Bharat Forge Limited Q2 FY18 Analyst Conference Call

Moderator: Ladies and gentlemen, welcome to the Q2 FY18 Analyst Conference Call of Bharat Forge Limited. We have with us today, Mr. Amit Kalyani – Executive Director. We will start the call with all participants' lines in a listen-only mode. There will be an opportunity to ask questions at the end of today's call. If you need assistance during the conference, please signal an operator by pressing '*' and '0' on your phone. I would now like to hand the conference over to Mr. Kalyani. Thank you and over to you, Sir

Amit Kalyani: Good afternoon, ladies and gentlemen and thank you for taking the time to attend our post results conference call. As usual, I have with me senior members of our finance team, investor relations team and would just like to introduce them. We have Mr. Sanjeev Joglekar, Mr. Kale, Mr. Kedar Dixit, Sameer Paranjape, Rajagopalan and I would like to introduce a new gentleman who has joined us at a senior role, who leads our new initiatives. He is Mr. Krishnakumar Srinivasan. He has joined us as President, Strategic Business and it is going to be his responsibility to drive our new business initiatives in the next horizon of opportunities for the company. In his past he has been President of Vehicle Group Asia Pacific based in Shanghai for Eaton and Managing Director, Eaton Vehicle Group India. So K.K., as he is known is also a part of our concall today. So as our usual procedure, I will quickly take you through some highlights for the quarter and then we will open up for Q&A.

So as you have probably read we have had a fairly strong quarter with all round growth, revenues grew by about 41% Y-o-Y to about 1,258 crores. In terms of geography India grew 26% overall and exports by about 56%. In terms of business segments, auto grew by about 24% while industrial grow almost by 80% Y-o-Y. EBITDA margins grew by about close to a 190 basis points driven by combination of product mix and operational efficiency. Our PBT for the quarter stood at 318 crores which have a strong growth over last year and PAT grew by about 61% to 204 crores. We are now absolutely debt free on a long-term basis in fact we have net cash and our ROC net of cash stands at about 21.1%. We have secured new orders worth about 40 million dollars annually across geographies and applications in the first half and our auto sector continues to be extremely robust both in India and exports and the macro conditions are also supporting improved industrials.

I am very happy to report that our Board has approved a new strategic investment in setting up a greenfield facility in Andhra Pradesh which we are calling our center for light-weighting technology which will be a fully integrated facility to manufacture components, sub systems of light-weight material such as aluminium, magnesium and also in the future carbon fiber, for our customers across the world including those in the EV space and in the hybrid space because as the move towards hybridization and electrification takes place, we are seeing dramatic increases in weight of vehicles because of battery and other sub systems like that and therefore weight reduction is extremely imperative. And we have over the last few years created a lot of capability and knowledge on light-weighting, which we want to productize and create this center which can provide solution across the world.

As we look forward into Q3 and beyond we expect to see continued, strong business both in India and abroad and hope that this continues in the next half which we are fairly certain and the company is working on expanding its product portfolio with existing customers and some opportunities with new customers as well which should lead to further growth down the line. So I think that is really all I wanted to say and just one more highlight is that our US acquisition in Tennessee has seen very good improvement in performance. When we bought it, it was running at about 26-27 million and we are now at a run rate of about 35 to 36 million. So we are at almost between about 30% to 40% higher business revenues than what it was in the past and we have a strategy to grow this going forward in the future as well. So, I think that is really all I wanted to say and now we can open up for Q&A.

Moderator: We will now begin the question and answer session. Participants using speaker phones are requested to use the handset when asking questions.
To enter the Question & Answer queue, please press * & 1 on your phone now. If you would like to withdraw your question and exit the queue, press * & 1 again. We have a question from Mr. Puneet Gulati from HSBC. Please go ahead, sir.

Puneet Gulati: Good afternoon & congratulations for great numbers. Just if you can help us get more color on what is happening on the Andhra Pradesh side. Why did you choose that location? How much will it cost and any benefits that you are getting from the government and some more insight into what more products you can add to your portfolio from this location.

