"MM Forgings LimitedQ4FY 2017 Earnings Conference Call"

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MANAGEMENT: **MR. VIDYASHANKAR KRISHNAN -- VICE CHAIRMAN AND MANAGING DIRECTOR, MM FORGINGS LIMITED**
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MODERATOR: **MR. PRAYESH JAIN -- IIFL WEALTH MANAGERS**

Moderator: Good Day, Ladies and Gentlemen, and Welcome to the MM Forgings Limited FY 2017Results Conference Call hosted by Wealth Division of IIFL Investment Managers. As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal an operator by pressing "*"then "0" on your touchtone phone. Please note that this conference is being recorded.

I would now like to hand the conference over to Mr. Prayesh Jainfrom IIFL Wealth Managers. Thank you and over to you, sir!

Prayesh Jain: Thank you, Mallika. Good Evening, everyone. On behalf of IIFL Wealth Managers I welcome you all for the Q4 FY 2017 Earning Conference Call for MM Forgings Limited. At the onset, I would like to thank the management of MM Forgings for providing us an opportunity to host this call.

From the management, we have with us today, Mr. Vidyashankar Krishnan -- Managing Director of the Company; and Mr. R. Venkatakrishnan -- CFO of the Company.

We would start with some brief updates about the Company and the results from the company side and then we can take it for the question-and-answer session.

I now request Mr. Vidyashankar to take it forward. Over to you, sir!

Vidyashankar Krishnan: Good Evening, everyone. So, I will give a brief introduction about MM Forgings Limited. My name is Vidyashankar Krishnan, I am the Managing Director of the Company. Today we are a company with about Rs. 5-million-dollar work and capacity of about 60,000 tonnes.

We were started in 1945 as Madras Motors Limited. We were selling Enfield Motorcycles at that time. From 1974 when my father took over management of the company, we started our first Forging facility at Singampunari near Madurai. By 1990 we had shut down the dealership for the Motorcycles and moved totally into the Forging business. Between 1991 and 2017 we have expanded at two other facilities. One in outskirts of Trichy in a town called Viralimalai and the other at the outskirts of Chennai in industrial district now called as Oragadam- one of the hottest manufacturing districts in the entire country.

We also have Solar and Wind Farm in the southern part of the states. Basically, all our facilities are within the state of Tamil Nadu.

We supply about 40% to domestic customers and 60% is exported. We focus on Hot Forging which basically means we buy steel as bars, cut them into pieces and heat the cut pieces to hot forging temperature of around 1250 degrees temperature. The hot cut piece is then placed between two die one in the top and one in the bottom and forged into shape. The forging that results then is trimmed to take out some waste material and then heat treated. It is further processed and may be even machined and deliver to customers. Around 65% of our customers are from the commercial vehicle space. And another 10% come from the pass car space, the balance 24% - 25% is non-automotive. Our weight range is from 300 grams to about 90 kilograms.

We have been winning the EEPC for large exporter of Steel Forgings from South India for the last 25 consecutive years. We take pride in ensuring that the forging that we make live up to international standard quality and delivery because our customers more than 70% of them are blue chip OEMs all over the world. So, in brief, this is the quick introduction to MM Forgings.

Quarterly results for the previous year - FY 2017 we ended at total turnover of Rs. 489 crores as against Rs. 507 crores for the previous year. We are seeing a drop of 3.5%. On a net basis, our net basis our net profit stands at Rs. 43.42 crores as against Rs. 50.08 crores in the previous year.

Operating profit before interest depreciation and tax stands at Rs. 104 crores as against Rs. 113 crores. We have also provided for about Rs. 3.xx crores of higher deprecation this year and taking into account slightly lower taxation, the net is about Rs. 43 crores. On a cash basis, we have made about Rs. 4 crores lesser than previous year. These are the quick financial highlights of the previous year.

Let us go to the quarterly highlights. In the fourth quarter of 2017, we have had a turnover Rs. 123 crores, operating profit of Rs. 26 crores which is at an EBITDA level of 21% and the net in the fourth quarter is Rs. 12.14 crores after tax impact.

The net profits for the fourth quarter is at Rs. 12.74 crores after taking to account a MAT credit entitlement of Rs. 2.28 crores. So, before the MAT credit entitlement our profit after tax is Rs. 10.80 crores.

