



“Bharat Forge Limited Q1 FY'17 Analyst Conference Call”

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MANAGEMENT: MR. AMIT KALYANI – EXECUTIVE DIRECTOR, BHARAT FORGE LIMITED

Moderator: Ladies and Gentlemen, Good Morning and Welcome to Bharat Forge Limited Q1 FY'17 Analyst Conference Call. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal for an operator by pressing “*” followed by “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Amit Kalyani. Thank you and over to you, sir!

Amit Kalyani: Thank you very much. Good afternoon, ladies and gentlemen and first of let me say that it has been a very disappointing and challenging quarter for us as a company, impacted by weak demand and inventory de-stocking across a variety of sectors, especially in the commodity space, in oil and gas space, and in the North American truck market.

However, we have not lost any market share, in fact, we are working with our customers to grow our business even in these sectors in whatever opportunities and areas we see potential, but the real reason has been a simple collapse of demand and the consequent inventory de-stocking.

Talking about some sectors specifically and these are all related to exports, our commodities and allied sectors are down by about 45%, oil and gas is down by 70%, and commercial vehicle product exports is down by 33%.

We have witnessed strong growth in the domestic CV business with performance that is better than the underlying market growth and also growth in our passenger car component export business.

Our domestic industrial sector has also shown a strong double-digit growth on the back of strong traction from our “Make in India” Programs, agriculture sector and from the PSU sector.

In terms of balance sheet, we continue to focus on generating free cash and becoming net debt free. Our debt equity on a net basis long-term stands at about 0.19. Total net debt is around Rs. 500 crores. We have also had some order wins in the quarter, which have increased our market share in passenger car and we are hopeful of getting some new businesses in our focus areas such as aerospace and high technology passenger car components in the near future as well.

Our subsidiaries have had a decent performance in this quarter. I think they are starting to move towards a higher EBITDA margin and with the 5% top-line growth, they have an EBITDA growth of 31%, so, it is heading in the right direction.

In terms of outlook, while we are navigating through a tough environment, our focus is on accelerating our product development in the new areas where we see tremendous opportunities, broad basing our customer base and strong focus on mining existing customers with new technology and offerings. We expect overall 2017, at least the first-half to be

sluggish compared to 2016, but we expect performance to improve from Q2 sequentially and this will also have an impact on EBITDA margins. I know a lot of people have questions about EBITDA, so let me be upfront and talk about that.

Our EBITDA margins are affected by some structural things and some accounting issues. One is IndAS, where the excise is added to the top-line, so that is not comparable, so that is let us say, a one-off or let us say that is an accounting related issue, but undoubtedly even without that, we have a 350 basis points hit on EBITDA and that is mainly because volume, product mix and value of exports. Anyhow, volume is obviously understandable to everyone, product mix and exports kind of go hand-in-hand because we had certain markets in certain sectors, such as oil and gas which were 100% export and 100% very high value-added; and today it is become zero. So from, around a \$100 million of exports in that sector annually, we are now at virtually signal-digit million dollars quarterly run-rate so, that should kind of throw a light on that situation.

Also due to that, value addition is lower. But what we are doing is, we are trying to use those capacities and capabilities to expand our business in Aerospace and we do not have to make any new investments either in Aerospace or in the energy sector, because these are all components that are of a similar size and shape, which can be made on these existing capabilities and machines are also fungible. So we hope to also start leveraging these facilities as these businesses ramp up.

In terms of machining, value add and sales, it has come down, it is now at about 45%-46% and in terms of overall capacity utilization, we are at about somewhere in the region of 65% to 67% and that is really it, I mean, I would now like to open up for Q&A and really interact with all of you and try to answer whatever questions you have between me and my team.

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin with the Question-and-Answer Session. The first question is from the line of Kapil Singh from Nomura. Please proceed.

Kapil Singh: Firstly, I wanted to ask is, I think domestic M&HCVs, you have mentioned in your guidance as well that there is some sluggishness, but you expect strong growth for this year; so, just some thoughts around that. And whether that growth will continue into next year, how are you looking at that?

Amit Kalyani: Okay, so what we have been guided by clients is that there is going to be a 15% overall growth in M&HCV sector this year and that each quarter it might be slightly different, between 15% and 20% is the overall what they are expecting. But it is not going to be every quarter, you will see one quarter much stronger, one quarter slower, but I think overall you will see a strong growth of between 15% and 20% and I think you will see a double-digit growth next year also.