Amit Kalyani: Yes, so I am not going to get into details about what we have got from the customer, from the government, etc. That is between us and them, but obviously we have looked at all the location across India and made a concerted decision to choose this location because it offers us the best opportunity of all the locations that we looked at. We are acquiring 100 acres of land which will become another mega site for us like Baramati and Mundhwa locations and in phase-1 we will invest 200 crores.

Puneet Gulati: And how long will it take?

Amit Kalyani: It will take about 2 to 2.5 years.

Puneet Gulati: So by third year, this should be operational and up and running in terms of generating, adding to the revenue?

Amit Kalyani: Our goal is that in 18 months to 20 months we should start the plant and then ramp up from there.

Puneet Gulati: And what kind of topline expectation would be there from this plant?

Amit Kalyani: In the beginning you have a lot of indirect expenses and investments that need to be made and after that first phase then we will start seeing an incrementally higher capital output or asset turns. But eventually, a facility of that kind at that location should be able to generate a very large amount of revenue. Obviously, it will need more investment over several phases, but the plan is that it should become a large mega site.

Puneet Gulati: And I guess, you are talking about sourcing more aluminum and magnesium based products. Has the raw material been secured? Or is that still in progress?

Amit Kalyani: All that is available, aluminium is all available in India and production of aluminum is going up. Magnesium is a little more complicated, but we have sources for that across the world.

Puneet Gulati: And would my understanding be correct that is primarily automotive driven, or would you add more products here as well?

Amit Kalyani: See it is a variety of applications, it will be automotive, it will be engineering, it will be industrial, it will be aerospace, etc.

Moderator: Thank you. We have a question from Sahil Kedia from Merrill lynch. Please go ahead.

Sahil Kedia: Thanks for the opportunity. I wanted to get a sense on the US class 8 truck side, we have seen very strong numbers coming in October and if I look at your export revenues this quarter America was very large part of that, wanted to understand 2 things right. One, what are you seeing on the ground as far as build is concerned and your orders from clients are concerned and number 2, what are your total capacity utilization levels across both the forging and the machining side.

Amit Kalyani: So I will tackle the last question first on the capacity utilization in terms of forging, we are probably at about 75% or so on aggregate basis. Machining we have, we are probably at about 80% on thereabouts and in terms of the market I am going to let Subodh answer the question.

Subodh Tandale: So, we are seeing the market at a run rate of about somewhere between 270-275 and the recent increases that we have seen in the order booking last month, typically they have been for delivery in months to come. So you cannot really analyze that but we do see an overall projection that has been enhanced for 2018. So, we are also monitoring that closely but there is a strong move towards a higher number for sure.

Sahil Kedia: So, the reason for asking this question is that is there an improvement in the US class 8, would you have enough capacity to address that across machining facilities?

Amit Kalyani: Yes, we would.

Sahil Kedia: And is there any plans to expand either the machining lines or forging capacity in the near term?

Amit Kalyani: That we are right now debottlenecking our forging facilities, reducing cycle time, which will thereby increase our capacity by at least 10%-12% and on the machining side also we have some capacity still available. So, I think we are quite comfortable to meet this demand.

Sahil Kedia: And lastly what is the kind of CAPEX that you guys are doing excluding the new facility that you guys are putting up or this debottlenecking and maintenance?

Amit Kalyani: Our current CAPEX, besides this new facility is around 300 crores.

Sahil Kedia: For both this year and next year FY18 and 2019?

Amit Kalyani: No, currently only it is spread over 2018 and 2019, yes.

Moderator: Thank you. We have a question from Amyn Pirani from Deutsche Bank. Please go ahead.

Amyn Pirani: Thanks for the opportunity. Again going back to this new facility, just wanted to check the component that you will be doing here are they completely different and new from what you have been going till date or is there some component that you are already doing either in India or Europe which you will do here as well?

