“Bharat Forge Limited Q2 FY20 Earnings Conference Call”

November 08, 2019

MANAGEMENT: **MR. AMIT KALYANI – DEPUTY MANAGING DIRECTOR, BHARAT FORGE LIMITED**
MR KEDAR DIXIT – VP (FINANCE), BHARAT FORGE LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the Bharat Forge Q2 FY20 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal the operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Amit Kalyani. Thank you and over to you, sir!

Amit Kalyani: Thank you very much. Good afternoon, ladies and gentlemen and welcome to our conference call for the Q2 FY20 results. I think as everyone is aware, the whole automotive industry is passing through an extremely difficult time right now, probably one of the most challenging periods of its history in a long time. The second quarter was a tough and challenging quarter for the company as well, probably one of the toughest ones of the decade. And this was largely driven by the extreme weakness in the commercial vehicle sector in India. The exports markets have performed as was anticipated but the domestic market has really had the bottoms fall out of it. The domestic market declined to a level which was unprecedented in fact it has never seen this kind of decline in the history of the automotive industry in India. So, there are multiple reasons for this. Basically the production has been cut to reduce the stock of BS-IV vehicles before the introduction of BS-VI from 1st April. There are approximately 40 odd thousand medium and heavy commercial vehicles which need to be destocked before April 1, so they need to be sold to end consumers.

Although there are many reasons being ascribed to this, one of the main factors in our opinion is that as has been seen globally there is typically a pre buy before any emission change or any kind of structural, technological change which has a significant cost increase. So, a lot of the commercial vehicle companies pumped up production in the first quarter and in the first half of the second quarter anticipating a big pre buy. But because of the financial crisis in the NBFC sector and the axle loading norms change, the same vehicle could carry between 15% and 22% more load and this increased the available load carrying capacity in the market. Plus GST implementation reduced the stoppage time at state borders which increased the efficiency of transportation. So, if you put all these into the context you will see that the medium and heavy commercial vehicle production was down 45% quarter-on-quarter and close to 58% Y-o-Y.

So, for the quarter our revenues were down by about 6.5% compared to Q1 and 25% compared to Q2 of last year at 1,260 crores. Our EBITDA margin is almost 24% which is down 220 basis points and 440 basis points. Our PBT was 251 crores which is down 4% compared to Q1 and about 27% compared to last year. And if you look at the verticals, the passenger vehicle sector has done extremely well both domestically and on the export front. We have seen a strong outperformance and with our strategy playing out in terms of all the new products and new contracts we have won we expect this to continue growing at a strong rate with new products and new customer additions. On the industrial sector, honestly, the real story here is the reduction in inventory of the oil and gas companies because of end of year. So, there has been a reduction in volume and that has reduced the overall industrial sector. On the commercial vehicle global side, we are at the upcycle on the Class 8 trucks and demand is plateauing. Also there you are seeing some production reductions to avoid an inventory buildup. So, we expect some decline between I would say, roughly 20% in next year and Europe would be single digits. But these are our assumptions. It is not really a figure we have got from our customers yet because there is a lot of talk of infrastructure buildup in the US decaying infrastructure. So any of that does happen then this could change.

On the balance sheet side, we have a strong balance sheet and we continue to strengthen our balance sheet. We currently have almost 1,700 crores of cash on our books. Our long-term debt equity is zero and our first half operating cash flow is about 470 crores. We are using the downturn to cut cost to structurally transform the organization and put in place long term measures that make us more efficient, leaner and a better cost structure when production improves. I mean you have to put into perspective that we are currently running at roughly 50% capacity utilization and in certain areas they are absolutely, I mean even certain facilities which do not have demand are being shut down and production is being restructured or it has been combined and basically reducing fixed costs. This will take two to three quarters but when we come out of it we will be leaner, meaner and fitter. And we are also pursuing a lot of new product development either through R&D or through customers where we have opportunities to grow our business. So like every other downturn, we hope that we will come out of this stronger with some new business and new products which will give us long term benefits. And we are in fact doing collaborative work with a lot of our customers who see lot of merit in using this time to also outsource or restructure their operations and do more work with high technology and value added players like us.

