"Bharat Forge Limited Q2 FY23 Earnings Conference Call"

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MANAGEMENT **MR. AMIT KALYANI – BHARAT FORGE LIMITED**
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Moderator: Ladies and gentlemen, good day, and welcome to Bharat Forge Q2 FY23 Earnings Conference Call. As a reminder, all participant lines will be in 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 "*and 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: Good afternoon, ladies and gentlemen. And thank you for attending our Q2 investor call. As usual, I'll take you through a short introduction and then open up for Q&A. I have with me our management team heading our component business, our industrial business and our finance and investor relations teams as well. So, some highlights. We had total sales of about Rs. 1,863 crore, which was a growth of about 6% over last quarter. We had exports of about Rs. 1,066 crore, which is the highest we've had so far. Domestic revenues also grew about 13% over last quarter. And we've seen overall growth in our passenger car business, our commercial vehicle business between India and Europe. And on the engine side, on the higher horsepower engine side, we are seeing growth. And in Aerospace and Defense, we've seen significant growth. Our domestic revenues on both commercial vehicles and passenger car have grown very nicely, and our Aerospace and Defense business also continues to grow well.

So, some of the highlights are the highest export revenues this quarter, domestic revenues includes Rs. 80 crore of vehicle sales to the Armed Forces MOD. So, in our overall business, we have an EBITDA of 24.3% where we have some one-offs, including LDE of about Rs. 13 crore or Rs. 130 million charged on our Defense business, which is a one-time issue, and it is being contested because this was an order we received during COVID, and the original delivery period was during COVID and it got extended because of exigencies to do with COVID. Therefore, that impact, if it were reversed, our EBITDA margin would move up to about 25.4%.

RM inflation has impacted margin by about 40 to 45 basis points. Our rupee realization was at Rs. 81 to the dollar. Passenger vehicle revenue is now at about 18% of total sales, which is about Rs. 340 crore which is almost 7x of what it was in FY16. We've had new order wins of Rs. 900 crore in this quarter primarily in the export business, driven by market share gains in new business in passenger cars and in the industrial sector.

On the overseas business, aluminum business had a poor performance this quarter for the first time since its acquisition. And this is driven by many factors, primarily external and some internal. We've had significantly lower than anticipated sales on account of issues of supply chain within the whole automotive industry. Energy costs increased which is yet to be passed on. Raw material price increased and availability issues, and higher level of staffing in anticipation of higher demand. We expect that this will get addressed and come back to steady state by first quarter of next year. So, the next 2 quarters will be quarters where we see improvements. And by first quarter, we should be, let's say, heading back to track. This has not changed the fundamentals of the business at all. In fact, it remains very strong with lots of new traction and new business wins.

We are addressing all these issues and we expect this to improve over the next 2 quarters as I mentioned. The JS Auto acquisition has been completed. In fact, in the short period that the acquisition was done from July till end of September, we've already Rs. 100 crore of new business with our customers for high value and high value-added products. Our work on cost rationalization, new product development and customer engagement remains strong. And in fact, we expect to see very strong double-digit growth Y-o-Y for this company over the next 2 to 3 years.

We see a lot of interest from our customers in the industrial space, automotive space for a variety of reasons. Some of them are for moving production out of China into India. For India, some of them are moving out production from Europe into more competitive locations and so on and so forth. And JS Auto being a fully integrated supplier with machining capability and product development capability is very well placed to take advantage of this new business.

On the Defense front, I'm very happy to report that our 100% owned subsidiary, Kalyani Strategic Systems has won an export order worth $155.5 million for the export of artillery gun systems to a non-conflict zone. These orders will be executed in a 36-month period from the time of order placement. Now, one of the reasons we're able to do this is because this is an indigenously designed, developed and manufactured product with 100% of the IP owned by Bharat Forge or by the Kalyani Strategic Systems Limited, and BFL will supply a large number of components for this product. And the integration, testing and supply will be done by KSSL. We believe that this is the beginning of a series of new order wins for our Defense vertical. I'm also happy to report that we have secured multiple orders for export of components and consumables in the Defense space, both for repair and maintenance and operations across segments in the Defense space. And this also will continue over the long term. And all this will lead to taking our Defense business from the level of Rs. 300 to Rs. 500 crore we believe to somewhere in the Rs. 700 crore, Rs. 800 crore, to Rs. 1000 crore per year basis without any big programs kicking in. And as and when big programs kick in, this will obviously increase substantially as well.

On e-mobility, I'm very happy to report that we have finally got the FAME approval for Tork. We were actually waiting for this to happen. And because of a lot of technical issues and some maleficence at some of the other 2-wheeler manufacturers claiming FAME without actually having indigenous content, the whole scrutiny process was much longer. We've successfully passed through this, and we have now covered close to almost 0.5 million kilometers without any incident, recall or technical issues.

We continue to remain positive overall on sales growth across automotive vertical, and other segments. E-mobility will start growing in terms of revenue from ‘24. Next year will be also growth here, but it is the beginning of the growth phase. We see all our EV vertical, whether it is repowering or 2-wheeler, 3-wheeler or power electronics, control electronics, all beginning to start taking off by the second half of next year. And in the year after next, we should see substantial growth and accretion to both top line and bottom line.

That's really all I wanted to say. I just wanted to on my behalf and that of the management, invite everyone here to an Analyst meet where we'll talk about the next 2 to 3 years and our business strategy and goals. This will take place on the 9th of December, which I believe is a Friday in Pune at our Center for Technology and Innovation. And our IR team will send out an invite and make arrangements for all of you. So, we'd very much like to have this opportunity of interacting with all of you. And I'd like to request you to save the date. This is 9th of December '22 in Pune.

So, that's all that I wanted to say. And we'll now open up for Q&A. Thank you.

Moderator: We will now begin the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Gunjan Prithyani from Bank of America. Please go ahead.

Gunjan Prithyani: Two questions from my side. Firstly, on the Class 8 truck outlook. Clearly, there's been a big positive surprise in terms of the order intake in the last 2 months, which is at a disconnect with the general industrial macro indicators. So, any color on this will help us understand how should we be thinking about production, because if I annualize the order intake, then it shows a very meaningful growth. So, maybe some color on how we should be thinking about Class 8 US truck production over the next 12 months or so.

Amit Kalyani: I'm going to let my colleague, Subodh, answer this. Subodh, please go ahead.

Subodh Tandale: So, by now there are the orders that come in there for production at a later date. And this is more of a sales orders that are booked by the OEMs. We have seen ups and downs in the last, I would say, 8-10 months. But if you look at the statements that all OEMs have been making, their production slots for most of '23 have been booked. And they are all following a discipline to maintain a steady monthly bill trade, which varies between somewhere in the region of 28,000 to 29,000 trucks. So, from that perspective, there should be stability for the next 12 months to 14 months. And the high intake of orders hopefully should continue the momentum for 2024, which in any case is supposed to be a strong year as well is being forecasted.

Gunjan Prithyani: So, 28 to 29, okay, that helps. The other question was on the JS Autocast and Sanghvi. Is it possible to get where the revenue level right now is of the subs and how should we see that ramping up maybe FY'24 and the rest of the year.

Amit Kalyani: Sanghvi when we bought it was at a revenue of about Rs. 45 crore to Rs. 50 crore per year. We have now doubled the revenue of that company. In terms of JS Auto, when we bought it, it was about Rs. 400 odd crore. This year, we will see, let's say, in the 10% to 15% growth. Next year, we will see a growth upwards of I would say 20%, maybe even 25%.

Gunjan Prithyani: And the margin profile on this is, is it any different from standalone.

Amit Kalyani: So, in Sanghvi, we don't do any machining. So, the margins are at about 20%. In JS Auto, the margins are at the top end of the casting industry. But with all the measures that we are taking jointly, our goal is to get it also to a double digit starting in a 2 to 3-year period.

Gunjan Prithyani: Just last question maybe clarification. In your comments you mentioned, we expect the subsidiaries, the aluminum business heading back to track. I mean, by heading back, we mean we'll be back in green or is it we are thinking about getting back to that high single digit or the margins that we've been guiding towards?

Amit Kalyani: In aluminum business, our goals are high teens, 16%, 18% or so. And for a variety of reasons, we have had a significant impact in this quarter, and this will take about 2 quarters to get cleaned up. And we will expect that by the end of next year, we will get back very close to the normal EBITDA level that we had in this business in Europe.

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

Kapil Singh: Good afternoon. First of all, congratulations for winning the defense artillery guns export order. It's great to see the progress. I had a few questions on Defense. Are there more countries with which we are negotiating such type of orders? And what is the ordering time period that we normally see because this has come in a fairly short period, I would guess. Also what is the asset turn in this type of business?

Amit Kalyani: Yes. So, your second question is actually a very good question, because to execute this order, we don't need large investments. We need investment in a facility which is already underway of about Rs. 30 crore to Rs. 40 crore because this will be an assembly facility. A large part of the high value components will be made in Bharat Forge and be supplied and designed, I mean integrated in this new company. So, the asset turns are very, very high and the margins are good for both, BFL as well as for the supplying company. So, that's the second question of yours. First question is this whole Make in India, Atmanirbhar Bharat and the way the Defense industry of India is being marketed by the government through its various channels has proven to be very successful. During the Defense Expo that took place last month in Gujarat, we had more than 16 countries visit us with fairly serious intent of pursuing some business opportunity with us. While everything will not fructify, some things will take more time than the other, but it's now very apparent that the world recognizes the capability of India in defense manufacturing just as they did 15-20 years ago in auto components, and we believe that the kind of growth that the auto component industry saw in supplying to the world will potentially start in this field going forward because we have very good manufacturing and technology capability and for companies which have their own IP of design and product, then nobody can restrict you. So, if you have both those, let's say, qualifications, then I think there is a huge opportunity going forward. I had answered your question in a very simple way, yes, we are engaged with multiple customers across the world for similar programs in a variety of fields.

Kapil Singh: The second question is on passenger vehicle business. We have seen a good uptick this quarter. So, if you could just talk us through what are the product segments that are driving this and also, how this will ramp up? And the margin profile of this business, how does it contrast with the CV business?

Subodh Tandale: So, a lot of these businesses are what let's say we had planned through the pipeline. So, they are actually coming. They are getting mature now and we are implementing series production as we speak. We expect this traction to continue in the quarters coming ahead with some more new programs launching, and then we expect them to stabilize. As far as the margin profile goes, it is similar to the CV business overall. The only difference is in this case, it is more of rough supply as compared to in CV business, we tend to have more value addition in terms of machining. At least for now these are unmachined program, but they present opportunity for us in future to add more value which is also being worked upon.

Amit Kalyani: And we have a lot of more business that will ramp up over the next 2 years.

Kapil Singh: And sir, just 1 last comment on debt. Net debt has gone up. What has caused this and how do you see this evolving from here on?

Management: So, the net debt has gone basically for the new debt which we have taken Rs. 400 crore in first quarter. And in terms of cash, the cash had come down marginally also because of the working capital increase because of volumes. Now, we can borrow additional money, but it will just sit as a negative interest arbitrage. So, we are making optimum use of our cash and putting it into business.

Amit Kalyani: Is that clear?

Kapil Singh: Sir, if you could just talk about how this will evolve? Is the working capital higher than normal or it is at a normal level now?

Amit Kalyani: It’s in line with the businesses. As there is the inflation in the business and growth in the business, number of days remains the same, it's just volume goes up.

Management: And also, the export’s proportion, it is growing, which is a higher recovery cycle. It is more of a volume effect rather than anything. So, volume plus inflation.

Moderator: The next question is from the line of Pramod Kumar from UBS. Please go ahead.

Pramod Kumar: I missed on the artillery gun order what you’ve been talking about. I believe you guys make some 4 or 5 different types of artillery guns and this one is clearly not the ATAGS which is like the main or the showpiece in terms of the technology. So, if you can just help us understand what kind of potential is there in ATAGS, because I believe the supply to the Indian Defence Forces is not recognized in the quarter in the revenues yet. So, how should one look at the revenue potential from that gun in the domestic market and also in the international market prospecting for ATAGS?

Amit Kalyani: So, look, ATAGS was developed as the main line gun for the Indian Armed Forces. There is a requirement of something like 1500 guns of ATAGS, of that category to replace all the other guns, which are of various vintages starting from 60s onwards. So, the revenue potential is tremendous, I mean, 1500 guns is a very large amount, and we also have the opportunity to export the same product. So, this is a tremendous long-term opportunity. And this is not an opportunity, which has yet fructified or is in our order book in any way. And besides that, we have 5 other guns. And there are discussions happening with multiple users, for multiple different platforms. For example, the order that we have received is also for a non-ATAG gun, which has been developed by us from scratch.

Pramod Kumar: And Amit, I think there was earlier talk that in addition to ATAGS, the government could also look at the import option, but I believe in recent days, the expectation is that they may not actually go for that and rather focus on the ATAGS kind of a product, right? So, are you also picking up because that will significantly upsize the potential for Bharat Forge, right?

Amit Kalyani: I think with a clear focus on Make in India IDDM. Within Make in India, IDDM is the highest category, which is, Indian Designed, Developed and Manufactured, we're indigenously designed, developed and manufactured. And the advantage of that is that, there is no potential for anyone to hold you to ransom for technology. This is a 100% indigenous product. All the subsystems, electronics, everything has been localized or is local. So, it's very clear that in a scenario where you may have technology denial, nobody wants to rely on someone else's technology, especially if you have that with you. Now if you talk about aircraft, if you talk about super advanced technologies like that yes that is a choice one has to make. But in areas where you already have your technology why would you go anywhere else? That is what the MOD has decided. In fact, they have come up with a negative list last year and that negative list clearly says that the products of these categories which are enumerated in that list may not be imported.

Pramod Kumar: So, in a way ATAG is like the prime candidate for those 1500 guns ordered over a period of time.

Amit Kalyani: Anybody who can design, develop and manufacture a product in India that meets the criteria and is competitive is in that fray.

Pramod Kumar: Absolutely. The expectation was that this year we should see the revenue recognition per ATAG. So, are we still on course for that?

Amit Kalyani: Unfortunately, that is not in my hands and I think we will just have to wait and watch. Everybody is working hard towards it but as I said not in my hands. Sooner than later things have to happen. I think there are a lot of people waiting in the line. So, maybe we'll move on to the next question please.

Pramod Kumar: Last question from my end is on the industrial side, export industrial. Given the macro uncertainty if you can just help us understand how do you see this business evolving and whether should one focus too much on the overall macro or Bharat Forge's footprint is not that large enough which gives you the headroom to keep gaining market share? How should one look at the export industrial piece Amit?

Amit Kalyani: We see a lot of opportunity for exporting industrial components, especially to Europe and to some parts of North America as well and other parts of the world. Till now we were only supplying forgings, now we also have castings as a large growth opportunity. In fact, we see the casting exports is as big an opportunity if not bigger than forging. I think both of these combine will provide a tremendous growth for our industrial business going forward and allow us to grow our industrial business very significantly by 2025-26.

Pramod Kumar: And this comment would include even….

Amit Kalyani: Gentlemen and ladies a lot of questions that you are asking right now will be addressed at our analyst meet on the 9th of December. If I answer everything now none of you will want to come there, so let's save something for that.

Pramod Kumar: We get to drive the armored vehicle, right?

Amit Kalyani: Yes. We will have one available for you all to drive.

Moderator: The next question is from the line of Pramod Amte from Incred Capital.

Pramod Amte: Some more details from the same is, what is the rule of thumb in terms of value add for these guns? How much Bharat Forge will be adding the value versus the assuming the Rs.100 of sale value?

Amit Kalyani: I'm not going to get into that because there's too much competitive knowledge and information in that. Whoever supplies things it will be supplied on an arm's length basis with the right returns that it takes for both the entities. But please remember the KSSL is 100% subsidiary of BFL, so everything comes under BFL in one way or the other.

Pramod Amte: Second one related to same is considering these are like government orders, how are the payment terms for them, will there be a long receivable cycle or how are you billing into it?

Amit Kalyani: No, it's actually quite clear and simple and there are no such issues. We today can't talk about that but it's not an issue at all.

Pramod Amte: Considering that these might be made or custom orders, some of them, so will there be a scale benefit for them or these are like from day one you will be relatively a superior margin products to assume in that sense?

Amit Kalyani: We will make profit from day one.

Pramod Amte: Second one is this is more for a disclosure point of view considering that Defence is a completely new sector and it's very difficult to get handy on the what you guys are negotiating or in the sense the order size and all. Is there a scope to give the way once you announce the order? That's one. Second in terms of anything in terms of the negotiations how much you are doing the book size or any of that, that would be able to give us some color to look forward to. This is my suggestion, you guys can….

Amit Kalyani: Nothing as of now. I'd like to make one very clear statement on ESG with regard to Defence. We will never make any banned weapons systems or subsystems under the various UN conventions. Nothing to do with chemical, biological or weapons of mass destruction. We will only sell to entities that are approved by the Government of India. As the government of the country which we are a company of, so we will never supply to anyone who is outside of these parameters and we will never produce, design or supply anything that is banned or comes under those categories of BCG, biological-chemical and weapons of mass destruction.

Moderator: The next question is from the line of Mumuksh Mandlesh from Emkay Global.

Mumuksh Mandlesh: Can you share any demand outlook for CVs in Europe market? Also, can we talk about the opportunity that is happening because shift towards India due to energy crisis in Europe and also some challenges in China as well?

Amit Kalyani: No sorry. Shift of demand to India from Europe because of energy crisis in which area?

Mumuksh Mandlesh: So, basically the shift happening, you just mentioned in the initial commentary, the shift happening from Europe and China towards India, can you talk about the opportunity on that?

Amit Kalyani: For supply chain, yes.

Subodh Tandale: The demand in Europe is at-least on commercial vehicles is flat as compared to last year. Even for next year it is expected to remain at similar levels. We are of course monitoring them because there is a lot of talk in Europe about other challenges. As far as supply chain goes there are some small opportunities coming about. But please consider that the industries that we serve and the products we make, making change at short notice is not easy. It requires a lot of testing and validation and all that. Basically, there are some long-term plays that are underway here. But it is too early to talk about that in a call like this.

Mumuksh Mandlesh: Can you also talk about the Harbinger Motors JV which we have formed for the motors? Can you just indicate something on the opportunities in India and overseas market?

Amit Kalyani: So, Harbinger is an EV startup, that is founded by three extremely smart guys who have worked in a number of EV startups. They have more than 15 years of experience in the EV domain and electronics domain. They have been funded by private equity, some very prominent private equity players. They were looking for someone who can be a supplier partner and a manufacturing partner. What they realized is that someone like us can help them bring their products to market easily because of our engineering and manufacturing capability. We are their exclusive manufacturing partners for their powertrain which is EDU, electronic drive unit for Class 4 through Class 6/7 commercial vehicles. Their first product that they're coming out with is a 350-kilowatt EDU with something like 1500 Newton meter native top and axle top of something on the order of about 16,000 Newton meters. This is something that will be a very good application for all kinds of delivery vehicles in North America, especially for last mile delivery and hub and spoke from taking it to airports and air cargo facilities etc. In fact they have already tied up with one of the largest recreational vehicle manufacturers in the world to supply their electrification needs for their new vehicles going forward. We believe we are planning for FY24-25 start to our production for them. Obviously, it will be a soft launch in '24-25 and then scale up in '25-26. But we have tremendous opportunity to supply high value products to them across forging, machining and of course EV system which means electronics, motors, drive train etc. all fully manufactured, assembled and tested. It's a significant step forward that will take us from a Tier-2 into a Tier-1 kind of situation.