Amit Kalyani: So, a lot of components are migrating from different technologies of manufacturing in steel into aluminum. Some of these products we are currently making. Some of these products we are not making but most of them are very analogous to what we make and we make them in Europe, some of them in our facility there. But we are making things that are complementary to what we already make, and which will allow us to increase our content per vehicle.

Amyn Pirani: And sir, when you talk about this capacity utilization of 80% in machining, practically what is the kind of peak utilization that one can go to, can you go to 95% kind of utilization or is it like more like 90%?

Amit Kalyani: At the utilization, this is assuming an OEE of 85%, so we can easily go to 95%-98% quite easily, but that is the target.

Amyn Pirani: And lastly on the defense side, we have been hearing that on at least the artillery guns, I mean, the tests are in the final phase or the very last phase. So, any clarity or indication as to when these orders might come in?

Amit Kalyani: Yes, so there are 2 kinds of tests that need to be done. One is your proof testing, which is already done, completed and then you have user trials which will now take place. So, we have to now supply them prototypes for user trial.

Amyn Pirani: And typically how long does this take in your opinion?

Amit Kalyani: User trial is about 15 months to 18 months, after which if the user trail is favorably concluded then you get into a negotiation phase and orders are placed.

Moderator: Thank you. We have a question from Binay Singh from Morgan Stanley. Please go ahead.

Binay Singh: Thanks for the opportunity. First question is that when we look at the build of class 8 in US, last 3 months it is running at around 280 - 290. You pointed out for a very strong outlook for next year could you also quantify is it 10% from these levels, is it single digit growth from these levels for 2018 versus 2017?

Amit Kalyani: So, we believe market expectation is 10% to 12%.

Binay Singh: So, around 320 or so kind of a build number?

Amit Kalyani: Yes.

Binay Singh: And the second question is that in your press release you talked about an order win of around $ 40 million. So, is it correct to assume that this is incremental from what you stated in March which was 80 million in exports and 40 million in domestic and if you could talk more about what this order is?

Amit Kalyani: Incrementally.

Binay Singh: And what segment is this order in?

Amit Kalyani: This is across segments.

Binay Singh: And justly lastly, we are hearing a lot more noise on electric trucks in US, in fact Tesla will also showcase their class 8 in the coming week or so. Are you getting any sense from customer as to what is the pace of electrification in segments like class 8?

Amit Kalyani: I really want to know, what city do you live in?

Binay Singh: In Hong Kong.

Amit Kalyani: So, if you talk to anybody today who lives in Delhi, they will tell you how fast the phase of electrification needs to be. I am not even joking. If you remember, this whole thing about transition from Euro-III to IV to VI was done because the Supreme Court mandated it. You are aware of this right?

Binay Singh: Correct.

Amit Kalyani: So, I think that while in terms of going from let say fueled vehicles to electric vehicles we have a huge infrastructure gap but it will happen in let say pockets like in Delhi where the government might just, the Supreme Court might just say that, the pollution levels are so high that every vehicle that enters this city whether it is a bus, whether it is a truck has to be nonpolluting. So we believe and we have seen that happen in many places and I think that is the really the way that something like this may happen because it is now getting out of control and we have made a very strong strategy. We have already been working in our R&D division on understanding what is going to be the impact in terms of new technology, new scales, new requirements for electric vehicles and electrified vehicles and hybrid vehicles. And I think that while this will not happen overnight, I think one needs to be cognizant that is going to happen and be ready to get into a good position to take advantage of that.

Binay Singh: And sir would your comment, like my comment was more on the US market, so would you see that in the US class 8 market also that the transition to EVs could be fast?

Amit Kalyani: I believe this will happen first in Europe, I mean, I am saying besides China the first it will happen in Europe and then possibly in places like India because, simply because otherwise we cannot breath. It's become so bad.

Binay Singh: So that's an interesting comment that India would actually be ahead of countries like US because of India specific reasons.