Overall for the year profit stand at 8.7% and that similar level has been maintained in the fourth quarter as well and profit the same net profit after tax for the previous year stood at 9.8% on sales. In brief, these are the numbers for the fourth quarter and the year as a whole.

I would now throw the floor open for questions.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the Question-and-Answer Session. We have the first question from the line of Ritesh Cheddafrom Lucky Investment Managers. Please go ahead.

Ritesh Chedda: Sir, just want to know the volumes for this year and the volume for last year the capacity utilization and this 60,000 tonnes when you referred as capacity, did you include the new 8,000 press in it or it is excluding the 8,000 press?

Vidyashankar Krishnan: Okay. What we have produced in this year is 36,600 tonnes whereas the previous year was 38,700 tonnes, a drop of 5.4% and the capacity stands at approximately 60,000 tonnes this year and that does include the 8,000 tonnes press.

Ritesh Chedda: Okay. And when did the 8,000 tonne press get operational?

Vidyashankar Krishnan: The 8,000 tonnes press is still in pilot production. We are producing sample lots. Some parts have gone into bulk. But I could say that the press will go largely commercial on stream only by July to August of this year.

Ritesh Chedda: Lastly, I just want to check can you the old capacity is it fully utilized. So, barring this 8,000 tonne you were operating at full utilization.

Vidyashankar Krishnan: I would not say that - definitely not especially when the turnover has dropped. So, even in the previous year we have achieved let us say 38,700 tonnes of production, our capacity was in the range of around 48,000 tonnes to 55,000 tonnes - 48,000, so even there we had head room. Roughly, about 75% capacity utilization was what we have achieved.

Ritesh Chedda: Just want to check, what would be your volumes in FY 2018 and FY 2019 and how are you placed on this 8,000 tonnes press knowing that this company is fairly conservative, so we believe that a lot of this press must be pre-sold. If you could give some thoughts there on the volume ramp-up and the utilization of these press and what kind of volume is possible in 2018 and 2019?

Vidyashankar Krishnan: I would say very clearly say that the volumes possible is50,000 plus tonnes but what we will be able to deliver and what markets will be able to reasonably absorb or we will be able to develop and harness -that is the question, I would say in this year we should be looking at something in the region of Rs. 50 crores to Rs. 70 crores plus.

Ritesh Chedda: About 10% volume higher.

Vidyashankar Krishnan: About 10% growth in volumes. And next year we should see something of Rs. 70 crore plus.

Ritesh Chedda: 70 plus, so basically 36 growing by 10% and then you reach 70,000 tonnes that is how it is?

Vidyashankar Krishnan: Pardon.

Ritesh Chedda: 70, I did not understand. So, I understood 10% volume growth in FY 2018 but I did not understand…

Vidyashankar Krishnan: Yes, so that will go to about 40,000 tonnes.

Ritesh Chedda: Right. And FY 2019 will go to?

Vidyashankar Krishnan: Another 15% let us say, 46,000 tonnes to 50,000 tonnes easily.

Ritesh Chedda: Okay, that way. So, basically 20% all growth.

Vidyashankar Krishnan: Yes.

Ritesh Chedda: And on your new capacity how are you placed in terms of tied up volumes or in terms of sample delivery at what stage because these slightly longer processes if you could…

Vidyashankar Krishnan: Some developments are long cycle some are short cycle. Some parts that we have developed have gone into bulk, some parts are in design stage, some parts in sample stage, so various stages, all that has been factored into these numbers.

Ritesh Chedda: And is it a Brownfield expansion?

Vidyashankar Krishnan: Yes, it is a Brownfield expansion.

Ritesh Chedda: So, there would be no addition of fixed cost, not any big addition of fixed cost?

Vidyashankar Krishnan: Yes, very little addition of fixed cost, very little.

Ritesh Chedda: Can you give OPEX cost on this particular facility which gets added even if you do not run the facility what kind of cost you would incur?

Vidyashankar Krishnan: That is pre-mature may be about 5 lakhs, 7 lakhs, 10 lakhs a month maximum.

Ritesh Chedda: Maximum, okay.

Vidyashankar Krishnan: And that can be very-very business driven**.**

Ritesh Chedda: Okay. This includes the employee element?

Vidyashankar Krishnan: Yes, we have a very skeleton workforce as of now associated with this which will take some of our existing operations but we will have to add a few people as we ramp up. If you ask what is our cost right now – it is incurred even without running the machine.

