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21st October, 2022

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

Dear Sir / Madam,

Sub: Transcript of Mahindra CIE Automotive Limited Q3 CY 22 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 12th October, 2022 in respect of advance intimation for Q3 CY 22 Earnings Conference Call, please find enclosed herewith transcript of the said call held on 18th October, 2022.

The same is being uploaded on the website of the Company i.e. www.mahindracie.com.

Kindly acknowledge the receipt and take the same on the records.

Thanking you

Yours faithfully,
For Mahindra CIE Automotive Limited

PANKAJ VIJAY GOYAL Digitally signed by PANKAJ VIJAY GOYAL Date: 2022.10.21 19:36:36 +05'30'

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

"Mahindra CIE Limited
Q3 CY 2022 Post Results Conference Call"

October 18, 2022

MANAGEMENT:	**MR. ANDER ALVAREZ, CEO, MAHINDRA CIE** **MR. K. JAYAPRAKASH, CFO** **MR. VIKAS SINHA, SENIOR VICE PRESIDENT, STRATEGY** **MR. OROITZ LAFUENTE, BUSINESS CONTROLLER** **MR. SWAPNIL SOUDAGAR, DGM STRATEGY**
MODERATOR:	**MR. BASUDEB BANERJEE - ICICI SECURITIES**

Moderator: Ladies and gentlemen, good day, and welcome to Mahindra CIE Limited Q3 CY 2022 Post 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: Thanks to Mahindra CIE management for giving us the opportunity to host the call. We have with us Mr. Ander Alvarez, CEO of Mahindra CIE; Mr. K. Jayaprakash, CFO; Mr. Vikas Sinha, Senior Vice President, Strategy; Mr. Oroitz Lafuente, Business Controller; and Swapnil Soudagar, DGM Strategy. So over to you, Vikas, for your initial comments, and we'll take the call ahead accordingly.

Vikas Sinha: Yes. Thanks, Basudeb. Good evening, everyone, and good afternoon to those who are joining from Europe. I welcome you all on this call as also our CEO, Ander. Thank you for attending the call despite a relatively late starting time, especially for Asian investors. Sorry for the quick turnaround between results and call. We won't make this a practice.

We start with an overview of the legal structure of MCIE. We would like to point out that during this quarter, CIE has bought out some of M&M stake in MCIE. And consequently, CIE's stake has gone up from 63.44% to 65.71% while that of M&M has come down to 9.25% as against 11.43% earlier. This move, again, reiterates CIE management's strong belief in the growth opportunities available in the Indian market and the fact that they look towards MCIE to continue outpacing the market.

Let us now move on to Q3 C22 results for MCIE, which is on Page 7 of our investor presentation. Q3 C 2022 sales for India were at INR14,294 million, which represents a 34% growth compared to Q3 C'21 and a 12% growth sequentially versus Q2 C'22.Like the last few quarters, the revenue growth rates are higher than the underlying market growth rates. MCIE India EBITDA margin in Q3 C'22 is 15% despite the adverse impact of commodity prices, RM prices, as also an increase in the cost of energy in Maharashtra, where many of our plants are located.

EBIT was at 11.4%, which is better than both year-on-year 10.8% and sequentially 11.1%. In India, the month of September has seen good sales across all segments, especially 4-wheelers, and we largely expect this trend to continue. The festival sales are also going well. However, historically, due to the cyclicality in the tractor demand, we could see a slight slowdown after the festive period in this segment.

On Page 8, we have the Q3 C'22 results for MCIE Europe. Sales were at INR11,632 million, plus 28% versus Q3 C'21 and a little lower versus Q2 C'22. But we have to remember that roughly 3/4 of August is closed in Europe. So about 20 days is not there in this quarter. And of course, in this quarter, there were headwinds on RM prices and unprecedented energy cost rise and of course, the effect of the usual August holidays that we talked about. And also, we would like to mention that in this quarter, there was a negative exchange rate translation impact of about 11%. So on a EUR basis, we have grown by 39% year-on-year.

The sales drop compared to Q2 C'22 was 9%, which is explained by all the factors that I talked about. The EBITDA margin in MCIE Europe in Q3 C'22 was 10%. This margin is lower sequentially than Q2 C'22. Of course, some of it is attributable to the seasonal drop in sales explained above and also the energy price increase.

We are confident that just like the energy impact in Q1 C'22, we will be partially able to get some of these increases through our customers in the coming quarters. On the demand side, even though the customer schedules have not decreased, it is very uncertain as to what impact energy prices will have in Q4 C'22 due to the Ukraine war situation. And now if we go to Page 9, we will see the consolidated Q3 C'22 results, which are a combination of the India and Europe results.

Q3 C'22 consolidated sales were INR25,927 million, plus 31% versus Q3 C'21 and plus 1% versus Q2 C'22. This quarter represents one of the highest ever quarterly sales that we have had. And the other aspect that we would like to point out that now India is much higher than the 50% mark that we are talking about in the total consolidated sales in this quarter.

Consolidated EBITDA margin in Q3 C'22 was 12.8%. Consolidated EBIT margin was 9.4%, and this consolidated EBIT margin is almost close to the 9.7% that we achieved in Q3 C'21 and 9.8% in Q2 C'22, in spite of all that is happening in Europe.