So, in terms of outlook given the prevailing environment in India and the overall softness in North America and Europe, we would caution that the second half would be slightly weaker than the first half. And as we focus on strengthening our balance sheet, reducing cost, focus on cost reduction and free cash generation we will see again a revival or improvement in performance, once, I would say this year is over**.** One of the highlights for the last quarter personally for us has been that we have won significant orders from customer, passenger car customers in North America to justify setting up a full-fledged aluminum forging operation which will be very similar to what we have in Germany. And the first phase of this plant is fully sold out with committed contracts and we will break ground on this facility in the next two months. And it will start I mean it will be ready for production by about June of 2021. So, that is the highlight and we have chosen the location of Sanford County I mean, Sanford in Lee County, North Carolina which is geographically proximate to many of our European, Japanese OEMs and a lot of talent available in the Research Triangle Park, Raleigh Durham, North Carolina area.

So, I believe that this will be a beginning of a growth path for our subsidiary which will also allow us to take some time and restructure our steel oriented subsidiary in Europe make them leaner and fitter and ready for the kind of new business environment that we are seeing. So overall, I would like to just say that we are using this crisis to do massive restructuring and bring down costs. We are not particularly worried about the global PV cycle, more concerned about the situation in India. I think that is a structural issue. We are running at close to 50% capacity utilization, right now. Hopefully, in a few quarters that will start improving and our pass cars related business is doing quite well and we are expecting to see this grow very substantially with the business that we have already signed and got on hand. At the same time, CAPEX is going to be ready, brought to a minimum in India and we will focus on sweating our assets and using our facilities tangibly to do new things.

I think I do not need to say anything else. I have my team with us and we should be ready to and we will be happy to answer your questions. And I think we will open the floor now for Q&A.

Moderator: Thank you. 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 Securities. Please go ahead.

Kapil Singh: Firstly, on the cost side just wanted to check the raw material to sales ratio has seen a spike this quarter seems a bit odd. So, can you just give some colour what exactly happened over there?

Amit Kalyani: Yes, I will request my colleague, Kedar to answer that.

Kedar Dixit: Yes, so this is mainly because of the inventory effect some of the product mix and the defence product which has a high margin in terms of EBITDA. But the raw material ratio is also on a higher side. But if you look at variable cost there is a significant reduction in variable costs which sits in other expenses. So, at our operating margin level we are more or less at the same level as last quarter.

Kapil Singh: Sir, is there also a phenomena where OEMs have taken some discounts in anticipation of drop in commodities like steel?

Kedar Dixit: No.

Kapil Singh: Secondly, I wanted to check on the CAPEX, like we have seen somewhere close to 400 crores of cash outflow in the first half on the standalone and close to 600 on the console. So full year what are we looking at on CAPEX and investments?

Kedar Dixit: So, in current year we do not have much of CAPEX. It is only the cash outflow of the CAPEX which we have already announced last year. So it is more of payments for that, annual would be about 600 odd so. And in the overseas, the CAPEX would be more on expansion of our aluminium facilities in Europe and US.

Kapil Singh: What would be the amount for that?

Amit Kalyani: Current CAPEX, let me just explain, the current CAPEX of 400 crores is basically payments for CAPEX that were committed last year and we have not committed any new CAPEX from the first quarter onwards. In Europe, we have a new plant under construction and actually the construction is complete and very soon we will start trial production in Germany which is our new aluminium forging plant expansion and that is the CAPEX for that.

Kapil Singh: Sir, full year could you give a consolidated number what should be expect for the cash outflow?

Kedar Dixit: Yes, about 800 crores.

Kapil Singh: And where will this drop to next year?

Kedar Dixit: As far as India operations are concerned, you should see a significant reduction. On the overseas, it would be a completion of US plant build-up.

Amit Kalyani: US plant build-up will take place over two years. So, next year and year after next the total CAPEX will be roughly 60 million, so about 400 crores over two years funded by equity plus debt. And in India, I do not think we should have a CAPEX of more than 150 crores, between I would say 150 crores to 160 crores.