Ritesh Chedda: And then you add depreciation, it is basically Rs. 1.5 crores - Rs. 2 crores let us say on OPEX and whatever is on the depreciation numbers.

Vidyashankar Krishnan: Yes. Depreciation anyway is a non-cash charge. I am not too concerned about that. If anythingit is a tax shield and it also creates opportunity for growth.

Ritesh Chedda: Which means by FY 2020 you should reach peak output of 60,000 tonnes.

Vidyashankar Krishnan: God willing, yes.

Moderator: Thank you. Next question is from the line of Ramakrishnan Seshan from Spark Capital. Please go ahead.

Ramakrishnan Seshan: Sir, my first question is on the segment wise and geography wise revenue mix for FY 2017 and the corresponding figures for FY 2016, could you please help us with that?

Vidyashankar Krishnan: Europe stood at 30%; India at about 45%; and North America at 17%.

Ramakrishnan Seshan: And the corresponding figures for FY 2016 would be?

Vidyashankar Krishnan: Corresponding figures for FY 2016, 30%Europe; 35% India; and 26% North America. So, if you see North America has fallen, India has grown, Europe has been marginally stable.

Ramakrishnan Seshan: Has also grown marginally.

Vidyashankar Krishnan: Marginally, Europe has marginally grown.

Ramakrishnan Seshan: Marginal growth as well, right. Sir, in terms of the new 8,000 tonnes press line we understand that the trial production has started like you said it is on pilot mode right now. In terms of tying up of this capacity what percentage has actually been tied-up by way of firm commitments with customers, if any?

Vidyashankar Krishnan: I would say firm tie-up plus visibility together as of now is about 15% to 20%.

Ramakrishnan Seshan: 15% to 20%, right. And where would you estimate this to go by say FY 2019?

Vidyashankar Krishnan: If we get our act together by FY 2019 at least by end of the year upwards of 60% to 70% and if everything goes well we should be looking for next machine.

Ramakrishnan Seshan: Wonderful.

Vidyashankar Krishnan: If everything goes well.

Ramakrishnan Seshan: If everything goes well, yes, right. And sir, in terms of realizations how will the realizations be different for the products from the new press line as compared to the existing press in terms of the delta?

Vidyashankar Krishnan: Not very different because I think we have been creaming out the other portions of the global market, so not very different. If at all anything it is equal and a bit higher, the bias is equal or higher.

Ramakrishnan Seshan: Right. Sir, would you be able to put a figure to it?

Vidyashankar Krishnan: About 10% - 15% higher.

Ramakrishnan Seshan: 10% to 15%, higher, right.

Vidyashankar Krishnan: If at all. Depends upon the value add at each part, some part. Some part will be at par with whatever we do right now.

Ramakrishnan Seshan: Right. Sir, in fact that brings me to my next question, in terms of machining capacities for the new press line. So, what kind of proportion of machining are we looking for products from the new press line and are these capacities in place right now?

Vidyashankar Krishnan: About ultimately by FY 2019 or FY 2020, we should be machining 75% of the production out of this machine.

Ramakrishnan Seshan: Okay. And the capacity the machining capacities will be added in a modular fashion as and when we go

Vidyashankar Krishnan: Will be added in a modular fashion as we go on. Right now, about 15% to 25% I would say we have the capacities in place.

Ramakrishnan Seshan: Right. For 15% to 25%, right. Sir, my final question is if I were to ask you what is the single most important differentiating factor for MM Forgings as compare to say Bharat Forge or in Ramkrishna Forgings, so we also compete in the same space what would your answer be?

Vidyashankar Krishnan: I would say we would be able to bring a better value proposition overall and we would be a sustainable partner for the end customer. With regard to Bharat Forge I would like to temper this thing and say that we would have done a very good job if we reach about 80% to 90% of their levels. I would not like to over play what MM forging is capable over Bharat Forge. I would rather be a bit more circumspect and I have a lot respect for what Bharat Forge has done and is doing. So, I would say that we are very happy, if we reach those kinds of levels. But overall, I think we should bring a good value proposition to our customers.

Moderator: Thank you. Next question is from the line of Paras Adenwala from Capital Portfolio Advisors. Please go ahead.

Paras Adenwala: You mentioned about 10% volume growth this year and about 15% to 20% in FY 2019, so would you say that your realizations would also move in tandem or would be lesser than that how would it be?

