated sales, which is in line with our norms. Overall cash flow generation was INR 9.7 billion, but this includes cash received from the CFG sales process of INR 3.76 billion.

The Board of the Company recommended a dividend payment of Rs. 5 per share giving approval in the AGM scheduled later in the year. This is double the payout made in the last 2 years. Section 3 of our presentation outlines our strategy.

A combination of the following principle sets us apart from others namely:

- Make operations world class, diversify customer base plant locations and technologies, invest in a disciplined manner, continuously improve stability, decentralize plant management and focus on ESG.
- Diversification is key to our aspirations. In India we are present in seven technologies, four market segments and more than 50 customers out of which (+20) of those

customers are with annual sales of more than INR 500 million or 50 crores. This not only enables us to manage the volatility in sales at some of our anchor customers, but the portfolio approach helps us in protecting margins.

- Our disciplined approach to capital expenditure is encapsulated in a few key guidelines and that is outlined in the presentation. We focus on improving productivity levels at our plants through a variety of projects namely, optimizing plant layouts, automating machines and material handling, improving cycle times, eliminating unnecessary operations and manning and digitizing data capture.
- Teams from CIE Automotive global help with know-how transfer, the success of our strategy can be gauged by the consistent improvement in performance over the years.
- Our EBITDA margins, PAT, free cash flows and return ratios are quite close to CIE automotive's global benchmarks. The key thing is consistency is what we aim for.

**The next section analyzes some long-term trends in the automotive industry and how we gain:**

As climate change takes center stage electric vehicles or EVs are gaining traction. The pace of this transition to EVs is varying widely across regions and segments and we are in that stage of uncertainty right now. We have developed a comprehensive strategy for EVs and a selection of products that we pursue in the EV space under four categories has been shown in the presentations. Companies are increasingly expected to mine their carbon footprints and thus there is a push for localization. Near-shoring also helps minimize supply chain bottlenecks. As developed nations seek to meet stringent CO2 reduction targets, some polluting processes like steel and aluminum castings are migrating to emerging ones. Lightweighting and safety are two key themes in the industry. The former will lead to a push towards materials like aluminum forgings and castings and composites, all three of which are focus areas for us. The transition to EVs, lightweighting and safety all require components with higher precision, closer tolerances and better quality. And this is where we think we can score. We think all these issues could lead to more opportunities especially in India.

The next few pages of the presentation; present market statistics and forecasts from relevant sources followed by the Results submitted to SEBI in the prescribed format.

The CIE India team is confident that it can utilize future opportunities and face future challenges with agility in order to meet the shareholders expectation of sustainable growth and profitability.

Thank you very much. I've taken a bit more time than usual so thank you for that and now we proceed to Q&A.

**Moderator:**

Thank you very much. We will now begin the question-and-answer session. First question is from the line of Jinesh Gandhi from Ambit Capital.

**Jinesh Gandhi:** A couple of questions from my side. One is on the EU business. Given that outlook for industry is expected to be muted for next few years, how should we build in for EU business revenues given the changes which are happening in the industry particularly towards hybrids and EVs, would there be content increase led growth or we will be largely mimicking underlying industry growth in EU?

**Vikas Sinha:** So, for Ander's benefit Jinesh, I'm just summarizing so what he's asking is that the market in EU, the industrial market and also the automotive market is expected to remain not grow going forward. And then there are also changes like move towards hybrids and EVs. So, in that context how do we look at growth in Europe? Are we talking about stagnation or are we talking about increase in content per vehicle etc.?

**Ander Alvarez:** Yes, you are right. This is Ander speaking. The evolution of the European market for the next 4-5 years will be flat. It will be stagnant market in the automotive sector, mainly they expect 2%-3% drop for 2024. And the remaining years, the absolute volume of car production will be around 17 million cars per year. That is the expectation. On top of that in 2023 we had the 12% of electric vehicles and this percentage of electric vehicles will go growing, probably a little bit slower than expected because there was a huge expectation of an exponential growth in the next years. This seems that it's not going to happen. Probably the electrification will go slower than expected after at least 2-3 years of delay. That is what we all expect. And regarding CIE Forgings what we had this year, regarding the growth of our business in Europe you saw that we had this 10% growth. The forging sector grew 16% and the gear sector, Metalcastello business had a drop of 6%. And this was mainly due to the export of off highway components that we are producing from Italy to US. So, the US market in the off-highway business is now in the bottom side of the cycle. So, the average is 10%. But you see that the performance of the different technologies or the sectors is different. For the future what we are now seeing is that our new order book is really interesting. We are getting important businesses, both in the forgings and in Metalcastello with a huge weight of the electric vehicles in this year for example, in the forgings 73% of our new orders were electric vehicles and in Metalcastello 51% of the new orders were electric vehicles. So, what we will see in the next years will be a transition from internal combustion engine components to electrified components for different customers. So, what we expect is in that flat scenario or flat volume flat evolution business, with the increase of the electric vehicles we expect to maintain our business. So, we see our future stable. And I think we are doing our job properly and we are accomplishing the transition in an organized and solid manner. So, we expect to keep this business in the near future in a stable way according to the market evolution.