Moderator: The next question is from the line of Aman Vij from Astute Investment.

Aman Vij: My question is on the Defence side. Last con-call you had given some rough guidelines in terms of how we see the business scale from 500 to 1,000 and then eventually say 1,800 crores kind of number you have talked about, out of which exports was around 300-400 crores. But given the order we have already got there. Do you think we can cross that number much sooner in export side?

Amit Kalyani: Obviously as of now we have seen tremendous growth in our addressable market because of this order that we have received. I expect that we will continue to receive orders going forward. I like to be a little cautious, I prefer to be a little cautious when talking about such things because it takes a lot of time and effort before these things fructify. Let's say that was the base lining and hopefully this baseline will provide some headroom for growth with these kinds of developments.

Aman Vij: On the domestic side. Does this because we have been doing trials for a long time now and does this export order in a way help us or maybe it convinces the government to fast forward the process for approval in domestic because this in a way either mark of approval and a feel of excellence for us?

Amit Kalyani: I haven't thought of it that way but obviously it's a validation of our product and our capability and it shows recognition from outside. Obviously, there is merit to what we do and a product that we produce. It makes it harder to ignore, let me put it that way.

Aman Vij: Final question from my side. You had explained that the main portion of Defence business is capital items like vehicle which we are currently doing, artillery guns and then there are consumables. So, in the presentation you have mentioned because of more orders from the vehicle side the margin was impacted. Does it mean that Defence vehicle has their lower margin profile if you can talk the order?

Amit Kalyani: No that was because of the LD that we had which we are challenging. It is for that reason. If you were to write that back then it will be the same. The demand it will be very similar.

Aman Vij: But in terms of order is it safe to assume that the highest will be the ATAGS guns followed by a consumable and then vehicle in different phases?

Amit Kalyani: No, it's really depends. It's not a vanilla ice cream that you are selling. Each vehicle that you sell to each customer may have a lot of customization. It really depends on what you're doing and how much specialization, customization, engineering and application engineering you're doing. But more than EBITDA you should look at the ROC in this business. EBITDA will be good; EBITDA will be strong no doubt. But the returns will also be good and what it does is, it will provide a long tail to the business because you will also have an O&M element to this for a long period of time.

Aman Vij: Is there any order in terms of ROC in these three sub segments which you talked about?

Amit Kalyani: Sorry?

Aman Vij: Is there any order in terms of ROCs, the return profile?

Amit Kalyani: ROC will be significantly higher than the standalone ROC.

Aman Vij: If you can give a range?

Amit Kalyani: As I said higher than our existing ROC. Just wait the business is still in take-off mode.

Moderator: The next question is from the line of Chirag Shah from Nuvama.

Chirag Shah: My first question is slightly different one. Now that we have lot of businesses originating from India whether for international markets or domestic markets, is there a thought process of restructuring the way complete structuring design or most of them are 100% subsidiary but are you looking to consolidate them so that we have a different reporting structure?

Amit Kalyani: That’s a good point you made because we have many different verticals and business areas under the same company so right now, we are looking at this. First, we will do it internally and then we'll look at it externally.

Chirag Shah: Second question was Amit again coming back to Defence and apology for hopping on. Just for recap kind of a purpose; between KSSL and Bharat Forge how should we look at the overall capital investment in Defence. I know you indicated KSSL is more of an assembly business and the large thing would be done, a lot of things would be done by Bharat Forge. How should we look at the overall capital investment or you are leveraging on the existing investments in BFL side so even their incremental capital requirement is very less?