Vidyashankar Krishnan: I would say broadly on par what we are doing right now, broadly.

Paras Adenwala: I see. So, which means you are talking about 10% top-line growth and about 15% top-line growth in FY 2018 and FY 2019?

Vidyashankar Krishnan: Yes.

Paras Adenwala: I see, okay.

Vidyashankar Krishnan: Broadly on the same line, if I want to play a bit conservative I could say 5% drop and if I want to be a bit aggressively as 5% to 10% plus. But I would say broadly around the same level.

Paras Adenwala: Okay. And do you expect your margins to improve in the next year or would it be around the current levels?

Vidyashankar Krishnan: I will be very candid, what will happen to margin is – it will definitely improve capacity utilization, no doubt about that, it is given in most industries particularly ours. So, there will be an improvement in margins and what we are seeing over time is that fixed cost have a counter effect which counters margins. We have to be careful about that but we cannot be too careful because we have to be investing in people. So, we ensure that we sustain to the next level. Plus, on the negative side we have inflation always haunting us. As a result I would say the outlook on margins is a positive bias going forward. Always cost reduction initiatives are there and we are at it all the time. These will also be a counter. Having said that I would say there is a positive bias**.**

Paras Adenwala: Okay. And in terms of your growth drivers for 2018 and 20119, do you expect that from all the three geographical segments or would you like to say one over the other?

Vidyashankar Krishnan: I would say growth will come from all the three geographic segments. One, the U.S. market is doing very well, so, North America will grow as a result of that. Europe, we are developing new customers and products and relationships. Hence, Europe will also grow. India definitely we are focusing a lot on India and very bullish about our country going into the future. I am a strong believer in that the Indian economy has to grow at a resemble clip. Of course, this is subject to global headwinds or tailwinds. The growth figure can grow from let us say 5% to 10%, plus or minus 2% based on global facets. But grow we must, so I am very bullish on India. Therefore, our share on Indian market also will grow.

Paras Adenwala: Okay. And finally with Rupee appreciating against Dollar, how are you really dealing with that when it comes to realizations?

Vidyashankar Krishnan: We try to cover on peak, we try to cover deep and we try to manage at an overall level. For example, as we speak our overall exposure on the Rupee dollar is about Re. 1 or Rs. 2 to Rs. 2 ahead of where the Rupee stands today. But I always say that I would rather that my cover be out of the money than in the money because if it means that the covers are in the money then the Dollar headed south vis-à-vis the Rupee. That means ultimately over time we will be struggling with our business. And having said all these conditions - considering where oil is, considering position of our country, our dependence on POL imports, etc., I would say that if there is any appreciation of the Rupee it will be very short-term and generally the Rupee has a negative biastoit**.** The short-term appreciation swing has a huge impact on other sectors that bring in FOREX and there will be a correction immediately if not within a short period of time. Generally, I hold that the rupee will weaken over the next few years unless you know something dramatic happens like we are weaned away from oil over the next 10 years - 15 years. But that is pretty long shot. Not right now, I do not see that happening. Anywhere before 2025 or 2030.

Moderator: Thank you. Next question is from the line of Ronak Sardafrom Axis Capital. Please go ahead.

Ronak Sarda: Sir, quickly if you can just help with some numbers, I think I missed some of them. So, for FY 2017 what was our end product mix in terms of CVs or passenger vehicles and vis-à-vis what was that number in FY 2016? Can you give the Europe, India, and North America break-up if you can just repeat it, there was some disturbance and I missed the numbers?

Vidyashankar Krishnan: Yes, the industry-wise break-up roughly for FY 2017 76% is automotive overall of which 65% is CV and 10% pass car. The figures I gave are for FY 2016, okay. For FY 2017, CV is 60% and pass car is 26%. Others also please note the correction. I had earlier mentioned 76% whereas the total for the year is 86%for pass car for the automotive segment. So, 60% is PV and 26% is pass car. Pass car has shown a significant growth as we have predicated a few sessions back.

Ronak Sarda: And balance is non-automotive?

Vidyashankar Krishnan: Balance is non-automotive.

Ronak Sarda: Okay. And sir, just the Europe, India, and North America break-up for FY 2017 and FY 2016 if you can just repeat the numbers? Europe, India, North America break-up.