**Jinesh Gandhi:** Just to clarify, are we indicating that we are not expecting any material increase in content as EV share in our business increase? Is that the right understanding?

**Ander Alvarez:** Our EV share will increase for sure. As I told you that the new orders are coming majority from the EV sector. But what we can expect at the same time is that the internal combustion engines

will start the decline. So, I think our aim is to balance both reduction and increase and maintain or even increase a little bit our business in the future. But the expectation is that we will be able to make this transition smoothly.

**Jinesh Gandhi:** And secondly does this include any further ramp up in aluminum forging in Europe or that will be over and above what we are talking about stable revenues?

**Ander Alvarez:** You know that we already got certain aluminum forging projects that we are now launching with different customers. We also got a very important steel forge component but for the battery pack for one important commercial vehicle customer. So, that all these projects are being developed and both aluminum forging plus steel forging for the commercial vehicle battery packs we will see good growth in that sector in the future.

**Jinesh Gandhi:** And one last question is on the cash of Rs. 8.2 billion. So how much of this would be in India and how much of this would be in Europe? As a follow up question on that in case if we acquire something in India, can we access cash which is lying in Europe or given the taxation policies it might be difficult to access that?

**K. Jayaprakash:** So Jinesh the Europe cash is all in that loan amount which is about 45 million is the Galfor. And I don't know if you saw the stock exchange, we are getting rid of the debt in Mexico by Galfor investing in debt. So that cash will knock off the debt in Mexico of about 50 million European dollars. About moving money, we'll be left with very little cash in Europe in the immediate, of course the businesses are cash generating. So, we will have to find a solution around how to get the money for acquisitions in India. We are working on that. As of now Jinesh, we don't have a solution which is tax efficient. India has as you can see from the balance sheet the standalone balance sheet something like 7 billion in cash in India. So, we are adequately cashed in India if we need to go for an acquisition. So, I don't see an immediate challenge there. But you're right we still need to figure out how to get tax efficiently money from Galfor. Immediately we have found a solution for the immediate but for the long term yes, we still don't have a solution. It is tax efficient.

**Moderator:** Next question is from the line of Mahesh Bendre from LIC Mutual Fund.

**Mahesh Bendre:** Earlier we used to guide that based on the market growth we'll grow 5% higher than the market. So, whatever the blended growth of the market we will be 5% higher than that. So, what is the current quarter, the performance as far as this guidance is concerned and going forward what is the outlook for this?

**Ander Alvarez:** Let's say that our business this year this last quarter grew about 5%. And the weighted market grew 3.9 something like that. So, we were slightly higher than the market growth this quarter. But you are right that we are below this 5% higher sales that were expecting. There are several reasons for this, the limited growth that we had in this quarter mainly. And I would say that the

main reason is that the delay of some of our main big projects that we were launching in our different plants, especially in Bill Forge, that we had these electric vehicle businesses for Europe that has been delayed as you all know and also in the aluminum business where we get nominated for several electric vehicle components and those projects have been delayed. So, we are not concerned at all because of these delays. I mean it's just normal delays because of the new technology entering and there are certain challenges for the customers to launch these projects. Sometimes it's related to the market but sometimes it's related to the supply chain that is not well organized yet. But we are receiving feedback from the customers that this growth will come in the next quarters. So that is one of the reasons especially in India and regarding Europe, the drop is coming from the Metalcastello business that I explained in the last two quarters we had a drop because of the cyclicity of this business for US and also as you know in US, we have the elections at the end of this year and all the big infrastructure investments are stopped until the new president is elected. So that we are now in a transition period and waiting for this. But as the order book during all this year has been really good and we are now launching also additional projects, we will see the growth and the recovery coming soon. So, in my opinion it's just a transitory situation because of different reasons. But I think the market is solid. The evolution, the new projects are also coming. The interest from the customers is also very high. So, we will see this growth trend to recovery again.

