"Bharat Forge Ltd Q1 FY19 Analyst Conference Call"

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

Moderator: Ladies and gentlemen, good day and welcome to the Bharat Forge Limited Q1 FY19 Analyst Conference Call. As a reminder all the 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 telephone. 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 thank you for joining our analyst call. As is our usual practice I will take you through a quick update and then open up for Q&A. I have with us our entire finance team and investor relations team. So, the key highlights are we have had our seventh consecutive quarter of sequential revenue growth. Our revenue was about Rs. 1479 crores which is about 23% growth YoY and we have seen good growth across all our sectors that is automotive, both the commercial vehicles, passenger car, industrial business segments and we have increased market share and we have developed a lot of new products which is helping us gain further momentum. As we had mentioned over the last 2 years our contribution from passenger car components is increasing, in fact our business of quarterly revenue grew to over Rs. 100 crores just on passenger car exports and that is a growth of almost 145% over last year.

Our EBITDA margins continue to remain fairly strong at 29% which is well within our stated range of 28-30% and our PBT was at about growth of 29% to about Rs. 355 crores. And our PAT was Rs. 234 crores. Our balance sheet remains strong. We have had strong cashflow generation for the quarter and our cash balance remains now at about Rs. 1,800 crores. I am also happy to announce that we have secured several new orders this quarter. We have won a new business domestically of about Rs. 120 crores which is for passenger car and commercial vehicles. And we have also secured a new long-term contract of 40 million Euros per year for aluminum forging which will start from the end of 2019.

Additionally, we have a very strong traction on the aluminum forging demand in the US market and we have now decided to set up a facility. This will be brown-field expansion of our US operations where we will set up a new state-of-the-art aluminum forging facility to address the US market. In terms of the outlook we expect strong demand in the export market across all sectors. In the domestic markets also, we expect fairly strong demand, in spite of this weight loading change that has been made on axial loads. We also expect on the passenger car side to see a strong growth coming in India and another area which we are very bullish on where we expect from next quarter very strong growth in numbers is on our defense & aerospace business where we have secured business but due to delay of the tenders being converted from tender to order by one quarter that it slipped, so that will start from Q2.

Overall, we expect a fairly strong year and also expect the traction that we have built this year to go also into next year. Just looking back, couple of points I want to make. We put in place multiple strategic initiatives over the last let us say 6-7-8 years. So, in 2007 we strategically got into the industrials business and at that time our industrial revenues were roughly about Rs. 300-400 crores a year, now they are running at over Rs. 2,200 crores for the year. So, this was one major inflection point which allowed us to grow profitably in spite of the cyclicity and everything else in the global automotive industry.

Similarly, our PBT today on a quarterly basis is equal to what our profit was for the whole year, 10 years back. So, in 10 years we have increased our profits 4x. We are now putting in place three new very substantial growth drivers and strategic initiatives which will over the next 5 to 7 years substantially transform our company even more into a technology driven supplier of high value products and solutions to a variety of markets. And these three major initiatives are, one is our defense initiative where we are producing component that go into systems and making systems which we are fielding to customers across the world. And here we are also witnessing tremendous export opportunities which in a year or two will become big.

The second initiative is this whole Centre for light weighting technology where we are starting with aluminum forging but we will also add to that composite carbon fiber etc. etc. etc. and the third area that we are putting a lot of effort in is on E-Mobility and EVs and that is an area where we are making a lot of effort and that will result into large potential revenues as these markets mature and we develop products and bring them to market over that time.

So, I just wanted to highlight these few points and then these are the three major growth drivers that will help us grow our business substantially. I would also like to mention that we are now in the middle of a Rs. 500 crores CAPEX where we are expanding forging and machining capacities. And this will start coming online from next year and will also give us substantial headroom to grow and we see demand and traction growing.

I am now happy to open questions. So, just in terms of balance sheet let me just give you a quick snapshot. We have net debt equity of about 0.22. Long-term debt equity is negative because we have more cash in long term debt. Our return on capital employed, net of cash is running at almost 24.5-24.8%. Return on net worth is about 20%.