Amit Kalyani: See also in India, if you want to go to Euro-VI, the investments in desulfurization of the diesel itself is a question mark today. Do we know if anybody is really doing it, are they ready, I mean if you get to a point where in 2018 or 2019 whenever this Euro-VI is to come or 2020 that people just say, hey we are not ready, the court is going to say fine, do not sell vehicles. I think those days when 'chalta hai' was there is gone. The slack is gone. That is the limited point I want to make. US you have 2 separate markets. You have long haul and short haul. Short haul, already people are now talking about moving towards electric vehicles. Like these large fleet operator such as FedEx, DHL already piloting vehicles on their delivery rounds and UPS and others.

Binay Singh: Whereas the, I think the long haul is where it will be interesting whether that picks up or not.

Amit Kalyani: Yes, because long haul trucks they have multiple drivers they run pretty much 20 to 22 hours a day. So they have range issues. Whereas, any other kind of delivery truck typically is back to base at night. And back to base kind of application can easily be charged overnight.

Moderator: Thank you. Next in queue is Sonal Gupta from UBS Securities. Please go ahead.

Sonal Gupta: Amit, just wanted to understand one, in terms of like the orders that you got last year that is what Binay just mentioned of 80 million and 40 million for domestic. So where are we in terms of the ramp up on those orders and what percentage of incremental, will that fully ramp up by Q4.

Amit Kalyani: No, this will ramp up only next year. Next year and in fact little bit year after.

Sonal Gupta: And just to get it the numbers right, the CAPEX for this year, I mean if you include the new facilities also whatever?

Amit Kalyani: We do not include the new facility, overall CAPEX this year including for those orders that we have won is about roughly 300 to 350 crores between this year and next year it will be spent and then of course we have talked about incremental CAPEX which is in our new facility in Andhra Pradesh.

Sonal Gupta: So, 300 or 350 over FY18-19 or 300 to 350 each year.

Amit Kalyani: No, it is largely 300 to 350 is this year, some of it will spill into next year, small amount. Our plan right now is for this. Next year as and when that happen we will come to that.

Sonal Gupta: And just in terms of, on the US oil and gas what sort of revenue should we see this quarter and any thoughts there in terms of because clearly the crude has moved up. So are we seeing further ramp up in production and do we see further step up?

Amit Kalyani: We have seen very strong demand in oil and gas right now and with the geopolitical issues being what there I think the surface oil will be the first area that will go up. Because just the one that is got the shortest gestation period.

Sonal Gupta: Would you have the revenues for this quarter?

Amit Kalyani: For oil and gas revenues where roughly about similar to what it was last quarter, slightly more.

Sonal Gupta: Do we see further ramp up from here, I mean in these revenues? In terms of your order book?

Amit Kalyani: Oil and gas we are pursuing the strategic initiative where we are trying to get into new products and as that mature then we will start seeing a step jump.

Moderator: Thank you. We have a question from Kapil Singh from Nomura Securities. Please go ahead.

Kapil Singh: Few questions from my side. Firstly, on this US class 8, what is typically the lead lag between the production there and the supply that takes place from India?

Amit Kalyani: On the US consumption?

Kapil Singh: Yes.

Amit Kalyani: We are typically shipping 3 months ahead of schedule.

Kapil Singh: So, the revenues that reflect for us today will reflect in production say over the next quarter.

Amit Kalyani: About 2 months I would say. About 2 months is the lag between what we ship and consumption.

Kapil Singh: Secondly, we have talked about this $ 40 million new order win. Are these all in new segments or these include existing segments as well.

Amit Kalyani: Of course.

Kapil Singh: And the center for light-weighting that we have, do we have visibility from customers already in terms of …

Amit Kalyani: Yes, we do have fairly strong customer traction there.

Kapil Singh: And just a couple of housing keeping questions. Firstly, on the passenger vehicle revenues for domestic I notice there is a Y-o-Y decline. So, if you could just help us understand that because I understand the traction is been pretty strong.