**Vikas Sinha:**

And Mahesh just to add to what Ander just said, there are two other factors which of course that's a part of our business context in which we operate. One is of course the steel price decrease this year was pretty much affecting the revenues a big amount. Also, the transition from old Scorpio and Bolero to new Scorpio and Bolero where we have a very large stampings business with M&M. And that was the difference which both of these you will not see much of that in C '24. So of course, as I said that's a normal part of the business context in which we operate. But these two factors unfortunately have added to the various delays that Ander talked about in CY23.

**Ander Alvarez:**

And it's also important to highlight that in 2022, we had a growth of 28%. So, we went much higher than let's say the market. This year we have this 7% growth that is more or less aligned with the market with the comments that Vikas made about the raw material decrease and also the certain important projects that are now changing. So overall I think that this is just a transition moment that we are now accomplishing. And in the near future we will see again growth coming back to our business.

**Mahesh Bendre:**

Delay at ramp up at Bill Forge and aluminum business, was that because of the client or is it because of our limitations that we could not scale?

**Ander Alvarez:**

No, it's just the delay from the customer point of view. I mean we are waiting we are ready. We have all the investments and all the machinery ready to start and there is a delay from the customers. They have their bottlenecks, not in our Company it's in other bottlenecks. And we



are waiting for them to solve these bottlenecks and to start the delivery. They promise us that we will start soon delivering at a big level.

**Mahesh Bendre:** So, this is for export order?

**Ander Alvarez:** Yes, it's export order. Export order for electric vehicles.

**Vikas Sinha:** So, it's a mix. Export orders for electric vehicles is what Ander said. We have also talked about in aluminum is EV orders for domestic. So, some of these EV projects is what we are observing. As you see in the initial remarks, we were talking about how some of these EV projections are less rosy compared to what it was only six months back. And we are seeing that effect in delays in some of the ramp-up of some of the EV projects. That's just an observation. As I said that's really part and parcel of the business context that we operate in and we expect those to start going up again this year.

**Mahesh Bendre:** Is it possible to share for CY23 what was the export from India?

**Vikas Sinha:** Exact number, we'll have to check.

**Ander Alvarez:** 13% or something like that. No, we will give it to you now, we are calculating but it's between 11% to 13%.

**Mahesh Bendre:** Once these orders get sorted out do you think this will go up significantly, maybe 20% maybe over next 2-3 years?

**Ander Alvarez:** Yes. What we see is in certain technologies we will see this export rate go up. Clearly in the casting division the gears are also growing and probably the forgings will grow also. We see a lot of demand from the customers to export the components. But you know that with all these geopolitical difficulties with the logistic bottlenecks that we have had in the Red Sea and so on there is a mixed view on the customers. And probably you know that our preferred route is the local to local where we can deliver in each region the products that we produce in each region.

**Mahesh Bendre:** Last question from my end. So, for this year is it fair to assume that domestic business will grow 5% higher than our blended market?

**Ander Alvarez:** I would say I am optimistic with that.

**Vikas Sinha:** We don't make forward looking statements Mahesh but that's a guideline that we follow. Over the long term that's a guideline in India that we have always said that we follow. As I said CIE is very simple, we have very simple rules. Like we said for investment, CAPEX is 5% to 6% of sales. So, for India growth this is the kind of heuristic that we have developed for ourselves (+5%) higher than the weighted average market. So, it is something that we try and deliver all the time. But to say definitely we will avoid definitive statements.