Vidyashankar Krishnan: Okay, sure. Europe stands at roughly 30% for FY 2017; 29% in the previous year. India 43% versus 35%. North America 17% FY 2017 and 26 odd percent for 35% America is included it is about 35% but if we take North America alone 25% - 26%. So, North America has de-grown; India has grown; Europe has marginally grown. This year we expect to grow North America truck market is strong and Indian market also to grow.

Ronak Sarda: Right. Sir, I mean the passenger vehicles growth which we have seen is it largely then driven by domestic sales I mean if I just look…

Vidyashankar Krishnan: Pardon, please repeat your question.

Ronak Sarda: Sir, the passenger cars the contribution has gone up from 10% to 25% where has the growth come up it is largely India or it is actually mix of both U.S. and India as well because CVs would have gone down last year from last year levels.

Vidyashankar Krishnan: Yes, CV definitely has grown but you are talking about the pass car segment?

RonakSarda: Yes.

Vidyashankar Krishnan: U.S. our pass car is zero. Pass car has gone up in both Europe and India.

Ronak Sarda: Okay. And that was driven by some new order win or…

Vidyashankar Krishnan: Yes, new models and sales to existing customers itself.

Ronak Sarda: Right. And for the 8,000 tonnes press it will start you mentioned from Q2 we may see some contribution to the revenues.

Vidyashankar Krishnan: Yes.

Ronak Sarda: Okay. And peak capacity may be by FY 2019 if things go well?

Vidyashankar Krishnan: Yes.

Moderator: Thank you. The next question is from the line of Laxminarayan from Catamaran. Please go ahead.

Laxminarayan: Sir, two things one as you mentioned that Europe may look good looking into the future and North America also will look strong, right? Can you just help me understand in terms of both North America and Europe, is there a specific segment you actually cater to? And over the last five years how this has actually changed and if you look at in the next two years where will be the growth coming from for these two markets because I read that U.S. market is in turmoil whereas Europe market is in a kind of very stable phase in terms of commercial vehicles, correct me if I am wrong?

Vidyashankar Krishnan: Yes, you are right, Europe is stable and U.S. has gone through a lot of down swing in the last 2 years and now it seem up in the business cycle. At least in next 12 months to 18 months what we hear in the U.S. market is going to be very strong.

Laxminarayan: Sorry, U.S. market?

Vidyashankar Krishnan: U.S. market will be very strong in the medium term.

Laxminarayan: This year you drew around 27% of your revenues from U.S. market, is that right?

Vidyashankar Krishnan: No, 17%.

Laxminarayan: 17%. And in the U.S. market I mean I think sorry U.S. or you said North America is 27% sorry I am….

Vidyashankar Krishnan: North America was 17% you are right, let me clarify. North America is 17% this year, 26% last year.

Laxminarayan: Okay. So, now in U.S. is there a specific segment you actually cater to because you mentioned you are not big in cars in the U.S., right it is more in trucks, right? Now, within that which class of trucks you are focusing and outlook for that particular class?

Vidyashankar Krishnan: Largely we are at the Class 8 truck segment - the heavy truck in the U.S. and the outlook for that segment is pretty positive over the next few months.

Laxminarayan: Got it. And in India you mentioned you had 43% revenues comes from India. If you can just break that into passenger cars and trucks what has actually given you a larger stronger growth and if so, can you just elaborate as to what specific thing has given you that kind of a strong growth in India?

Vidyashankar Krishnan: Basically, our attention to that pass car industry growth in India and CV sales largely has been neutral over the last year compared to the previous year.

Laxminarayan: And what has been the growth in the car segment for you in India last year and on the truck this year I mean for example FY 2017?

Vidyashankar Krishnan: In quantum terms?

Laxminarayan: Yes, in quantum terms, in terms of tonnes or in terms of realization or in terms of gross revenues?

Vidyashankar Krishnan: Pass car has grown by about 60% from Rs. 36 crores to about Rs. 59 crores. The CV sales had de-grown by about Rs. 3 crores.

Laxminarayan: Okay. Sir, and one question on overall safety and emission norms, right. So, as you know the emission one of the significant factor of emission is essentially the weight of the truck, right and weight of a car and globally there has been moment towards from the iron and steel type of casting for forgings to almost significant may be moving towards aluminum or any other alloy. Now, how are you looking at that and do you see not may be immediate but if you look at fast forward like 5 years to 10 years, how are you thinking about your role in that transformation? I do not much about your firm but all I know is that there is definitely an impetus towards reducing the weight of the vehicle, right. Which means that different alloys are being tested.Now, there may be a case where your company is making some products which cannot be replaced which has to be done in the same form, so is that right? Or in case that if your firm is actually supplying some products which are subject to material obsolescence, if so what is your de-risking plan?