Kapil Singh: Okay, and secondly, I wanted to check for overall revenue guidance we had talked about broadly flattish numbers so, do you think that is still achievable despite a tough 1Q?

- Amit Kalyani:** Yes, flattish is still what our target is.
- Kapil Singh:** Okay. And lastly, I just wanted to reconfirm on defense, you have always talked about that, in defense business would Bharat Forge would be doing the component part of whatever defense order?
- Amit Kalyani:** Let me for everybody's benefit, just explain this one. Like the kind of products we are making, let us say, an artillery gun, the real value add that the Kalyani Group will capture, will be all the components that go into the entire artillery, which is the breech, the barrel, the entire mechanism and what we will not capture is things like the electronics, the radar, all that which will come from our partners. So even if this gun is being produced by Kalyani Strategic Systems Limited, Kalyani Strategic Systems is only an integrator, so they do not have much of a value-add to do. They will take what the partner gives, they will take what we produce and together assemble and field the gun. So, all the value-add will be captured by the components that Bharat Forge supplies for these kind of products.
- Kapil Singh:** Got it. And broadly what percentage value-add would be addressable by Bharat Forge and how much CAPEX or R&D investments we have already done?
- Amit Kalyani:** We have made CAPEX close to about Rs. 100 crores and R&D would be again another close to about Rs. 100 crores over a period of time and all the value-add as I mentioned, so it depends from product-to-product, certain products, it is Rs. 2 crores; certain products, it is Rs. 5 crores; certain products, it could be even more than that.
- Moderator:** Thank you. The next question is from the line of Binay Singh from Morgan Stanley. Please proceed
- Binay Singh:** Sir, my question is firstly, like, you have talked about inventory clearance. Is that through in the U.S. market, like in the truck market?
- Amit Kalyani:** I think it is more or less, it is down to a normal level.
- Binay Singh:** Okay. Basically, what I wanted to understand is that, you gave a number of around Rs. 127 crores as your Class VIII truck sales for the quarter and now we are seeing the order
- Amit Kalyani:** What is that?
- Binay Singh:** Like, I think in the Press Release you have given a number of export of trucks to U.S. around Rs. 127 crores or so.
- Amit Kalyani:** Yes, okay.

Binay Singh: Right, so what I wanted to understand is that, is this representative of the current net orders that we are seeing in the range of 10% - 11% or is this lower than what we are seeing because of inventory?

Amit Kalyani: No, it is lower than what we are seeing.

Binay Singh: Okay, so in that sense, would you have any sense that how lower would it be? Just to get a sense that as production improves, because then you should see a pick up in the second-half, stronger than what the market will see?

Amit Kalyani: I think, if you think of it this way and it is a damn good question. If 100 is the production and our sales is 100, the production is now probably 70 and our sales are like 50.

Binay Singh: Okay. That is a good way to think about it. Secondly, you also pointed that you are seeing a little bit of inventory correction in other segments. Is that in oil and gas also is that an issue?

Amit Kalyani: Oil and gas there is no inventory corrections, there is just no demand.

Binay Singh: Okay, and therein there is no change that we are seeing, right?

Amit Kalyani: Very small. Only thing that we are starting to see and literally starting to see in the last two days or three days is what we are realizing is that the shale gas side is going to be the first that comes back, because their variable cost is almost zero and they do not have much of a variable cost in production and whatever they have sunk, they sunk. So, whereas in conventional deep sea and conventional oil there is a significant component of variable cost as well.

Binay Singh: Okay, And then just continuing on that, like you shared that your oil and gas revenues are down 70% and commodity-linked down 45%. Could you also give us a number of, like, what exactly is it in revenue terms now?

Amit Kalyani: For which one?

Binay Singh: For oil and gas and commodity linked exports?

Amit Kalyani: Oil and gas is like; it is around 30% of what it was last year.

Binay Singh: Okay, so it is 70% down from the peak.

Amit Kalyani: Yes, but that is only based on whatever inventory we had which we had to clear this quarter, there is no demand going forward. But, whatever we have said in terms of our guidance for Q2 and other things, take that into account; and construction and engineering is also down by 50%.