- Mahesh Bendre:** I'm just checking the guideline only. Just I'm holding last two-three quarters we have not been able to come out with this kind of....So I'm just asking whether we are holding up this long term guidance going 5% above the weighted average of the market. So, are we still holding it up or there will be change for the next year?
- Ander Alvarez:** No, we are holding it. We hold it perhaps with a delay of one quarter or two, but I think in the midterm we will go for that for sure. We are quite optimistic on that. Also, we check that now the amount of export we had last year was 14% of our turnover. It's a little bit higher than last year.
- Moderator:** Next question is from the line of Bharat Sheth from Quest Invest.
- Bharat Sheth:** In our presentation on Indian slide, we have shown that we have approximately (+50%) clients and out of which around 20 are more than 5 crores or 50 million. So, there is a long tail end of (+30) customers which is not meaningfully contributing to the whole our sales. So, what are our plans to ramp up those products and generate what we are talking of growing higher than the industry rate?
- Vikas Sinha:** Basically, the answer is in the question itself. So yes, we have opportunity to grow a lot of those customers and we are looking at growth. And that's why we said this portfolio approach works. Some of those customers will definitely become big and that is why we are confident that in the long-term market for us growth will be there.
- Bharat Sheth:** But is there I mean this (+50) customers, how was the same number and (+20) more than 50 million last year and how it has changed and exactly when do we think that we will be able to really grow the whole (+50) plus customer to more than 50 million run rate?
- Vikas Sinha:** Over 50 million is a huge target in a B2B kind of business that is a very high base. All that we are trying to say that is we have a very robust portfolio approach. So, we have very good anchor customers. So, if you look at the customer pie also that we have presented later on, you will see we have very good anchor customers who are very large, and we also have a large set of other businesses who are emerging with us who we are trying to grow. So, between a mix of these anchor customers and this set of emerging customers, we are able to ensure both growth and profitability. That's the point. It's simply a portfolio approach that we are following here.
- Bharat Sheth:** Meaningfully when do we expect those really to and where we may be having a different auto or two-wheeler tractor or MHCV? So, if you can say some color in which segment, they are sitting large by where still there a headroom is to grow.
- Vikas Sinha:** There are lots of new customers that we have added in the last few years. We have talked about it in the past whether it is Hyundai, Kia, whether it is John Deere, whether it is Royal Enfield. There are whole set of such customers that we have added post Covid. If you look at our track

record from 2020 onwards, you will see that this kind of customer addition has accelerated during that period. Lot of export customers have been added also as Ander was talking about. So, to that extent who will ramp up, how much will they ramp up? That's exactly a question we can't answer. As I said some will ramp up. Of course, internally we keep looking at it. But the point that we are trying to make is this approach gives us stability both on growth and profitability. That's what we are trying to present.

**Bharat Sheth:** And can you throw more export opportunity? Of course, we are always near shore kind of a thing but still we are around 11%-13% in '23. So next 2-3 years where do we like to see kind of our export of the total export from India?

**Vikas Sinha:** So, it is 14% is what Ander clarified. Because both the domestic and export opportunities are growing. So as Ander explained, there are two sets of contending principles that are happening. You also have the localization principle that is working. And of course, as we explained even in our talk because of environmental norms, there is of course a movement from the developing to the emerging world in certain technologies, castings, aluminum. Over and above that we have forgings and gears where we have other export opportunities. So that was what Ander also talked about, these four businesses where we are targeting export growth and where we do see a lot of export opportunities coming our way in the next 3 to 4 years. So, it is basically steel and aluminum castings, gears and forgings in that order.

**Bharat Sheth:** And would you like to give some kind of margin side? How do we like to see in '24, India as well as Europe?

**Vikas Sinha:** Europe margins are consolidating around 17% EBITDA and in India also it is around the same number. As we say we will keep on incrementally improving it. You know the CIE Global benchmarks are a little higher than that. So, our job is to keep moving towards those numbers as much as possible. But that's what we intend to do going forward. But exact as I said 2024, we will not give a sort of forward-looking statement on what the margins are going to be.

**Moderator:** Next question is from the line of Nitish Rege from ChrysCapital.

**Nitish Rege:** Just wanted a clarification, so could you please elaborate on these exports? So, is this new business or are we just moving CIE manufacturing from EU to India? And also, is this CIE India factory in EU or is this the CIE parent factory in EU?

**Vikas Sinha:** No, these are new opportunities largely. As I said it is in steel castings. Steel castings, we don't have any CIE factories in Europe in any case. So, we have forgings and gears. Some opportunity coming where we have a aligned supply chain between our gears business in India and Italy and we work together to supplying some of the customers. But that's a small part of the export's opportunity. Please realize that CIE in Europe does very well on margins, so it's not as if are they are wanting on that aspect. So largely it will be new business.

**Nitish Rege:** And just with steel price deflation which you mentioned, shouldn't margins optically in fact increase?

**Vikas Sinha:** Some impact optically will obviously be there. As there is an impact on revenues, there is an impact on margins also. Yes, there will be some impact.

**Nitish Rege:** And calculating EBITDA margin in the normal way when we're not considering other income and revenue and considering other operating income, our EBITDA margin comes at 15.3 for CY23. So, what is the outlook on that? Because earlier were expecting an expansion in this EBITDA margin.