Consolidated EBT in Q3 C'22 was INR2,272 million at 8.8%, which is higher in absolute terms than the INR1,790 million at 9% that we achieved in Q3 C'21. In fact, if you see, profits in absolute terms are increasing, Q3, C'22 consolidated EBT is 27% higher than the corresponding quarter last year, in spite of the margin changes. On Page 11, we have the 9-month C'22 results for MCIE India. Sales were INR39,109 million; EBITDA, 15%; EBIT 11.2%.Page 12, we have 9-month C'22 MCIE Europe results. Sales were INR36,871 million. Again, India is much higher than Europe. EBITDA at 10.6% and EBIT at 7.5%. Consolidated 9-month sales was almost INR76 billion. EBITDA at 12.9% and EBIT at 9.4% EBT.

So we have a solid company performance, despite the complicated scenario in Europe. We believe geographical diversification and an empowered management at local levels is helping us deliver these results. These two factors are some of the key features of CIE's strategic philosophy, and we'll continue to work along these lines. So with that, I'll close my remarks. We wish everyone on the call a very happy Diwali and a prosperous New Year in advance. May the festival spirit uplift our industry. And let's now proceed to Q&A.

Moderator: Thank you very much. We will now begin the question-and-answer session. We have our first question from the line of Jinesh Gandhi from Motilal Oswal Financial Services Limited. Please go ahead.

Jinesh Gandhi: Firstly, can you talk about the impact of energy prices in Europe in this quarter and what we expect in the coming quarter?

Vikas SInha: Okay. Ander?

Ander Alvarez: Good afternoon, everybody. This is Ander Arenaza speaking. Okay. The energy prices during the third quarter this year were the highest energy prices we have ever seen, okay, even higher than the worst moment when the war in Ukraine started in end of February, beginning of March, okay.

At that time, the energy, electricity price, for example, went up to something like EUR300 per megawatt in March 2022. And in July, August, we have been hitting EUR400 per megawatt, okay. That has been the huge peak that we have been suffering in all the European countries. Different in each country, but average would be like that, okay. Even in Germany, we were touching EUR700 per megawatt in certain days.

This situation, of course, is not sustainable. And hopefully, the trend has been going down, and we have seen a pull-off of the energy prices during September and October, up to this EUR250, EUR300 per megawatt, where we are now, okay. We have been dealing with all the customers to pass through. I mean, we have reached agreements with all of them to pass through partially this impact, and that's how we are trying to manage this situation.

Of course, there is a delay in the application of these agreements. So you saw a certain impact on the Q3 margins, and we expect to recuperate, at least partially, in the next quarters. But that is the impact of the energy prices in Europe in all the industry. And I would say, in all economy, has been really, really terrible.

Jinesh Gandhi: Okay. But can you quantify impact in 3Q for the European operations? How much margins were impacted just because of the energy cost inflation?

Ander Alvarez: Okay, depending on each of the technologies, we have a different impact. But generally, you can consider that the energy impact in certain products where we have the heat treatments, plus the heating of the forging operation could go up to more than 10% on the prices. This is the peak that we can have in certain products. But the real impact in our P&L after negotiating and after passing through can be approximately 1% to 2% on the results, on the markets.

Jinesh Gandhi: Okay. Got it. And do you also foresee a risk on continuity of operations because of availability of power or energy in fourth quarter? Or that is definitely not a concern cost is the only concern?

Ander Alvarez: Okay. In this moment, we don't see that risk or let's say that we are producing normally, we have availability of electricity and gas in all our operations in this moment. There's no signal of shortage of energy in our businesses. But it is true that there are some rumors and some comments in Europe, especially in the Northern Europe, I mean Germany and Romania, let's say, all the Central Europe, where it could happen that there is a lack of gas available, so that the industry could be affected, okay. But in this moment, we don't see that.

From the order point of view and I think from the demand point of view from our customers, we are now quite satisfied because the demand is still strong. They keep fulfilling our order book. And the order book is really strong in this moment. So let's see what's going on with the gas situation and with the negotiations with the gas suppliers, mainly from Russia or from the States and also from the Middle East. And we are waiting for the outcome of those agreements, okay. My view is that probably there will be a certain slowdown on the economy until the final solution is reached. But in this moment, as I mentioned, all our operations are running smoothly with no problems. But, okay, the risk and the uncertainty is there.

Jinesh Gandhi: Got it. And you talked about the agreements have been reached for passing on this cost inflation. So would it be to a similar magnitude like in the recent past, where between 60% to 70% of cost inflation was passed through and balance was absorbed by us? Is the magnitude of past similar at this time as well?

Ander Alvarez: Yes. The magnitude is similar to those you mentioned, yes. In that range, that is the average in the market. Yes.

Jinesh Gandhi: Got it. And last question before I fall back in queue, is on the European demand side. So on one side, your OEM customers are indicating very strong demand. And on the other side of the outlook for light vehicle production, which we have given from IHS that talks of decline in CY'22 as well as a sub-3% CAGR over the next 3, 4 years. So clearly, there is a dichotomy between these two. What is your sense with respect to what kind of a group can we expect in Europe, going forward? I mean I presume the chip related issues are largely behind us, at least from 3Q onwards. So how do you see growth, going forward?