Binay Singh: Right. Sir, will it be possible to have these numbers in revenue terms?

- Amit Kalyani:** I am sorry, I cannot share those right now, that is too sensitive to share.
- Binay Singh:** And just last question on subsidiaries, very impressive numbers this quarter. Is there any one-off or how should we look at it for the rest of the year?
- Amit Kalyani:** No, we expect that Q3 will always be slow in the subsidiaries, because that is their summer holiday period, but overall, we will see Q3 - Q4 performing strong and full year will be better than this.
- Moderator:** Thank you. The next question is from the line of Basudev Banerjee from Antique Finance. Please proceed.
- Basudev Banerjee:** A few questions, one, as you said that, because of the oil and gas weakness there is a capacity fungibility with aerospace and other segments, but do you see the demand in the aerospace to pick up so much that you need to see that utilization getting balanced for the quantum of oil and gas in the near term?
- Amit Kalyani:** Not immediately, but between the other sectors that we are targeting such as renewable energy and other things, in two years we will fill up all this capacity. And "Make in India".
- Basudev Banerjee:** The systemic destocking in U.S. Class VIII which is happening and correspondingly we can see a new low in the Class VIII monthly order book number. But are the ground level retail sales as per your outlook, how that is panning out? Whether that is incrementally at risk or that is more or less stable down the line,
- Amit Kalyani:** What we are seeing right now is that calendar year 2016 and calendar year 2017 will be flat and calendar year 2018 is expected to be about 20% to 25% up.
- Basudev Banerjee:** So on a broader basis, revenue from Class VIII might remain flattish for FY 2017 and FY 2018?
- Amit Kalyani:** For 2018, for 2017 for us, we will have new products that go into this, so they will see maybe a 10% to 15% growth, even if the volumes remain the same. But 2018 onwards we will see a very substantive growth, because we are developing a lot of new products as well. So, we are increasing our value per vehicle by almost double in the next three years or so.
- Basudev Banerjee:** And sir, this quarter, though volumes were pretty impressive despite this adverse scenario, but if we see your blended mix realizations still further contracted even sequentially and year-on-year it is as down as 15 odd percentages. So, how one should look at that and when the recoveries should happen along with metal inflation?
- Amit Kalyani:** Yes, see there are three factors. One is machining is down, high value oil and gas is down and passenger cars is ramping up and this time the passenger car in the beginning, is only forging, there is no machining. As it shifts to machining, then the value-add will also increase.

- Basudev Banerjee:** So as we are discussing the passenger car forging revenue can triple from Rs. 200 crores to maybe Rs. 600 crores odd.
- Amit Kalyani:** It is not only forging, it is largely going to be machining eventually.
- Basudev Banerjee:** So incremental passenger car forging will also be accompanied with machining?
- Amit Kalyani:** Yes, we have developed a whole strategy for machining and we have also won orders for that.
- Basudev Banerjee:** And sir, last question, again the same thing like, where are you now presently from your target of Rs. 7,000 crores standalone revenue against a quarterly rate of Rs. 900 crore?
- Amit Kalyani:** That is exactly where we are; we are at Rs. 900 crores versus Rs. 1,750 crores.
- Basudev Banerjee:** So how is the journey and confidence looking at it?
- Amit Kalyani:** The whole world is seeing a very different scenario right now. There was a time when we were looking at taking our exports in oil and gas from \$100 million to \$250 million. From \$100 million, it is gone to zero. We are trying to replace all that business in the next two years with new business. So, I think we have to take it as it goes. I do not know whether Rs. 7,000 crores is going to be even feasible in 2017 - 2018, but maybe we will definitely have a very substantive addition to our top-line by that time. But we have to focus on the more medium-term and get our profitability and our growth back with the strategic initiatives that we have taken now.
- Basudev Banerjee:** Sure. And the margin this quarter despite all this adversities, was quite impressive.
- Amit Kalyani:** Thank you.
- Moderator:** Thank you. Our next question is from the line of Amin Pirani from Deutsche Bank. Please proceed
- Amin Pirani:** Thanks for the opportunity. Sir, my first question was on your domestic revenues, which actually grew around 10% to 11% and you also mentioned in the update that the CV revenues grew around 26% and industrial grew around 13% so, which...
- Amit Kalyani:** Yes, our passenger car which is largely SUV related saw a very large drop which was kind of to do with that whole diesel ban and 2,000 CC ban.
- Amin Pirani:** Okay. So, is that something from, what are you hearing from a customer? Is that something now that it settles at a new lower level or do you expect...
- Amit Kalyani:** Actually what we are doing with some of those customers is, those customers have now developed products that are below the 2000 CC range and we have worked with them on

developing those products and we are also developing a lot of new products with many customers, including our non-traditional customers.

