Bharat Forge Limited
Q4-FY15 Results Conference Call
May 21, 2015

Moderator: Ladies and gentlemen, welcome to the Q4 FY 15 results conference call hosted of Bharat Forge Limited. We have with us today Mr. Amit Kalyani, Executive Director. We will start the call with all participant lines in the listen-only mode**.** There will be an opportunity for you to ask questions at the end of today's call. If you need assistance during the conference please signal an operator by pressing '*' and '0' on your phone**.** I would now like to hand the conference over to Mr. Kalyani, thank you and over to you Sir.

Amit Kalyani: Good afternoon ladies and gentlemen; and welcome to our Q4 analysts con call. I have with me various members of our team from finance, investor relations, and corporate. I will take you through a few highlights, few numbers, and then open up for Q&A. In terms of some of the highlights, you know, we have had strong operational and financial performance for the year in spite of the backdrop of a volatile market situation both in Europe and the US, and of course not a very strong situation in India. This has basically proven the power of our derisk business model which allows us to continue growing and utilizing existing assets to broad base our revenues across sectors and across markets. Our exports grew by about 47% for the year, revenue from industrial segments grew by more than 50%, and EBITDA margins expanded by more than 400 basis points. Our PBT was slightly above 1000 crores for the year. We have continued to sweat our assets, improved our asset utilization, reduced our interest, and improved our return on capital employed. ICRA has also upgraded our long term credit rating to AA+ up by one notch. In addition we have also paid down substantial amount of debt this year. We have paid over 530 crores of debt including about 400 crores of rupee debt out of this. Today our debt equity is very, very comfortable, in fact our debt divided by EBITDA on a gross basis is 1.26, and on a net of cash basis is 0.55. Our return on capital employed as I mentioned is 22.7, and we are in a very strong position as far as our balance sheet is concerned. If you look at Q4 we have had a shipment of about 56,700 tons which is an 18% growth over last year. Domestic revenue grew by 15%, exports by about 45%, total income growth was about 32%, in terms of operating margins, our operating margins has grown by 50% over last year, and our fixed costs have not grown by as much, in fact they have only grown by about 35%, so our EBITDA margins has grown by 60% over last year and our PBT has grown by about 70% over last year**.** If you look at the full year, our total tonnage was 211,700 tons, which is a 21% growth over last year, domestic revenue has grown by 16%, exports by 47%, our total income has grown by about 34%, EBITDA has grown by 57%, PBT by almost 90%, and we have had a pretty strong performance on all fronts last year. In terms of some of our key markets, we have seen a very strong growth from the US market, we have grown our exports to the US market by almost 90%, Europe has grown much more muted, thanks to the overall situation in Europe. We have been able to grow our business in India by 18% which is significantly above the overall market conditions in India and on a whole our revenues have grown by about 34%. As a company we will continue to grow this year. We will have a healthy double digit growth, basically on the back of ramp up of passenger car business, new CV business which is value added for which the balancing facilities will be put in place by Q2 and the ramp up will happen from Q2 onwards. This is new business that we have secured which will allow us additional revenues from the North American market. The North American truck market is expected to be strong this year and next year, and we expect to do fairly well on that front. Our passenger car revenues will continue growing, we expect our aerospace business to also ramp up over the next two to three years. We are seeing several new customers and new programs also under discussion in addition to the four that we have already secured. On the industrial side, we are also continuing to make progress with new customer wins, new program wins, which will ramp up over the next few quarters and over the next year or two. As a whole we expect to see revenues continuing to grow quarter-over-quarter for the full year, Q1, Q2, Q3, Q4, and we are fairly confident of a good year. We will continue our focus on cost control and on cash flow management. Our overall capex plan as announced earlier between the year that just ended plus this year plus next year is roughly 1000 crores and we will improve our asset utilization and produce a lot of new products using existing assets as well, and continue moving up the value chain and do more value addition for our customers, which will help us bring us closer to our customers in providing a full solution. We are well on track to achieve our FY18 goals as we have mentioned that we want to double our revenues over last year which is the 14 revenues by 18. We want to reach a revenue of 7000 crores or more on a standalone basis in Bharat Forge India, and we are well on track of doing that, and we will do that with good margins and with capex as we mentioned earlier of about 1000 crores. Our asset light model and this will also result in return on capital employed improving and cash flow being very strong, we are committed to becoming a net debt free company by next year, and improve all our matrix on return ratios. I really don't have that much more to say, the last point that I will make is, a big push that our company is making is on the Make in India initiative and we expect that the opportunities presented by Make in India will result in substantive revenues over the next few years. It is not something that is going to happen immediately, some things could happen sooner than others, but the big long term opportunities will take at least a year if not two to materialize and start materializing, but that itself is a very large new vertical for us, much like the non-auto vertical has proven to be a big pillar of our company strength, we expect the Make in India to also be a pillar of high value and highly value added components across sectors and geographies where we will utilize not only the skills but also large part of the assets that we already have in generating these revenues. That is really all I have to say, and I am now to take questions.