Vidyashankar Krishnan: Good question. As of now for its cost and strength to weight ratio, steel reign supreme. Where that is a drag on the performance manufacturers prefer to go for lighter materials like aluminum. Aluminum. In pass cars that too in a market like India this is very-very remote for the reason that the market is very price sensitive. You see aluminum forgings right now being used only in top-end models made in developed countries, not in your standard volume car. So, that is the segment that we do not serve yet. So, wrt aluminum replacing steel, I do not see that happening beyond a point. In trucks, aluminum is absent and it will continue to be absent for simple reason for its strength is nowhere near steel. In pass car aluminum has a limited use because of price. So, between the two I do not fear the aluminum side too much.

Laxminarayan: Okay, fair enough, sir. And in terms of the European truck segment…

Vidyashankar Krishnan: There are opportunities in the aluminum space as the basic production equipment that makesaluminum remains the same. What happens or what changes is largely the method of heating. To convert one of our lines to aluminum production which not take much time and we can rejig as many lines as required for that or make a fresh line.

Laxminarayan: Okay. Sir, which means that when you are actually setting up this incremental Brownfield capacities or anything, I am sure you will be keeping this in mind that your line can actually become more fungible at some point in time if it needs to be, right?

Vidyashankar Krishnan: See, we do not look at aluminum fungibility. We have not considered that as of now. But generally, it is fungible and forging lines are to certain extent generally fungible- like mechanical process are pretty fungible and some of the products are made on those lines. But you get into specific like up-setter or rolling machines, etc., you get narrowed down to products. Across the set of products also the forging machines are fungible. Generally I think fungibility is a quality in production equipment in forging. Though we cannot say the same thing about machining. Machining is pretty-pretty process specific.

Laxminarayan: Sir, I have another question, so if you look at the European commercial vehicle and I believe you supply to both passenger cars and commercial vehicle in Europe is there like in U.S. you mentioned Class 8 trucks. In Europe what is the segment you cater to and what you think about the production target for the next year for that particular class of vehicle?

Vidyashankar Krishnan: Trucks is still going to be positive in Europe. We supply largely to the large trucks in Europe as well. So, that space will continue to juggle up.

Laxminarayan: Right. So, essentially in the LCV segment or there you also supply to the HCV?

Vidyashankar Krishnan: HCV only.

Laxminarayan: HCV, heavy commercial vehicle, okay. And your realization or your profitability, if you can just rank India, U.S. and Europe which is the most profitable for you in terms of realization or EBITDA margin or whichever way you look at it and which is the lowest?

Vidyashankar Krishnan: One thing I can say is that India would be the lowest. Europe and U.S. not much to choose from.Some products U.S. will be better, some products Europe will be better by and large the same. India market is far more price sensitive than these two markets.

Laxminarayan: Okay. Sir, just one last question on is there a particular type of forging you supply or a particular process you undertake where you are the category or you are a clear leader in terms of preferences. You mentioned that you differentiate by value addition with respect to your competitors not only in India outside India also. Any segment where you are the best because you cater from 0.2 to almost like 0.90 or 0.60?

Vidyashankar Krishnan: It is very good question but very difficult to answer and at the same time I cannot give you too much details also because I would like to retain our competitive edge. So, I will be definitely guarded, please excuse me for not being specific. You will not get much information from me on this question. But in any case, I can tell you there are sets of products here and there and we are leaders globally. There are quite a few products that we have identified and we are pretty competitive wherever we go. So, we are also focusing to harness our capabilities in those products.

Laxminarayan: And do you have sufficient cash balance in terms of your long-term borrowings and short-term borrowings and your cash balance, is it because your interest cost is lower than the interest you earn on cash or why is that you have a cash balance and also good amount of long-term borrowings?