Ander Alvarez: Okay. The reality is that okay, for me, it's a very complex question to answer because the word that I used more frequently in the Board that we finished some hours ago, is that the uncertainty, okay. The real uncertainty that we have. On one hand, we see our customers. They are continuing pushing us to produce and to, let's say, to launch the raw material orders because they will need the products, they will need the parts in the next months. And our order books, our EBIs are full and the demand is really strong.

On the other hand, we also see that there is a market signs that, okay, there could be an energy shortage, so that could affect the industry. So there is a risk of that could happen. So that's where we are now trying to navigate, okay, in this uncertainty. My personal view is that the automotive industry in Europe in the last 3 years has been completely depressed, I mean, especially the European after the COVID when we were at approximately 15 million cars in Europe in the COVID year, in 2020.

The following year due to the semiconductors, we were also at 15 million cars. In this year, 2022, because of the war, because of the energy, whatever, we are again at 15 million cars. So we are in a depressed mode in this moment, okay. So I think we can only go up and I expect to have a recovery, as IHS said in the last report, of 7%, 8% of growth for 2023. So my expectation is that hopefully, the market will go up and will recuperate in the next years, yes.

Moderator: We have our next question from the line of Nikhil Kale from Axis Capital. Please go ahead.

Nikhil Kale: Can you help us, I think in the previous quarters, you had talked about constant revenue growth at constant RM. So can you just help us with the numbers for this quarter?

Ander Alvarez: Yes. Okay. In India, we had the raw material growth coming from the raw material with 6% approximately. And in Europe, 15%, okay. That's the figures that we had.

Nikhil Kale: There's a difference in RM impact? Positive impact?

Ander Alvarez: That's right. Those are positive impacts because of the higher raw material price. Year-on-year.

K. Jayaprakash: And that currency change impact also of 11% for Europe.

Ander Alvarez: Yes. And that's also additional impact, 11% difference. And we have 11% negative due to the currency in Europe, yes.

Nikhil Kale: But yes, very clearly, you are seeing really strong outperformance versus the industry. So just if you could just provide color, I mean, which segments are you seeing, especially in Europe, I mean, what would be the revenues of Metalcastello? I think there, we are running at full capacity. So maybe just some color on the PV forgings and also in the Truck?

Ander Alvarez: Yes. Metalcastello is working at full rate in this moment. As we mentioned in the previous call, Metalcastello is doing really well and most of our Metalcastello production goes to the U.S. The U.S. market is still pushing very, very hard and we are working 24 hours, 7 days, okay. And we are adding capacity to fulfill the demand. So in that sense, yes, in Europe, one of the winners is our Metalcastello company evolution. Regarding the passenger car forging, yes, also, the trend is also very strong, and we are selling at a very high rate in this summertime. You know that usually, in the summer, we have the summer holidays when our customers are stopped about 3 weeks completely. And this year, we were expecting probably a higher drop. But in fact, the demand was really strong. And you can see in the figures that we were about, in EUR, 39% above last year in Q3, okay. So, yes, the evolution is really, really strong. Part of this 39% of growth is coming from the raw material, as I stated before, approximately 15%. But we can consider that passenger car is doing also really well. And the commercial vehicle sector also grew and also show certain good performance. Probably it's more cyclical, and we expect certain decline in the next quarters, we could foresee that. But overall, I think the market continues quite strong.

Nikhil Kale: Okay. But just coming to the CV forgings part, I think you're seeing really strong growth. But at the same time, we've been talking about scaling down that business over a medium to longer term. So how do both these things now kind of play out in your plans?

Ander Alvarez: Yes. The point of this business, you know that the CV forgings in Europe has the less profitable business that Mahindra CIE has worldwide. This business is poor profitability, is affected also negatively in really high inflation scenario and also with high raw material plus energy price increases. So the evolution of this business is more and more difficult, okay. So that's why we rather prefer to slow down rather than growing and having additional difficulty. So our strategy there is we continue trying to improve the business and trying to get the maximum efficiency, on one hand. On the other hand, of course, we have no chance than passing through the cost increases to the customers. In this business, we cannot accept 60% or 70% of because then we would be in a negative point. So we have no chance and be more aggressive to pass through these cost increases, okay. So that is the reality of this business. So in the future, we will have to decide what will be the strategic growth for this business.

Nikhil Kale: For the time being, can we just assume maybe growth will be in line with how the CV industry in Europe kind of pans on, will continue to grow at similar levels?

Swapnil Soudagar: Growth in Germany?

Ander Alvarez: Yes.

Swapnil Soudagar: Will it be in line with CV industry growth?

Ander Alvarez: No, probably what we will see in Germany will be lower growth than the market growth, okay. We will probably reduce certain products where we are not profitable. So we will see a certain reduction in the turnover.

Moderator: We have our next question from the line of Abdullah Salmani from Metaverse Equity Funds. Please go ahead.

Abdullah Salmani: Actually, my question is related to war only. I mean, in the aftermath of the Ukraine war in China, how will your business strategy change prior to war and post?

Vikas Sinha: How has the Ukraine war changed our business strategy?