Moderator: We will now begin the question and answer session. Participants using speaker phones are requested to use the handset while asking questions. To enter the question and answer queue, please press '*' and '1' on your phone now. If you wish to withdraw your question and exit the queue press '*' and '1'**.** We have a question from Kapil Singh from Nomura, please go ahead.

Kapil Singh: You referred to big push towards Make in India, any orders or areas that you would like to highlight where Bharat Forge has made significant progress or you think would be able to make progress over the next four to five years?

Amit Kalyani: There are three or four areas where we will make a lot of progress and a lot of penetration, one is clearly on the railways sector, second is on the metals and mining sector, third is on the power and energy sector, and the fourth will be clearly on a lot of industrial sectors where it could be defense, it could be hydroelectric power, it could be general engineering, it could be a variety of other, let us say all the other areas, but where we have already made progress is on rail. We made progress on power, and we are beginning to make progress on mining as well.

Kapil Singh: Great, any color on defense, any major orders there that you are looking at?

Amit Kalyani: We are looking at a lot of major orders, but nothing that has progressed from the desktop into significant new revenues. Whatever we do traditionally is continuing, but we are engaged at the highest levels in developing a lot of new business and a new product which should generate significant new revenues, and here I am talking about at a component and a system level, rather than at an entire product level.

Kapil Singh: Right, we understand that.

Amit Kalyani: I am talking about the Bharat Forge level of opportunity.

Kapil Singh: Just one housekeeping question, when I look at the other current assets, they have seen a significant increase year-on-year, just wanted to understand that what could the reason for that?

Amit Kalyani: This is basically you know refunds that are due from statutory bodies to us.

Amit Kalyani: Excise and VAT.

Kapil Singh: This has actually increased quite a bit, so is it that?

Amit Kalyani: Our exports.

Kapil Singh: Sorry, I missed your point.

Amit Kalyani: It is related to exports, VAT refund related to exports.

Kapil Singh: Okay, the last question from my side, some of the other businesses the Indian JVs, we have seen are decline in revenues but profitability has improved, so any color you would like to give, how we should expect this business to ramp up going forward?

Amit Kalyani: Our Alstom JV has begun operations, and is already profitable. We have an order book that will fill up three years of full production, and we expect this to be a profitable venture.

Kapil Singh: Okay, any reason why revenues would have declined this year?

Amit Kalyani: Last year we also had EPC project revenue, we got out of that project.

Kapil Singh: Okay, understood, was that a loss making project.

Amit Kalyani: No, no. we had a small 4 to 5 crores profit, but we don't believe that is our core strength and something we choose to be in.

Moderator: We have a question from Vasudev, from Antique Finance, please go ahead.

Vasudev: I missed out, as you said 1000 crores your capex plans, that included the year, which is FY15?

Amit Kalyani: 2015,16,17.

Vasudev: 1000 crores in three years, so if I see the numbers on a console basis, this year itself it is around 600 crores odd?

Amit Kakyani: This is in India in Bharat Forge standalone.

Vasudev: So 1000 crores is standalone capex for these three years?

Amit Kalyani: In Bharat Forge yes.

Vasudev: And how much will be the capex for ex of India business?

Amit Kalyani: In Europe we have no capex planned right now, no significant capex, only maintenance capex, and the only other capex we have is in the Alstrom venture.

Vasudev: How much, can you quantify it?

Amit Kalyani: Our equity portion is 300 crores.

Vasudev: And the aluminum project in Europe, that has been already been funded?

Amit Kalyani: That is already spent, the European project is already done. That is going to production shortly.

Vasudev: If I go through your balance sheet, console balance sheet there has been almost 350 crores increase in console debt this year Sir?

Amit Kakyani: Some of that will be because of our project European expansion, okay and then some debt in the Alstom joint venture.

Vasudev: How much from the Alstom JV.

