Bharat Forge Limited
Earnings Conference call
(October 29, 2015)

Moderator: Ladies and gentlemen, welcome to the Q2 FY16 results conference call of Bharat Forge Limited. We have with us today Mr. Amit Kalyani -- Executive Director. We will start the call with all participant 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 B. Kalyani: Thank you. Good afternoon ladies and gentlemen and thank you for taking your time out to join our conference call. I will first quickly take you through numbers and some commentary and then we can open up for Q&A. I have with us our whole IR and Finance team.

For the second quarter FY16 we had a shipment tonnage of about 54,500 tons, which is a growth of about 4% over last year. Domestic revenue was about close to 500 crores, export revenue was about 630 crores, total revenue is about 1,120 crores. EBITDA was 336 crores about 30.1%, PBT was about 275 crores and a PAT of 175 crores. One of the challenges in this quarter was the extreme volatility caused in most markets especially the industrial sectors due to the crash in commodity prices globally. Sectors such as Oil & Gas and Coal Mining, Iron Ore Mining et cetera which are huge consumers of industrial products have seen a very sharp decline in off take and therefore corresponding decline in procurement and production. This is especially highlighted or exaggerated by the inventory correction that they undertake when such a phenomenon takes places. We have seen a significant drop in our exports of Oil & Gas business which has to some part being made up by growth in the CV and Passenger Car business. we have had a lower performance than expected but we have tried our best to maintain margins at above 30% and we expect that going forward with the ramping up of our Passenger Car business a lot of new products that are in the development pipeline driven by R&D and innovation we expect that this trough will slowly start, we will get out of this trough and start climbing. So we expect the next quarter financial performance to be better than this quarter and then start to get back onto a healthy growth track aided by all the new products and some amount of recovery in domestic markets driven by the CV market in India, Pass Car markets globally, industrial market that we are now accessing and the Make in India initiative that we are working on.

I just want to make a comment to say that we are in a derived demand business which sees ups and downs but our de-risk strategies will allow us to enable strong growth path and with our management team's capabilities our innovation and technology development we expect that we will achieve our longer-term targets of 2018.

In addition to this we are seeing significant traction from Make in India initiatives of the Government especially in the areas of Rail, Defense and Mining in India. Company is generating healthy cash flow and we expect that we should see revenues and overall performance improving in the second-half and substantial improving from next year onwards. That is really all I have to say in terms of commentary. I think I would rather open it up for Q&A. Thank you.

Moderator: Certainly, sir. We will now begin the question and answer session. Participants using speakerphones are requested to use the handsets when asking questions. To enter the question and answer queue, please press * and 1 on your phone now, if you like to withdraw your question and exit the queue please press *, 1 again. We have our first question from Mr. Jigar Shah from Antique Stock Broking. Please go ahead.

Jigar Shah: A couple of things If I see your quarter-on-quarter realization being down how much of it is due to metal deflation and how much of it is to pricing pressure?

Amit B. Kalyani: It is not because of pricing pressure, it would be of deflation and due to product mix.

Jigar Shah: Okay. And second thing sir, if I see your volume growth did pretty well even in this kind of adverse environment and in fact your Europe revenue has also improved sequentially so, could you throw some light on that aspect?

Amit B. Kalyani: Yeah, the tonnage growth is coming from a combination of market share gains, new markets and ramping up of new programs especially in the Passenger Car sector.

Jigar Shah: Sure, sir. And last thing is sir, if I see your gross margin have worsened significantly on a sequential basis so, what are the reasons as such?

Amit B. Kalyani: If you remember in the last concall we mentioned that there was a one-off effect due to inventory effect. So if you normalize for that I think it is not significantly worse there is some impact on account of volume of course and product mix. And we have always mentioned that we will maintain our margins target to maintain our margins in the band of 29% to 31%.

Jigar Shah: Sure, sir margin 30% definitely is pretty much in line.

Moderator: Thank you. We have a question from Ashish Nigam from Axis Capital. Please go ahead.

Ashish Nigam: Sir, could quantify the decline in exports between different segments?

Amit B. Kalyani: It is the largest decline in the non-auto you are talking about quarter-on-quarter or year-on-year?

Ashish Nigam: Year-on-year.

Amit B. Kalyani: Yeah, so the largest decline in non-auto, it is upwards of 30% and then nothing else as a decline everything else is positive.

Ashish Nigam: So within non-auto or auto it will mainly be Oil & Gas?

Amit B. Kalyani: Yeah, largely Oil & Gas and Industrial Engines sectors related to Oil & Gas and sectors related to Oil & Gas.

Ashish Nigam: Okay. So Oil & Gas and sectors related to it would be what percentage of our exports?

Amit B. Kalyani: Oil & Gas is around 15%

Ashish Nigam: Okay. Also on the domestic sales I mean the CV industries had a pretty strong quarter but it is not fully reflecting in our domestic sales growth so, am I missing something in the domestic sales?

Amit B. Kalyani: Three things: one is that our sales are not only to domestic they are to domestic UVs and tractors. Second, it is also price reduction because of commodity price decline with pass though. And when certain companies have enough capacity they choose to use when there is volume reduction.

Ashish Nigam: Okay. How as domestic non-auto done, can you throw some color on that?

Amit B. Kalyani: Domestic non-auto has actually grown it has grown close to 20%.

Ashish Nigam: And this has been regular segments of Railway et cetera?

Amit B. Kalyani: No, a few new sectors as well but yeah, I mean typically Railways little bit of plant and what you call it like Cement Plant, Steel Plant, Sugar Plants, General Engineering, Steamed Turbine, Hydro Turbines, et cetera, Power sector, Mining sector, we have been focusing a lot on developing the Make in India opportunity so that is really starting to show some results.

Ashish Nigam: Sure. Also I mean if you can just share your outlook on your Class-8 Trucks for both this year and the next how do you see that segment doing?

Amit B. Kalyani: I have a colleague of me who will throw more light on this.

Subodh: The Class-8 this year is supposed to be in the region of 305 to 310 broadly depending on how you measure it. And at this point the forecast for next year is anywhere between 285 to 295 as a range depending on who you talk to. So you are not looking at a very significant change but more importantly in North America right now there is a share change between the OEM. Some OEMs are gaining share, some OEMs are losing share and we are fairly well position from a gaining point of view there considering our product mix and customer mix.

Ashish Nigam: Understood. Just if I can squeeze one more question. You were earlier guiding for 15%-20% kind of growth for Indian CVs based on your interaction with the Indian CVs customers is there any upside to this guidance?

Amit B. Kalyani: What the latest that we believe from the Indian CV market is more like 20% guidance what they are giving us between 15% to 20%. There is a similar phenomena on a market share change taking place in India also.

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

Kapil Singh: Firstly, on the domestic CVs first-half growth has been higher than 15% to 20%. So are the OEMs expecting much slower growth in the second-half?

Amit B. Kalyani: When there is some factors which are driving the first-half growth as you know because of some regulatory changes which are going to affect cost of the vehicles so, there has been some amount of pre-buy because of that. But it is not significant it is few percentage probably.

Kapil Singh: Okay. And sir, secondly, we have talked about strong growth in Passenger Vehicle exports. So could you give some color like where they were as a percentage of exports and how much growth we have seen there?

Amit B. Kalyani: Yeah, from less than like 3% of exports is now about 9% of exports.

Kapil Singh: This is year-on-year?

Amit B. Kalyani: Yeah.

Subodh: Year-on-year.

Kapil Singh: Okay. And where do we see this going up to?

Amit B. Kalyani: Once our whole product portfolio is developed including the value added portion this could easily get to 20% of exports of a much higher exports.

Kapil Singh: Okay. So that would by year end FY18?

Amit B. Kalyani: Yeah. By 2018 we should start seeing significant impact of this.

Kapil Singh: Okay. And sir, what would be the contribution in the domestic non-auto from Railways, Defense and Mining segments?

Amit B. Kalyani: Defense is very little, Railways, Mining and General Engineering is really the largest part.

Kapil Singh: Okay. Any color like how much out of that would be Railways?

Amit B. Kalyani: Railways will be less than 5% right now.

Kapil Singh: And sir when we look into next year, are we likely to see growth in most of the segments except maybe Oil & Gas?

Amit B. Kalyani: Yeah, I think Subodh you want to answer that?

Amit B. Kalyani: For exports I will let my colleague Subodh answer that. On the domestic side I will answer. On the domestic side we will see growth in every sector and extraordinary I mean let us say higher growth than the industry growth because we are getting into new products in certain sectors like Rail et cetera Rail and Mining. But now I will let Subodh talk about the export markets.

Subodh: Okay. As you know from an industry sector point of view the Oil & Gas and most industrial sectors they are likely to be similar to what they are now for the next two quarters - three quarters. So we think based on what we are doing, we should be better than what we are now based on all the actions that we have taken. So as we go over the next one quarter or two quarters we should actually see positive numbers as compared to what we are today.

Kapil Singh: Okay. And lastly, what was the FOREX loss linked to?

Amit B. Kalyani: This was mainly related to the loans foreign currency loans what we have on our balance sheet. .

Kapil Singh: Okay. And in terms of rupee realization where are we now and on a year-on-year basis it would have seen?

Amit B. Kalyani: See we are at about less over somewhere in the region of between 66 and 67 and in first quarter it was 66 about

Moderator: Thank you. Next in queue is Amin Pirani from DB. Please go ahead.

Amin Pirani: Sir, my first question is on your Passenger Vehicle exports which obviously have seen a significant jump. Could you give us some color as to which geography does it relate to and which segments these are into and what kind of…

Amit B. Kalyani: We are supplying on a global platform so, it goes right from the far East to Europe to North and South America and these are for Passenger Cars and SUVs.

Amin Pirani: Okay. So this is not part of any one program this is more of a…

Amit B. Kalyani: It is a platform actually it is a series of platform.

Amin Pirani: Okay. And this is across OEMs or just one OEM?

Amit B. Kalyani: This particular one is the increased ramp-up is for two OEMs.

Amin Pirani: Okay. Fair enough, sir. And sir, secondly, on your Oil & Gas I just wanted a clarification so, are you seeing that the decline that we have seen the numbers should not stabilize or we could see…

Amit B. Kalyani: From next quarter we should start seeing slight increase and then hopefully in two quarters when our new products are developed we should start seeing a more substantial increase.

Amin Pirani: Okay, understood, sir. And sir just on your outlook on how the European CV market is doing and how are you placed there? Because you were mentioning last time that the regional mix in Europe was not in your favor. So are you viewing that going forward into next year?

Subodh: The expectation of CV market in Europe is stable to probably up to about 8% to 10% positive as compared to this year and we have a good position there in with most OEM across Europe so, they should auger well for us.

Amin Pirani: Okay. And sir just lastly on your subsidiaries while EBITDA margins have remained stable to improving. At the PBT level you have actually been reporting some losses so, are there some one-offs here or…

Amit B. Kalyani: No, what has happened is in this quarter we have started we have commercialized our new investment so, the interest and depreciation has kicked-in for this quarter whereas the full production ramp-up has not come in yet so, that will start showing effect from actually fourth quarter of this year which is the first quarter of their first of their name.

Amin Pirani: This is the Aluminum technique?

Amit B. Kalyani: Yes, exactly.

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

Sonal Gupta: So Amit just to begin with one is I mean if you look at the commentary that is coming out of the global players like Cummins or Caterpillar I. We are seeing a very sharp deterioration even sequentially it seems on the industrial side so vis-à-vis I just I am just trying to put in context your commentary that Q3 should get better. So have we seen a lot of inventory reduction in the channel and so we are from our perspective we are at the bottom while the OEMs or the manufacturers are still behind that is that how you are looking at it.

Subodh: I think in our case there will be a little combination of few, the one is over the last two quarters or so there has been some amount of inventory adjustments because of this intending slow down of course which came in very quickly and we expect that to have completed probably within the next quarter or so. Thereafter we should start seeing some real demand coming in as well that is the expectation that is being cited. In addition to this we have also got some new programs that we expect to launch in the next between one quarter to three quarters and that will slowly start kicking-in. So this is a combination of both those matters. Overall, as we said a little while ago these markets will stay depressed for the next couple of quarters is the projection that everybody is making but this is what I just mentioned is what we are seeing as a projection from the OEMs as well.

Sonal Gupta: But given that we are already one month into the third quarter I mean so you have not seen further deterioration in this quarter from the Q2 levels, is it?

Subodh: And since you mentioned Cummins and so on there is also a factor of certain market share related factors for Cummins as well. So it is kind of a very mixed picture right now when it comes to their own adjustments.

Sonal Gupta: Right. And right but I mean given that I guess it is one of your key customers I mean you are not getting impacted from that shift?

Subodh: Actually individually we may be impacted by Cummins maybe but we are trying to adjust that with somebody else as well who is gaining the market share so it is a combination because we are kind of more widely entrenched in the market as compared to just one and that has been a part of our derisking strategy for the last five years - six years as you are probably aware from previous calls.

Sonal Gupta: Right. And just persisting on the industrial space, on the Oil & Gas side again I mean could you give us some more color because my understanding is that you have currently major portion of your exposure is shale and I mean given where the oil prices are I mean we may not really see a big recovery in the near-term so the expectation the things are stabilizing and again new products improving. So which areas are the new products coming in if you could give us some color?

Subodh: We do not expect to see any improvement in the shale side. Obviously you are right there. But what we are seeing is stabilization so which will continue and then as far as the other sectors there are a lot of other Oil & Gas sector so where sub-sea is one a little more on the drilling side. So we are going in most of these sectors from a zero pace. So we will actually gain something there. All though it is not big numbers from overall perspective for us going from zero base we will add.

Moderator: Thank you. Next in queue is Sahil Kedia from Barclays. Please go ahead.

Sahil Kedia: Amit, can you just share the absolute non-auto revenues this quarter please?

Amit B. Kalyani: About 410 crores.

Sahil Kedia: in your opening comment you mentioned that there is some amount of normalization of the inventory channel volumes. How much has this change been just to give us a sense of what OEMs are doing today?

Amit B. Kalyani: As a percentage of sale we would be…

Sahil Kedia: I mean how do you monitor this what my bigger question is and how much of change have we seen?

Amit B. Kalyani: Basically the way you see it is last minute changes in schedules or reductions in schedules in the last two weeks to three weeks.

Sahil Kedia: And it has been quite substantial?

Amit B. Kalyani: It has been as let us say as a percentage of sales may be 5% to 6%.

Sahil Kedia: Okay. And lastly, where are we on the Aerospace side of it? We have obviously…

Amit B. Kalyani: We are making very good progress on the Aerospace side, we now have multiple live programs with individual customers and we have several customers totally and we are on track to achieving our Aerospace goals. I think we have in fact I would say we are probably ahead of where we would probably have been. Subodh, you want to add something?

Sahil Kedia: So is it fair to say therefore that on a three year basis is there a new weakness on Oil & Gas it should be probably offset by the Aerospace side?

Subodh: Yeah, that would be the endeavor, yes.

Moderator: Thank you. Next in queue is Mahesh Bendre from Way2Wealth Securities. Please go ahead.

Mahesh Bendre: In the first-half we have grown by 5.6% in terms of sales growth and the press note we have released in which our chairman has mentioned that entering into H2 FY16 we anticipate demand trend to be very similar to H1 FY16. So is it reasonable to assume that for the next two quarters the growth will be very similar to what we reported in the first-half?

Amit B. Kalyani: No, what we are saying is that overall demand will be similar but we will definitely outdo the underlying markets.

Mahesh Bendre: Okay. And sir, the first-half the margins are around 29.8% which are very near to the peak margins. So are we confident in front of…

Amit B. Kalyani: Margins are almost equivalent in second-half.

Mahesh Bendre: So in this kind of environment where volumes are declining we will able to maintain this kind of margin?

Amit B. Kalyani: Yes, we will. And our volumes won't decline.

Mahesh Bendre: Okay. And sir, what has happen in this quarter I mean is there any change in the plan of achieving 7,000 crores revenue by FY 18

Amit B. Kalyani: I said during my opening remarks we still maintain that.

Mahesh Bendre: So we will achieve a 20% CAGR for next two years just to achieve that?

Amit B. Kalyani: Yes.

Moderator: Thank you. Next in queue is Puneet Gulati from HSBC. Please go ahead.

Puneet Gulati: Amit, just following up on the 7,000 crore revenue. Are you building in the weaker commodity price also into it?

Amit B. Kalyani: We have not build commodity price into it

Puneet Gulati: You have not, okay. Secondly, is it possible to get break-up now within the non-automotive segment how much is Railways, Aerospace, Mining and General Engineering.

Amit B. Kalyani: Now see Railways and Aerospace is very small right now. So the others are General Engineering, Oil & Gas and other industrial is about wholly equivalent.

Puneet Gulati: Okay. And is it also possible to get some more color on what you are seeing in the Make in India program apart from what is happening on the Railways and Aerospace side?

Amit B. Kalyani: Aerospace Make in India actually nothing much is happening. There are let us say resultant and benefits out of offsets and all that are starting to kick-in. The big Make in India in Aerospace will only happen in the next two years to three years after the new programs are awarded and the Make in India part of that starts. We are seeing a lot of traction in import substitution and in developing local sources for service and O&M requirements and that is actually a large opportunity.

Puneet Gulati: This is other than the Aerospace part you are saying?

Amit B. Kalyani: Aerospace, this in Railways, this is in Defense, this is in every sector power et cetera.

Puneet Gulati: Okay. And lastly if you can give some color on why is the debt gone up slightly? Is there any CAPEX that we did this quarter?

Amit B. Kalyani: This is re-val, re-val of our loans.

Puneet Gulati: Okay. And any plans of repaying debt faster now?

Amit B. Kalyani: 60 crores in the remaining two quarters. Sorry, 80 crores in the remaining two quarters.

Puneet Gulati: 80 crores in the next two quarters.

Moderator: Thank you. Next in queue is Sanjay Satpati from Merrill Lynch. Please go ahead.

Sanjay Satpati: It seems that your guidance for second-half is much stronger than what you have done in the first-half. So just wanted to understand from you that how much will it be because of Aerospace and Passenger Vehicle et cetera and how much it is because of this inventory correction getting over?

Amit B. Kalyani: I am not saying what I said in my statement was that we will start to see growth again from this quarter onwards, okay. And it is going to be a combination of factor. I do not have it right now in front of me how much is going to come from what. But obviously it is going to come from all the pockets. They are going to come from growth in traditional markets, new markets, growth in Pass Car, and variety of factors.

Sanjay Satpati: Okay. And sir my other question is when you talked about the 7,000 crore guidance just to reconfirm it is for fiscal 2018 right sir?

Amit B. Kalyani: Yes.

Sanjay Satpati: And so we will really hit this peak volume of Aerospaces by that time is that for…

Amit B. Kalyani: No, Aerospace will continue. We will continue growing we are not going to hit any peak. We have set a five year goal of getting into $100 million and we are tweaking that strategy with a lot of other opportunities that are coming our way and see how we can even grow it further.

Sanjay Satpati: Understood. And sir last question is probably over the next six month you may see a faster growth in India as well as Europe whereas the North America may be slower so, will that mix change have some kind of positive or negative impact on your margin?

Amit B. Kalyani: Not really because we are going to be supplying similar products in all geographies. Yeah, in the margins we have given a range so we will be within that range.

Moderator: Thank you. Next in queue is Jinesh Gandhi from Motilal Oswal Securities. Please go ahead.

Jinesh Gandhi: Sir, my question pertains on the same line but in terms of the mix change between increasing contribution from PVs and decline in contribution from industrials would it impact our gross margins?

Amit B. Kalyani: Yeah, it will impact our gross margin slightly but that is why we are moving even in the Pass Car sector today we are only doing raw parts there also but fully machined and fully value added parts as we keep going. That is the strategy we will keep adding value.

Jinesh Gandhi: Okay. And second question pertains to the level of utilization which we have currently, can you share that across segments?

Amit B. Kalyani: Yeah it is about 75% in the Forge facility, our non-auto is running at about 55% and machining less than 50% of tonnage and sales.

Jinesh Gandhi: Okay, last year it was what about 80 odd percent is it?

Amit B. Kalyani: Yeah, huge, 80%.

Jinesh Gandhi: Okay. And sir, last question pertains to you have talked about future growth drivers in terms of Aerospace, Rail, the U.S. Class-8 order from marquee clients. can you throw some color on what is the size of this new drivers in terms of revenue potential over next two years to three years?

Amit B. Kalyani: See the potential is between where we are today and that target of 7,000, we have to fill that gap. That is going to come no, half from existing products, existing customer and half from new products new customers. New products are developing for a what customers we already having ramping of these that include Aerospace that includes Railways that includes Pass Car and a lot of other thing and that also adding value to existing products, increased value addition.

Jinesh Gandhi: Okay, understood. And sir lastly CAPEX, what is your guidance for this year and next year?

Amit B. Kalyani: As we guided earlier it is going to within that same rate a 1,000 crore cumulative.

Jinesh Gandhi: Okay. But our capacity expansion which we are doing we are going ahead with that at this point.

Amit B. Kalyani: Yeah, because that is in areas of Passenger Car and Machining where is where we will need capacity.

Moderator: Thank you. We have a question from Credit Suisse. Please go ahead.

Jatin Chawla: Yeah, hi, good evening sir, this is Jatin Chawla. My first question is on the domestic business you said non-autos had a 20% growth if I understand it right broadly that is about 40% of your business and the top-line growth you have shown is about 8%-9% so, that almost accounts for your almost the entire growth in the domestic business, fair to assume that the domestic autos business had a very sluggish growth?

Amit B. Kalyani: Domestic autos on the Pass Car side we have seen a little bit of a degrowth on because of certain customers which have not had growth especially in the UV sector. And the Tractor market has come down quite substantially.

Jatin Chawla: Right. But CV is the industry at a 40% growth so…

Amit B. Kalyani: Has seen pretty strong growth in the CV market also. But you also have to remember that in our case we see the growth a little ahead of the market. So it grows in January, February, March, our growth is November, December, January. So you would have seen last quarter also we have seen pretty substantive growth in CVs.

Jatin Chawla: Okay. And in CVs broadly your market share has been maintained because one of your competitors has been talking about gaining some share with the larger CV maker in the country.

Amit B. Kalyani: Well we are growing with the fastest growing CV maker in the country and we are gaining market share with most of the CV makers and we believe in differentiated business model where we will compete only in areas where technology is important and we are not going to be commodity player.

Jatin Chawla: Right. And my second question was on this Steel Safeguard Duty. Now I understand that in the domestic business it is clearly a pass through. In the exports business even if it is a pass through it would probably be linked to some international benchmark so, in that case…

Amit B. Kalyani: Our pricing is linked to index which is linked to a global index so it is all based on that.

Jatin Chawla: Yeah, if in case the safeguard duty results in domestic steel prices going up does that then negatively impact your margins?

Amit B. Kalyani: But it would not impact us now. It will not impact us. And the steel safeguard duty is largely to protect the commodity steel sector which is your HRMC and coils where significant dumping is taking place.

Jatin Chawla: And the quality of steel would you use would not be that, will that be fair?

Amit B. Kalyani: That will be fair on used coils those are flat products we do not use flat.

Moderator: Thank you. Next in queue is Aditya Sundaram from Edelweiss. Please go ahead.

Aditya Sundaram: Sir, if you could just first give me the absolute non-auto sales which we had for this quarter in the U.S., Europe…

Amit B. Kalyani: We just covered that two minutes ago.

Aditya Sundaram: No, sir, you have just given the overall absolute about 400 crore for this quarter maybe…

Amit B. Kalyani: That is to turn-on auto sales.

Aditya Sundaram: No, but could you split that up into Europe and U.S. for me because I already have the India number?

Amit B. Kalyani: I do not have non-auto by geography.

Aditya Sundaram: Okay, not a problem. And sir, I just wanted to ask this target that we have the 7,000 crore target. Most of it we already have 80% to 85% of the orders already thee for that to achieve that target going forward?

Amit B. Kalyani: Yes, we have orders in-hand for most of it you are right. It is only a matter of ramping-up of the customer demand and new programs.

Aditya Sundaram: Okay, new programs. And just more question…

Amit B. Kalyani: It will ramp-up the product validation and ramp-up.

Aditya Sundaram: Okay, product validation and ramp-up. Sir just another follow-up question I do not know if you covered this earlier in the call I was just looking at raw material cost on a Q-on-Q basis it has more or less remained flat to a great extent. So what is the effect for that?

Amit B. Kalyani: Because we had a inventory impact of raw material last quarter that is why our EBITDA last quarter was also higher and we had explained this in the call that we have a one off inflation of EBITDA because of that and depression of raw material prices.

Aditya Sundaram: Right. Sir, one more thing if I may squeeze in a last question considering that our outlook in terms of end user markets in the U.S. and the non-auto is slightly hit at this point our CAPEX guidance currently still remains or are…

Amit B. Kalyani: Understand our CAPEX is something that takes 24 months to go into place. Okay, so it is not something one can start and stop. So once you have done it you have to go ahead and complete it and focus on filling it up with business.

Aditya Sundaram: Sir but at 1,000 crore number that we had initially for three years is still stands you are saying broadly.

Amit B. Kalyani: As of now yes. We will revisit hat probably in the first quarter.

Moderator: Thank you. Next in queue is Ritesh Goel from Kotak Securities. Please go ahead.

Ritesh Goel: Sir your Passenger Car business has ramped-up quite significantly now, if I look at you are saying it is 9% of exports which is already around 200 odd cross on a annual level in this year and you had previously said that you are expecting it to go to $100 million by FY18 but you again said that 20% of your overall exports will be Pass Car so it comes to higher than number. So can you throw some light that number why you are revising your guidance for that number?

Amit B. Kalyani: Minimum figure of 100 million was a, we have said that every vertical has to become a 100 million to be meaningful. I said 100 million is a minimum number.

Ritesh Goel: Yeah, I got that. So on the Aviation side what kind of run rate can we expect in FY17?

Amit B. Kalyani: Double-digits, I think we would rather than run rate we should look at how we are increasing the revenue. We will keep doubling our revenue or more than double our revenue in the next few years next year or year after next because we are still starting from a slow base and what happens in this sector is not liner. Once we get one approval then it is one step up.

Ritesh Goel: So are we looking at setting up capacity for the Aviation business what point will we start looking at?

Amit B. Kalyani: We do not need any capacity because the Forging facility that we are using for our Aerospace are our existing facilities. We only need capacities which are very specialized in the areas of heat treatment in the areas of some machining and some special metrological processes which are unique to Aerospace.

Ritesh Goel: And finally sir, can you throw some light on new products that you are developing for Railways and in longer-term say maybe five years down the line what kind of potential does it hold?

Amit B. Kalyani: We are developing a lot of high value engine and engine related performance components along with cranks, connecting rods and other engine components and that long with the non-engine components in the chases of the railways and some other components in the Railways that we are developing could potentially be a $100 million business.

Ritesh Goel: By FY20?

Amit B. Kalyani: Yeah, easily by FY20. But at a global level probably even a little sooner than that.

Ritesh Goel: Okay. Sir my final question is on third quarter…

Amit B. Kalyani: 100 million as I told by 2020 is something we want to achieve just in India.

Ritesh Goel: Okay. And finally on the domestic Truck business in third quarter you should start seeing some growth, right because fourth quarter outlook is better you should start reflecting in that quarter, right?

Amit B. Kalyani: Absolutely.

Moderator: Thank you. We have a question from Priya Ranjan from Systematix. Please go ahead.

Priya Ranjan: Can throw some light on the new programs in different verticals and I mean in terms of where we are rating in terms of Railways, where we are rating in terms of Aerospace, it means we…

Amit B. Kalyani: We just cover that. That was the previous question.

Priya Ranjan: Yeah. On the new programs not the existing programs we are doing.

Amit B. Kalyani: That is exactly what we covered just a minute ago. Basically we have targeted a 100 million revenue from each of the sectors and that is a combination of existing products, new customers, new customers, new products and existing and cross selling these within the world and exporting whatever we can that is all global, it is nothing Indian, nothing in India.

Priya Ranjan: So and for Aerospace do you require new CAPEX for the Titanium Forging kind of thing or?

Amit B. Kalyani: We already just talked about it. That is exactly what I said right before. All the Forgings we are already making Titanium Forging large Titanium Forging and these are being made on our existing facilities.

Priya Ranjan: Okay. And just coming back on the Alstom JV I think the first chance will be delivered next year so locally produce. So can we expect some kind of equipment development by the Bharat Forge itself?

Amit B. Kalyani: Yeah. And very soon that it is going to be a joint venture with General Electric.

Priya Ranjan: Okay. So that will be also in the same range I mean in the same vertical?

Amit B. Kalyani: Alstom has been taken over by General Electric.

Priya Ranjan: Yeah, so yeah sure.

Amit B. Kalyani: To becoming our part now.

Priya Ranjan: Okay. So it is mostly name change that is it.

Moderator: Thank you. Next in queue is Chinmay Gandre from Future Generali. Please go ahead.

Chinmay Gandre: Actually I joined in a bit late so, wanted to know I mean European exports declined by 16% anything you want to comment on that?

Amit B. Kalyani: European exports have grown year-on-year that is all because of non-auto.

Chinmay Gandre: So any specific sector you like to comment read over like a quarterly phenomena?

Amit B. Kalyani: No, it is all sectors in non-auto have de-grown.

Chinmay Gandre: Okay. So it was not quarterly from that at all. And in domestic basically you said in non-auto the growth was 20%, right so what sectors has contributed to that?

Amit B. Kalyani: Rail, General Engineering and Energy.

Chinmay Gandre: So Railway our share has been increasing I mean…

Amit B. Kalyani: Yes.

Moderator: Thank you. Next in queue is Prabir Adhikary from Ratnabali Capital Markets Limited. Please go ahead.

Prabir Adhikary: Sir, I just wanted to understand the FDIC difference. News are coming like that in next two months to three months MOD is expected to bring some changes in DIPP roles by that if DI is expected to come more. So I just want to know your comment on that. And also you have a strategic relation with SAB now if these rules are down then how much of order you are expecting in next two years to three years in defense.

Amit B. Kalyani: Okay, let us de-link the three questions you have asked. One is FDI increase in defense. They are looking at it but looking at it only in very strategic areas. So that is like in missile guidance systems and high technology REDARs very strategic and high technology areas where the Governments of the countries where those companies may not give permission to export technology if the company which is exporting the technology in minority. So it is only limited to specific categories. Our focus on revenues and manufacturing is on artillery systems on land systems, on areas where our existing core competence and our existing manufacturing capability will be the base of the system of the product to be made. So we are not just going to manufacture these components for our self. Our ideal is also to supply to the other people who will make similar things in India whether it is L&T, Tata’s, Mahindra, any one and also to export these components. So at the Bharat Forge level we are looking at components as a global opportunity.

Prabir Adhikary: Okay. And regarding SAB?

Amit B. Kalyani: That is a joint venture for India and potentially for outside India also.

Prabir Adhikary: But then SAB is a fighter jets, is a company which manufactures fighter jets.

Amit B. Kalyani: Our joint venture is not for fighter jets it is for certain other defense systems.

Prabir Adhikary: Okay. And in next two years to three years how much of defense will contribute? Right now it is insignificant?

Amit B. Kalyani: The programs that we have bid for have a total program value which is in access of $7 billion - $8 billion. But that is obviously over a period of time and that is also subject to what we win. But just to understand that somebody is going to win those programs, somebody is going to make those in this country and a large part of the components that anybody would use we will make because we are one of the few companies who can make that. So it is not a question of if, it is only a question of when those RFQs go from RFQ into testing, testing into orders and orders into production. So our target is I think after 2018, we should be at a stage of very close to 1,000 crores a year that is the number to which my mind would make the effort that we are putting into defense at least meaningful. And that is at component level I am talking about.

Moderator: Thank you. Next in queue is from Morgan Stanley. Please go ahead.

Binay Singh: Hello, sir, this is Binay Singh. My question to you is on the U.S. Truck cycle side. In the past we have talked about winning two new customers in the U.S. market. So you talk a little but about that for example if the industry declines by let us say 10% then is those customer addition plan still on track then what kind of decline can you see?

Subodh: The customer addition plans have already been implemented.

Amit B. Kalyani: No, if the market goes on 10% what will be it, will it be more flat?

Subodh: No, we still increase because…

Amit B. Kalyani: Okay. What my colleague is saying in your hypothetical situation 10% decline in market will still allow us to grow. So we will have a positive growth.

Binay Singh: Because of what?

Subodh: Because of the addition on customer from zero base?

Binay Singh: So in a way customer addition does not slow down because market is slowing down like in a way…

Amit B. Kalyani: No, it is a decision that is taken it is a strategic decision.

Binay Singh: Okay. So in that sense what I would assume that...

Subodh: What we are visioning is not new it is made by somebody else so, we are winning that from somebody else.

Binay Singh: Okay. So they are not giving you new orders they are basically replacing someone with you?

Subodh: Yes.

Amit B. Kalyani: They are both I mean in some cases there is new product development and some cases is replacement.

Amit B. Kalyani: When you say new orders for us it is new.

Subodh: Yeah, for us it is new, yeah.

Binay Singh: And what kind of market share do you now have in the U.S. and the Europe CV market?

Amit B. Kalyani: Let us leave it there.

Binay Singh: And then lastly like some people have already touched upon this question about the margin range. So we are giving a margin range of 29% to 31% and we are seeing that qwop over the year as capacity utilization went up and your product quality in terms of more machining and all increased. So in that sense what you are saying now is that the products that we offer both in India, Europe, Forging, Machining, broadly are in that range which is why what gives you the comfort that you will remain in that range whether the mix shifts in one side or the other. Is that the correct understanding?

Amit B. Kalyani: Yeah, because see what happens is when you see we are developing new products a lot of new products to make-up for the loss in revenue coming from the Oil & Gas products and the Energy products which were highly machined and value added. So what happens is when you develop a new product you first go through supplying products with low value addition then gradually migrate to high value addition, you understand? So as you keep developing something or the other is moving up something new is coming which is not at the value added stage so, that tends to be balance each other out till you get into a matured product cycle or mature product mix.

Binay Singh: So in that sense with the kind of mix where you are now you have a very strong visibility of this margin guidance holding on?

Amit B. Kalyani: Yes.

Moderator: Thank you. Next in queue is Amresh Mishra from JM Financial. Please go ahead.

Amresh Mishra: I had a question on Aluminum Tech where you mentioned that we had this CAPEX and the revenue will start following in coming quarters. Can you just give some sense on what kind of revenues we are looking for let us say FY17 as a fiscal?

Amit B. Kalyani: From Aluminum Tech?

Amresh Mishra: Yeah, on these new orders and for which we have set up these facilities.

Amit B. Kalyani: It will be about €60 million.

Amresh Mishra: €60 million for FY17?

Amit B. Kalyani: Yeah, that is our target.

Amresh Mishra: Also to go back to the CAPEX thing for three years which is FY16, FY17, FY18 what we talked about the thousand crore of CAPEX?

Amit B. Kalyani: Yes.

Amresh Mishra: And can you share the number that we have done in the first-half and are we on track to go for the full year CAPEX?

Amit B. Kalyani: No, we result on track. We are well within track and budget.

Amresh Mishra: Okay. And what was the CAPEX for the first-half, can you share that number?

Amit B. Kalyani: I will come back to you on this.

Moderator: Thank you. Next in queue is Pramod Amte from CIMB. Please go ahead.

Pramod Amte: Wanted to check as you are indicating there has been a substantial **volatility** in demand did it give you any headroom in terms of taking aggressive cost controls which may play out better in 3Q?

Amit B. Kalyani: Sorry, can you say that again?

Pramod Amte: You said the volatility in demand has been extreme in 2Q. Did it give you enough time or headroom to do aggressive cost controls which obviously…

Amit B. Kalyani: Yeah, one of the measures that we are doing is a very strong cost control in fact we have already done it over the last quarter this quarter and we will do it next year. We had already seen this coming and we have started these measures but it does take a little time once you initiate them for them to fully fructify. In India unlike the U.S. we cannot just fire 2,000 people over night.

Pramod Amte: Yes, sir. And looking at the volatility in demand, do you see any big risk for your new programs which you are confident of getting sales through?

Amit B. Kalyani: No.

Pramod Amte: And are you looking at any M&A opportunities in the current adversity scenario which segments which technologies can….

Amit B. Kalyani: No, we are not looking at anything right now.

Pramod Amte: Okay. And looking at the Indian Forging as an industry there seems to some volatility considering the liquidity situation and all. Are we getting any enquiries from your clients to increase revenues or are we getting any new orders getting shifted over?

Amit B. Kalyani: We are getting some but honestly we want to do business only which is profitable and which is worth perusing. We do not want to do business which is low end and commoditized.

Pramod Amte: But this has been the case for you sometimes. So that proposition getting more and more validated now?

Amit B. Kalyani: Yeah, absolutely. What is happening is people now appreciate the technology and the technology capacity we have to offer. As India is moving from Euro 4 to Euro 5 this where our technology and technology capability will actually stand as in good state and that is where we are seeing tremendous traction being gained with our marquee domestic customers. And also Pramod in addition to that, the new products that we are developing in Passenger Cars are finding a lot of favor with our customers in India.

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

Sonal Gupta: It is quite commendable you are saying that you are still retaining your FY18 targets and especially in light of I mean how we are seeing almost like bed down in the global industrial space. So just if you could give some color at the margin I mean what is the if even what is the risk that you see at the margin to getting to those targets is there of do you think that there enough buffer that you have in getting there? And secondly I mean like even in areas like I think ENP Heavy Horse Power Engines you are seeing a big decline now. So despite all that you are still very confident of achieving?

Amit B. Kalyani: If you look at our company and you look at ever cycle whether it was a cycle in 1996, 1999, 2003-2004, 2008, 2012, we have come out of every cycle stronger and this is because of our leadership team, our people our technology capability, our ability to control cost to manage innovation and to satisfy our customer needs. It is the DNA of our company, we do not give up. It will be very easy for me to sit here and say, it is looking difficult but as a team we have made a commitment that we are going to achieve it and we will achieve it. We will find ways to achieve it. We are very confident, we have a very good roadmap and this company has done it before and we will do it again.

Sonal Gupta: No, where I am coming from is like I mean have this discussion that I understand that you have high degree of visibility in terms of your market share in those end-markets but now if those end markets itself are going down 20%-30% then does not that move the target I mean revenue opportunity?

Amit B. Kalyani: Then you have to look at new markets and that is what we are doing. I mean we are looking at markets that we did not look at before. I will give you an example, we are now looking at the Indian Navy as a big opportunity it is something that we never even looked at. These may not be buckets that add-up to hundreds of crores but if I get ten buckets of 20 crores - 30 crores even 40 crores that can itself be 4 crores - 5 crores of new business.

Sonal Gupta: Sure, I understand that. But what I am saying is that typically if you now start looking at new markets there is a validation process there is approval process.

Amit B. Kalyani: That is all fine but we have factored all that in making this guidance or in validating in these guidance of 2018 and we are sure that we will make it happen.

Moderator: Thank you. We have a question from Hemang Kapasi from Canara Robeco. Please go ahead.

Hemang Kapasi: Just one question on your guidance. Will the mix of the revenues would be similar 60-40 range in domestic export?

Amit B. Kalyani: That I cannot give you, for 2018 I cannot give you right now. But it will close I mean it maybe 60-40, it maybe 50-50 somewhere in that ballpark.

Moderator: Thank you. We have a question from Joseph George from IIFL. Please go ahead.

Joseph George: Sir, I have a couple of questions. One is that when I look at your Annual Report I see that there is a big jump in the hedges outstanding at the end of the year so, it is gone up from 3,000 crores at the end of FY14 to about 5,000 crores at the end of FY15, that of course is based on some export projections that you would have had. Now given the decline that you have seen in this quarter and given that the outlook for the next couple of quarters is not great. Do you feel that you are over hedged over the year?

Amit B. Kalyani: No, not at all because this is over a significant period of time and they are backed by orders.

Joseph George: Okay. So what really is a policy there? Do you hedge couple of years in advance what exactly is the….

Amit B. Kalyani: It depends we hedge normally 12 months rolling forward unless we have some long-term orders which we need to hedge.

Joseph George: Okay, all right. And sir, the second question I had is given the current environment where a lot of your customers are facing challenges in terms of growth in terms of profitability. Do you think that will have an impact on your pricing power and your margins maybe over the next couple of years?

Amit B. Kalyani: Actually what is happening is there are lot of suppliers who are facing a lot of liquidity issues and facing issues of survival as the technology requirements keeps moving up there are fewer and fewer suppliers were able to make what is of the cutting edge. In fact I expect the reverse to happen.

Joseph George: Okay. So you would be comfortable saying that you will still stick with the 29% to 31% margins in FY17-FY18, right?

Amit B. Kalyani: I am giving you a guidance for the year, okay. I will revise it at the end of 2016 but as I see it now we expect these margins should be in this ball park.

Moderator: Thank you. We have a question from Vasudev Banerjee from Antique Stock Broking. Please go ahead.

Vasudev Banerjee: I have couple of small questions. One, if I see your geographic break-up the quantum of decline in APAC on a sequential basis have been significant so…

Amit B. Kalyani: So all China.

Vasudev Banerjee: Is primarily China.

Amit B. Kalyani: And Oil & Gas because we use to also export Oil & Gas products to APAC.

Vasudev Banerjee: And second thing on a small scale if I see for almost the third consecutive quarter your other expenses in your P&L line item has been on a falling trend. So can we think to get that in terms of cost cutting or any other benefit you are getting?

Amit B. Kalyani: We are just trying hard to control cost.

Vasudev Banerjee: Is as simple as that.

Amit B. Kalyani: Guys, I think we have spent about an hour so, if there are any really outstanding questions or anything that you would really like to know let us take that up. Otherwise, I would suggest if you all can get in touch with Rajgopal or someone from our finance team they will be happy to take you through any more details.

Moderator: Sir, we have questions in the queue. Should I take it?

Amit B. Kalyani: Yeah, okay.

Moderator: We have a question from Bobby from Frunze Investments. Please go ahead.

Bobby: Who are your major competitors globally?

Amit B. Kalyani: Sorry. You know there are hundreds of companies that compete in our space. There is no one company that does all of the things that we do.

Bobby: Okay. Second question, in August of 2015 you gave an interview and you said that the North America CV market will remain strong at least for the next two years so what has changed in just two months?

Amit B. Kalyani: It is the demand. I have to tell you what my customer tells me, I do not create the demand.

Bobby: Why but I mean is there such low visibility that things can change so much in just few months?

Amit B. Kalyani: Absolutely. Did you see what Daimler did in their Investor Update yesterday?

Bobby: No, I do not.

Amit B. Kalyani: Maybe you should read that, that will give you a very good inside into the CV industry.

Moderator: Thank you. We have a question from Raghunandan from Quant Capita. Please go ahead.

Raghunandan: Within domestic autos approximately how much would be from Tractors and OEs?

Amit B. Kalyani: Between 10% and 12% it used to be. Now it has come down to about 5%.

Raghunandan: Sure, sir. In the previous call it was mentioned that Railways orders could be ramped-up by October-November. Any color on that sir?

Amit B. Kalyani: Yeah, Railway orders have come we have already supplied our trial lot and we are now going to get larger order. Unfortunately, dealing with these agencies it takes a little time but they are being very proactive and very helpful so, hopefully and the products have passed all there test so I think we should be in a significantly better position now in the visibility.

Raghunandan: So broadly or approximately how much might be the Railway revenues for the year, sir?

Amit B. Kalyani: I cannot give you that figure of forward-looking statements like that right now.

Raghunandan: Sure, sir. And euro exchange realizations for the quarter should be broadly in line with the main rates for the quarter?

Amit B. Kalyani: Yes.

Raghunandan: Okay. And lastly, for the Alstom venture would the revenue run rate be like 2,000c rights per year for 2016 and 2017 sir, given our order book?

Amit B. Kalyani: For 2017, it will be in the region of close to 1,500 crores.

Raghunandan: 1,500 crores and for 2016, sir?

Subodh: Between 1,000 and 1,500.

Amit B. Kalyani: Yeah, less than that between 1,000 and 1,500.

Raghunandan: This will be our share or the total?

Subodh: No, total for the venture.

Amit B. Kalyani: Ladies and gentlemen, thank you very much for your time. And if anybody has any more follow-on questions please direct them to the concerned people in our company either through e-mail or telephone. Thank you very much. Bye-bye.

Moderator: Ladies and gentlemen, this does conclude 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.