So, that is the overall snapshot, and take your questions now. Thank you.

Moderator Thank you very much sir. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Sunil Duggal, an individual investor. Please go ahead.

Sunil Duggal: I wanted to ask you that this 50,000 truck order which came in July, so if you could highlight as to what is the timeframe?

Amit Kalyani: Actually, this is the ACT number for North American Truck markets.

Sunil Duggal: My question is that if in case we get an order how early do we start procuring the raw materials for the order to be executed?

Amit Kalyani: See typically our contracts are all long-term. We have business visibility over annual plan and then rolling four months plan. And any variance that happens in the plan is only what is the changes we make in our procurement. But we can react to changes fairly quickly. I mean we can react as quickly as in two weeks.

Moderator: Next question is from the Hitesh Goyal from Kotak Securities. Please go ahead.

Hitesh Goyal: Sir can you give us some guidance on the US class-8 trucks revenue that you are expecting and also in the domestic CV industry with this action non-changed, does your guidance hold on which we were giving 10-12% for this year.?

Amit Kalyani: Yes, our guidance for the domestic market remains the same. We have had a strong year and we expect the next two quarters to remain fairly strong because whatever we have spoken to the managements of most of our big customers they all feel that things will remain unchanged and very-very small changes. Secondly, I would like to highlight that domestic CV is less than 20% of our revenue. And on terms of global CV it is a very strong market right now and due to the 2020 new emission norms I think the markets will remain strong.

Hitesh Goyal: So, sir you had given a guidance of 28% growth for Class 8 trucks for CY18. Does that hold or you are revising that guidance sir?

Amit Kalyani: I think we make our plans based on what we feel is realistic and if things are better than that we will try and make sure that we supply whatever is required.

Hitesh Goyal: And sir on defense you had given some color that you got one off order which was to be executed in FY19 of around Rs. 200 crores sometime last year.

Amit Kalyani: Yes, that will happen in FY19.

Moderator: The next question is from the line of Sonal Gupta from UBS Securities. Please go ahead.

Sonal Gupta: Amit just wanted to understand you are now putting significant CAPEX in subsidiaries, so in terms of first beginning this new order in Europe of 40 million Euros, is this an extension of the existing orders on the aluminum?

Amit Kalyani: This is a brand-new order, and this is 40 million annually over entire platform rights.

Sonal Gupta: Okay, and so then we should see further revenue increase for that AT business.

Amit Kalyani: Yes, and again this will also result in overall European EBITDA percentage increase.

Sonal Gupta: Right, so that is what I want to understand because if you look at it over the last many years despite whatever efforts you have made we have not really seen any material improvement in the profitability and I guess the return on capital like you said 24.5, I am guessing that is for the whole group. But clearly for the subsidiaries it is much lower. So, now when we are putting this $55 million CAPEX in US, I mean what is the sort of return expectation?

Amit Kalyani: US also we will see a very strong EBITDA margin and that will also change the EBITDA profile of the entire US operations and this additional 40 million as it goes into production and ramps up will help create almost 40% of our business in aluminum in subsidiaries and thereby get a strong boost from that EBITDA. And our aim is to grow our EBITDA to something in the 12-13-14% blended over a period of time.

Sonal Gupta: And what sort of return on capital will that imply?

Amit Kalyani: I think this return on capital employed will be strong, substantially better than what we are at today but please remember this is the first investment we are making in the US after buying this company. So, there is some additional cost that you have to make when you are doing something for the first time. We will still have a high teen return on investment.

Sonal Gupta: And so just to reconfirm, so you are saying when you are saying 12-14% EBITDA margin, so then you are talking about the European business on an overall basis, is it?

Amit Kalyani: I am talking about European basis on an overall basis, yes, possibly. Our target is actually even little higher than that but I would say 12-14% is a good number to get to first time.

Sonal Gupta: And just could you confirm what is the CAPEX for this year and next year overall?