**Vikas Sinha:** We calculate it on sales and that is the way we present it all the time. When we talk about the EBITDA margin of 17% that's on sales. That's the way we present the data, and you'll have to look at it from a sales perspective only, EBITDA by sales. And we have said that the CIE benchmarks are higher, and we would like to meet those benchmarks in the medium term. Again, a very simple rule that CIE follows. That's the rule that we are following as far as the margins are concerned.

**Nitish Rege:** So, then you say the medium term that is what 2 to 3 years?

**Vikas Sinha:** Yes.

**Moderator:** Next question is from the line of Priya Ranjan from HDFC AMC.

**Priya Ranjan:** Just a couple of questions from Ander, since I think around 70% of the business is broadly now coming from India. So how much time do you spend in India? Because I think the Indian management or Indian team has when the Mahindra was declining you were saying Mahindra was declining that's why I am declining when Mahindra is growing you are saying probably, we are little bit moving ahead of Mahindra. So, what is happening with the Company? Either the consistency of the local management is not there, or their focus is not there or whether are you giving enough time to the local management or are you not taking cognizance of what is their underperformance in last 10 years?

**Ander Alvarez:** I would say that the local management is doing fantastically well. We can say that we have a very solid, very professional, very well aligned local management and I rely 100% on their capabilities and their knowledge. So, we are a fantastic team working together and I'm spending approximately, I come to India every two months now. Next trip I will come in mid of April. So, we review operationally and otherwise we do it every month. We check any of the verticals of the Company here in India. We review with the management through teams in detailed manner. I think the management system is working. Everything is well structured. I think that the team is also well aligned and the ideas, the strategies and the alignment of the team is very clear. I'm really comfortable with that. Then the reality of the market. And sometimes some of

our customers did better than the others and some sectors are still depressed. For example, this year the tractor sector was a little bit depressed and also the two-wheeler except the last quarter was also affecting us. But the long term or the mid-term view is positive. On top of that we are getting new orders, and we are getting new projects. And the collaboration between the European and American CIE teams with the local teams is also improving. So overall I think that the integration of the Indian business in CIE is complete. I would say that we are now in better shape than we have ever been. So, I can only be very optimistic about the future of our Indian activity. It's true that we would like to have some more sales and more turnover. That is probably the only thing that we need this year. But as the projects are there and the customers are confirming and they are pushing and they are saying us that they will come for sure the growth will come. So, let's say that we are a very solid Company with a good management with all the customers also supporting us because they see a very reliable Company. That's the message that I was trying to give during all this year working together with the local teams we need to be a solid, reliable, good quality, good delivery Company. And in that sense, I think we are an outstanding Company in India. So, the customers will come, and the customers will appreciate this and they are already appreciating this in the market. So, I think that the management and the evolution of the Company will be positive. And in CIE we strongly believe that the growth in the near future will be mainly in India, probably the best country to develop the business will be India, in Mexico also because of the situation of the US is also another growth focus. But India and Mexico will be the winners in the next years.

**Vikas Sinha:**

Priya Ranjan, so just to add to that of course, Ander has talked about local management. I'll not refer to that. Now you talked about Mahindra. Please be assured that we are not neglecting any of our anchor customers. So, when we say that we are diversifying we are not diversifying at the cost of our strategic customers. Not at all. Whether it is Mahindra or Bajaj or Maruti or Tata Motors, we are extremely focused on supporting them in their growth process and we are actually growing with them. All the other effort that you see is not at their cost. That is something I need to clarify since you did mention that now we are trying to move away from Mahindra, we are not. We are just adding more customers as our capabilities grow. I will again refer you back to what Ander sometimes said just before COVID in 2019, as our capabilities grow. And he was asked that question about growth in 2019 and he said at that time that the more capabilities we have, the more we'll be able to grow and that is what is happening. So, the more capabilities we are generating we are able to attract more customers. But please be assured that we will never neglect any of our key anchor customers. We are extremely proud to work with them. All the names that I took and we'll continue to support them in their growth journey. As far as Mahindra growth this year is concerned, I did explain because of the old Scorpio and Bolero transition to new Scorpio-Bolero. And we know that since the old Scorpio- Bolero were old models, we had some outside stampings, external stampings which are all made in house now. That is causing a drop along with the RM drop which is significant. So that is causing a bit on the revenue side. But rest assured, we are very strong with our anchor customers, and we will continue to be strong with them and we'll continue to support them with whatever they ask us.