Ander Alvarez: Okay. In fact, we have not changed strongly our strategy because CIE's strategy has always been local-to-local supply, okay. We prefer to produce in America what we sell in America, produce in Europe what we sell in Europe and produce in Asia what we sell in Asia, okay. That's the strategy. So we keep this strategy. Now, also because of the environmental requirements and more stringent targets that we have, we are also trying to avoid unnecessary logistic cost and emissions. So in that sense, this local-to-local strategy is reinforced. Considering that we are a global company, and we have our let's say, we are positioned in all the automotive markets around the world, I think this is the proper approach. And that's exactly what we are now perceiving from our customers.

Our customers, they are now more and more looking for this strategy that I think is more sustainable and avoid logistic costs, currency exchange costs or risks, emissions and also geopolitical tensions that, okay, time to time happen. And we know that this can disrupt and/or break the supply chains around the world, okay. So I think that is the strategy. So we will reinforce our presence in India to grow in locally and to produce locally what we sell here. And also, we will keep the European business and the Mexican business and the American business there, in order to supply locally to all the markets. That's the strategy. There is no big changes in our view because we have had this strategy from the beginning.

Moderator: We have our next question from the line of Bharat Sheth from Quest Investment Advisors Private Limited. Please go ahead.

Bharat Sheth: Ander, earlier, we had moved one order from Metalcastello to India around 5 million. So how that has gone successfully? And are we seeing some of these U.S. business order to Metalcastello to transfer into Indian manufacturing? So what is the strategy over there?

Ander Alvarez: Yes. We have transferred part of the production from Metalcastello to India. And due to many different reasons, okay. First reason is that the final customer was located in India. So it makes sense as I told before, the local-to-local approach, I think it makes sense to produce those parts in India. And secondly, also because of the lack of capacity and the, let's say, the bottleneck that we have in Metalcastello Italy. So that also make pressure to us to move this production to India. So we have done this, the transfer, the transfer was successful. And we are producing in India with normality to the final customer. So also, it's important to say that we have had during these years, we have done the technology transfer from Italy to India. And now we are producing really complex parts in India, and we have now the knowledge. We have the machinery to produce the same kind of products that we produce in Italy, we can produce them also in India. So this process is ongoing, and it's ongoing successfully. So both the Gears division in both regions is doing fantastically.

Bharat Sheth: So in future, do we expect, I mean, to get more Gear business because the way I mean capacity constraint, we are facing in Metalcastello to transferring into India? And how big is the opportunity?

Ander Alvarez: Okay. In this moment, also in India, we have, let's say, certain bottlenecks because of the capacity constraints. Not exactly in this moment because the tractor business is now quite low, and we produce a lot of gears in India for the tractor business. But once the tractor business come up, that will come for sure. Our capacities in India are also limited. So our plan is to continue investing and growing in India, and we have our plans to expand our Gear division in India. And also, we have plans to build new plants to continue our growth trend and take the opportunities that we have in the market in this moment, okay.

So not necessarily transferring from Metalcastello. Some of the products could be transferred from Italy to India if it makes sense. But the current market in India is giving us enough opportunities to continue our growth in India without the need of transferring production from Italy.

Bharat Sheth: And second question now, ICE to EV. So Europe and India, how are the things are playing out? And second thing, what we have been listening at some of the people, I mean power train manufacturers are reducing crankshaft capacity, or transferring to other products.

But ICE business, so how do we see gaining a market share in the ICE business over time?

Ander Alvarez: Okay. In Metalcastello, as we have already explained in previous calls, we got new businesses from electric vehicles, very large business that we have now, let's say, increased. I mean, we have been nominated for additional electric vehicle products. So we see the trend, clearly. And the new orders are now more and more coming from the EVs and the hybrid vehicles. So in that sense, in Metalcastello, the transition will be absolutely natural because the market is pushing us to that kind of components. And coming back to the internal, let's say, the rest of the forging, I mean our crankshaft business is not affected yet. I mean we are not affected until now because due to the mix of product that we have with a mix of customers, plus the market evolution, we don't see the reduction. But what we are now preparing ourselves is that in 4 or 5 years, we will probably see a decline on the demand of these kind of products, and we will prepare ourselves to change our product portfolio to others, as we mentioned also before, from chassis component and also aluminum forgings and all other kind of products that we are developing in this moment.

Bharat Sheth: So I believe that in Europe, we had started or we were to start about on aluminum forging factory. Where we are at this moment?

Ander Alvarez: Okay. We have had our first orders in the aluminum forgings, and we continue developing the technology plus the products, and we are working on it. I mean there is no additional information that I can disclose, but we continue working on it.

Bharat Sheth: Okay. On India business, any addition of new clients or any addition of the new business in Q3 vis-a-vis earlier quarter? And how those new customers, which have been added over last 12 months, is performing?

Vikas Sinha: Any new big orders, no. But in terms of new capacity additions, I think capacity additions are ongoing in almost every vertical that as we have reiterated in the past. You have Magnetics, where there is an expansion program, which will substantially increase capacity. We have a new plant at Gears. A new plant is being set up at AEL. All these are ongoing programs. You have CIE Hosur, where most of the infrastructure has been set up.

And first order, we have started to generate revenue from that place, and it is now in the process of being ramped up. You had the warm forging plant, which has been partially set up at Chakan. We will put in more machines there. So the capacity addition is an ongoing process. In terms of order book, if there are any significant new orders, at this time, we don't have that, maybe we will talk about it in the year-end call. But we let you know about the order book or the new orders generated in this year during that period.