Amin Pirani: Understood. And sir, on the industrial side, you have seen significant growth in India at least, so any particular segments where this is happening because last year was a very sluggish year, but this year seems to have started on a strong note?

Amit Kalyani: You know on the industrial side, we are seeing in the energy space, we are seeing in the entire commodity space, like cement plants, steel plants. Then we are seeing some increase in business on the diesel power side. We are also starting to see now increase in demand from stationary power sector and on the agricultural sector.

Amin Pirani: Okay, understood. And sir, would it be fair to say that the improvement in the subsidiaries is mostly to do with aluminum technique or is there some other segment also?

Amit Kalyani: No, it is overall.

Amin Pirani: Okay, understood. I think part of the European truck is also captured in your subsidiaries?

Amit Kalyani: Yes. But that is again, it is chassis components largely.

Moderator: Thank you. Our next question is from the line of Suraj Chheda from UBS Securities. Please proceed.

Suraj Chheda: My question is mainly on European export side. If you see your Y-o-Y revenue for the quarter in euro terms, it is down like 15%. Can you please help us understand what are the segments which is contributing to this decline?

Amit Kalyani: So, in Europe, the decline is not 15%. It is much less than that, it is almost flat and the real decline is oil and gas, construction and mining. Those are the two areas where we have seen a large decline.

Suraj Chheda: The question why I was asking is like euro, in term of INR is appreciated by around 8%. So if we consider that impact, then I think the decline is much larger?

Amit Kalyani: The euro has declined against the rupee. Actually our decline is much less because euro has gone from close to 80 to, now it is almost at EUR70 odd, EUR73 - EUR74.

Moderator: Thank you. The next question is from the line of Sonal Gupta from UBS Securities. Please proceed.

Sonal Gupta: Amit, I just wanted to understand, I mean, given that the U.S. truck market is still very weak in terms of order flow and like you said, oil and gas also this quarter is largely more a sale of inventory and there no real orders in the near-term. So what are we going to see when you are

saying that the Q2 is going to see a sequential growth. Really where do you see the growth coming from if these things are not really improving?

Amit Kalyani: Well, as I mentioned earlier, I do not know if you were on the line, if the demand is now 100 or the production is now 100, we are shipping at a rate of maybe 70, plus we have new products that we are producing for passenger cars. We have new products which were producing for commercial vehicles. So a combination of all these will show us growth. And also in the industrial side, we won some new business. So, this will start ramping up from Q2 and then from Q3 onwards.

Sonal Gupta: So, also, in a sense that you are saying that the inventory correction is sort of over this quarter itself from next quarter we will ramp up to a more normalized level of production?

Amit Kalyani: If the production were to further drop from here, then we will be shipping at that rate. That is not anticipated right now because the production levels are pretty low right now.

Sonal Gupta: Right. And just to, I mean, you also mentioned that in CY 2017, that is a FY 2018 you will be adding some new products on the CV side, is that correct just to reconfirm that?

Amit Kalyani: Yes, on the CV side, on the pass car side, and the industrial side from second quarter, third quarter of this year we will be adding new products.

Sonal Gupta: Because I was alluding to the fact that you said that, on this commercial vehicle side you will double the value per vehicle to almost...

Amit Kalyani: That will happen in over a period of time, it is not going to happen in one year.

Sonal Gupta: Right, but we will see more impact coming in FY 2018, is it?

Amit Kalyani: FY 2018 and FY 2019, yes.

Sonal Gupta: And would you be able to talk about what exactly are the areas we are getting into?

Amit Kalyani: I am not going to talk about that.

Sonal Gupta: Okay. And just finally in terms of I mean, oil and gas, I mean, we are at the bottom or you think that, I mean, the next quarter will be even lower than this?

Amit Kalyani: We are at zero. So I do not see it going below that. Honestly, we are at zero right now.

Moderator: Thank you. The next question is from the line of Sanjay Satpathy from Bank of America. Please proceed.

Sanjay Satpathy: My first question is, what would be the guidance for the domestic CV industry now, sir?

- Amit Kalyani:** See whatever information we have got from the three biggest players is between 15% and 20% growth this year.
- Sanjay Satpathy:** Okay. And so my next question is that, when you mention that the domestic industrial has done well and it includes agriculture, you mean tractor, right sir?
- Amit Kalyani:** Yes.
- Sanjay Satpathy:** And how much would that be as a percentage of the total domestic?
- Amit Kalyani:** That is very little, that is less than 5%.
- Sanjay Satpathy:** Tractor is less than 5%.
- Amit Kalyani:** Yes.
- Sanjay Satpathy:** And sir, coming to the last question that I have, on the passenger vehicle, basically we are starting to see the passenger vehicle production in USA going down. So is that in any way which way going to impact you or you are going to gain a lot of market share from here?
- Amit Kalyani:** No. We are increasing our penetration.
- Sanjay Satpathy:** Okay. And sir, I mean, if I can just add one more question. You made a massive comment of doubling your value per heavy truck over next couple of years. Considering that you were in that business for such a long time and I was kind of expecting to that you would have already identified some of the big segments which you were missing. Is there anything which you can highlight to us to improve our understanding of this?
- Amit Kalyani:** What is happening is, all the big companies are now focusing on what they need to do for the future. The basic manufacturing and assembly of components and subsystems, which they have been doing for so long, they want to now outsource that.
- Sanjay Satpathy:** So, you will get into assembly, is that what you are referring to?
- Amit Kalyani:** I am saying that, that is one example of it. So when you do that, there are lot of other components that you do not supply today, which you have the opportunity to supply also. So, a lot of manufacturing that they do in-house they will stop making it.
- Moderator:** Thank you. The next question is from the line of Jinesh Gandhi from Motilal Oswal Securities. Please proceed.
- Jinesh Gandhi:** Hi sir, couple of questions from my side. First is, on the domestic CV business, we have done an exceptionally good growth and seems to have gained market share. So this would be gain in market share in existing products or this is also start of supply of new products?

Amit Kalyani: No, this is all existing customers and existing products, but a lot of customers have launched new products over the last one year, because they are now getting ready for competing with foreign players in India, etc., a lot of them have upgraded their products. And over the next two to three years, there will be a significant upgrade in their products as they prepare for the Euro-VI norms in 2020.

Jinesh Gandhi: Sure. So this is effectively, we have gained market share in this with our existing products?

Amit Kalyani: Yes.

Jinesh Gandhi: Okay. And secondly, the U.S. CV sales decline for us of 47%, this is after contributions starting from PACCAR or that is yet to ramp up, yet to come up?

Amit Kalyani: That is not really started, that is still in our ramp up phase.

Jinesh Gandhi: Okay. And lastly, can you give us the tonnage break up between domestic and exports in terms of growth?

Amit Kalyani: No, I really do not have that right now.

Moderator: Thank you. The next question is from the line of Pramod Amte from CIMB. Please proceed.

Pramod Amte: This is with regard to the cyclicity of the non-auto business. As you have mentioned in the Press Release, the fluctuation from 10 million to 100 million and back to zero has been very wide. So going forward when you approach new segments, how do you look at allocating your capital or how can you reduce the cyclicity, or the impact of the same on your business?

Amit Kalyani: You know, Pramod, it is very difficult to say, besides having a continuous pipeline of growth across sectors, which have fungible manufacturing capabilities, that is the only way you can do it. So, as we grow our aerospace business, that will provide us all the fungibility we need. As we grow our energy business it will provide us all the fungibility we need to use the same asset. So that is the de-risking that we have to do asset wise.

Pramod Amte: Okay. But do you think five years down the line, you want to reduce your exposure per segment to a particular number so that you are not caught unaware of such fluctuation?

Amit Kalyani: Nobody could have predicted that the energy sector and the oil prices would go from \$125 to \$40, tomorrow anything is possible. So, I do not think you can take a defensive position, it is better to play offense and win rather than to play defense and try to draw.

Pramod Amte: Okay. And coming to the Asia Pacific exports. They have also come down pretty drastically. Any particular reason, it is almost down like 60% - 70%?