Amit Kalyani: This year our CAPEX is about Rs. 500 crores in projects and next year will be another Rs. 400 crores, maybe Rs. 350 crores.

Sonal Gupta: So, this is the standalone CAPEX, right?

Amit Kalyani: Yes, this is standalone and in India.

Sonal Gupta: And global, overall, I mean?

Amit Kalyani: Overall right now the US CAPEX for which we have a large order, which is $55 million.

Sonal Gupta: So, that will happen over this year and next year. What timeframe do we see that for?

Amit Kalyani: It will happen over 3 years – 2018-19-20.

Moderator: The next question is from the line of Kapil Singh from Nomura. Please go ahead.

Kapil: Just wanted to check on the US truck orders. We have seen the order inflows are running significantly higher than the production that is going on. So, how do you see this panning out? Do you think the production has scope to increase significantly from current levels or will these orders get spread out over 2 years and the cycle may extend longer because of that?

Amit Kalyani: Right now, there is a capacity shortage for supply for most of the components. So, therefore I think till there is some ramp up in supplier capacity, production is going to remain at this level.

Kapil: And how long do you see that constituting?

Amit Kalyani: You should see a spreading out of larger production over a longer period of time.

Kapil: And secondly just your thoughts on how you think about the production footprint going ahead because you are expanding in US, so is this more project-based expansion where you are seeing orders or as a strategy you would like to expand your global footprint over the next 3 years?

Amit Kalyani: Aluminum and light weighting is now becoming a very big global imperative and hence we have to do this, and US market is adopting this now in the next 2-3-4 years we should produce in the US to supply to the US because we need to grow our passenger car business quite substantially and we will definitely create more pass-car locations close to customers going forward but only where they generate adequate returns.

Kapil: Okay, so strategically you are looking to change that compared to what we are doing currently because currently we are producing a very large percentage out of India.

Amit Kalyani: We will grow India as well. We will grow India revenue at the same rate if now more than what we are doing outside but in certain areas like aluminum specifically make products close to customers.

Kapil: And what is the reason for that? Just to understand why this cannot be done in India?

Amit Kalyani: (A) it is very high volume, (B) aluminum presence and usage is significantly higher there and supply base is also significantly larger there. These are orders which are multiple million pieces per customer per year. And it involves sometimes supplying to an OEM, sometimes supplying to a Tier I with lots of other value addition that needs to take place. So, just from a supply chain logistics and also inbound supply chain and then sometimes local content, then it is better to do it close to the customers.

Kapil: And wanted to check on BS6, is there going to be a significant change in the products that we are supplying for example the front axle or the crankshaft and how much it will be in value?

Amit Kalyani: So, we supply in BS6 or Euro 6 compliant products for the last six years in the global markets, in fact we have almost supplied half a million cranks which are Euro-6 compliant in the European market. So, we have a good experience of making cranks, beams, knuckles, conrods and other injector bodies and other things for Euro 6 components, so we are fully ready.

Kapil: What I was trying to check is how much increase in value for these components will take place when BS6 gets applicable in India?

Amit Kalyani: BS6 cost for vehicles is going to range in increase anywhere between 15-25% and that is going to come out of power train, drive train, emissions, a variety of different factors. But, everything is going to get a little more expensive at least by 10-15% in overall terms.

Kapil: So, you are saying the vehicle itself will become more expensive by 15-25%?

Amit Kalyani: Absolutely because BS4 to BS6 is a very big change.

Kapil: Okay, because that will be a very-very big cost increase from customers' point of view so that may lead to some pre-buy.

Amit Kalyani: Yes, pretty much that is what we have seen everywhere in the world.

Moderator: The next question is from the line of Pramod Amre from CIMB. Please go ahead.

Pramod Amre: Couple of questions on this aluminum forging. One, how is this business characteristic different from your steel forging which you currently do either in terms of capital intensity or the profitability margins or the speed at which you convert the orders into sales?