Kapil Singh: And sir, for the US facility what is the revenue potential from those facilities?

Amit Kalyani: So, from that facility we should have a revenue of slightly over 1:1. So about close to 70 million-75 million.

Kapil Singh: Sir, lastly just wanted to refer to point number 10 in the results. There is some restructuring going on the notes to account point number 10, can you just explain this?

Amit Kalyani: Yes, so in August 2019, the board had taken a decision to transfer our aluminium subsidiary, CLWT the aluminium casting plant in Nellore into a 100% owned subsidiary.

Kedar Dixit: This decision was taken well before the new tax code came into effect. In fact, in our last board meeting, in August meeting itself the Board has approved to form it in a separate entity.

Kapil Singh: So, this will have a 15% corporate tax rate, right?

Kedar Dixit: Yes, that is correct.

Moderator: Thank you. The next question is from the line of Punit Gulati from HSBC. Please go ahead.

Punit Gulati: Just on this Andhra Pradesh, I thought wasn't this facility expected to be complete this year?

Amit Kalyani: It goes into production this year.

Kedar Dixit: Yes, it is basically goes into commercial production by December 2019.

Punit Gulati: Yes, but so how do you get the corporate tax benefit for it? Because you would have installed the machineries before that.

Kedar Dixit: Yes, it is actually the machinery are under installation. We have not yet put to use. The commercial production has not yet started.

Punit Gulati: So, you still get the benefit that is why?

Kedar Dixit: Yes we have, that what the law says it. You have a new entity which is incorporated to enjoy that 15%. So, we will get that benefit.

Punit Gulati: And how much investment have you done in this so far?

Amit Kalyani: About 150 crores.

Punit Gulati: And what should be think of as a revenue potential?

Amit Kalyani: About 200 crores in first phase.

Punit Gulati: Secondly, if you can give little more colour you said that H2 is likely to be slightly lower than H1. So, is it only slightly or could there be a bigger dip? And specifically, if you can give some colour on Q3 versus Q2 sequentially.

Amit Kalyani: See, if you look at the domestic market, right now the Indian domestic market is pretty much at the lowest figure that we have seen in a long time. It is almost 50% down from last year. So, I do not know how much lower it can go. In fact, Q3 we do not know how quickly the inventory will get neutralized. But obviously in Q4 they have to start producing for filling the pipeline of BS-VI.

Punit Gulati: So, Q3 is also likely to be lower than Q2?

Amit Kalyani: I do not know whether its lower or what but maybe flattish maybe slightly, I think it cannot be much lower but I think Q4 should see some improvement.

Punit Gulati: And I also wanted to understand when I look at this BFIL plus trading subsidiary it seems that the trading subsidiary has made a loss at EBITDA level. How should one think about that?

Kedar Dixit: There is no loss at trading company level. It also includes intercompany elimination of profit of the unsold inventory. And since we are ramping up all our passenger car business in Europe and the US there is a slight increase in the inventory as compared to last quarter. So that is the effect of the elimination. But trading entity cannot make losses.

Punit Gulati: So, it is just the inventory sitting in that book?

Kedar Dixit: Yes.

Moderator: Thank you. The next question is from the line of Rounak Sarda from Systematix Group. Please go ahead.

Rounak Sarda: Sir, my first question is in continuation to the previous question on domestic CVs. If you can help us understand the inventory level, let us say at our plant and at the OEM level.

Amit Kalyani: We have no inventory at our plant. We do not hold the inventory. Our inventory is only it is curtails to what is in WIP plus minimal FG. We do not have any inventory in our system.

Rounak Sarda: So, would you be able to help us understand how was the inventory in the system currently? And when do you see wholesale matching production?

Amit Kalyani,: No, what we understand is there are roughly 40,000 medium and heavy commercial vehicles in inventory as on end of October. And currently the sale level is somewhere in the region of about between 14,000 to 16,000 maybe 17,000 vehicles a month. And production is running at roughly about 8,000 also a month. So, roughly 10,000 are getting depleted from inventory a month.