Amit Kalyani: Increased**.**

Kapil Singh: No, the interactional business, Q2 FY17 was 656 million which is dropped to 520 million in Q2 FY18.

Amit Kalyani: Those are quarter-to-quarter aberrations in fact we have new business that has to ramp up. So we are still in a ramp up phase. One order has, previous generation has phased out new generation is phasing in.

Kapil Singh: And for the domestic CVs as well, when I look at Q1 to Q2 there is almost as we talk in the press release as well the 65% increase in truck production but the CV revenues from Q1 to Q2 have seen about 12% growth. So are there any other segments beyond M&HCVs which are also included there?

Amit Kalyani: See we had flat performance last quarter in spite of a 50% decline. So, there was an inventory within the system. So we are still gaining market share. First half we have grown by 12% and market is down 20%. So we have still grown.

Kapil Singh: And lastly on the CAPEX. Have we started thinking about next phase of CAPEX because this kind of growth now we will need to plan and how much lead time does it take place between starting and getting the facilities ready?

Amit Kalyani: So the new facilities that we are planned, we are planning in Andhra, we are hoping that we should get it up and running in about 16 to 18 months from today like literally from the day of the Board approval.

Kapil Singh: But when we look at next 2 years – 3 years kind of outlook, will it be Andhra facility which will cater to most of the incremental growth?

Amit Kalyani: See the Andhra facility will be a new mega site for us where we will have multiple technology, multiple products and process, okay it is not only going to be one product or process. It is going to be a growth center for us.

Kapil Singh: And what I am trying to understand is will there be a requirement for CAPEX, significant Capex in existing facility as well? Or will …

Amit Kalyani: No, I think our existing at least the Mundhwa facility is completely full. We have no scope for investing anything here. Baramati, we can invest but I do not think we have too much room there. So now we will look at the third location largely.

Kapil Singh: Yes that is what I have asking.

Amit Kalyani: Yes, so we will look at most of the new investments to happen there.

Kapil Singh: And how much lead time will be there between starting investments and production?

Amit Kalyani: Like I mentioned in this first project that we are undertaking, we hope that in 18 months we will be productionized.

Kapil Singh: How much was the currency realization for the quarter?

Amit Kalyani: About 70.

Moderator: Thank you. We have a question from Mahesh Bendre from Karvy. Please go ahead.

Mahesh Bendre: Sir, last 3 quarters the volume growth has been impressive. I think this is the highest consecutive volume we have seen in many years. So do you think this is sustainable going forward?

Amit Kalyani: Yes, we have seen strong demand, so yes.

Mahesh Bendre: And sir 1.5 years back, we had received order from Boeing for supplying titanium forgings. So how that is progressing?

Amit Kalyani: That is going on. We are supplying that one order was initially for one aircraft platform now we have got a development order for a second aircraft platform as well and relationship is going quite well and we are very happy with the progress we are making.

Mahesh Bendre: So earlier we had a plan of achieving $ 100 million of sales in that category in 2019-2020. So are we on the same path or?

Amit Kalyani: What we had mentioned is that we see each vertical at least initially to get to 100 million. So we are working on that. I do not think we have a timeframe in place because there are lot of things that happen, but we are working on it and between the Indian market and export we are still focused on achieving that kind of a number but not in 2019-2020.

Moderator: Thank you. We have a question from Pramod Amthe from CIMB. Please go ahead.

Pramod Amthe: One with regard to your new facility is it still going to be a forging one on the aluminum and other materials, so or you will be trying something else.

Amit Kalyani: Well it is going to have all kinds of facilities, but we are already a large, one of the largest aluminium forging companies in the world, with our 2 plants in Germany and we see lot of demand for these products around the world. So we will continue to leverage our capabilities and see what we can do in expanding our customer base and markets using our metallurgical skills and technologies.

Pramod Amthe: But any thoughts on the casting side on the aluminum or others or not really?