Amit Kalyani: Look, on the aluminum side these are all new platforms which are coming into the market replacing existing platforms. And please note my usage of the word platform because it is not model specific, it is platform specific. So, it will go into multiple models made by multiple brands owned by the same OEM. For example, it could go into three different brands like for example, it could be a Volkswagen, it could be a Skoda or it could be a Porsche. These are the way in which platforms are being built today. Similarly, there are other companies in the US such as Ford which has multiple platforms, GM which has multiple platforms and these are the products that we are making which are platform products. Two, the capital intensity is fairly high because we have a very unique technology which gives us a big comparative advantage. So, you will get roughly 1.1 to 1.2 times capital output, but the margins are almost double of what we have in the steel outside India.

Pramod Amre: And these are more of structural components.

Amit Kalyani: These are all chassis and structural components.

Pramod Amre: And second, is this aluminum getting much more acceptance in the mass car market or is it still in the premium car segment?

Amit Kalyani: I am very happy to announce that we have one Indian customer which had actually started using aluminum chassis component, forged aluminum chassis component in their products which they have just recently launched. So, we will see this increasing in penetration in India as well.

Pramod Amre: No, globally is it still a premium car market component or is it getting more acceptance?

Amit Kalyani: No, now it is getting into mass vehicles as well. But again, in mass vehicles will have two different types of products. You will have complex products and you will have simple products. We are focusing on the complex products.

Pramod Amre: And second, as you are investing more into the aluminum components, both internationally and in India, any outlook in terms of 3 years down the line, what proportion of your sales might be coming from these aluminum components?

Amit Kalyani: Today aluminum component is like 5% of our share. It is very feasible that in 3-4 years it could become 12-13% of our sales, anywhere between 10% and 15%.

Pramod Amre: And is there a linkage between your Indian aluminum brand which you are setting up versus the global company?

Amit Kalyani: No, over here the business is very small today.

Pramod Amre: Because you have a completely green field here.

Amit Kalyani: No, it is not green field. Today what we are doing in aluminum forging in India is we are using our existing facilities. The figure I gave you 10-12% is for aluminum forging global as a part of Global Bharat Forge. By 2020 just that facility we have set up with initial investment should become a $50 million business, but the upside is huge.

Pramod Amre: So, then might be overall as aluminum might be what above 20-25%?

Amit Kalyani: We should aim for something like that.

Pramod Amre: So, that is the visibility with which you are working with?

Amit Kalyani: Yes.

Pramod Amre: And second you have been making small investments into the EV startups. What is the thought process? Is it to know more about the technology and the overall understanding of the business or are you earmarking per annum that this is the corpus we will invest and play a much bigger role?

Amit Kalyani: There is no blind corpus that we are investing. It is a strategic initiative and I will explain very simply. We see electric opportunities at the high end globally on the pass-car side and we see electric opportunities at very large scale and mass on the two-wheeler side which is largely going to happen in the biggest way in countries like India and Indonesia because these are now the largest remaining electric 2-wheeler market which are untapped. So, if you can get into the electric vehicle supply chain on the 2-wheeler side in India through a company like Tork and learn the ropes for that, you will learn cost efficiency and scale for low voltage power electronic that can then be deployed across geographies even in Africa and other things. And the investment in Tevva is to give us an exposure to high voltage power electronics which will be useful in luxury cars and light commercial vehicles, medium commercial vehicles etc. across the world. And the whole idea is that by working with these companies we develop products, solutions which we can then productize and sell to all our customers and thereby increase our content for vehicle in electrical vehicle even more than where we are today. And these are not just mechanical components.

Moderator: The next question is from the line of Bharat Gyanani from Sharekhan. Please go ahead.

Bharat Gyanani: I just have one question. Coming back on the axle load norms for the CV space that the government has put out, what is the duration that you feel that the new truck sales would be impacted because they would have to comply with the new norms? So, what kind of disruption do you feel how long it will last based on the feedback what you are getting from the OEMs?

Amit Kalyani: We are not seeing any disruption right now.

Bharat Gyanani: Okay, so you feel the sales will continue to grow in strong double-digits?

Amit Kalyani: Yes, absolutely.