Rounak Sarda: And sir, usually Q4 is the most heavy quarter for CVs. Do you see that pattern also changing this year because of the uncertainty and transition on BS-VI side? I mean, is there any indication which you can share?

Amit Kalyani,: You know the commercial nature of the industry. People will fill inventory of BS-VI and push it into the system for sure. So, I anticipate that production in Q4 will be higher than sales in Q4.

Rounak Sarda: Second question is on the domestic industrial side. We had a lumpy defence business last year. But if I see in quarter 2, we had some sequential growth as well. If you can help us understand what is contributing to that?

Amit Kalyani: We have won a lot of new business on the industrial side in India. I am not going to get into more detail than that. But we have some business which is let us say medium to long term which we have won which will continue giving us growth and some amount of the tail of the last defence deals.

Rounak Sarda: But there is no lumpy business which can offset the drop which has happened? The current trend rate should continue, is that the way you look at this?

Amit Kalyani: Current run rate will continue and then as the new orders that we have once start it will go up slightly. But it is not a big there is no big lumpy business that we have won right now.

Rounak Sarda: And sir, on international CV especially on North America side the production, I mean in anticipation of production cut inventory has started to reduce. But if you see the order book for this month, it had for the last month is suddenly surprised with 20,000, more than 20,000 units. So when do you, usually see inventory increasing in the system? I mean, is it usually a 2-3 quarter, 2-3 months lag? Should we assume that?

Amit Kalyani: No, every cycle is different. It is very difficult to generalize and say like that because really depends on the overall scenario in the economy. How much confidence is in the economy, how quickly the order slowdown takes place. So, each time it is different. So, I do not want to generalize that.

Rounak Sarda: But is there a production level where the manufacturers are comfortable, let us say 275,000 per annum. Is that something a benchmark?

Amit Kalyani: 275,000 to 300,000 was the normal figure.

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

Sonal Gupta: So, just wanted to understand again on the one was on the North America or the US oil and gas thing. I mean like, we have already seen a pretty sharp slowdown from the last quarter onwards. So, are we towards the end of the inventory adjustment on the oil and gas side? Or do you think these will more to go?

Amit Kalyani: See right now all the oil and exploration majors are cutting capacity because or let us say they are reducing the inventories because of end of year. Plus because the pipeline which take the oil from the Permian Basin are not yet fully up and ready, the expanded capacity. The cost of taking oil and gas out of the Permian is still quite high. So they are waiting for the new pipeline to be fully up. And say that will be a trigger once that is ready.

Sonal Gupta: So, when is that expected? Any time lines on that?

Amit Kalyani: They have the same situation as us, environmental and cost and overall project related issues. It is a very uncertain time right now and there is very poor visibility on anything. So, I think very difficult to really say anything.

Sonal Gupta: But we are not seeing any further deterioration, right?

Amit Kalyani: Not right now. I think we are at the flat level.

Sonal Gupta: And just the, I mean the one thing which is going well is clearly the passenger vehicle exports. So, just to on that side, I mean we expect this to sort of continue, right? And even for next year we have fair amount of visibility on this growth, right?

Amit Kalyani: As we had said that we expect the passenger car basically what we had said was that the truck side, the non-auto side and the fast cars will become more or less the same size may not be exactly the same. It could be 35, 35, 30 or 40, 35, 25 but somewhere in that ballpark.

Sonal Gupta: So, I am just asking that in terms of near term and maybe to the next 6 months to 12 months visibility we should see these run rates …

Amit Kalyani: Yes, we should see a significant growth in the pass car side.

Sonal Gupta: And just lastly, on the India CV, I mean like so the, I mean like because you are saying that we are already seeing a fair amount of inventory adjustment and I mean, so do we see that then on this base we should see some growth next year? Or you think that is very hard to say as of now?

Amit Kalyani: Very hard to say as of now. See, simply because the first half of this year was not represented of what the actual market consumed. We produced almost 25,000 to 30,000 more vehicles. We had a carryover inventory of about 15 odd thousand. And at peak in September, the inventory had gone to 49,000. So that is an increase in inventory of 35,000 which at today's production level is more like 3 months or more.

Sonal Gupta: And this is the last thing was I think in terms of your statement like you already have a very good balance sheet and then you are saying that we want to strengthen the balance sheet. So, what exactly do you mean in terms of.

Amit Kalyani: Yes reduce cost, reduce CAPEX set our assets more, that is it. We are not doing it we are not going to raise money or anything. We do not need that. But just strengthen the balance sheet keep focusing on cash generation, reduce inventory, reduce working capital, pre-disciplined and prudent. See, what is happening there are people who have spent a lot of money and CAPEX over the last 2-3 years and suddenly the market is at 50% or lower. Lot of companies worldwide are going to be in deep financial problem might even go bankrupt. So, we should be ready to fill up our capacities with business from trailing companies or from people who are not over struggling. So, you should be strong when others are weak, it gives confidence to your customers.

Moderator: Thank you. The next question is from the line from Pramod Amte from CGS CIMB. Please go ahead.

Pramod Amte: First with regard to BS-VI. What is your production plan when you plan to produce and start supplying to the customers in India?

Amit Kalyani: See, we have been producing Euro-VI parts for the last 5 years. In fact, we have also started Euro-VII. We finish the development 2 years ago, we have already started. So, making Euro-VI we have been making for a long time. And even for some Indian customers who are exporting Euro-VI engine we have been making for now 3 to 4 years. So we have absolutely no issue. We have been making this for a long time. We have done Euro-IV, we have done Euro-V, we have done Euro-VI, we have done Euro-VII. So it is absolutely no issue for us. We have been working with our domestic customers. There are 3 customers who have their own Euro-VI engines or BS-VI engines because we have given them prototypes and production lot samples long back.

Pramod Amte: In terms of commercial production, will that be in December quarter? Or would that should be lower to March?

Amit Kalyani: So we did some amount of commercial production few hundred or few thousand numbers and then we had to slow down. So, we are ready. We anticipate this will happen in January-February-March.

Pramod Amte: So there is no lead advantage for you in terms of couple of months before the client in the December quarter? You feel that it will only come through in the March quarter?

Amit Kalyani: Yes, I mean they are all building small amount of BS-VI vehicles right now, only to get iron out the kinks from their own systems.

Pramod Amte: And second is with regard to your AP plant. Since you have moved it as part of a subsidiary and you will get the much better tax advantage in that sense. So, what will be the priority for the additional cash flows which you may have now versus might be when you initially started to put the plant in place? Would that you use it as a priority to win clients or would that be at the shareholders?

Amit Kalyani: No, see we are not going to reduce, I do not think that, we do not play a price game. We would rather play a high technology, high value differentiated game.

Pramod Amte: But considering that that should give you a substantial competitive advantage. Would this help you to win more clients or that should not be the case?

Amit Kalyani: Probably I am sure it will because we should have the most competitive position in the market. Already, our technology and cost structure they were very good and now this will make us even better. So hopefully what it will mean is that we get larger growth opportunities there.

Kishore: Pramod, this is Kishore. Just to add to what Amit said, if your question was that to the extent we are saving tax, are we going to get give a price discount to the customer? There is no question of that happening, absolutely no question of that doing. So, I just want to make that clear.

Pramod Amte: No, would that considering the improved cash flows would that help you to expand that facility in much aggressive pace than what you initially thought?

Kishore: Of course, it will.

Amit Kalyani: Yes, obviously ...

Pramod Amte: That is what I was asking, what was the priority in terms of spending that additional cash flow for you?

Amit Kalyani: The priority is always growth. If you do not have growth opportunities then you tons of cash and you pay out the dividend.

Kishore: So, we are looking at a phased expansion of that plant. So, we will first look at the Phase 1 which we are in currently and we will evaluate it maybe say 2 years from now. And if there is surplus cash flow which I am sure there will be we will use it for that expansion.

Amit Kalyani: See, an example of this is what we did in Germany. We set up a new plant and just as we were developing the products and the customers that, I am talking about aluminium forging now. As we develop that, the customers saw that and was so impressed that parallelly their US counterpart say, hey, we want local content. We wanted to set up a plant in US to do that. So, one good plant and operation and success created another opportunity. So, that is how it works. But you need to wait when it goes into sales production.

Pramod Amte: And the last one is with regard to considering that you are at the current stressful situation you are cutting the cost left, right and center. In case any of these stimuli comes through, would the system be flexible enough to bounce back? Would that or would it take you much …

Amit Kalyani: Pramod, we will not lose any capacity or capability. Only we will make certain things which are historic into more strategic. When you have to run on a treadmill at high speed in order to just stay in the same place you do not necessarily have the chance to do things in a strategic and thought-out manner. You have to just deal with speed and the first doing what is required first. But this is where we want to make the change and create a structural change wherever required.

Moderator: Thank you. The next question is from the line of Pratik Poddar from Nippon India Mutual Fund. Please go ahead.

Pratik Poddar: Sir, could you just talk a bit about this Nellore facility in terms of the roadmap for the next 1-1.5 years? Yes, that is it, thanks.

Amit Kalyani: So, this is the high pressure die-casting facility. K. K., will you answer?

Management: Yes, so basically it is, it basically a light-weighting centre. So what we have decided is, we go, the first setup is with the die-casting machine which has the capability of doing both aluminium and magnesium casting on the same machines. And these machines are equipped with very ultra-modern features like jet cooling and vacuum casting and others thereby giving us a big advantage in the market in terms of production of very world products and thereby allowing us to basically attack on very specific structural components that are required in the both automotive and industrial world.

Pratik Poddar: Including for EVs and hybrids?

Management: Including for EVs and hybrids, for primarily this is being focused for more for BS-VI and EVs and hybrid requirements along with various other requirements. For example, things like very specific applications for lighting and others in the industrial sector.

Pratik Poddar: And just to take this forward, I believe is it fair to understand that similar to the US operations which we are setting up the US plant, this plant also has firm order backings as of now. And in terms of utilization it should not be a problem.

Amit Kalyani: Yes, we already have got some confirmed orders and we are in the process of also getting some big orders coming in from our other customers. So, we are working on that. And finally it is I think it is fair to say that the machines would get easily booked over the next 1 year.

Moderator: Thank you. We will move on to the next question. That is from the line of Mahesh Bendre from Karvy Stock Broking. Please go ahead.

Mahesh Bendre: Sir, what is the outlook for the industrial business both domestic and international for next year?

Amit Kalyani: No, Mahesh very difficult to give an outlook or anything right now. I would say, for global it is flat. For domestic, I think we should see some growth.

Mahesh Bendre: And sir, typically historically we have seen in that whenever we reporting de-growth in the revenue for particular year next 2 years we see a very sharp jump in our revenues and all the financial indicators. So, is this likely to be a case next year also?

Amit Kalyani: I hope so but as far as the market is concerned, it is very difficult to say what is going to happen. But as far as the company is concerned we are taking all the measures required to reduce costs and become more efficient.

Moderator: Thank you. The next question is from the line of Pawan Pandit from Latin Manharlal Securities Pvt. Ltd. Please go ahead.

Pavan: You said your R&D cost is going to increase because of low CAPEX for the next 1 or 2 years. Could you quantify it like as a percentage of sales, how much is that going to be?

Amit Kalyani: If you look at what is our R&D spend today, it is going to remain more or less in the same ballpark or maybe 20% more.

Moderator: Thank you. The next question is from the line of Punit Gulati from HSBC. Please go ahead.

Punit Gulati: Just on the export potential of the passenger car, you have already hit 160 crores run rate this quarter. Is the ramp-up still on? Do you expect this growth to continue from 160-161 per quarter number?

Amit Kalyani: Yes, we are in the beginning of the ramp-up.

Punit Gulati: And in next 2 years, where should you be on this?

Amit Kalyani: I do not want to give you a forward-looking statement but substantially higher than here. Because today we are still doing engine components as our driveline components, exports ramp up that itself is going to be a big opportunity.

Punit Gulati: And you have some orders for that as well?

Amit Kalyani: Yes, also.

Punit Gulati: And how should one think about margins from this business?

Amit Kalyani: Also very good, and the machine products also very good.

Punit Gulati: And on the oil and gas side, while I understand the environment is uncertain but do you think the inventory draw down cycle is now complete? And at least from this level one should not see a further drop?

Amit Kalyani: Yes, I think that is accurate to see.

Moderator: Thank you. The next question is from the line of Manoj Garg from White Oak Capital. Please go ahead.

Manoj Garg: Amit, in your prepared remarks you have indicated that there are structural challenges in the domestic CV industry. Can you just put some more colour on that? What you mean about this?

Amit Kalyani: Problem is, if you look at what has impacted the overall market right now. There are 3 factors. One is the non-availability of financing. Earlier, you could buy a truck with 10% to 15% down payment. Now, less amount of financing is available and that too with the down payment of anywhere between 35% to 40%. So that automatically removes a large percentage of buyers from the potential buying opportunity. Second is, because of the axle loading norms having changed you have created a capacity increase of roughly 15% to 20% in a certain category of goods haulage sector. Third is, because of GST and the stoppage of vehicles at state boarders going away we have seeing anywhere between 10% to 25% reduction in logistics travel time. So, this is all creating more capacity on one side and less buying ability on the other side. So, this is a structural problem.

Manoj Garg: And given that like the axle load norms which have increased somewhere in the last year August-September and by the time we will be there over the next few months. You see most of these challenges would be in the base? And what could be the tipping point where you start seeing maybe some demand coming back in this sector?

Amit Kalyani: So, I think the government has realized that structural changes need to be made and some interventions are required. If you saw that they just announced 11,000 bus order at the utility state governments and municipalities will place orders. If you remember in 2008, after the Lehman Brothers crisis, the government under JNNURM placed orders for almost 70,000 buses. And that completely revive the sentiment and the sector. And I think something like that is again required. They have been talking about scrappage, etc. But something structurally and strategically has to be done.

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

Sahil Kedia: I have just one question. I want to get some more detail about your US plant because it represents a kind of free entry back into the US passenger vehicle segment in a big way. Can you tell us a couple of things? One, what has changed in versus the earlier experience and we had when we had exited the US market, number one. And number two, how big of an opportunity can this be once this is fully set up?

Amit Kalyani: Yes, so this is fundamentally very different in every way from what we have done in the past in the US. In the past, in the US we had bought old operations and try to run them. Here, what we are doing is we are bringing our globally cutting edge, proven renowned technology which is attracting our customers with a full order book, sold-out plant, established technology to a market which does not have these products. So, with the localization and the new models coming up, aluminium usage and light-weighting is going up in the US. So, a combination of these 2 factors is what is new, plus we are locating it in a place where it is easy to attract and retain high quality talent. Because we believe that this should be a home for us for the future were we will be able to grow multiple times of this in the next 5 to 10 years.

Sahil Kedia: And please correct me if I am wrong. In the previous US manufacturing, the value-addition, etc. component was low as we understand it and also it was …

Amit Kalyani: Zero, there was no value addition. It is only fully machine parts.

Sahil Kedia: Therefore from that perspective your supply to the OEM and also your margins, etc. should be much better for this business?

Amit Kalyani: Yes, absolutely.

Sahil Kedia: And sir, can you remind us in terms of what is the potential initial numbers that you guys said would be the revenue in the first phase?

Amit Kalyani: Initial numbers that we can do is about 75 million out of this plant.

Sahil Kedia: And do you have more than one OEM signed up for this?

Amit Kalyani: We have 4-5, 5 OEMs.

Sahil Kedia: 5 OEMs signed up for this as well.

Amit Kalyani: 5 OEMs and multiple platforms.

Amit Kalyani: I think, that is the last question. Am I right? Yes, so my team tells me that that is the last question. So, ladies and gentlemen, thank you very much for your interest and your participation. If anybody has any follow-on questions on the details that you would like, you can either reach out to Mr. Rajagopal or Kedar or Kishore, whoever and get that information. Thank you very much and look forward to remaining in touch with you. Thank you,.

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