Amit Kalyani: The core manufacturing which involves forging, machining, heat treatment of the main artillery products, the artillery gun, the barrel, those kinds of things will happen in Bharat Forge and then let's say what do you call it the finished product assembly, integration and testing will happen in the dedicated entity which does this. That will happen in the Defence entity.

Chirag Shah: This is also for export orders also, right? The same process would be followed for the exports order also.

Amit Kalyani: Yes.

Chirag Shah: In that case just to understand how I likely to report it where would this be reported in Bharat Forge? It would be a part of the Defence line which would separate it or part of industrial?

Amit Kalyani: It would be reported in KSSL but the component supply from BFL to KSSL will come in BFL.

Chirag Shah: But would it be classified separately as Defence or will be part of industrial?

Amit Kalyani: No, it’s all consolidated. It will be one entity.

Subodh Tandale: From BFL it would be part of industrial.

Chirag Shah: It will be part of industrial, in BFL it will be part of industrial in your disclosures.

Subodh Tandale: Yes.

Chirag Shah: Outlook on the India CV if you can share what you are gathering from your customers from near term perspective and over next 12 months perspective also?

Subodh Tandale: I think you're a better placed to tell us that because you talk to a wider section of the population.

Chirag Shah: No, but you have a much better hang on and experience of so many cycles so now its view would be, we look up on your views actually. How do you look at it?

Subodh Tandale: Yes, at this point overall the big picture for India looks positive but as compared to Q2 we are seeing a sort of a slightly depressed Q3 that's based on lesser than expected sales in the festive season and all of those kinds of things. But the broader expectation is at least for the year and going forward, the segment should continue doing well. That is the expectation we have as well.

Moderator: The next question is from the line of Jinesh Gandhi from Motilal Oswal Financial Services.

Jinesh Gandhi: My first question pertains to the European aluminum forging business. In the first half any indication of what utilization we would have operated, 30,000 tons capacity?

Amit Kalyani: About 50%-55%.

Jinesh Gandhi: The large part of impact on margins is also because of energy cost there or its largely because of the de-utilization?

Amit Kalyani: All the inflationary impacts, energy, trade, material everything and increased manpower and because of large absenteeism etc. that we had, larger number of manpower.

Jinesh Gandhi: Would it be fair to say at least from energy and freight perspective we have seen the peak in 2Q and expect some savings from 3Q onwards?

Amit Kalyani: It's not going up anymore as of now at least and there are lots of very complicated things taking place right now in Europe. So, I don't think we can and winter is coming although it's been a very mild winter so far. If it gets worse then obviously there'll be some psychological impact as well. So, we have to wait and watch.

Jinesh Gandhi: Secondly, with respect to the guns order which we have got so this would be for how many guns and by when we would start supply?

Amit Kalyani: I can’t share that information. All I said is it will be over a period of 3 years where we will finish the delivery. We are dealing with a sovereign nation; we are unable to provide any more information.

Jinesh Gandhi: M4 vehicle supply deliveries are being done or we will see some more revenues coming in?

Amit Kalyani: We have large orders still remaining to be executed.

Jinesh Gandhi: Last question on the broader RM cost inflation on the standalone entity on the steel price side particularly. So, there do we expect some bit of reversals coming in 3Q onwards given the steel price correction?

Amit Kalyani: Yes, so as and when the steel price gets corrected obviously things will improve but it is still flat. It is going down slowly but it's not gone down substantially.

Moderator: Thank you. Ladies and gentlemen, we take that as the last question for today. I now hand the conference over to Mr. Amit Kalyani for closing comments. Over to you sir.

Amit Kalyani: So, ladies and gentlemen thank you very much for all your questions and your interests. I would be very happy to answer your questions even more during our investor conference or analyst meet which we will have in person on December 9 in Pune. Thank you for your interest in our company and please do continue remaining in touch and we look forward to seeing you in Pune very soon. Thank you. Bye.

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