Vidyashankar Krishnan: I think can answer that is a good question and a good answer as well. So, basically I would like to remind all of you if you read this comic called Asterix. It is a favorite series of mine. In it Vitalstatistix who is the chief of that village in France. A very brave warrior but he fears only one thing - that the sky may fall on his head. I would like to say similar to that is my view – namely, that over a period of time I see that the global markets are on an inflexion point and I am not very confident looking at this point. What happened in 2008, 2009actually can happen at any time now. And this time around the countries that pumped QE1, QE2, etc., have all exhausted their armory and they do not have any more weapons in their arsenal So, this time around if such a thing happens, you can be very sure that it will take a lot ground to recover. In fact, even the last time around, I expected that the recovery would take several more years and I was too wrong because I did not expect the economies to use quantitative easing to recover. Well, maybe this time around they may find other trick that I am not aware of - like QE last time.There may still have some trick up their sleeves. So, to cut a long story short, I believe that the global economy is on an inflexion point and it can at any time crash. But I cannot expose MM Forgings to the crash at that point of time. Running around for banks that would lend us money then would be pretty chaotic and I would not say that will not happen. I would not want to put MM Forgings in that situation should it come to pass. So, ONE - it is a defensive strategy. TWO - there is also a certain amount of offensive in that because we get some carryby borrowing a bit lower and investing a bit higher but that is not the main strategy, I am happy even if the costs are even, the difference gets covered up. So, both ways, first it is a defensive move. Second, there is an offensive element to it as well, ultimately it makes business sense.

Moderator: Thank you. Next question is from the line of Shrimant Dodiya from Unify Capital. Please go ahead.

Shrimant Dodiya: Sir, my first question is I wanted to understand about your customer profile, what would be the contribution say from your top five customers globally?

Vidyashankar Krishnan: Top five customers worth 65%.

Shrimant Dodiya: Okay. Secondly, if I hear you right you had mentioned that currently 15% to 20% of your products are machined and you are looking to take this number to around 75% was that right number?

Vidyashankar Krishnan: No, that was specific with regard to the 8,000 tonnes press. The question was asked specifically with the 8,000 tonnes and the answer was given specifically to that, so you should restrict the scope of the answer only to the products coming over the 8,000 tonnes press. But the 20% number is also applicable to generic product to our current production line which does not include the 8,000 tonnes press. But I do not expect that figure to go to 75% I would like to add that correction. So, the numbers given of 75% was applicable only for the 8,000 tonnes press.

Shrimant Dodiya: Okay, understood. So, for the existing products that you manufacture with the existing capacity what would be this percentage number go to from say 20% currently in the next say two years?

Vidyashankar Krishnan: Not very much maximum 30% I would not put it beyond 25%.

Shrimant Dodiya: Okay, understood. And if you could help me with the CAPEX that was done in FY 2017 and it would be in FY 2018?

Vidyashankar Krishnan: CAPEX done in FY 2017 was about Rs. 90 crores and then in FY 2018 it should be in the region of around Rs. 75 crores to Rs. 100 crores.

Shrimant Dodiya: Okay. So, this Rs. 90 crores of CAPEX done in FY 2017 this was predominately for the capacity expansion?

Vidyashankar Krishnan: Yes.

Shrimant Dodiya: Okay. And FY 2018 CAPEX will be towards what?

Vidyashankar Krishnan: FY 2018 also will be towards the machining facility of 8,000 tonnes press concluding all the other with all the other vendor. It would be largely focus on that around the machine shop.

Shrimant Dodiya: Okay. And you had mentioned in the Europe your growth strategy is to introduce new products, is this in the commercial vehicle space or in the pass car space?

Vidyashankar Krishnan: Both.

Shrimant Dodiya: Okay. If you could highlight if there were any customer additions that happened in FY 2017 broadly a sense on that.

Vidyashankar Krishnan: Customers were added in FY 2017 but they have not into bulk for obvious reasons otherwise we would not have drop in sales. So, those have been added there.

Moderator: Thank you. Next question is from the line of Rohan Shah from Alpha Enterprises. Please go ahead.

Rohan Shah: I just wanted to confirm there is a slight typo in the balance sheet, so is it correct that current investment figure is nil?

Vidyashankar Krishnan: Current investments in the balance sheet related to cash flow is it?

Rohan Shah: It is in the current investments in the balance sheet for FY 2017.

Vidyashankar Krishnan: Okay, what is your question there?

Rohan Shah: Is it correct that it is nil because there are two items marked (a) and there is blank corresponding to current investments, so would it be correct to say it is nil or?

Vidyashankar Krishnan: Yes, actually investments will be nil.

Rohan Shah: Okay. I just wanted to clarify that and I just had a macro…

Vidyashankar Krishnan: Thatitem of current investments itself should not have been mentioned there. Thanks for pointing out this thing.