Amit Kalyani: There is really not much demand.

- Pramod Amte:** Is it all related to China or something else?
- Amit Kalyani:** It is a combination of China and overall demand. But that number is small.
- Pramod Amte:** Yes, I agree that.
- Amit Kalyani:** Down by two-thirds, yes, almost two-thirds, down by about 60%.
- Pramod Amte:** And the last question, your wholly-owned subsidiaries, even though they have been doing well for last one quarter or two quarters. What are the risks there? Is it any of the geography-related issues or how do you look at that business sustaining and improving from here onwards?
- Amit Kalyani:** No, I think we are on a pretty good wicket right now and we have to maintain our position with our customers grow our business in new areas especially the aluminum side and we are seeing actually quite a lot of traction from our customers now.
- Moderator:** Thank you. The next question is from the line of Ronak Sarda . Please proceed.
- Ronak Sarda:** A couple of questions, first was, can you broadly highlight what is the utilization level now at both the plants separately if possible, Baramati and Mundhwa plant, what were the utilization level separately?
- Amit Kalyani:** I think, overall, it is about 65%, maybe Pune is little higher, Baramati is little lower.
- Ronak Sarda:** But is it like below 50%?
- Amit Kalyani:** No, it would be at about 50% in Baramati or may be about 65% - 70% in Pune.
- Ronak Sarda:** Okay. And my second question was, I mean, just to have a better understanding. Can you split your passenger vehicle business in both the domestic and exports and then highlight what are the changes happening because as I understand, domestic you are losing because of the Mahindra and Tata Motor utility vehicles are not....
- Amit Kalyani:** Yes, so in pass car, we have had growth in Europe and in U.S., and we have had a decline in India.
- Ronak Sarda:** And all the new order wins for pass vehicles are in exports??
- Amit Kalyani:** No, we have order wins in India also.
- Ronak Sarda:** Okay. And will that start reflecting in FY 2018?
- Amit Kalyani:** Yes, it will start in 2018.
- Ronak Sarda:** Okay. In exports, we are growing in this year as well?

- Amit Kalyani:** Yes, in this year also, we will grow in exports, but the big value added growth will start from next year.
- Ronak Sarda:** So, when you talked about more machining?
- Amit Kalyani:** I think that will happen only from next year.
- Ronak Sarda:** Okay, but that is more on exports than the domestic market?
- Amit Kalyani:** Yes, currently, that is more on exports.
- Moderator:** Thank you. The next question is follow-up question from the line of Jinesh Gandhi from Motilal Oswal Securities. Please proceed.
- Jinesh Gandhi:** A question on our CAPEX side, now considering the outlook which we have, are we changing our CAPEX guidance?
- Amit Kalyani:** No, not right now.
- Jinesh Gandhi:** And second question pertaining to exports, you indicated, we are seeing some traction on new customers in U.S. and new products on the PV side, can you elaborate on that?
- Amit Kalyani:** We are getting into some new products which we have not been present in and certain customers where we have not had much traction, especially for high value-added products.
- Jinesh Gandhi:** Okay. So, as of 1Q, what would be our export PV contribution now versus 1Q last year?
- Amit Kalyani:** Our export PV contribution now, it is about close to Rs. 50 crores.
- Jinesh Gandhi:** Okay. And this would be growing at very high in terms as such...
- Amit Kalyani:** Yes, it has grown by over 30% over last year.
- Moderator:** Thank you. The next question is from the line of Raghu Nandan from Quant Capital. Please proceed.
- Raghu Nandan:** Sir, the depreciation charge seems to be higher, is it IndAS accounting?
- Amit Kalyani:** Exactly, that is IndAS accounting, yes.
- Raghu Nandan:** Okay. Has construction equipment related revenues hit a bottom, do you expect a flattish or a positive trend ahead?
- Amit Kalyani:** No, if you look at Caterpillar and if you look at the kind of outlook they are giving and in terms of what they are saying, I would say those markets are not flat, they are rather negative.

Whereas, markets like India, markets like Japan, markets like even China on that side are more positive.

Raghu Nandan: Understood, sir. Can you please share outlook on the railway side, if you can share some numbers?