Moderator: The next question is from the line of Prayesh Sen from IIFL. Please go ahead.

Prayesh Sen: Sir first question is on the engines, basically on the CV side what share of our revenues would be coming from purely engine components?

Amit Kalyani: Purely engine components would be roughly I would say maybe about 20% to 25% but that includes just engines.

Prayesh Sen: And secondly sir the US tariff for the way it is shaping up and the kind of tariffs they have been imposing, do you see any threat to any of our businesses?

Amit Kalyani: As of now none and that is why we are also building facility in the US, so that we can supply large amount from the US as well.

Prayesh Sen: So, you are also planning a steel forging facility?

Amit Kalyani: We already have a steel forging facility in Tennessee and we are building this aluminum forging facility adjacent it in the land that we already own.

Prayesh Sen: Okay, and if you look at your revenue breakup the Asia Pacific business seems to be falling sharply in the last past couple of quarters, so what is the reason there?

Amit Kalyani: It is a very small business. It is 2% of sales. The real reason is we have had so much demand from other main customers that we have actually had to make sure we satisfy our long-term customers.

Moderator: The next question is from the line of Nitish Mangal from CLSA. Please go ahead.

Nitish Mangal: Two question Amit. One, how are your oil and gas revenues in the first quarter and how do you see that trending ahead? And secondly what kind of emission norm changes are expected in the overseas market like US, Europe let us say over the next 3-5 years?

Amit Kalyani: First question, our oil and gas revenues are strong, and we expect them to continue to remain strong and in fact our strategy for growing oil & gas over a period of time is very well in place. Oil & gas is already over a $100 million a year now and we see opportunity to grow that at least to double that size over the next 3-4 years. Your second question was what emission norms are coming up in other parts of the world. Every 3-4 years you have an emission norm change. I think the next one will be in the US in 2020 and then in Europe I think it is in 2021. Emission norms that we largely look at nowadays are those for vehicles which are on-road. There are also emission norms for a lot of off-road equipment such as equipment, gensets, mining equipments, railways – you know these are called tier norms, tier 1, tier 2, tier 3. And these norms are also getting substantially stronger. So, even for tractors and other things like that the emission norms are changing and those are also tightening up quite substantially.

Nitish Mangal: And in the US ahead of this 2020 norm changes do you expect like another leg up in terms of pre-buying etc?

Amit Kalyani: Yes, so we expect the market to remain strong in 2019 largely because of pre-buying.

Moderator: The next question is from the line of Shyam Sundar from Sundaram Mutual Funds. Please go ahead.

Shyam Sundar: On a quarterly basis our domestic non-auto revenue seems to be softening. Any particular reason there if you can throw some more color on that please?

Amit Kalyani: Two very simple factors. Lot of our industrial business in India is tender based and railways and defense tenders was not converted into orders on time, so those get pushed out.

Shyam Sundar: And sir in defense you were mentioning one off order that could come this year, right?

Amit Kalyani: We have received the order, but the contracts are yet to be signed. We have received the LOI and received everything. Paperwork is going on.

Moderator: The next question is from the line of Mahesh Bendre from Karvy Equity. Please go ahead.

Mahesh Bendre: Sir you just mentioned Indian operations are expected to grow 10-12%, is it a guidance for your full year?

Amit Kalyani: No, we did not say that.

Mahesh Bendre: Okay, in the first quarter volumes have grown by 20%, so do we anticipate similar growth for the remaining part of the year in terms of volume?

Amit Kalyani: Look we also have to look at the pace. Last year first half was quite slow, and second half strengthened. But I still expect this year to have very-very healthy growth.

Moderator: The next question is from the line of Anupam Goswami from Stewart & Mackertich**.** Please go ahead.

Anupam Goswami: Your AP facility that is going on, when it is going to be finalized and how much incremental revenue we can look upon from there?

Amit Kalyani: So, the AP facility is finalized and started construction. That will start production in second half of next year. And the current capacity that we are putting up there will give us additional revenues of about Rs. 300 crores but that is only phase 1. Our goal is to achieve like close to a Rs. 1000 crores revenue in aluminum in the next 4-5 years in India.