- Moderator:** Next follow up question is from the line of Jinesh Gandhi from Ambit Capital.
- Jinesh Gandhi:** So, one is clarification on the margin, when we are referring to global benchmark, we are referring to 18% to 20% EBITDA margin?
- Vikas Sinha:** Yes, of course. CIE is roughly around 18% overall margin and publicly stated they want to go ahead of 18%. So, that's the global CEO of CIE is on record talking about (+18) margin.
- Jinesh Gandhi:** And second question pertains to the India business. So, when we are talking of EV related orders coming in, can you talk about how CY23 shaped up in that context? What percentage of our orders came from EVs, both for two wheelers and passenger vehicles?
- Vikas Sinha:** As Ander mentioned, so in Europe, the forgings business of Europe was 73%, in gears business of Europe it was 50% and in India it was roughly around 15%. So, as you know lot of our orders in India are actually not ramped up as much. So that's, overall, the portfolio we are very comfortable because we already have a very significant and large portfolio in India already and which a lot of those we are actually waiting to ramp up.
- Jinesh Gandhi:** And of the total order book say cumulative last 3 years, would it be fair to say EVs would be 10%-12% of that order book as well?
- Vikas Sinha:** in India?
- Jinesh Gandhi:** Yes.
- Vikas Sinha:** Yes, and more in Europe.
- Jinesh Gandhi:** And the second question pertains to Mahindra. Now given that share of Mahindra has come down to 31%, just how should we look at M&M given that the new product side, we have talked about having lower content because of insourcing on stamping side. Going forward as we get more orders particularly on the born electric vehicle side, how would you compare content in born EVs versus the newer products which we had got for example Scorpio and XUV700 versus the older models like Thar and Bolero that way? So, can you talk about qualitatively?
- Vikas Sinha:** Thar is new model, Bolero and Scorpio of course they're in a different league. We'll be slightly lower than Bolero and Scorpio but slightly higher than the other XUV500 and so on. So, we are very strong with M&M on their new releases both in auto and tractors. So, as I said we will support M&M, of course the content will not match what was there on the old Bolero and Scorpio but all that is being compensated by the number of models that M&M is releasing anyway. So that is not a problem because the list of M&M platforms is now very large, and we are there almost everywhere. So that is not an issue.

**Ander Alvarez:** In fact, we are launching a new press line in May-June for Mahindra to increase our deliveries to them. So, in 4 or 5 months we will have additional capacity to cope with the additional demand coming from them. I think there will be growth also in Mahindra in the stamping division.

**Vikas Sinha:** As I said last year there were a few things that worked against us, the transition. Now that almost two thirds is the new Bolero, new Scorpio, so that will not impact the growth and the RM is stabilizing. So as Ander said from a volume perspective, we are really not bothered too much, concerned. Let me not use the word bothered. We are very bothered. We are not concerned that we'll not be able to meet the growth requirements that we have in mind. So, CY23 was a bit of an aberration that way and we think we'll be back on track from a growth perspective. But having said that and this is in continuation to what Priya Ranjan had also asked, yes, on growth we may have underwhelmed a little bit this year. On profits we have grown as I said 18.4%, that we pointed out. If you look at recurrent PAT in CY23 versus recurrent PAT in CY22 on a consolidated basis, the growth is 18%. So, on every other parameter except growth, I think we have done extremely well. Whether you talk about our RONA and the way we calculate, I'm sure some of you calculate it slightly differently. But we have crossed in our estimation the way 20% RONA consolidated figure this year. So, you look at our cash flow generations, look at our debt. So, if you look at it in a holistic way yes, we do accept, we have underwhelmed on growth but on every other parameter we have done extremely well. And even on growth as I said there were some factors that worked against us in CY23 and I think those will be corrected in C '24, be it RM, be it the transition to the new models or be it the ramp up delays. So, you will see some changes let's say in the growth story. But let me emphasize other than that in CY23, we have done extremely well on every other parameter.

**Jinesh Gandhi:** Just to clarify on this, you indicated that the content in Born EV models of Mahindra which are launching from next year, we will be having more content than the Scorpio and XUV700 but lower than the older models?

**Vikas Sinha:** Let us not get fine. I'm just saying there are three classes. One is of course the newer models. XUV700 is in the newer models. Then there are extremely old models like Bolero and Scorpio. And then there are the intermediate models which are like the XUV500 and the rest which were namely 3-4-5 years back. So that is the difference. So, among the newer models, we have lower than the extremely old models but little higher than the intermediate models that we were talking about.