Amit Kalyani: See, we are focused on the market. We will do what the market wants, and we understand what the market wants and we also want to focus on a product that are high value and very critical, not commodity.

Pramod Amthe: And second, any outlook on the Europeans CV market because you seem to be hitting the sweet spot in both domestic and US?

Amit Kalyani: So, it is flattish, I think plus 3% to 5% is what we understand.

Pramod Amthe: And are you gaining any significant market share in domestic considering one of the key players seems to be struggling. Can you give some data points about where all you have won any new customers?

Amit Kalyani: I do not know which competitor you are talking about?

Pramod Amthe: I mean the Amtek.

Amit Kalyani: So, quite frankly they really did not make anything in the heavy space and they made rather commoditized products. So we are not particularly focused on that market. There is a small overlap between what they did and what we do in some amount of products but there we have got a lot of business. And we are definitely seeing increased demand.

Moderator: Thank you. We have a question from Jignesh K. Gandhi from Motilal Oswal. Please go ahead.

Jignesh K. Gandhi: First question pertains to the benefit of commodity price inflation which you got in this quarter. Can you quantify what kind of price increases we got?

Amit Kalyani: So, current quarter we had about a Rs. 1,500 price increase. And I think there will be another price increase coming up in quarter 3, based on if you see everywhere in the world there has been a price increase of steel, in Europe, in US and that will happen in India also and these are all pass through for us.

Jignesh K. Gandhi: And this will be even higher than what we saw?

Amit Kalyani: Yes, in Europe they have asked for a 100 Euro-pricing.

Jignesh K. Gandhi: And second question pertains to the oil and gas revenues. So you mentioned it is higher than, slightly higher than 2Q last year or 1Q FY18?

Amit Kalyani: 1Q 2018.

Jignesh K. Gandhi: And would you be having number, if you can share?

Amit Kalyani: No, I am sorry, but I do not want to share numbers that detail of numbers right now.

Jignesh K. Gandhi: And can you throw light on how has been the ramp up on the aerospace, what kind of revenues we are doing now and what is expected there this year and next year?

Amit Kalyani: On our aerospace we have a plan, right now we are going through a combination of starting series production to launching new products over the next 8 months to 12 months as well. So, these approvals take a lot of time and as a result it is difficult to forecast but we expect that to be in double digit numbers.

Jignesh K. Gandhi: Because last year I believe aerospace is about 35 crores revenue FY17.

Amit Kalyani: How much?

Jignesh K. Gandhi: 35 crores.

Amit Kalyani: No, but that was a combination of various things and that was combination of domestic and exports. Typically, whatever we, what I am giving, my comment to you was largely related to your question on global aerospace traction. We do have additional orders from the domestic segment as well. But in the domestic side the orders tend to be small and they take much longer period given our bureaucratic processes but there is traction there as well.

Moderator: Thank you. We have a question from Puneet Gulati from HSBC. Please go ahead.

Puneet Gulati: If you can give more comment on what is happening on the overseas subsidiaries. It seems to be doing quite well you have grown almost 25% on revenue. So, is it more product driven, is it market share driven growth?

Amit Kalyani: We made a large investment in setting up a new aluminum forging facility and that has gained us tremendous traction in the markets and we have grown that to full capacity in shorter period of time than we had we expected with very good margins plus our US facility has been added, so that has given us growth as well. And that facility has also grown in terms of its own revenues. So, combination of these is that we have seen growth.

Moderator: Thank you. We have a question from Chinmay Gandre from Future Generali. Please go ahead.

Chinmay Gandre: Sir, this breakup which you have given in the investor update is quite helpful. Sir, we see a very good traction in the industrial revenues in international, so understand a lot has to do with oil and gas in that. Are there any other segments in industrial which have also seen good traction which are reflected in the numbers?

Amit Kalyani: The other area is high-horse power market, which is also linked to oil and gas but also construction industry in particular.

Chinmay Gandre: I hope you repeat this every quarter the breakup which you have given this quarter.