Rohan Shah: Yes, I thought so, okay. Sure. And sir, I just wanted to clarify on a macro point when you undertake CAPEX, how do you think of the payback do you have a schedule payback period in mind or do you have return on capital in mind before you undertake the CAPEX?

Vidyashankar Krishnan: I would harp back to what my father told me several years back that if you draw the P&L and then make an investment you will never make an investment. So, we have an idea in terms of broad pay back, particularly with regard to forgings and machine. You get into something we try to evaluate it a little bit deeper and then take a stand. But generally, in these two areas we know what is going to be the payback. But payback will be there but in some cases what happens is that the pricing is so bad that you will have very poor pay back. If the investment has been tied to a specific project then we look pay back a little bit tighter. If the investment is a generic investment and is fungible we may not even look at the payback because we know what the payback is going to be. Typically, payback ranges from four years if you are very lucky to about eight years. Beyond eight years we will not invest. It does not make sense,you might rather put money in the bank unless the investment is very strategic – say, you retain a customer or the investment improves product quality in which case you cannot encapsulate them or quantify them so easily.

Rohan Shah: Okay. So, just to rephrase that whatever you have invested in this press it would be approximately Rs. 200 crores if you include the machining CAPEX. You would be happy to have that much incremental EBITDA over say six-year period and that would be a success?

Vidyashankar Krishnan: Rs. 200 croreshas not gone into the 8,000 tonnes press, overall investment including machining building, etc. Right now it stands in the region of about Rs. 110 crores or so - approximately I am just giving you a figure from my mind. So, that is on the investment for the 8,000 T press.The margin it is going to go up. Pay back should in the region of seven years because the press itself is going to have a longer pay back whereas machining investments will be having a shorter payback.

Moderator: Thank you. Next question is from the line of Pradeep Chaudhary, who is an Individual Investor. Please go ahead.

Pradeep Chaudhary: What is the contribution of new products during financial year 2017 and how much it would be for 2018 and 2019?

Vidyashankar Krishnan: I would say FY 2017 new products will be I am making a guess, about Rs. 20 crores and for FY18 it would be much higher in the region of around Rs. 30 crores to Rs. 60 crores.

Pradeep Chaudhary: And here I am assuming that you are taking because of our kind of industry whatever products which have got developed in the last three years are taken as the new product because it takes a little while for ramping up though?

Vidyashankar Krishnan: Yes, what I am saying is that the contribution of sale of product developed or in the past, so that is your sales, you are right. Yes, these products need not have been necessarily developed in the last year alone they have been developed earlier or may be in that year itself.

Pradeep Chaudhary: So, which you are saying is Rs. 20 crores for financial year 2017 and Rs. 32 crores or Rs. 30 crores for financial year 2018?

Vidyashankar Krishnan: Rs. 20 crores for this thing and about Rs. 60 crores.

Pradeep Chaudhary: Rs. 60 crores?

Vidyashankar Krishnan: Yes.

Pradeep Chaudhary: My next question is it is a very I can say that I understand it this way that segment if I see the profitability in different segments then car gives you less profitability with respect to commercial vehicle. Is my understanding correct?

Vidyashankar Krishnan: May be yes, to some extent but not entirely true.

Pradeep Chaudhary: Okay. Now, if it is partly true then how would you protecting that your sales is increase in passenger car?

Vidyashankar Krishnan: You invest, you make products that are profitable, simple. The quality conscious car segment has a margin component that is not too bad.

Pradeep Chaudhary: You give more emphasis on say profitability rather than volumes?

Vidyashankar Krishnan: I would not say that passenger car is light on margins no doubt but it is not too bad.

Moderator: Thank you. Ladies and gentlemen that was the last questions. I would now like to hand the conference over to Mr. Prayesh Jainfor his closing comments.

Prayesh Jain: Thank you so much, Mallika and I would like to thank the management again for providing us an opportunity to host this call and sir any closing remarks from your end, sir?

Vidyashankar Krishnan: Nothing at all. It was pleasure talking to you guys and maybe we can do this again if not next quarter at least the quarter after.

Prayesh Jain: All right, thank you so much. And have a great weekend everyone.

Vidyashankar Krishnan: Yes, thank you. Wish you all the same.

Moderator: Thank you very much members of the management. Ladies and gentlemen, on behalf of IIFL Investment Managers, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.