**Jinesh Gandhi:** But any indication on the Born EV side, how it will be there given that those will be totally new platforms and new power trains?

**Vikas Sinha:** Right now, not all of those RFQs have been fully settled. So let them get settled and then we'll have more of indication on what is happening.

**Moderator:** Next question is from the line of Pratik Kothari from Unique PMS.

**Pratik Kothari:** One on Metalcastello, if you can highlight, last year I think we did €80 million. Where are we this year? How is the trend panning out? Are we seeing bottoming out of what we used to suffer in the US?

**Ander Alvarez:** Metalcastello last year as I mentioned, we started it with the first two quarters with a very strong demand and sales. But in the third and the fourth quarter we saw an important drop because of the let's say cyclical of this sector in US, especially our main customer Caterpillar. We expect to be at the weak volumes during the next couple of quarters until the revamp is coming in the second half of the year and especially after the elections in the USA. So, we think that is the evolution of our Metalcastello business in the next months. Also, we have to say that we had certain new projects with other customers, especially in the electrification field that are also delayed and the expected ramp up of these projects is delayed. So, we are waiting for that. So we are optimistic because these electric vehicle components that we are going to supply to the US are coming for sure, a little bit later than expected but we are waiting for the ramp up from the customers. So together with the growth again in the sector plus the new projects that we had, I think we will come back to normal the peak business when we were hitting the €80 million turnover in Metalcastello. So that's the recovery that we expect right now. We can be at a pace of around 60 million. So, we will see this recovery in the next quarters. So willing to get to that situation. And in the meantime, we are quite working internally to improve our efficiencies and to set up the factory and prepare the factory for the growth again.

**Vikas Sinha:** So, Pratik because last year was not as bad for Metalcastello. So, it was a 6% drop compared to CY22, not more. So, if you look at earlier during the call Ander had mentioned, that in Europe overall this year we have grown 10%. The forgings business, which is roughly three fourth grew 16% and Metalcastello grew or declined by 6%. That's the number. Because the first quarter in Metalcastello was quite good. And this year the run rate is say €5 to €6 million. But it was doing about 80 million or €7 million in 2022.

**Pratik Kothari:** Then second question to Vikas. So, 12 months back our heuristic used to be for India business. India (+10) was where we were very comfortable and confident about. Obviously, those were estimates and guidance and future forecast and things didn't deliver this year. But it seems that our heuristic also has shifted from (+10) to (+5). So, anything to read into this? How to think about this?

**Vikas Sinha:** No, 5 to 10 is what we used to say even then. Of course, it's good that you remember the higher range. But it is 5 to 10 is what we used to say. That's correct. Right now, given what we have done we are saying 5% at least to start off with. That's all. But we had always said 5% to 10% as far as the Indian market is concerned. Look again I'm reiterating, there are some factors that went against us. The raw material decline has been a very big factor this year. In fact, in Europe, it is higher than even in India. So that factor normally if it is 1% or 2% it's okay. It's a bigger number than that. As we told you about the shift in M&M where we have almost 1,000 crores of stampings business with M&M, 800 to 1,000 crores. And on that transition is happening from



the old to the new models. And therefore, growth is restricted there. So, if M&M auto sector grew 30% in CY23, we were not able to utilize that entire 30% of the growth and Priya Ranjan also asked that are we moving away from M&M? That's not the case. We were not able to match that 30% simply because of this transition from old to new. And our stampings business, which is a very large part of the M&M business. We are probably among the top stamping suppliers to M&M. So, these two effects if you take into account and of course, as I keep saying that's part of the business context. So, there is no point in fretting about it. But if I adjust for these factors, we have still met that 5% to 10%. But as I said that doesn't count because these factors are part of our business context. So, if you keep these in mind you will see that our volume performance is not as bad. We are not losing market share. We are not withdrawing from any customer or market, nothing of that kind. It's just that as I said as Ander said some of the orders didn't ramp up. There was this RM effect and there was this old to new effect in our largest customer and that's what has given that underwhelming nature to sales. As Ander said it's temporary, it will come back. Plus, as I said also, please look at the other parameters that we have done very well on as I said an 18% growth in PAT. For the first time in our history, we have crossed a RONA of 20% on a consolidated basis. Those are other things that we have done very well in CY23.

**Pratik Kothari:** Just two clarifications, one we said we have 20 customers in India which contribute more than 5 crores of business or 50 crores of business? We said total of 50 and okay 20 is 5 crores.