Moderator: Thank you. We have a question from Basudeb Banerjee from Antique Finance. Please go ahead.

Basudeb Banerjee: We have been seeing like last couple of quarters your split per KG has been somewhere around Rs. 140 you are maintaining there. So, now in next 3-4 years with aerospace, locomotive, product portfolio also seeing a huge change. So, any target or vision where we can see this spread maybe next 3 to 4 years?

Amit Kalyani: It is very difficult to, yes if we look at steel forgings and machine forging, I can say yes, that will remain in this direction and go up slightly or whatever. But as we get into this light-weighting and new materials and all those things, the whole game becomes very different. And as we get into new products it gets very difficult. So, I think it is very difficult to look it at as some of the pieces and say but on the whole, we will continue to increase our value-addition and this will get reflected in our return basically the return on our capital employed.

Basudeb Banerjee: Second thing sir like, we have been hearing that CV majors like Tata Motors or Leyland, they have been increasing their outsourcing pie of forging space rather than making in-house. So that will give an additional scope of revenue….

Amit Kalyani: Only not just Tata Motors or Leyland, this is trend that is happening worldwide that people are no longer going to invest in mechanical components, sub-assemblies and assemblies. But that demand and that opportunity will only come to people who have technology and who have the ability to invest and who have vertical integration in terms of overall capability.

Basudeb Banerjee: And last thing sir, if I see your number as you said there was slight price hike this quarter. So, even after adjusting for that your sequential realization will be lower where your exports have been pretty strong oil and gas is also flat. So, any reason why realization was slightly on the lower side?

Amit Kalyani: Product mix, it is difficult to say.

Basudeb Banerjee: Nothing major worthwhile as such?

Amit Kalyani: I mean, I quite honestly do not even know that.

Moderator: We have a question from Sonal Gupta from UBS Securities. Please go ahead.

Sonal Gupta: Amit, just wanted to understand again on the India truck side. We have, obviously a lot of volatility on a quarterly basis but if you were to look at sort of break up the growth and see how much is year-on-year growth is coming because of new market share or new products that we have added, I mean could you sort of give us some sense on that?

Amit Kalyani: The market is flat, the market is not really growing and it is volatile. Some months it is high, some months it is low but on an annualized average it is flat. But yes, we will see some share increases. We do not want to talk about those individual share increases as it is confidential data but yes broadly we will see some of them.

Sonal Gupta: No, so, what I was trying to understand. It is coming mainly out of market share growth or have we expanded the portfolio and got into some new product areas?

Amit Kalyani: Currently, it is largely market share growth but going forward you will start seeing the advantage of new product also.

Sonal Gupta: And again, with regards to Amtek, there has been some news in the media that you are interested, so any specific areas that you are interested in or facility product businesses or …

Amit Kalyani: We will know all that after we have finished our due diligence and everything. So, we have to understand really what is there.

Sonal Gupta: But as of now like you said the overlap between you and Amtek is limited, right?

Amit Kalyani: Very limited.

Moderator: We have a question from Sahil Kedia from Merrill Lynch. Please go ahead.

Sahil Kedia: Amit, can you help us understand that this new facility that you will be putting up in Andhra Pradesh. What is the global positioning on this, in the sense that are there a lot of people either in Europe or US doing this. How big will this facility be from a context.

Amit Kalyani: It is too early for me to tell you all that right now. We are making an investment to make a beginning but obviously, the opportunity in this is very large. And whether from this facility we can service the world market, or we need to have multiple facilities. All will evolve as time goes by but let's say that we have to make a beginning to prove our technology, our capability and the value to our customers. And that is what we are going to go through this one facility and then we look at how to grow that going further.

Sahil Kedia: How should we think about I know it is probably still too early but if we have to think about directionally, what this means for margins or profitability or ROCE. How should we think of that as and when…...

Amit Kalyani: There will be no ROCE impact.

Moderator: We have a question from Sangeeta Purushottam from Cogito Advisors. Please go ahead.