Amit Kalyani: Our consolidated debt has actually not gone up, it has in fact gone down.

Vasudev: If I see, long term borrowings from 1520 is now 1980, and short term borrowing down to 150 odd crores?

Amit Kalyani: Cash has also gone up.

Vasudev: On a net basis, he was saying, I am saying on gross basis?

Amit Kalyani: Obviously, and in the new schedule 6 requirement, the debt comes in three pockets, so whatever debt you are seeing, you are seeing only portion of debt, because in the new schedule 6, you have to show long term loans beyond the maturity of one year separately maturing within one year, and cash credit and overdraft, so if you take all three debts put together, then at console level also it has reduced.

Vasudev: That I agree, and last question is if I see your US business quarter-on-quarter remained flat, so can you highlight on that, so how long it on forward going ahead?

Amit Kalyani: Who has said it is flat, it has grown by 90% year-on-year.

Vasudev: Sequential basis, as per the reported press release.

Amit Kalyani: This is because of the slowdown in some of the non-automotive sectors, in the industrial sector, so that means we have actually grown, we have actually grown our business in other areas.

Vasudev: Your views on those areas in the coming quarter Sir?

Amit Kalyani: I cannot express a view on the oil and gas, and those areas, but all I will say is that in spite of the slowdown in these areas, we will continue to grow quarter-on-quarter and for a full year over last year based on the new programs that we have on a variety of areas, and the new products that we are introducing in certain sectors.

Moderator: Next in line is Sanjay Sathpathy from Merrill Lynch, please go ahead.

Sanjay Sathpathy: First thing, just wanted to get a bit of a sense on this margin expansion that has happened in this quarter, so we this manufacturing expense going down quite a lot despite production being so high, so what really has been achieved to achieve this?

Amit Kalyani: One is the energy price benefit we have got because of the decline of oil prices, and volume effect, and inventory.

Sanjay Sathpathy: Power Cost?

Amit Kalyani: Power and fuel.

Sanjay Sathpathy: So electricity tariff also went down for you?

Amit Kalyani: Electricity has not gone down, oil and gas has gone down.

Sanjay Sathpathy: Thanks for that, and the other question that I just wanted to clarify, in the Chairman's statement on your quarterly, you have mentioned that there will be some sequential slackness in volume in the first quarter or so, so that will be a bit of an anomaly while you are talking about further sharp ramp up from quarter 2 onwards, is that how we should read it?

Amit Kalyani: See, I am only saying that quarter one is looking a little weak right now compared to Q4, because of the slowdown in the US non-automotive sector plus the quarter-on-quarter effect of the medium and heavy commercial vehicle market in India. Q4 is always the strongest market for MHCV in India. Q1 is always weaker after Q4, so that combination of these two will do that, but we will see growth Q2 over Q1, Q3 over Q2 and Q4 over Q3, so cumulatively if you see, we will see substantial growth for the year and we should be in good shape for the whole year.

Sanjay Sathpathy: Last question, just wanted to understand from you, the impact of this currency Euro going all over the place and so also USD, so what was our actual realization for this quarter and how really do you think the impact of that will be, and lastly what kind of sustainable EBITDA margin are you looking forward to next year, because in the past you have guided to 28 to 30%.

Amit Kalyani: On the EBITDA guidance I would keep it at the same level and the Euro weakness definitely has impact on some amount of Euro business, but luckily our Euro business is right now small, so the impact itself is small, and our realization was in the 64 to 65 range. We want to say one thing, the reason we put that about Q1 is we wanted to be transparent and create the right message and expectations in the market that overall the year will be good, extremely good, but it is going to start at a certain place and then keep growing.

Sanjay Sathpathy: Understood.

Moderator: We have a question from Vinay Shah from Emkay Global, please go ahead.

Vinay Shah: Sir first of all, basic question, what is the share of non-auto business for the quarter and for the full year?

Amit Kalyani: About 46%.

Vinay Shah: 46% for the quarter, and for the full year Sir?

Amit Kalyani: It is more or the less the same for both. It is 0.5% here or there.

Vinay Shah: And what would be the quantum of exports in this non-automotive business?

Amit Kalyani: 60% export.

Vinay Shah: Any color on the oil and gas segment in US in terms of revenues for the quarter, have we seen a major decline over there?

Amit Kalyani: I think our decline is, we have definitely seen a decline in the region of about 15 to 20%.

Pritesh: This is Pritesh here, just one question, I just want to add, last quarter the 7000 crores revenue target was actually preponed to FY17, and this quarter again it is FY18,

Amit Kalyani: Last quarter I said we hope to try and do it in 2017, our original target was 2018. We will still hope to do it in 2017, but we are on track.

Pritesh: On the ROC, if you could give some sense, direction, what should be the ROC that one should look at a couple of years from now in the business?

Amit Kalyani: We are already at 22% plus, I think if we are at 25% plus I think we will be quite happy.

Pritesh: When you are commenting on the asset light model, should we take it as machinization, machined components will be more and hence you are indicating our asset light or something else here?

Amit Kalyani: No it is not machining is not asset light, machining is very asset intensive, because on machining your asset turnover is not very high, but we are talking about product mix, productivity, and machining as a combination which will create a whole new capital output ratio compared to where we are today.

Pritesh: This product mix, machining, and productivity?

Amit Kalyani: Productivity, product mix, and machining or value addition.

Pritesh: Which means directionally the margin should be higher and hence the ROC should be higher?

Amit Kalyani: Well it is not only, it is not always higher, because you are talking about overall basket of products, when you are talking about passenger car components, you are talking about components, you are talking about Make in India, you are talking about non-automotive, you are talking about a lot of new business being developed, you are talking about R&D, so you have to put all that, you are not making products to someone’s print, we are doing product development. If you want to grow in all these areas, there is also some cost associated with developing business, developing products, and technology. In our R&D spend as a percentage of sales is also going to go up. We are currently at somewhere just about 1.2 to 1.5%, that is definitely going to grow to 2, 2.5, 3% of sales. One has to keep all this in mind.

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

Sonal Gupta: Just wanted to understand, one is, what is your Euro realization this quarter, can you tell us the rate?

Amit Kalyani: It is close to the average for the quarter.

Sonal Gupta: Around 70.

Amit Kalyani: Maybe slightly more, may be 72.

Sonal Gupta: Also have you seen, like you talked about oil and gas, so the 15% to 20% decline is sequentially, or on a year-on-year basis?

Amit Kalyani: Sequential.

Sonal Gupta: And have you seen in other industrial segments as well the decline coming through in this quarter or do we see the destocking largely in Q1.

Amit Kalyani: No, we are seeing largely an impact only in oil and gas.

Sonal Gupta: And lastly if you could sort of comment on how you are seeing things on the Indian's CV side there is clearly like you said seasonality element but overall is the growth according to your expectation or what would be your forecast.

Amit Kalyani: I will tell you what our customers are telling us, our customers are expecting to grow by 20%.

Sonal Gupta: Okay.

Amit Kalyani: But our expectation is somewhere in 14-15%. So if it is more than that it will be good for us.

Sonal Gupta: Right and just lastly in terms of order flow are you seeing any pick up in CVs on the European side?

Amit Kalyani: I think the European CV market is flat right now.

Sonal Gupta: Okay, thank. I will come back in the queue for more questions.

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

Pramod: Two questions, one in the quarterly release you are talking about BF-AT benefit to come through next financial year which is FY17, is it because of a slow customer acceptance or the production ramp up?

Amit Kalyani: The product validation is going to happen this year, they are on a calendar year basis so, the line is going into production shortly and by the time the product development and product validation happens it's going to take five to six months.

Pramod: And with regard to the MGL the oil and gas services which you acquired sometime back can you give some progress in terms of acquisition and any.

Amit Kalyani: At MGL integration is taking place and MGL is a company that is only doing machining they don't make any forging so we are integrating with them with on the forging side and we are trying to address larger opportunities in Europe and other parts of the world.

Pramod: When can we start seeing some rub off effect on you?

Amit Kalyani: In about two to three quarters.

Pramod: Thanks and all the best.

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

Ashish Mukhi: Amit I was wondering if you can provide some color on what will be the key revenue drivers for FY16.

Amit Kalyani: Three large revenue drivers one will be the pass car sector, second will be the CV sector where we won new orders and which will ramp up from Q2 onwards in a value added manner and third will be new non-automotive business both through the Make in India program and through exports.

Ashish Mukhi: Okay, good. That's it thank you.

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

Amyn Pirani: My first question was on the commercial vehicle side in US, we are seeing some net orders slow down and there have reports that the US truck market could peek in this calendar year and probably remain flat are you getting a similar communication from your customers or do you feel that the market could continue to grow in a positive Y-o-Y basis even next few years.

Amit Kalyani: The US market is very strong it is not declining in any way, if your comment is based on the incoming order intake the past four, five months the order intake was somewhere around 40,000-45,000 as an average, whereas the traditional number was more like 25,000-30,000 but the industry is at a very healthy level the backlogs are very high almost a (+190,000) which are unprecedented it has never been that high. So the general impression is the industry will remain strong till at least 17. We don't see any slowdown.

Amyn Pirani: Okay, sir secondly on your BF-AT orders just want to clarify, so you are saying that the revenues will start from FY16?

Amit Kalyani: No, it will start from Q3 of this year.

Amyn Pirani: Okay, understood. Thanks a lot for taking my question.

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

Aditya Sundaram: So if you could first help me out with the utilization level that our company is currently running at across maybe segments.

Amit Kalyani: What is your next question?

Aditya Sundaram: I would also like the machining mix that we had for the year, for the quarter and may be for the previous quarter as well.

Amit Kalyani: Our forging facility is running at about 74%, our non-auto is running at about 85%, machining is about 45%, total is about 40%.

Aditya Sundaram: Okay, 45% you said is machining currently. And what was it sir for the previous quarter?

Amit Kalyani: It was about 40%.

Aditya Sundaram: Sir my next question is I was actually looking the India sales growth for the industry which I think has been about say in the range of about 20 to 25% sales growth while we have done a 15% growth just wanted to understand how that happened and panned out?

Amit Kalyani: Our M&HCV we have grown by more than 20% but other sectors like the tractor sector and some of the industrial sectors which have actually had negative growth.

Aditya Sundaram: Okay, which have had negative growth so that has brought the whole.

Amit Kalyani: You know what is happening in the tractor market.

Aditya Sundaram: Right, I got sir. And sir my last question is basically on the non-auto side for your aerospace the number of customers that you got, could you be able to quantify the value of those orders that you have received from those.

Amit Kalyani: We have very tough strict NDAs we don't want to talk about, we can't talk about this.

Aditya Sundaram: Okay, fine sir. Thank you, I'll get back in the queue for further questions. Thank you very much.

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

Puneet Gulati: First couple of accounting related questions the depreciation for this quarter seem to be lower on Q-on-Q basis.

Amit Kalyani: Mr. Gulati can we take the accounting related questions offline because I am sure our team will answer those quite satisfactory with you. We can discuss the strategic issues right now.

Puneet Gulati: Okay, so first of all on the European subsidiaries side apart from the BF-AT are you seeing any improvement in that business?

Amit Kalyani: Yes, we are seeing.

Puneet Gulati: So is it possible to give some sense on what kind of margins they can do. You have done 6% in last quarter.

Amit Kalyani: Our margins will remain in the 6, 7, 8% region till our new facility ramps up.

Puneet Gulati: Okay. And secondly in the oil and gas business is there an expectation of further slowdown from the current levels or you think they have reached bottom from your perspective?

Amit Kalyani: Well I think we see the same perspective as you see in the papers every day so the oil has stabilized at around 67-68 and the general impression is it would probably stabilize somewhere between 70 and 80 and that is going to be the new normal, time wise we don't know but well here it is going to be in the next few months and if you heard recent announcements including from the Saudi families and so who have been very instrumental and this whole thing, then that is the frame that has been indicated so we have to wait and watch.

Puneet Gulati: Alright, thank you so much.

Moderator: Thank you. Next in queue is Akshay Saxena from Credit Suisse. Please go ahead.

Jatin: Good afternoon Amit this is Jatin. On your console numbers there is a large line item on project cost which is really declined significantly year on year, what is the driver for that? Is that the EPC project on power side?

Amit Kalyani: Yes. That is which is no longer a part of our business activity.

Jatin: Okay, so going forward that number should practically be zero.

Amit Kalyani: It will be zero yes.

Jatin: Okay, great. And with this new CV client that you won where will your market share be in terms of the US CV market now?

Amit Kalyani: Higher than what it was earlier.

Jatin: Okay, thanks.

Moderator: Thank you. Next in queue is from Sachin Kasera from Lucky Investment. Please go ahead.

Sachin Kasera: Yes sir my question is on the debt figure, if am correct the debt has gone up on a net debt to equity on a full year basis as per your earning presentations it's up by around 41 crores and on a standalone it is down by around 200 crores, so can you explain what is the reason for this decrease in standalone and increase in consolidate?

Amit Kalyani: In console the Alstom joint venture is also included.

Sachin Kasera: Okay. Second question sir can you just give a breakup of the total CAPEX on consolidated basis this year what was the CAPEX and if you can give some key breakup?

Amit Kalyani: We will do that offline because CAPEX is basically in 18 and in our Alstom venture.

Sachin Kasera: Okay I will take it offline.

Amit Kalyani: And in terms of full year.

Sachin Kasera: Okay, thanks.

Moderator: Thank you. Next in line is Joseph George from IIFL. Please go ahead.

Joseph George: Sir can you provide a breakup of your domestic revenues in to the four segments that you typically mentioned in your annual report which is engine, chassis, passenger vehicles and industrial if not the absolute number maybe as a percentage of the total domestic revenues.

Amit Kalyani: Non-auto is about 40%.

Joseph George: Sir this was the full year FY15.

Amit Kalyani: Full year.

Joseph George: Okay, perfect.

Amit Kalyani: Chassis is about little less than 20%, engine is about 30% and rest is pass cars.

Joseph George: Okay, and if you don't mind can you also provide the similar breakup for full year last year because when I look at the annual report the number seems to be little different so maybe on the same line as you have given for FY15?

Amit Kalyani: I don't' have those figures with me.

Joseph George: Alright.

Amit Kalyani: You take it offline I don't have those figures with me.

Joseph George: Okay, thank you.

Moderator: Thank you. We have a question from Priya Rangan from Systematic. Please go ahead.

Priya Rangan: Just couple of things from new non-auto revenue can you just say that number and the second thing on the CAPEX plan for the next two years. So what will be the areas where you will be doing the CAPEX?

Amit Kalyani: So CAPEX will be largely in machining, in new products that we are getting into, both on the forging and machining side and some expansion on the passenger car forging facility and on automation and productivity improvement.

Priya Rangan: Okay. And when can we expect to start the volume or the revenue ramp up from the new railway facility?

Amit Kalyani: From what?

Priya Rangan: Railway facility.

Amit Kalyani: That's already started generating revenue.

Priya Rangan: So is it significant now or it's just on….

Amit Kalyani: No, again there also today supplying products to one customer that will become two and by the end of the year it will be four customers, by then we will be at a pretty sizeable amount.

Priya Rangan: Okay. And total new non- auto revenue for the quarter?

Amit Kalyani: 300 crores.

Moderator: Thank you. Next in line is Mr. Sameer from Fair Deal Investments. Please go ahead.

Sameer: I wanted to know this Alstom joint venture has the activity started to pick up substantially there?

Amit Kalyani: We have a very large order book, so we will start rolling out from September.

Sameer: What is the order book now there?

Amit Kalyani: We have an order book of seven sets.

Sameer: Okay, and it will be starting from September.

Amit Kalyani: 7x660.

Sameer: And regarding this our raw material cost which have come down by about 2% from last March but they have picked up from December quarter by 2%. So but the steel and iron ore being at a substantially low prices and they are expected to be there do we.

Amit Kalyani: Iron ore is not at a low price because iron ore is a monopoly in India, it is only sold by NMDC and iron ore prices in India are substantially higher than those in the international markets.

Sameer: So we don’t expect to get the benefit of that in the steel prices.

Amit Kalyani: Nobody in India has seen the benefit of that industrial prices.

Sameer: But our raw material cost currently do you expect at the same level or you expect any jump there?

Amit Kalyani: We expect raw material cost to be more and less in the same ball park right now.

Sameer: Okay, all the best.

Moderator: Thank you. We have a question from Nishant Vyas from ICICI Securities. Please go ahead.

Nishant Vyas: Sir I have just one question both on competitive intensity and its effect on possible pricing in both the domestic market and in specifically in Europe post the year deprecation because obviously competition has emerged in the domestic market so how are you looking at the pricing environment?

Amit Kalyani: I think if you separate let say outside India and India because your question was Europe and India right?

Nishant Vyas: Yes, absolutely.

Amit Kalyani: So as far as Europe is concerned we don't see any significant impact because the industries that we are present in or the customers that we are present in they are all technology products they take a long time to develop and get approved and so on, so whatever difference you are seeing for the past few months may not really affect anything as far as our business goes. As far as India is concerned the competition has been there over the past year. Yes, it will probably get a little more intense but then we are also developing technology solutions which will help us in many ways in addressing this pricing war if it happens so, that is going to be our position.

Nishant Vyas: Okay, thanks a lot. Thank you.

Moderator: Thank you. Next in queue is Nitish Mangal from CLSA. Please go ahead.

Nitish Mangal: I have a question on your aerospace segment, you have secured several new orders in the segment, and you are planning to also increase our portfolio of products over the next few years, so how do you see the segment ramping up over the next three to four year in terms of contribution to your top line?

Amit Kalyani: We expect the ramp up to start probably next year in a small way simply because these products have a longer approval cycle but we are also working with most of the customers on long term contracts and so we will see revenue from the sector start coming in, in a small way this year but in a little more substantiate way next year and next three-four years we will see more and more participation from this sector.

Nitish Mangal: Okay, thanks and another question is on your industrial segment in addition to the weakness in the oil and gas that also seems to be some sluggishness and for example the construction and the mining industry globally, how do you see the impact of that on your industrial business over the next year?

Amit Kalyani: The mining and construction sector hasn't weakened any further it has remained at the same level and in fact in certain markets it's even slightly picking up especially the construction sector.

Nitish Mangal: Okay, understood thank you.

Moderator: Thank you. We have a question from Srinath Krishnan from Sundaram Mutual Fund. Please go ahead.

Srinath Krishnan: Sir your non-auto exports have increased from 722 crores to 1300 crores, will it be possible to provide the oil and gas for FY14 and 15 and on a three years basis what would be the potential for non-auto, ex-oil and gas portion you would be looking at. Thank you sir, thanks a lot.

Amit Kalyani: I am sorry we can't provide that kind of information because it can be misused and we expect to grow our non-auto business consistently as we mentioned that we had set a goal of 40% for our non-auto business we have exceeded that but also we expect to grow our automotive business especially in passenger car, in drive train components and in commercial vehicle value added components. So as a mix we will probably remain in a band of somewhere between 40-50% based on which products are being developed sooner and come into market faster.

Srinath Krishnan: Sure thank you.

Moderator: Thank you. We have a question from Bobby from Fremont Investments. Please go ahead.

Bobby: Sir with all the changes you have been making to your business model would you still consider Bharat Forge to be a cyclical company?

Amit Kalyani: That is a question you need to answer.

Bobby: What is your view?

Amit Kalyani: There are two levels of cycle one is normal business cycles the second is something like what happened in Lehman Brothers, when something like that happens then all the markets come down simultaneously because of risk taking ability going down and capital is getting withdrawn from the markets. I think not withstanding a situation like that I think we are far less cyclical company today than what we were. I think we have transitioned in to a model where we are able to use technology to grow our business rather than capital so the risk of putting capital up and not generating revenue from it is significantly diminished because we are using capital fungibly and we are able to access lateral markets and lateral customers with the same assets, so that substantially reduces the risk and the fact that we are able to do product development and IPR on our own is one of our biggest strengthen and something that will help us generate and grow revenue going forward across sectors irregardless of whether the sectors are growing or not because no matter whether a sector grows or not people are always looking at newer and better supply resources and especially once that can deliver more total value and total cost of ownership. I think if you look at our results, if you look at any of our competitors or others over the last eight, nine quarters what they have said and achieved compared to what we have said and achieved I think that should help, I think you should see that so I think that is probably where your question is coming from.

Bobby: Thank you very much.

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

Raghunandan: I had two queries, on the Alstom JV with the production being ramped up to full capacity what would be the revenues at full year production levels and secondly the CY14 international subsidiary numbers which was mentioned in the analyst report shows the revenue at 3,441 crores for CY2014 and that does not match with the overseas subsidiaries revenues being given on a quarterly basis which is closer to 2400 crores.

Amit Kalyani: There is our trading entity in the UK through which our exports are routed which needs to get netted off in the consolidation which is approximately 1000 crores, 974, or something like that.

Raghunandan: Thanks sir for the clarification. And on the Alstom what would be revenues at peek?

Amit Kalyani: Our Alstom JV will fully ramp up over three to four years but at full capacity it can generate close to 4-5,000 crores of revenue.

Raghunandan: Per year?

Amit Kalyani: Yes, annually at the current rated capacity.

Raghunandan: And sir just if I can squeeze one more question, there was a 2% drop in realizations on a Q-o-Q basis and 150 bps increase in RM-to-sales on a Q-o-Q basis, would it be mainly because of Euro depreciation and lower machining on a sequential basis sir.

Amit Kalyani: It's a combination of that plus product mix plus inventory reduction.

Raghunandan: Sure, sir thank you.

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

Basudeb: Sir if I missed out you just now said that you have exceeded your expected export growth of 40% and as it was at 47%.

Amit Kalyani: Not export overall share of non-auto in our overall business.

Basudeb: So any ballpark export growth target going ahead down the line on this 47%?

Amit Kalyani: I don't know what you are talking about actually. 47% export growth, growth next year as well. I am not going to give you a figure but let's just say it's going to be a double digit growth.

Basudeb: Sir double digit starts from 10 to 47 anywhere.

Amit Kalyani: It actually goes from 10 to 99.

Basudeb: So what 47 in between so still any optimum outlook?

Amit Kalyani: I cannot give you a figure right now I am sorry.

Basudeb: Okay, thanks.

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

Sonal Gupta: Amit you alluded to the fact that R&D spend will go up from 1.2 to 1.5% currently to about 2% plus, could you just talk about which are the areas in which you are sort of investing in terms of R&D and what could be the sort of opportunities you are looking at and the second thing was, like you mentioned in your last year's annual report on light weighting component, etc., so could you just give us some sense of have you seen any order wins in those areas?

Amit Kalyani: Let me just say this that all the new sectors that we have gotten into and one business has been based on our own product innovation, I don't want to say anything more than that because all this will get documented and shared on a transcript so when we have a analyst meet or something we will do more of that or maybe we can even do a tour of our R&D facilities and have you all see what we are doing. All I will say that there is no forging company in the world who is doing what we are doing in terms of R&D.

Sonal Gupta: Right, sure so we will look forward. And on aerospace could you give us some, the target is still to have it as a $100 million vertical in four to five years right?

Amit Kalyani: Yes.

Sonal Gupta: And you will be doing both Titanium forging as well along with steel

Amit Kalyani: Yes. We are already doing Titanium.

Sonal Gupta: Okay, so when this the meaningful ramp up really start for this thing FY17, FY18?

Amit Kalyani: Year after next '17.

Sonal Gupta: Okay, fine. Thank you so much.

Moderator: Thank you. We have a question from Hitesh Goel from Kotak Securities. Please go ahead.

Hitesh Goel: Sir can you just brief me why the European exports have grown at 22% Y-o-Y because you are saying the European market is flattish and oil and gases has also not expanded and there is zero depreciation as well so can you just give more clarity on that?

Amit Kalyani: That is Y-o-Y for the quarter.

Hitesh Goel: Yes, so then this quarter there is zero depreciation plus you are saying truck market is flat so can you give some idea why it has grown 22%?

Amit Kalyani: To find some new business that is it, which has ramped up.

Hitesh Goel: That is pass cars or additional business from the truck sector?

Amit Kalyani: It's a combination.

Hitesh Goel: Okay. And sir oil and gas exports, oil and gas business out of standalone would be around 10% of its revenues would that be the right number?

Amit Kalyani: I am sorry I can't share that information, not on an open call like this.

Hitesh Goel: Okay, sir thank you very much.

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

Kapil Singh: Any clarity on what kind of ramp up are we seeing in the Indian non-auto space so far and what would be the contribution of that in your overall revenues for FY15?

Amit Kalyani: FY15 our Indian non-auto was about 600 crores.

Kapil Singh: And what kind of ramp up are we seeing there?

Amit Kalyani: As I mentioned India non-auto is a very large opportunity we are not calling it non-auto anymore we are calling it Make in India. The whole Make in India opportunities are multiple thousand crore opportunity.

Kapil Singh: What I was trying to get at is that have we started to see a pickup in CAPEX activity already?

Amit Kalyani: No, not yet.

Kapil Singh: Okay. Thank you.

Amit Kalyani: If that is the question, not yet. But just to let you know our Make in India is not just on CAPEX. We are doing a lot more, and I don't want to talk about it right now but once we start getting business then we will start talking about it. We are doing some very interesting and exciting things. Again using technology and innovation as the driver for this business.

Kapil Singh: Thanks sir, we will look forward to that.

Moderator: Thank you.

Amit Kalyani: So ladies and gentlemen thank you very much for your time and interest in our company. I am very glad that so many of you were on the call and we look forward to your continued support and interaction and if anybody has any direction questions please contact our team either through email or phone and we will be happy to answer your questions. Thank you very much and have a great evening bye-bye.

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