**Vikas Sinha:** Yes, 5 crores is a substantial number to start off with. So, when you start with a new customer that's a good number to start with. Over a period of time as Bharat bhai was asking, he also asked that same question, when it is going to ramp up? Some of them will ramp up to much bigger numbers but not all.

**Pratik Kothari:** And second, we said exports formed 14% of a business and it was 10% last year. So, it's a good 40%-45% growth in exports that we observed this year. So, one are these numbers correct and what is driving this because this is a substantial change?

**Vikas Sinha:** No, I think it won't be 10. I think it would have been 11-12 last year. We'll check the numbers. Yes, exports we do expect to increase but in select areas that Ander emphasized. Definitely in steel castings where you see this trend of castings moving away from Europe to other parts of the world. Therefore, you see a bit of that in aluminum castings. And of course, forgings and gears have always been strong in exports. When I say forgings that's largely built forge always been strong. So that will continue. So yes, there is optimism around exports but you also have to understand that there are other countervailing factors, the supply chain bottlenecks. So, there is a move towards near shoring, like vocal for local etc. So, as I said these are things that we keep observing. But yes, we are very expectant on exports in castings, gears, forgings and aluminum. Yes, it is 11% to 14%. That's the number. We are confirming that.

**Pratik Kothari:** That's a substantial jump too.

- Moderator:** Next question is from the line of Nitish Rege from ChrysCapital.
- Nitish Rege:** Could you please elaborate on your inorganic opportunities now that we have close to 800 crores of cash? Also are we focusing on any particular segment capability which we want to get through this acquisition and which ones you're currently assessing? And what would be the optimal size of this acquisition?
- Vikas Sinha:** No, optimal size that's the easiest to answer. We don't want it to be very big or we don't want it to be very small that it doesn't move our P&L. So, we do look at the two acquisitions that we have done were in the range of 600 to 1,000 crores of sales. So that we think is the optimal kind. But then it depends on availability. To your other questions where are we looking at, of course wherever there are gaps, we have always mentioned that, we would be looking at for example in areas which are getting more prominent with lightweighting. We mentioned in our talk about how lightweighting etc. are driving it. So, wherever that would be happening whether it is aluminum, whether it is plastics or even in some customer-wise if we can get access to newer customers. So, we will be looking at it. M&A, the way we look at inorganic is as a sort of complement to our organic strategy. It is not for growth purposes that we are attempting to do inorganic. We are attempting to improve our portfolio of capabilities within the Company. So that would be the idea. Of course, right now we are not at a stage where we can talk about. As I said inorganic is as much part of our day-to-day activities. But at this stage there's nothing specific that can be mentioned. We'll of course report it to the concerned parties when any such thing happens. But as I said we'll also be careful about the prospects of value generation. So, the pricing is also important. It is pricing plus the kind of capabilities that you know that the opportunity brings to us that would decide what we would do with inorganic.
- Nitish Rege:** And just wanted to understand, what's the strategy with adding sunroofs to our portfolio? We've seen recently that peers like Gabriel have started doing sunroofs and we've been a late entrant to the India market. And CIE Europe already has this, so just wanted to understand the strategy there.
- Ander Alvarez:** We have analyzed this sunroof business that you know that it's a global business that came from an acquisition that CIE did in 2019. This business is a centralized business. It's a Tier I and product driven business. So, what we saw is that all the development, all the R&D is done in a centralized engineering center. It is in Germany. And this business is a completely separate business inside CIE. It's not like part of our technological organization. It's just a specific roof system business and is managed commercially technically R&D as one unit. So, in this moment we don't see any reason to split this unit, from now on we will decide this unit will be independent in CIE. The name of this business is Golde. This is the new name that we are using for this Company and it is managed independently inside CIE. From now on will not be integrated in CIE India despite they have one production plant in India that is in the Pune area.
- Nitish Rege:** We will not be looking at introducing sunroofs in the India business.

**Ander Alvarez:** Not at all. Not in this moment.

**Moderator:** Thank you. Ladies and gentlemen, we will take this as the last question for the day. I would now like to hand the conference over to the management for the closing comments.

**Ander Alvarez:** As usual thank you very much to all the participants for their questions, well directed questions and very clever questions. We hope that we answered properly, and we hope that you will continue to have faith and trust on our Company and the evolution of this Company. I would also like to thank all our team here as they are fully committed to delivering fantastic results. In the near future we will see this growth and these good results happening again. Thank you very much to all of them.

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

*Note: This statement has been edited to ensure quality*