Amit Kalyani: The railways business today is quite small. If you look at the total railway business on a quarterly basis, it is like maybe Rs. 10 crores but, we are very confident that in two years, they should be like at least between Rs. 25 crores to Rs. 30 crores a quarter and then grow pretty well from there.

Raghu Nandan: Thank you, sir. Can you share the auto and non-auto exports numbers for the quarter? Thanks.

Amit Kalyani: Yes. The non-auto is about Rs. 115 crores and the rest is all auto.

Moderator: Thank you. The next question is from the line of Shyam Sundar Sriram from JM Financial. Please proceed.

Shyam Sundar Sriram: Sir, in the North American PV market, we have won a new order is it?

Amit Kalyani: Yes.

Shyam Sundar Sriram: So what category is that? Sir, any color on that please?

Amit Kalyani: It is a passenger car engine component order.

Shyam Sundar Sriram: Sir, given that the North American PV market momentum seems to have plateaued, but we are still gaining market share. What is your outlook here?

Amit Kalyani: No, our outlook is very positive, because we had zero presence there.

Shyam Sundar Sriram: One last question, sir, our subsidiary profitability has been improving sequentially. Is it due to BFAT plant scaling up?

Amit Kalyani: A little bit of it is that, but it is also other plants performing better.

Shyam Sundar Sriram: Okay. Sir, you have said that a sequential decline in volumes will be arrested from Q2, I mean what are the underlying demand factors, any view on that?

Amit Kalyani: You know it is basically assuming that the inventory correction will take place on the CV side and everything else will remain the same and some new programs will start.

Moderator: Thank you. The next question is from the line of Jatin Chawla. Please proceed.

Jatin: Yes, hi, good afternoon Amit, this is Jatin. Two questions, one on the aerospace side, you were looking at broadly scaling that business up close \$100 million over the next two years to three years. Are we still tracking that?

Amit Kalyani: Absolutely.

Jatin: Okay. Because we have not seen large order wins off late, because typically it would take some time?

Amit Kalyani: We have actually won fairly large orders, but the testing period for these, because we are not making some simple structures or anything, we are making very complicated and very high performance components that go into engines or landing gear or wings, etc. So, there is a fairly long testing process for these.

Jatin: So these will really start scaling up in FY 2018 or FY 2019?

Amit Kalyani: 2017.

Jatin: 2017, okay, so we should see them in the second-half of this year.

Amit Kalyani: Yes, 2017 you will see growth and then 2018 you will see the real acceleration.

Jatin: Okay. And again, sorry to harp on the U.S. CVs again, but broadly, what is the annual CV production number that you guys would be working with? Is it closer to 200,000 or still closer to 230,000 - 240,000?

Amit Kalyani: 220,000.

Moderator: Thank you. The next question is from the line of Nishit Jalan from Kotak. Please proceed.

Nishit Jalan: My question is related to IndAS. If I see that, your raw material cost has gone down first, for the 1Q 2016 where you have given reconciliation, while the depreciation expenses have gone up. Is it due to the accounting of tooling and dies cost that you used to have?

Amit Kalyani: Yes.

Nishit Jalan: And there is a big amount in terms of other comprehensive income, it is like almost to Rs. 100 crores negative for 1Q 2016 and even this quarter it is big negative. Just wanted to check where is it coming from?

Amit Kalyani: It is really all because of IndAS. That is why it is below the line, it is below PAT.

Moderator: Thank you. Ladies and gentlemen, that was our last question. I now hand the conference over to Mr. Kalyani for closing comments. Over to you.

Amit Kalyani:

Ladies and gentlemen, thank you very much for your time and interest in our company and the management of the company is very cognizant of the kind of performance we are currently exhibiting and believe me, we are more disappointed than anybody else. But we are working very hard to try and get new business going, new products, fill up our capacities, and start ramping up our top-line and bottom-line. And we are doing some incredible work in the areas of innovation, product development, which will give us a sustained growth over the next few years. If anybody wants to come and visit any of our facilities to see anything new that we are doing, we would welcome you. And if you have any questions, you can please contact our finance or IR teams or myself independently. Thank you very much. Have a great weekend. Bye-bye.

Moderator:

Thank you very much members of management. Ladies and gentlemen, on behalf of Bharat Forge that concludes this conference. Thank you all for joining us. And you may now disconnect your lines.