Bharat Sheth: So Vikas, my question was related to more on the new client acquisitions or increasing the content per vehicle from the existing clients? So if you can give a little more color on that side also.

Vikas Sinha: No, in terms of increasing our share or having more business from our existing clients, that's going on. Whether it is Mahindra, as you know, Mahindra is going through a lot of new model launches. So we are there in all of the new model launches as also the model launches next year in the EV space. Same case, as far as Maruti is concerned, and also, we have a very strong situation developing in Tata Motors also. So that is in the 4-wheeler segment. In the 2-wheeler segment, we have talked about how CIE Hosur, we have had new orders. CIE Hosur has the new setup for new orders that we have got, I think, from PSA and Royal Enfield. So that is there. So we have like, for example, Ander talked about how he is bullish about the tractor segment, which will have an impact on our plants at Rajkot and Zaheerabad. We are receiving from the new model launches by Mahindra in the tractor segment. A lot of them are slated in the coming few years, not necessarily in the next few quarters. But they have a strong pipeline of there, and we will be presenting all of them. So to that extent, we are quite comfortable in this area.

Moderator: We have our next question from the line of Enrique Yaguez from Bestinver Securities. Please go ahead.

Enrique Yaguez: I have very general questions. The first one is regarding the constraints that you have in India. Do you foresee the need to accelerate the CapEx allocation in India next year? Or with the ramp-up of the current investment, this will be enough to supply the market?

Ander Alvarez: Okay. It's true that we have in certain businesses, in certain verticals, we are limited and we cannot continue growing if we don't invest. But our investment plan is solid and it's done from, let's say, several years ago, okay. Even in the COVID year, 2020, last year, 2021 and this year, we are investing heavily to, let's say, prepare ourselves to cope with the demand that we foresee from the market, okay.

So this year, we are investing and I can give you the figure, that's close to, till now, INR4 billion on CapEx. Most of it is located in India, and we are adding capacity, and we are adding plants in almost all the verticals, okay. So we continue our capacity expansion trend and because we needed to continue growing in the market. So we expect that during this year, we will have an important CapEx in India.

Next year, we will have again because we think that the Indian market will continue growing. And also, regarding the mix of customers that we have, we see that, okay, we are growing a lot with Mahindra as it is normal. I think Mahindra is doing really well, and with the new products they are launching, they are having a big success, and I think that will be a good opportunity for us to continue growing. Also with Tata, also with Maruti, I think that we are well located to continue our growth strategy, okay. So to your question, yes, we have had limitations, but we are now launching additional CapEx, aligned with our customers, to fulfill with the demand, okay. So our strategy is to continue our customers as much as we can.

Enrique Yaguez: Thank you. And the other two questions are regarding profitability in Europe. First one should be Q4. You mentioned that there has been some delays in the pass-through of energy inflation to some clients. So my question is, taking into consideration this pending pass-through and the limited visibility that we have on market demand, should we expect a profitability improvement in Q4, taking into account our pending pass-through in Europe?

Ander Alvarez: Okay. If the situation of the energy market is stabilized and the demand continues as it is now, yes, we should have this recovery, okay. Because we will be able to recuperate what we lost in the previous quarter. The point is that we don't know what will happen with the market in the next quarter, and we don't know what will happen with the energy, okay. So that's why I cannot say total yes or a very solid yes to your question because it will depend on how the energy market plus the demand behaves. But in normality, yes. If you recall from the previous quarters, in the Q1, we were negatively affected because of the start of the war in Ukraine and in February, March, the energy went up and we had difficulties. So we lost certain margins. In the Q2, we recuperate, now in the Q3 as the energy is picking up again, we go down again. So that's the scenario we are suffering, very, very complex scenario. And yes, it's really, really tough situation to manage with this uncertainty. But yes, I agree that in a normality, we should be able to recuperate part of the margins that we have lost in this quarter.

Enrique Yaguez: Very clear. And the last question is around Q4. Next year, obviously, it's going to be a year in which the huge labor inflation in Europe would have to pass through to clients. How confident are you of being able to pass through the labor inflation in Europe, which will be the first time in the case we have interact this?

Ander Alvarez: It's very, very difficult question because my feeling is during the negotiations that we have had in this period with the customers, they refuse to apply any price increase due to the inflation, okay. They consider that they should pay the raw materials because this commodity is coming, and they pay the energy price. At the beginning they refused. But finally, they agreed, and this is generally agreed by all the OEMs because otherwise, they will destroy the supply chain. So this is clear. But the inflation, that is the complex thing to pass through because they consider that we should offset this with the efficiency gains and productivity gains internally. So if you want to know my request to all the teams in my businesses in Europe, what we have done is we have set an internal target to offset this inflation in labor, and we should be able to offset that impact through the growth in the business that are growing or through, let's say, social plans or, let's say, firing people in order to increase our efficiency to be able to keep the margins, okay. So that's the strategy, there is no way than resisting and improving internally to offset those impacts on the inflation.

Moderator: We have our next question from the line of Nikhil Kale from Axis Capital. Please go ahead.

Nikhil Kale: So just wanted to understand, so again, going back to the Europe performance, have we seen any benefit because, say, some suppliers are based out of Ukraine or Russia have been impacted? So are we kind of gaining market share because of this kind of an impact? Any examples of this?

Ander Alvarez: No, not from Russia, from Ukraine. We have not seen this impact. We have not been benefited from production coming from Russia or Ukraine. It's not the case. What we have been benefited in some small businesses is from some small companies that are close to bankruptcy because of the special situation in the European market. So there is a consolidation there. So yes, we expect to see certain consolidation in the market because of the bankruptcy, but from European suppliers, not the Russians or the Ukrainian suppliers.

Nikhil Kale: Okay. Got it. And just on the CapEx side, you, I think, mentioned that you're seeing really good demand in India, especially when you're looking at CapEx. So what is the churn I mean, the CapEx guidance for this year, you would need so close to the CapEx will be close to INR5.5 billion for the full year on a consolidated basis?

Ander Alvarez: The CapEx in global, I think, would be about 5% of our total turnover. That's the figure that we manage, yes.

Nikhil Kale: That should continue, going ahead, for the next year as that would be a safe assumption?

Ander Alvarez: That's right. Yes.

Moderator: We have our next question from the line of Siddhant Dand from Goodwill.

Siddhant Dand: Yes. Could you give me the German PBT number of German operations for 3 months for the quarter and 9 months of Mahindra Forgings?

Vikas SInha: Germany and for Mahindra. PBT in Germany. Okay. Wait a moment.

Vikas Sinha: No, I think we don't have it readily available, right? We will share this PBT numbers about the German business at the year end. But what we can tell you in terms of gross margin performance, it is more or less similar to what we have done in the earlier quarter in Q2.

Siddhant Dand: Okay. But EBITDA, is it at the PBT level, is it positive or negative?

Vikas Sinha: No, it is not negative. It will be around the 0 mark. Even last year, on a full year basis, it was something around that only, about PBT 0%, 0.5%. So it will be something like that only.

Siddhant Dand: And my second question is about the debt figure. So what would be the gross debt figure now? And is it in India and Europe? And will interest rate have an impact over there?

K. Jayaprakash: Okay, sir, if you're asking about net financial debt, we are about INR7.5 billion. And yes, it will have an impact because the rates have gone up, both in Europe and India, about 2%. But I think overall, if you see in our scheme of things, finance cost is not really significant.

Siddhant Dand: Okay. So INR7.5 billion, that is around INR750 crore, right?

K. Jayaprakash: Yes, yes.

Siddhant Dand: And what's the rate in India, Europe about the debt?

K. Jayaprakash: India would be about INR1 billion.

Siddhant Dand: India would about INR1 billion. So mostly, it is Europe debt?

K. Jayaprakash: Yes.

Swapnil Soudagar: Okay. If you want gross numbers, it is actually issued if you're looking for interest cost impact.

K. Jayaprakash: Yes, okay, you can look at what we earn also. So that's yes.

Siddhant Dand: Okay. And my next question is, can India so what is the India's top line target by CY'25? And can the margins reach like 17%, 18%, like our current margin for the India business?

Vikas Sinha: Say, India, C'25.

Ander Alvarez: Yes, we have always had internally the target to have the same margins in India than in the rest of CIE, okay. So that is clear, okay. We don't disclose long-term target in our company. But as a strategy or at least our risk in MCIE, yes, we would like to be there or above, okay. So what we see clearly is that the growth in India will be higher than the rest of CIE markets, and the margins should slowly but steadily should be able to recuperate and to grow, to reach or, let's say, surpass CIE margins, yes.

Siddhant Dand: And growth. And what are the growth targets for the India business? Around 15%?

Vikas Sinha: No, no, we don't have any such target that we have set for ourselves. What we normally say, normally work towards is whatever is the weighted average market growth, we will grow maybe higher by 10% than that. Earlier, we used to say 5% to 10%, now it will be closer to 10%, will be higher than the weighted average market segment. When I say weighted average market segment, we have a certain portfolio spread in India across 4-wheelers, 2-wheelers, tractors and trucks. So based on that weighted average, we want to beat the market by, say, by 10 percentage points as a general rule.

Siddhant Dand: Okay. And about the interest cost has gone up for us. And so what was the cash-pulling deal that we had with CIE? Is the interest cost still 1.5 over there?

K. Jayaprakash: It is for the time being.

Moderator: We have our next question from the line of Ankur from Quasar Capital. Please go ahead.

Ankur: Sir, I had a question on growth. So considering the interest rate hikes worldwide and the headwinds with the auto industry is going to face or is facing, how do we think about growth because obviously, our underlying business is linked to the automotive industry? So can you share some thoughts on how we will grow, whether it will be purely organic, inorganic because organic growth, it seems to be difficult to come by?

Vikas Sinha: No, Ankur. As far as organic growth is concerned, we don't think that at least in India, that would be the case that we would not grow. Ander also mentioned that we have a lot of medium- to long-term expectations from the Indian market, not just in MCIE, but also our parent CIE has that kind of expectations. So we do expect the Indian automobile market to grow. Of course, there are certain headwinds that we know around inflation and around the geopolitical scenario and expectation of recession in many places in many countries. But nevertheless, we do believe that the Indian automobile markets in all segments will keep growing. Why we say that? For example, the penetration ratios, both in 2-wheelers, tractors and 4-wheelers, is much lesser compared to the global average. In the case of 4-wheelers, it is only 28 per thousand, which is much lower than even other emerging countries.