Andre: Now, in the immediate prognosis seems to be good, you said there is very strong demand from the US and you also putting some strategic initiative to get new products. But in the longer run let's say 3 year or 5 year horizon, given electrical vehicles and given the competition from solar power, do you see a decline in the sector as a whole and this strategic initiatives to get new products and attempt in some ways to increase you share of what things to be a declining sector. Could you just put some color into what is likely.…

Amit Kalyani: Quite honestly, I do not think we want to invest money in a declining sector. Obviously, there are sectors that are going to grow, there are sectors that are going decline. But it is all going to happen over time and we have created a strategy which we believe will give us immediate growth, longer medium-term growth and then for the long-term we have some different strategies. I think you need to give us sometime before we share all that with you because we need to be dead sure about what we are doing. And there are lots of things that are happening in our company and once we are ready to talk about that we will.

Andre: Just one small accounting question. Your other expenses saw a fairly sharp increase year-on-year. Could you just explain what are the components of other expenses and whether this is a one-off or whether this is likely to be sustainable?

Amit Kalyani: No, this was, there was some one-off business available and other expenses and a little bit of Forex as well.

Andre: So, this is not typical you would say?

Amit Kalyani: I would hope not.

Moderator: We will take our last question from Mr. Pramod Amthe from CIMB. Please go ahead.

Pramod Amthe: Considering that you are one of the strategic suppliers to large truck makers globally are you getting any enquires for structure components for the electric trucks and all because they are in the initial stage of …

Amit Kalyani: Now we are already developing prototypes for global companies for electric powertrains, certain components. We have been doing this for the last almost 1 year. So, we are already engaged in the prototype development process. We have been through multiple versions also, so we are fully integrated and working on prototyping.

Pramod Amthe: And what is the lead time, you feel, what is the indication you are getting 3 years down the line 2020, when you need to be ready with your …

Amit Kalyani: See, I will tell you honestly, we were at the truck show which took place in August in Georgia, in Atlanta, September, sorry and nobody really has a heavy-duty truck ready today to show the world. Everybody has really fancy products, which are futuristic but not practical. Lot of concept vehicles but not realistic that will provide someone a viable commercial option today.

Pramod Amthe: And similar is the case for development of structural components as you said heavy weights and all you may have to strengthen your structural components supplies to the larger trucks?

Amit Kalyani: I do not understand what you mean by structural components?

Pramod Amthe: All the front axle beams or …

Amit Kalyani: Axle beam on a truck today is steel. I do not see that moving towards aluminum but definitely, we are doing a lot of work on light-weighting of those products.

Pramod Amthe: Considering that there will be much heavier and people are talking about lower payload one day become electric, so in that sense of …

Amit Kalyani: Exactly you hit the nail on the head. It is because of this and the problem associated with that, that the trucks today if you go to electric are not viable. So, till that weight issue gets resolved, I do not see a big migration to electric vehicle happening.

Moderator: Thank you. I now hand over the call to Mr. Kalyani for closing comments. Over to you, sir.

Amit Kayani: Ladies and gentlemen, thank you very much for your time and interest in our company. As always, we enjoy interaction with our shareholders and analysts. As a company, we were very enthused by the kind of business prospects that we see and the market demand that we have right now. The company continues to invest heavily in R&D and capability development for our company in strategic directions that will allow us to take advantage of changing trends and markets as well as capitalize on our current customer relationship to grow our business with our global customers. The company is in very strong financial health. We have no debt on our balance sheet, in fact we have a negative debt equity on a long-term basis and very healthy cash flows and we will continue to invest in areas that give us the kind of growth and returns that we require as a company. The company has strong ambitions for growth going forward and we look forward to your participation in this journey as we go along. Thank you very much.

Moderator: Ladies and gentlemen, this thus concludes your conference for today. We thank you for your participation and for using iJunxion Conference Service. You may please disconnect your lines now. Thank you and have a great evening.