Anupam Goswami: And sir you mentioned about oil and gas about it going very strong, but can you quantify like how much revenue has come from that sector in this project?

Amit Kalyani: Oil & gas revenue is now running in excess of $100 million annualized per year.

Anupam Goswami: And sir about your defense sector, in your last con-call you mentioned about making artillery that has gone for winter testing system and the test results have not yet come but it is looking positive. Like what is the status of that?

Amit Kalyani: Four of our artillery platforms have been tested and we are now fielding for Army Trial 1 platform which means after the testing is done by the testing agencies they give it to the user for the user trials and now that is going on. So, hopefully this year we should at least get a pilot order for some products for them to start using and trying out in larger number.

Anupam Goswami: And how much is the domestic subsidiary results, I mean how they are doing and what is the background for that?

Amit Kalyani: We do not have any domestic subsidiaries.

Moderator: The next question is a follow-up from the line of Sonal Gupta from UBS Securities. Please go ahead.

Sonal Gupta: Amit just wanted to confirm, so is this the pilot order is the one-off defense order that we are expecting this year?

Amit Kalyani: No, we have received one order for a certain system that we are supplying which is the order which has got delayed by one quarter. That is a defined order which we will supply in this year and complete. Our artillery gun, we hope that we can get a pilot order this year. So, far we have only been fielding products for trials. We have not generated any revenue out of it.

Sonal Gupta: And in the beginning also you mentioned that you do expect that defense over the next couple of years or 2-3 years would start seeing material growth.

Amit Kalyani: We expect in terms of revenue from defense because of components and exports, this year itself to be an inflexion point and then once you start getting program revenue that will become very big. This year itself we will have a fairly substantial revenue from defense by the end of the year.

Sonal Gupta: I mean just to quantify what would have been the sort of revenue we have made last year on the defenses?

Amit Kalyani: Defense last year was about 150 crores, somewhere in that region.

Sonal Gupta: And you see that sort of growing substantially even excluding this one-off two billion order or that is included as the substantial part of the growth.

Amit Kalyani: I am not including any artillery or Gun orders this year. Without that I am saying we should have growth.

Sonal Gupta: The system orders are probably a little more uncertain in terms of timing, right?

Amit Kalyani: See we have already been through 3.5 years of fielding the product, testing the product. Now I think it is anywhere between 6 to 12 months in which we should get the order, at least a pilot order.

Sonal Gupta: And just my second question was can you tell us what the exchange rate was for this quarter

Amit Kalyani: The exchange rate was 69.50 which is the same as last quarter.

Moderator: The next question is a follow-up from the line of Shyam Sundar from Sundaram Mutual Fund. Please go ahead.

Shyam Sundar: Sir if we see the export non-auto revenues over the last few quarters broadly it is stable IF you adjust for the currency per se. Can you highlight, is there any further scope for growth in that sense?

Amit Kalyani: We are debottlenecking couple of facilities because we are running full out right now on the non-auto side and in three months we will have about 15-20% more capacity.

Shyam Sundar: Which end-user segments do you believe?

Amit Kalyani: It will be mining, construction, oil & gas are all growing in demand.

Moderator: Thank you. The next question is a follow-up from the line of Anupam Goswami from Stewart & Mackertich. Please go ahead.

Anupam Goswami: Can you give some outlook on industrial sector from the domestic side since you said there is some delay in tenders order, so what's going ahead, how can we look at it?

Amit Kalyani: See basically the two areas on the domestic side because of the tender delays we have had an impact is on aerospace and defense and on railways. So, these are the two areas where there is a potential for growth. And on the aerospace and defense, we know that the orders are there, even on rail we know there will be some orders this year which will bring us back to the level of growth that we need.

Anupam Goswami: Overall, in FY19 like how much growth you are expecting from industrial supply?