In tractors, I also believe that the tractorization levels, there is a lot of scope for improvement in terms of horsepower per hectare. 2-wheelers, maybe only 50% of the households in India have 2-wheelers and 2-wheelers is a necessity. So there is enough scope for growth. We also think that, yes, there will be headwinds, but income levels will keep growing. It could be at a reduced rate compared to what could have been if there was no such headwinds. But nevertheless, it will increase. And therefore, this combination of demand as well as income, we do think that the medium- to long-term, in the Indian automobile market will be good.

To answer your question around Europe, I think Ander did mention that the European market has come down to very low levels. What used to be in the range of 20 million light vehicles per annum, today, this year is probably in the range of 15.2 million, 15.3 million. It was 15.5 million in the year before. It was around 16 million the year before that in 2020. So it is already at a very low level compared to what it used to be. And therefore, there will be some recovery at some stage, even in the European market because the base levels are very low. So we are not ruling out organic growth at all. We are quite hopeful, as far as the organic growth is concerned.

As far as your inorganic question, we have said that we will normally not want to do inorganic. We want to do any acquisition for the sake of growth. We want to do acquisition to fill up capability gaps in our portfolio, whether it will be, say, for example, any new technology or any new customer that we would like or any new segment that we could service. It would be largely for that and not necessarily to push growth that we would be doing an acquisition. So inorganic, we keep looking at it. And whenever we find something that really fits our bill, we will certainly go for it. But I don't think we are relying on inorganic strategy for growth.

We do believe organic will be there that from a market perspective. And overall, and as we explained in the question that Siddhant had asked and especially in India, we do think that given our order book scenario, given the fact that we have been able to improve our efficiencies and competitiveness in the recent past, we will be able to grow faster than the market. We talked about a 5% to 10% or closer to 10% kind of figure higher than the India market growth. So not only do we expect the market to grow, we also expect to grow faster than the market in India. So that is our thinking at this point of time.

Ankur: And sir, one more thing, like I heard about an interesting strategy with MCIE is following that localized manufacturing product and production. Like the context is that I was just thinking from a company operational perspective and the way inflation, the energy prices and all of it is hitting the manufacturing operations for each and every company. So considering that like aren't the customers, like the end OEMs, looking forward to a low-cost manufacturing base rather than just a localized base? Yes, maybe temporarily, till the time, there are logistical issues or any of those sort of issues, it is understandable. But let's say, in the medium term to long term, wouldn't these big OEMs think about rationalizing their cost structures and shifting their supply chain, maybe a more diversified supply chain, but to a lower cost of plant like the base which we have in India? So like can you share some thoughts on that?

Vikas Sinha: When we say it is CIE's stated strategy, as far as local-for-local is concerned. By and large, it would continue like that. Yes, you are right. There will obviously be a quest to look for lower-cost sources of manufacturing. And this has to be balanced with all the logistical risks that companies have faced in the recent past, whether it was due to COVID or due to the semiconductor issues that people were facing or even to the shipping cost situation that happened last year, like there was a container shortage so all these things have to be balanced together. So there is a need for low-cost manufacturing, and then there is a need for this balancing of supply chain.

So when it is centered local-for-local, it does not mean local means Maharashtra for Maharashtra or something or just only India for India. By and large, that would be the case. But as low-cost markets, wherever we have opportunities to export, we will export. So it is not as or like whether this China Plus One strategy. Are we benefiting? Yes, in areas like Gears, in areas like Magnetics, we gain from this kind of situation. So both the things are correct. So what you are saying is also right. Wherever we see an opportunity, we'll take care of it. But by and large, OEMs now try to balance their supply chain risk, and that is the reason why CIE has that strategy.

Ankur: Okay. So can you just quantify the amount of exports from India, like a percentage of sales from India?

Vikas Sinha: Roughly about 12% to 13%. And we have said in the past that we would like to increase this. About 2 years back, I think if you go back to our transcripts, we had mentioned that we want to take it up to 20% but after that, there has been a very strong domestic demand. You heard like how we are increasing capacity in each of our verticals, a lot of it. And a large part of it is to service the demand from our customers in India. So to that extent, our first priority is definitely to service our existing customers. So yes, we do have at the back of the mind but back of our mind. But at this point of time, our first priority is to fulfill the demands of our order book essentially that we already have.

Ankur: Okay. Just one more like one more point, it is just coming from a perspective that there is one of the portfolio coming like, let's say, that of ZF commercial steering, okay. So let's say, this particular company, it is manufacturing certain parts in India, okay. And it is supplying to some of the supply chain worldwide. So like from a CIE perspective, is CIE looking at their supply chains from a synergy point of view that, let's say, there is a particular part which we are able to source it well from India in a better way or let's say, they are able to source it better from Italy unit in a better way. So like I just wanted to know that are we using the global platform base and the global manufacturing platform base to actually benefit from this benefit in terms of many things like cost and other things? So are we open to do that because the local-to-local, it seems like especially if I think from a medium- to long-term perspective, it seems pretty tough?

Ander Alvarez: Okay. The local-to-local strategy is a general strategy, okay. It doesn't mean that the 100% of the production will be local to local. There will be a percentage that for sure, for cost reasons, for synergies, even for technological reasons, could make sense that we could concentrate in the production of one component in one region and then export from there, okay. And in that sense, India, of course, is well located because the cost base is much more competitive than the rest of the regions. So yes, we can see what you proposed or you mentioned, depending on each product. As a general rule, we prefer to go local-to-local but in certain cases, of course, we will produce in India, and we will export, okay. And especially, for example, in certain technologies that our level in CIE in India, we will produce for sure in India and deliver to the rest of the countries, okay.

So let's say that we have a very open mindset on this. We set our general strategies. And what is true is that Vikas explained before, saying that we were planning 2, 3 years ago that our export rate should grow importantly and pass from this 12% to 20%, even 25%.In this moment, we think that this is not the right strategy because first, the local market is demanding more than enough in India. So we are struggling to supply to the current customers here in India. So that is the good thing.

And secondly, the logistic cost has gone up dramatically. Also, not only the cost because the availability in certain moments, we were not able to find ships to deliver our product. And also, there is a big pressure especially in the European and American customers to reduce the CO2, the carbon footprint.

So let's say, considering all these things, I think we will focus our efforts on locating the production in each of the regions. And of course, if there is an opportunity and there is a need and there is a certain product that makes sense to produce an export, we will do it for sure.

Ankur: And sir, just the last question. Sir, I was just going through the annual report, and there was a very interesting data point, which I found that currently, the incremental vehicle sold are more of a hybrid vehicle than a pure battery-operated electric vehicle, okay. So can you just share your viewpoint on the trends and the way your customers are perceiving their strategies? Like are they perceiving like are they forcing their strategies from a very open perspective and they are letting the market discover or they are particularly saying that hybrid vehicles is going to take the lead? Can you just throw some points because this is important because it is also written in the annual report that if it is a hybrid vehicle, the content per vehicle for Mahindra CIE increases?

Vikas Sinha: You're talking about Europe, I guess?

Ankur: Yes, Europe.

Vikas Sinha: So Europe, that trend remains the same. Battery electric vehicles even in this quarter or YTD this year up till September are about 10% and hybrid at around 20%. Overall, between petrol and diesel, they are close to 50%, 55-odd percentage. Now, whether it is deliberate strategy or that is the way the market is evolving. So at this stage, it is very hard to say whether it is because the OEMs are pushing or the market is evolving. What we think based on last year's aggressive plan that the European Union had announced on that 55% reduction in emissions, we do think that by 2030, about half of all the vehicles sold in Europe would be pure battery electric vehicles, but that's 2030. So that's the expectation, based on whatever like, for example, IHS is telling us based on this new revised guidelines that the European Union has issued.

Earlier, of course, this number was 30%, pure battery electric vehicles, by 2030. It has gone up to 50%. How between now and then how this mix changes, et cetera, we'll have to see whether it will be hybrid or only pure battery electric vehicles. It's based on many things. There is charging infrastructure. That is the way people drive long distance, short distance, the inflation considerations, the subsidies that the government give. So there are a lot of variables. So exactly between BEVs and hybrids, how is it going to be? We really don't know. But to your point, in the medium-term, do we perceive that it could be advantageous for MCIE? The answer is yes, not just from a hybrid point of view, but also from the traditional powertrain. The traditional powertrain is still a large part. As I said, almost 50%, even if it comes down to 30%, 30% of, say, a 16 million, 18 million market is a huge number.

And not much investment is going in into the conventional or the traditional powertrain component manufacturing. So to that extent, opportunity lies there also. So in the medium-term, actually, there is a lot of opportunity, not just risk, to look forward to in this transition. But to answer your original question, it is very hard to say whether the OEMs are pushing this or it is evolving. I guess I'll request Ander also to add his views on to this.

Ander Alvarez: No, I agree Vikas I mean I think the hybrid vehicles are, let's say, the best solution for Mahindra CIE because the amount of components is higher. So we have both electric components plus the internal combustion engine components.

But I see the hybrid solution as a temporary solution, okay. So it's the bridge. The hybrid will give the bridge to the electric vehicle, to the pure electric vehicle in the future. So I think it's a necessary step. It will be used and it will be probably massive in the next 4, 5 years. And then once all the charging infrastructure is already set, then there will be the smooth transition to the pure electric vehicles, okay. So that's my view. So I think there will be growth on the hybrids. And then the growth up from, let's say, 2030, 2032, then we will see a pure battery growth importantly.

Moderator: Thank you. I would now like to hand the conference over to the management team for closing comments. Over to you, sir.

Vikas Sinha: Yes. Thank you. Thanks for your time. I'll request Ander for the closing remarks.

Ander Alvarez: So thank you to all the participants for the well-directed and clever questions that you did. I hope that we answered properly and you have now the better knowledge of our company.

As always, I would like to say thank you to all Mahindra CIE team that has been working in a very hard and difficult conditions during all these months. And I thank you for the effort, their commitment and their work, okay. And finally, I just wanted to say to have a nice, Happy Diwali festival and enjoy with your families and rest because I think we will have after the festive season, we will have to fight again in this complex market. Thank you very much.

Moderator: Thank you, sir. On behalf of ICICI Securities, 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