Amit Kalyani: I cannot give you a figure like that, but I think overall, we will see fairly strong growth and certain sectors like as I mentioned aerospace and defense, we will see a very-very healthy growth. So industrial will see a strong growth.

Anupam Goswami: Sir you mentioned in last con-call getting in the forging for the farm equipments, how is that coming up sir?

Amit Kalyani: So we have received orders from three new customers in India which are making farm implements for this mechanization of farms. This is only the beginning for us and we hope that as more and more mechanization of farming takes place, this will allow us an opportunity to grow our business with these and many other customers.

Anupam Goswami: And aluminum forging that you are getting into and huge opportunity you mentioned so who else could be a competitor in this field along with you?

Amit Kalyani: We have a very unique technology which we have developed so that gives us a competitive edge and therefore, we are focused on the highly complex parts which we can make very competitively using this technology and there are a lot of people who make commodity parts all over the world, there are people in Europe, there are people in the US, but I don't think anybody is got combination technology, capability and cost that we do and that is why we see a big growth opportunity.

Moderator: Thank you. The next question is from the line of Vaikam Kumar from JM Financials. Please go ahead.

Vaikam Kumar: My question pertains to the domestic PV segment. While the other segments have registered a strong double-digit growth, the PV segment has about 8% year-on-year growth, are there any specific reasons for this?

Amit Kalyani: Not really, it has just largely been I think a capacity issue.

Vaikam Kumar: Can you elaborate a bit more?

Amit Kalyani: In that size or presses we don't have so much capacity. We have now installed a new press and that will give us at least double the capacity of what we had so once our validation is over, we will start on a new growth phase on passenger cars as well. I will tell you honestly we want to make products which give us profitability so if there are people who are willing to make parts and next to no profit we are happy to let go off that business.

Vaikam Kumar: Is there any timeframe for the expansion of the capacity?

Amit Kalyani: So our forging expansion will be completed by about June end or July beginning of the next year about 11 months.

Moderator: Thank you. The next question is from the line of Sahil Kedia from Bank of America. Please go ahead.

Sahil Kedia: I have one question, we have seen a very strong order growth in US classic trucks, what is the normal time gap between that order announcement and that turning to revenues for you?

Amit Kalyani: It really depends on the schedule the customer gives you. So typically, as I mentioned a little while ago maybe you heard on the call, we have an annual plan with the customer and we have rolling four months plan and you make changes in our rolling plan based on any changes that the customer request. So we can react to changes in less than a month. Two weeks to a month is typically the time in which we can react.

Sahil Kedia: My question was more that the order for example that we are seeing in the last months is it fair to say that they will be reflected in your numbers in may be Q3 or Q4?

Amit Kalyani: Last month order intake we will probably be somewhere between Q2 an Q3.

Sahil Kedia: And as far as your pricing of these contracts are concerned I know you guys have packing credit and all of that, how should we think about profitability giving the currency weakness off late?

Amit Kalyani: I think profitability as we have mentioned we will maintain it between 28% to 30% EBITDA margin and we don't see any issues in that as of now.

Moderator: Thank you. Ladies and gentlemen, this was the last question for today, I now hand the conference over to Mr. Amit Kalyani for his closing comments. Over to you sir.

Amit Kalyani: So ladies and gentlemen, thank you very much for your time and interest in our company. As I mentioned to you, we have always worked strategically as a company and not opportunistically. We have created growth opportunities by using technology, knowledge and our customer relationships as we create the three new growth avenues which are the center for light weighting technology, the EV opportunity and the defense opportunity, these are three new growth sectors for the company which offer us tremendous opportunities for growth globally. Certain businesses will have more opportunities in India such as defense and certain will have larger opportunities outside, but overall, we are very bullish about our company's growth opportunities over the next few years and as a management team we are all doing everything we need to, and we can to convert those into reality. So thank you very much and if anybody has any more detailed questions, kindly contact our team or if you want to come visit us, you are most welcome. Thank you and have a wonderful weekend. Bye-bye.

Moderator: Thank you. Ladies and gentlemen, on behalf of Bharat Forge Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines.