Federal-Mogul Goetze (India) Limited
Q4 FY22 Analysts Conference Call

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MANAGEMENT: **MR. VINOD KUMAR HANS – MANAGING DIRECTOR**
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Moderator: Ladies and gentlemen, good day and welcome to Federal-Mogul Goetze (India) Limited Q4 FY22 Analysts Conference Call. As a reminder, participants lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing * then 0 on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Mamta Samat from Perfect Relations. Please go ahead, ma'am.

Mamta Samat: Thank you Peter. Good evening everyone and thank you for joining us on Federal-Mogul Goetze (India) Limited's Q4 FY22 Analysts Conference Call. Today, we have with us the senior management represented by Mr. Vinod Kumar Hans - Managing Director; Mr. Manish Chadha - CFO and Finance Director and Dr. Khalid Khan - Director, Legal and Company Secretary.

Before we begin, I would like to add that some of the statements to be made in today's discussion may be forward-looking in nature. We will begin the call with the opening remarks from the management after which we will have the forum open for an interactive Q&A session. I would now request Vinod Sir for the opening remarks. Over to you, Sir.

Vinod Kumar Hans: Thank you very much. Welcome again to this analysts investor conference call. Thank you for joining. I think in the beginning, I will say that on the overall economy, if you see, particularly the way we are segmented, we have been talking this post COVID recovery pattern, whether it is V shape or L shape or whatever, I think more and more direction as we see is the phenomenon of K shape recovery, I would say is more we are heading towards at least the last few quarters. Why I say K shape in general whether you see rural versus urban that is the phenomenon where probably the urban economy has propelled more than the rural one and when you go to the industry specific sides, so you see that the manufacturing versus non-manufacturing, so non-manufacturing is on the upper side of the K and manufacturing being on the lower side of K.

When we further see how is our business segmented into the automotive part of the manufacturing, again we see K in automotive as well where we see very clearly during last year, the passenger vehicle or the commercial vehicle, they recovered very well on the upper side of the K and the two-wheeler and tractor in particular, they were on the part of the side of the K, also because of these two segments, tractor and two-wheeler are impacted more by the rural phenomenon as well. So, I would say that is one particular aspect in front of us and we are continuing to monitor this recovery and we will continue to talk because there are again some signs of two-wheeler and tractor getting back to the earlier numbers. So, there are some signs around this. Second phenomenon, again was impacted by the material cost. So, material, again driven by lot of geopolitical issue as well as some internal issues and also related to some supply chain input materials. We saw volatile involvement in the material or commodity prices, it continues actually. While we have recovery from the customers, on one side, we do have a regional exposure from the material and we will discuss more when we go to the specific presentations and Q&A mode. The quarter was again, I would say overall impacted by the material or commodity movements actually. Third portion I would say again there were two phenomenon were geopolitical side, one was the Ukraine and Russia impact where, I would say, again it did not impact us directly, but indirectly it did impact some of European and other markets where we had export, some share of those actually.

And of course, in this quarter we also had China lockdown and China lockdown impacted lot of I would say freight related constraints, although we do not have any major dependence on China in sourcing supplies, but nevertheless, it generally creates overall impact on the freight and shipping lines and those kinds of things actually. So, I would say these were the three broad phenomenon which impacted the quarter. Some, I would say, silver lining when you see from previous quarter, the semiconductor availability improved, although the uncertainty still remains, but the semiconductor dependent vehicles, whether passenger vehicle or commercial vehicle did significantly improve on quarter to quarter basis. Although, our OEMs particularly in passenger vehicle still claim the demand much ahead of the capacity to supply because of limitation of semiconductors. So, overall, I would say, very interesting quarter where there was a recovery for sure, very visible sign from the previous quarters, but still when we compare this quarter to the last year quarter which was the best ever quarter probably overall for the automotive industry or automotive component supplier was a little bit challenged both on the semiconductor as well as some drag on two-wheelers and tractor. So, that’s how I would summarize the overall situation we are in and we will discuss in specific more as we go into the presentation and Q&A. I would request Dr. Khalid to run through the company presentation. Over to you, Dr. Khalid.

Dr. Khalid Iqbal Khan: Thank you Mr. Vinod Hans. So, first Slide is Safe Harbor Slide to be said that the statements contained in this presentation are forward looking. Next Slide #is about the overview of the company, so Federal-Mogul was set up in 1954 which was initially a joint venture with Goetze-Werke of Germany. Then, this branch was owned by Federal-Mogul LLC at that point in time. Now, it is a subsidiary of Tenneco Inc and globally Tenneco has four businesses namely, Performance Solutions, Motor Parts, Clean air and Powertrain. Company's product substantially fall under Powertrain business growth, so we are based out of Gurgaon and the company is engaged in the manufacture, supply and distribution of automotive Companies in India as well as internationally. So, mainly the company offers pistons, piston rings, piston pins, valve seats and valve guides. The company caters to automotive, heavy-duty, motorcycles, energy, industrial, power generation, railway & defence industry. FMGIL of the company manufactures world class products at its state-of-the-art manufacturing facilities which are located at Patiala in Punjab, Bangalore in Karnataka and Bhiwadi in Rajasthan.

In terms of company employees, more than 5000 people as on 31st March and then we have 3 manufacturing sites, two sales offices and 13 warehouses. In terms of our customers, we have 30+ OEM customers. In terms of manufacturing footprints, there are further details; Patiala Plant is spread over 60 acres of land and basically the products are pistons, piston pins and piston rings and this is the oldest plant which was initially established in 1954 when the company was incorporated. Coming to Bangalore plant, it has an area of about 50 acres and it has the same products, piston, piston pins and piston rings and this plant was established in 1977. The third plant is pretty new as compared to the last two plants that I have just now discussed. So, this plant is located at Bhiwadi, Rajasthan and the area is around 5.5 acres and the products are valve seat and valve guides. This plant was established in 1996. All these plants are certified IATF16949, ISO14001, ISO45001.

Coming to the shareholding pattern as on 31st March, we continue to have this similar and same shareholding pattern, so our parent company which is Federal-Mogul Holdings Limited is holding 60.05% and another promoter company, Federal-Mogul Germany is holding 14.93% and the minority shareholders are holding 24.98% shares.

Coming to the Board of Directors, there have not been any changes in the Board of Directors, so board of directors shared by an Independent Director, Mr. K. N. Subramaniam who has been around for a long time now. Out of 9 directors, 3 directors are independent directors and including one woman in independent director, then we have 4 executive directors and we have two directors who are non-executive and non-independent.

For the next Slide #and regarding market demand slide, I would request Mr. Vinod Hans to walk you through. Mr. Vinod Hans, over to you.

Vinod Kumar Hans: Thank you Dr. Khalid. Next Slide #on Slide #7 on the competitive strength, very much similar what we have been presenting, so we continue to enjoy a good credit rating, long-term A+ and short-term A1+. Our in-house technical centers at Bangalore and Bhiwadi are getting further traction with seamless technology transfers, so we are getting a benefit of being seamlessly integrated into our larger pool of global technical network and that is helping us to consolidate our market position within the domestic market. It is in line with what we have been aiming at and as we progress further on these regulations coming from the government, we are trying to gain a lot from there. We have a well-diversified segment. We are supplying to two-wheeler, tractor, commercial vehicle, passenger vehicle, railways, defence, reasonable export, so we have pretty much, I would say, well diversified which can handle these fluctuation of the market which we discuss that although we had somewhat, I would say, low demands from tractor and two-wheeler during this time, but our ability to push more in the passenger vehicle, commercial vehicle did help us to even out these variations in the market if I have to say. We continue to remain, in terms of liquidity, we continue to have a strong position, so our customers are pretty happy and confident on our sustainability. That is helping us in securing new businesses which are by the way long-term now and we have of course highly stable and experienced team at our leadership and middle management level.

On the next slide, our customers when you see again without going into detail, and it is pretty nicely distributed between the four or five segments which I mentioned. Not to add, but we have reasonable presence in the industrial segment also where the likes of the gensets particularly and industrial engines, we have pretty good market share in that and in terms of plant, Khalid already described, we have three major manufacturing plants and supported by technology centers in Bangalore and Bhiwadi.

On the next slide, again a distribution of revenue split by domestic and export, so this remains flat as compared to the previous year or in the quarter when we see the overall revenue. We would have liked to improve on our export; nevertheless, the last particular quarter did have some issue on our export resulting out of the factor I mentioned on the Ukraine and Russia issue. Although, our direct exposure is about Rs. 7 to Rs. 10 crores for the year, so it is not significant, but then because of the situation the European market overall went down actually and that impacted our supplies to the OEMs which are in main line Europe, but even with that I would say that our ratio of export still remained at 14%.

With respect to giving you an idea of how we are segmented, 28% of our revenue comes from passenger vehicle, about 12% comes from two and three-wheeler, so if you see, these two segments are seemed to be impacted by electrification, although electrification from our point of view is still some time away, but it is fair to mention that 40% of our business, 28% on passenger vehicle and 12% in two-wheeler is impacted by electrification. Nevertheless, we have a good spare market business of nearly 27% coming from R&D spend and aftermarket as well as our spare supplies to the OEM. So, that is good 27% and 33% comes from commercial trucks, commercial vehicle of highway industrial and other stationary engines which are far away at the moment from the cloud of electrification. In summary, I would say our 60% of business is electric agnostic if I have to use that word and it is pretty healthy and we are also trying to see how we can increase this pie of the revenue to navigate better through this kind of situation we have in front of us.

In terms of market position, going to the next slide, we have overall number two position in piston, we are number one in diesel piston, in rings we are number one and in valve seats and guides we are number one. In terms of the requirement of our product, we presented this Slide #in the last conference as well, so if you notice, we have added hydrogen and flex fuel, so there are three drivers. Let me summarize this slide, there are three drivers for the OEMs coming from end user perspective that they need a better fuel economy and then the lower emission regulated by the government and of course the durability side and the life. We are talking a life of nearly about 300 thousand plus for nearly commercial vehicle, so we are into that kind of life of the vehicle at the moment and progressing further. So, this is a big push on these three and our products are nicely placed to answer all these drivers, so we are nicely positioned and when you see these blue dots that is really explained how we are nicely positioned for these three drivers. Interestingly, we started working on hydrogen. For the sake of confidentiality, I cannot name, but we are working globally with 10 OEMs, few of them are also from India and we are pretty much, I would say, orienting ourselves with respect to our test beds and designs and these capability and we are working very closely with the OEMs on the hydrogen. While we work on hydrogen which will be little far off at the moment, medium term may be, but immediately lot of good, I would say, quick fits on the flex fuel side and you would know that the market is quickly shifting into the CNG side, so there was a 4%-point shift made during last year towards the CNG side of the four-wheeler segment. So, here also we are nicely positioned and besides that we are also working on ethanol-based biofuels and all. Fortunately, our products are, I would say, positioned nicely and we do have an experience in different global market where our formulations or tweaking of the product is already established and we are putting these proposal in front of customers in near term, so that the adoption could be done very quickly.

With that, I will hand over to Manish Chadha who is our CFO and he will run through some of the financial slides. Over to you, Manish.

Manish Chadha: Thanks, Vinod and good afternoon to everyone. Slide number 12 is the performance focus and what is the key objective, so we continue to focus on reduce operational cost which means the fixed cost reduction and operational efficiency and at the same time, lower capital intensity, keeping in mind of CAPEX so improve CAPEX and revenue ratios, expand working capital turns, so you will see despite having the increase in revenues as compared to previous year, working capital turn is kind of in the same level as previous year. So, we have generated cash by focusing on working capital and similarly on growth opportunity, Vinod did talk about all the technological front on the areas we are working. Also, Vinod did touch base on the major action points on commodity inflation which is impacting our financial performance which is the key focus area for the business at this moment and again our ultimate objective is to optimize shareholder value by cash generation and targeting the growth opportunities.

May be the next Slide #13, some of the customers awards and recognition. So, as we are in quarter 1, we won 22, Partner Level Supplier Awards and rest I think for the full year, we have couple of awards from the customer which we are reflected in the slide.

Going to the financial slide, Slide #15, you have heard, Vinod mentioned in his opening comments that market for the quarter 4 was down and also it was impacted indirectly in the export because of the US and Europe situation due to the Russia and Ukraine war. So, our sale is down from the previous year, it is almost 6% mainly it is coming out from railway & defence and export business, but at the same time in the domestic market, we did better than the market. Our operational profit is almost 13% as against 4.6%, last year we were having one-off retirement age case which impacted last year. Also, last quarter is impacted almost 3% because of the MCS financial recovery for the current quarter.

You can see the quarter ended pie chart on revenue. Revenue is down as already mentioned, EBITDA is up as last year we were having negative one-off, otherwise our EBITDA for the last year for the quarter was 16%, we are 3% down because of MCS and MCR recovery which had impacted the quarter. EPS sustained story earning per share is better compared to the previous quarter. PBT is better compared to the previous quarter and the PAT is also better, so last year similar quarter is impacted by the retirement age case provision in our company which has impacted the last year. For the full year, we have grown by 72% in the topline, our operational EBITDA is almost 12% range, last year it was 7.4, if we would have added the unexceptional item which is the retirement phase, we would be 11.3%, but as I mentioned we have recovered only three fourth of our NPS exposure which will be recovering in the subsequent quarter, which has impacted almost 3% for the full year.

For the topline, you can see last few years, the revenue is increasing trend 2021 is impacted by COVID now, this year was I won't say that it is full volume, but this year also we were coming back of the Russia-Ukraine and indirectly China and also we have an impact of COVID and also there was semiconductor issues during the start of the year. EBITDA, we are on the increasing trend. You will see in the subsequent quarter that we will be recovering the balance portion of our raw material price increases, so I think the EPS will also recovering trend and similarly PBT and PAT, you can see in the Slide #20.

On the Slide #21, as I mentioned, our quarterly performance $3508 million impacted by US and European market, reducing the export content by 2% overall of the total revenue. As I mentioned, revenue growth is better than the industry growth for the current quarter. EBITDA was Rs. 459 million as against last year Rs. 174 million and there was negative impact of Rs. 428 million last year. We have 12.9% versus 4.6% in previous year end quarter and company has a net profit after tax about Rs. 91 million. Full year 22% growth better than the industry, EBITDA is 11.6% versus 7.4%. If we have to exclude the extraordinary item in the last year retirement case, EBITDA was 11.3%. As we mentioned our financial performance was impacted because of the time lag in recovery of material prices, if you would have recovered the prices in the same year, our margin would have improved better to 3% points, so there is a timeline. About 80% of customers, we had a contract for the recovery and we have recovered only three-fourth in this year. Again, company had a net profit after tax, Rs. 528 million and we had cash of almost Rs. 1236 million. With this financial performance update, I will hand it over to Dr. Khalid Khan for CSR activities.

Dr. Khalid Iqbal Khan: Thank you Manish. Coming to the CSR activities during the year, the company spent during the year around Rs. 1.16 crores, actually we over spent by Rs. 6 lakh which will be adjusted during this current year and these are some of the glimpses we distributed uniforms to Patiala School for deaf and blind. Then we also contributed and donated to Silai Center in Bangalore and in terms of our recognition, we got excellence in COVID management award from PNGI Forum, Professional Network Group of India at Bhiwadi. So, these were some of the highlights where our efforts were recognized through the press releases also, so the press covered the work that we did. I would like to hand it over to Mamta. Mamta, over to you.

Mamta Samat: Thank you, Khalid Sir. Now, can we begin the Q&A Peter?

Moderator: Yes. Thank you very much. We will now begin the question-and-answer session. Anyone who wishes to ask a question may press * and 1 on the touchtone telephone. If you wish to withdraw yourself from the question queue you may press * and 2. Participants are requested to fully use handset while asking a question. Ladies and Gentlemen, we will wait for a moment, while the question queue assembles. Our first question is from the line of Saket Kapoor with Kapoor & Co. Please go ahead.

Saket Kapoor: Namaskar, Hans Saheb and thank you for this opportunity. Sir, I missed some part of your opinion, so sorry for the repetition question or so, sir, firstly if you could give us some color on the utilization level and I think so earlier 2 quarters earlier, you were explaining to us the impact of the chip also mitigating in times to come, so where are we in terms of the shortage and the pile up in the demand for the four wheeler passenger cars, so if you could give us some more understanding and what is the visibility of business going forward currently?

Vinod Kumar Hans: Thank you Mr. Saket, if I understood your question, let me put a perspective that when you look at the market how it behaved, say in this particular quarter which the results we are discussing, so the passenger vehicles, they on the previous quarter basis grew by 21%, commercial vehicle 32%, so these are very good numbers on a low base, so this clearly shows that the market in these two categories which were impacted by semiconductors has definitely improved. Having said that, still our OEMs are claiming about 600 thousand passenger vehicles waiting for delivery where there is a claim that there is a booking done, but not able to deliver because still the demand is ahead of semiconductor, so when we discuss these utilization, probably, Manish will give some absolute numbers also to you, so obviously on these front, our lines were loaded nicely. Having said that, we can still absorb more on these lines if the semiconductors are made available as claimed by the OEMs, there is still a deficient about 10% if I have to put that number. Nevertheless, when you see the two-wheeler and tractors, particularly this quarter, we are discussing was in two-wheeler we were told that this was worst quarter for a two-wheeler in last decade. That is the number indicating and tractor, it had a prolonged, I would say, impact coming from if you recall the quarter, second half of 2021, which was impacted mainly through the unseasonal rain in South and all and then the rural economy started kicking in and with the result that tractor were further lower than the previous quarter minus 10% actually. So, accordingly, our lines utilization behaved like that, but I am happy to report that our position consolidated further in the sense that the way we are segmented into these market segments, our revenue is ahead of industry. So, that is the one way to look at and by significant good numbers and when we paint overall picture for last year, just to give you a perspective, our revenue the way the market has gone should have been up by 15%, but our revenue with respect to the last year when you see some total, grew by 22%. So, that indicates our positioning which we have been mentioning before. So, as it is progressing, it is becoming clear that the business is more consolidated towards established player who have technology and they are able to establish their sustainability. So, that is how probably we should look at our situation with respect to the market. With respect to the absolute utilization of our lines, may be Manish you could jump in and.

Manish Chadha: Thanks Vinod, So, if you look into the capacity utilization, I would say it is 75-90% and the different value as I mentioned live diesel and capacity utilization is good in line with the market. The market is better as compared to previous year. So, I would say, there utilization may be in the range of 90% and then in area of tractor and two-wheeler it will be in the range of 75-80%. That’s how I look into the capacity utilization in the current quarter So, what I am saying in the case of tractor and bi-wheeler, the capacity utilization will be somewhere around 75 to 80 %, whereas in the case of commercial and light commercial vehicle, it will be in the range of 90%.

Saket Kapoor: And, if we take the way forward, depending upon the deliverable from the OEM scheduled, how are things shaping up currently since we are already 45 days into the New Year and also we must be having the schedules ahead from them, so what is the visibility there?

Manish Chadha: So, market is doing good, if you have asked me for last 45 days and the next schedule for maybe say for another one month or so, the market schedules are good, we see market is consolidating and recovering, but at the same time, there is uncertainty of China lockdown and supply chain issue, but I think this quarter we should do better than the previous quarter. I don't know whether this is your question**.**

Saket Kapoor: Yes sir, I was just trying to get the sense of the business environment prevailing currently?

Vinod Kumar Hans: So, if I may add Mr. Saket the passenger and commercial vehicle are, I would say, largely dependent upon the semiconductor, so semiconductor availability has improved, but you might have seen all the OEMs leadership going to the media, still claiming that they can produce more if the semiconductors are available, but on a quarter to quarter basis, these two lines are, there is a definite improvement, but there is a significant improvement which is much more comforting for us on the tractor side actually. So, the tractors are back with the season and the two-wheeler again at least it had gone into deterioration path is also coming back and we are told by the two-wheeler manufacturer that the recent incidents of some of the electric vehicle, you might have seen incident of catching fire and all, so there were a set of end users who are delaying the decision because they thought that electrification is round the corner, but actually it was not, first of all the availability from the established player was limited, but the new players, like of Olas and others, they did launch few models, 20 of them, but majority of them had issues actually and that is where probably the government jumped in and they started putting some regulatory framework around this and they also enforced some mandatory recalls actually, so what we are told by this our OEM suppliers is that the demand in the two-wheeler is picking up back in the ice because users want to still see a stable two-wheeler and safe two-wheeler actually. So, for the time being, I think since you have this question, even these two markets are back. So, in summary, probably this quarter could be close to our best quarter. That much I can say.

Saket Kapoor: And on the buyback front, Khalid sir, if you could give us some more color, what is the state of, where currently, I think so, Tenneco being taken over or the thought process and currently what is the status of the buyback and how are things going to unfold going ahead?

Dr. Khalid Khan: It is not a buyback, it will be a tender offer to the minority shareholders, so it is dependent upon completion of the transaction for Apollo group and that transaction is still not completed and, in the meantime, acquirer is working on this transaction and the letter of offer. We have been providing the information wherever we are asked to provide. Other than that, we don't have much visibility on that because this is driven by the acquirer.

Saket Kapoor: So, just to sum it up, the existing promoter Tenneco has been acquired by?

Dr. Khalid Khan: Apollo.

Saket Kapoor: And it is now Apollo that is asking the minority shareholders to tender their shares at Rs. 272?

Dr. Khalid Khan: Absolutely right.

Saket Kapoor: So, just a hypothetical question, sir, in the case this process goes through and again the same thing about this lowering of promoter stake and increasing the floating stock the same thing used to be repeated once again for the company to comply with the distinct norms, we as an organization are going to be there in the listing space or is there again different thought process altogether?

Dr. Khalid Khan: We are not having any information from acquirer so far, so we are presuming this will be just the repetition of the earlier process.

Saket Kapoor: It will depend how the tender process goes through and what percentage of share required?

Dr. Khalid Khan: Absolutely.

Vinod Kumar Hans: If I may add, Mr. Saket, the process will be the same what happened 3 years back however, since you asked the very pointed question about whether it will get delisted or not, so you can imagine that is completely with the acquirer and there is, I would say, one event which will be in public domain which is on I think 6th or 7th of June where there is a shareholder approval will be taken and then there will be some regulatory clearances which Apollo has to go through in different regions. So, once that is done, then this process will be kicked down.

Saket Kapoor: What is the event of 6th or 7th June, what will happen at that time?

Vinod Kumar Hans: That is the shareholder approval in US.

Manish Chadha: So, Mr. Saket Kapoor, there are certain pre-requisites for completion of the transactions, there are approvals required from different regulatory authorities as well as from shareholders, so shareholders approval is to be taken in the month of June. Then there are other regulatory approvals in different jurisdictions, so that process is on, but as I said earlier, we don't have much visibility of what is happening because this is driven by the acquirer and this pertains to the acquirer.

Saket Kapoor: And lastly sir, if we take the employee cost as a percentage of sales what should be the number we should look, currently for this quarter it was 21%, correct me there sir, on a topline of Rs. 351 crores, we have an employee cost of Rs. 76 crores, so do we look at any rationalization at the employee cost or is the structure like this can be.

Manish Chadha: Mr. Saket, let me take this portion, I think you have pointed out a very valid portion which we are also focusing. If you see our cost, employee cost has gone down 2% as compared to the previous year and the previous quarter and at the same time, for full year, it has gone down by 2%, so I think we are targeting this employee cost as one of the productivity and we are targeting it somewhere around 20%, so that is the first goal we are trying to achieve and I think it is not a easy task, but I think over a period of time, whatever action we are taking we will progressively acting on that. So, you can see 2% down as compared to the previous year and also the previous quarter efforts are on. It is a long process because you have, this is again technical people making this product and we have to keep the people in mind and also we have to rationalize the cost, so we are acting on that, but this is one of the key areas we are focusing.

Vinod Kumar Hans: So, just to add, actually just to add, if you see we have inflation and other merit increases also considered and if you see our presentation also, we are not talking in anyway the number of headcounts which we are reporting, so the manpower cost saving is not by any attrition of the manpower, let me clarify or we are asking to rationalize our manpower. Our big push is to see the opportunities in front of us, how we can capture with the existing resources actually and that is what we are aiming at and we hope to see a below 20% number range as Manish said very much possible in very near future actually and the trend is good and fortunately the market is also setting up the way we had, I would say, planned in our market position, so that way it is going up in that direction. It is giving us an opportunity to rationalize this cost, but without, I would say, giving anything because we want to retain skills of people because of the opportunities in front of us.

Saket Kapoor: And Mr. Hans, you mentioned that due to this inflationary trend, 3% of our margins have been absorbed because the pass on has not happened currently, so as we move forward, there would be an incremental increase in the margin if there is no further increase in the raw material trend, so there would be an increase of 3% on the margin front, is this correct understanding?

Vinod Kumar Hans: Yes, that is a fair understanding, Manish can throw better light, so if you talk about this quarter for example, we have seen a stability in the prices, in fact little bit softening of some of our major, I would say, input like aluminium and copper, although silicon and nickel continue to remain high, but on these two commodities we see a softening, but during this time, we will also be getting a price increase which are applicable, say from new financial year 1st of April with our customers. So, I think it is a fair expectation to see a better number, if we talk about near future where the commodities are operating at lower than the previous quarter, but we will enjoy the prices of earlier quarters, actually the way we are contracted with customers, so as Manish said that we have a lag in the recovery, so this lag gap will somewhat reduced. I am not sure looking forward after 6 months, when China comes back, how will it impact the commodities again, so I think it is a kind of a cycle where in the existing short-term, if the commodities are soft and from the way we are contracted from a backlog we get a price increase, so definitely we can expect better quarter wherever the commodities are going down, but if the commodities again ramp up more than the ramp up of the price, we will have this phenomenon. I think we explained last quarter, last analyst conference calls also, so fortunately as you said these particular 45 days and next whatever we can say the way we have bought or contacted our material, it is fair expectation to expect a better margin. Maybe Manish, you want to add.

Manish Chadha: No, thanks Vinod, it is actually dependent on the raw material prices from the previous quarter and as I mentioned, we have time lag to recover if prices going down, then we will have double verify time lag recovery and also raw material prices and definitely volume plays a major role on the configuration level. I think these are the two sides.

Saket Kapoor: Sir, when the annual numbers were finalized, on the dividend part we were informed earlier that the board would be calibrating ways to reward the shareholders whether minority or majority, so what is the thought process currently and now with the new acquirer, are things again on the backburner in terms of cash payout to your investors?

Manish Chadha: So, Mr. Saket, let me take it, so even in the last call, we did mention there is uncertainty around chips, there is uncertainty about COVID, but at the same time, we are willing to calibrate on the dividend thing, so as we mentioned still we are talking about the China, Russia-Ukraine and all and there is uncertainty to the business because of all those stuff and also there is an open offer so at this moment, I think once we are over may be another quarter or so, we may thought again on this whole process, so at this moment we are not working on the dividend looking into the market situation as well as uncertainty due to the COVID and also the China situation.

Vinod Kumar Hans: I think once this open offer is over, then it will be good time to consider and I think things should settle in fine actually.

Saket Kapoor: And sir, on the remuneration pace through the KMP, are they linked to your the variable income, if there is a higher profit the payout to the KMPs improve or are they on a fixed basis? Do you have any percentage in the net profit also?

Manish Chadha: No, I think there is nothing onto the profitability of FMG, nothing linked to that.

Saket Kapoor: And sir, for the hydrogen part of the story, I missed it was very low voice, so Mr. Hans was explaining something on this, we were working with some 8 to 10 OEM players, so what is the code behind it and currently what kind of R&D spend have we done on the hydrogen part, where are we in this story, sir?

Vinod Kumar Hans: Mr. Saket, you can imagine that this is quite a significant development and lot of interest from different region. When I said about ten, I never mentioned about only India actually, I said we are working total about these odd platforms where we are in close coordination with our customer and the development work and the testing work has already started. So, that is what I mentioned and among those ten there are one or two from India also, we are a frontrunner and we are also in discussion with other players as well. So, it will be unfair for me to share because we have signed a confidentiality document with our OEMs actually, but I am happy to report you that we are the frontrunner in hydrogen development actually and we are also member of the European council where these development are taken care of and we are participating, our views are taken by the government bodies, so we are very much, I would say, part of those consultative committees there and this committees are using our experience and knowledge to formulate the hydrogen ecosystem.

Saket Kapoor: Sir, but we are in the piston ring and valve segment, is this circulating in this vicinity or it is a totally different landscape altogether?

Vinod Kumar Hans: So, let me qualify this, hydrogen will have our components, unlike battery electric vehicle, pure battery electric vehicle which will not have our components, hydrogen will have our component and you can imagine with significant value add.

Saket Kapoor: And the same profile which we currently have in our facility, it is not to be anything exclusively that we have to develop separately. It is the one which we already have?

Vinod Kumar Hans: So, the kind of development, the way it will happen, it is iterative process, so you can imagine that we will have to develop few other capabilities, few equipments and the controlling environment around this actually, so I have to say that it is not that the machines where aluminum piston is made, hydrogen will be made like that. The architecture will remain probably the same, but it will call for different alloys, different machining, but you can imagine that it will not be completely differentiated set up actually, but it will have its own add-ons to move towards hydrogen. I described that we move from aluminum to steel and then now we are changing hydrogen, so let us see how this development progresses. You can imagine that the CAPEX globally is not unlimited, so we will try to make a formulation which is from a CAPEX perspective not completely off the range.

Saket Kapoor: When can we hear on this front, sir, you were telling something, I just missed it?

Vinod Kumar Hans: I think it will depend on how the OEMs are able to put that ecosystem in the vehicle and we do that. So, our job is that we are trying to address the powertrain part of it, the combustion part of it actually, but you can imagine this whole hydrogen-based vehicle will require a larger ecosystem.

Saket Kapoor: But the thought is there, is it from the Apollo group itself or from the existing management who are professionally running currently, the thought process of this hydrogen theme?

Vinod Kumar Hans: So, if you see one of the slide, I showed was these are the drivers which are driven by the regulatory side of it actually and this regulatory side is pushing us to go towards hydrogen which is from the environment point of view clean fuel as well as the capabilities are much enhanced. So, the drive point is that. So, Apollo, I would say, is very new in the whole process, however, Apollo has the same view what Tenneco has on the market side of it. So, Apollo also feel that there is electrification still far off and Tenneco has inbuilt capabilities and opportunities to really capitalize on this actually and probably that is the reason Apollo would be interested in Tenneco.

Saket Kapoor: Thank you for the elaborate answer. All the best.

Moderator: Thank you. Our next question is from the line of Vinith Jain with Siddh Capital. Please go ahead.

Vinith Jain: Thank you for the opportunity Sir, I have a couple of questions, how do we see the export shape up in the near future and what are our aspirations there?

Vinod Kumar Hans: If I may add and Manish can give some numbers behind to qualify your answer, so the way we are doing our expansion and the way we are working with customers, so export had a very clear opportunity for us and that is why we are putting CAPEX around that and there are several, I would say, global projects which we are working on, so we are moving very nicely in that direction. At the moment, I have to say that we are not able to move the needle in this quarter or in current quarter as well we are talking. Because of the situation we are in, particularly European region and some of the American market is impacted because of the geopolitical situation actually, but our plan on the CAPEX to facilitate on those directions are very much, we are not stopping that and we are continuing with that. We are assuming that this geopolitical situation would be, I would say, resolved and I don't think it is going to remain forever and we don't want to hold our projects for those actually because those projects will kick start, but the ramp up will be lower than what we had imagined before, but who knows if these issues are resolved and we are quick on the speed, but I will leave it to Manish to give you some numbers on the CAPEX and some idea on where we are heading, how we are capturing this actually.

Manish Chadha: Thanks Vinod, so, if you see our growth over previous year in export is almost 17% to 20% and that too even last quarter was impacted because of the Russia-Ukraine and US and European market down, so otherwise in exports there is a clear focus to increase in the double digit and we can see that should go for the next year also, but at the same time, as Vinod mentioned we are also looking into the global customer, we are shifting the machines from our European plants to India and then exporting from here, which is kind of deemed export with the global customer base is there and we will be passing the material from here to those global customers. So, we have a plan and we are investing in those new businesses and revenue for those new businesses may be domestic and deemed export, it would be in the range of double digit growth over next year onwards.

Vinith Jain: Sir, can you please elaborate on the CAPEX taken in the financial year 22?

Manish Chadha: So, CAPEX will be in the same range, I cannot mention the number, but at the same time you can see last year we did almost Rs. 78 crores and we are investing on the CAPEX the way we do in the normal way, so there are plans to invest in that range.

Vinith Jain: Can you elaborate where have we put the money and is it on which plants and all?

Manish Chadha: So, money, we are putting in I believe all the plants, so may be major of the investment, be 50% investment in the new business category, that is what we were discussing and the rest 50% in the range of improvement and then repair and maintenance like that, so 50% of our CAPEX is for new business which we are talking about.

Vinith Jain: So, how much is the maintenance CAPEX in terms of numbers?

Manish Chadha: For example, as I mentioned we will be spending in the same range of the last year CAPEX or previous year CAPEX, so 10-12% is in the repairs and maintenance and balance in the productivity. So, 50% is for new business and balance is split between the process improvement, repair and maintenance.

Vinith Jain: So, when you say a new business, does that mean we are going to come up with new products or is it only the same business or different client?

Manish Chadha: Product is the same, may be the new customer which we are talking about, the global customer which are looking India as a source from the European market.

Vinith Jain: And when we can have such businesses coming through?

Manish Chadha: So, this business, we have invested some amount last year and some portion of that recovery, the business will come this year also.

Vinith Jain: And what is the CAPEX going ahead for FY23?

Manish Chadha: As I mentioned, the CAPEX amount will be around the last year CAPEX and slightly more, so we are not shying in investing that is we are making investments.

Moderator: Thank you. Our next question is from the line of Rajakumar V, an Individual Investor. Please go ahead.

Rajakumar V: Good Afternoon Sir, Thank you for the opportunity. Just couple of questions, the first one is on the recent efforts taken by the government to reduce the steel price, so just wanted to know what would be the benefit the company would get in this quarter and subsequent quarters?

Vinod Kumar Hans: I didn’t get your question, recent announcement of government on which subject?

Rajakumar V: On the steel prices?

Vinod Kumar Hans: So, if you see we are using steel, I would say, into a category called pin, so we make piston ring, pin and seats and guides, so if you talk about particularly in steel, there is a commodity pin which is using the steel, so we are also kind of happy with the government making those initiatives, so the steel prices should soften off, but as I said that in pin it is used, I would say, 100% steel, however, in other form into our powder we are using some kind of a steel iron powder from alloys powder and all, so our consumption by and large is on the aluminium and, I would say, copper followed by steel. That is the kind of spend we have in that order, but we are happy to have the steel prices getting soften up and it will help the affordability part of the vehicle which will eventually drive the demand up, so if you see the recent announcement which happened last week on the fuel prices particularly and some of the two-wheeler manufacturers gave their comments that the two-wheeler particularly the last quarter as I said that was performing since last decade actually, so they are pretty pleased with this because affordability was also one of the reasons besides this electrification confusion which was putting the demand under pressure actually, so the two-wheeler had become expensive also to buy because of the regulatory, I would say, more requirements on not only the Bharat VI, but also on some brakes and also on the vehicle part, so the two-wheeler had become really expensive from whatever they were in the BS IV type and besides that with all the two-wheeler running on gasoline and the gasoline prices were north of Rs. 100 plus, so that had put lot of pressure on affordability and therefore demand. Now, with this and the steel coming low, more than affecting our product, it will affect the vehicle and we are very happy with that actually. If the vehicles are sold more, our business is better. So, we can expect a better demand as communicated by most of the OEMs post this recent announcement of government if that was your question.

Rajakumar V: Thanks for the elaborate answer. Sir, next question is on the impending takeover of Tenneco by Apollo, I just want to know whether Apollo has any automotive interest in India and second thing after the acquisition goes through, will there be any change in management in India unit of Federal-Mogul?

Dr. Khalid Iqbal Khan: So, Apollo is a global investor, so they don't engage in the day-to-day management of the company and due to this transaction, there is no change in the management so far. We don't anticipate any changes in the management globally.

Rajakumar V: And do we have any other Interests apart from Federal-Mogul in India?

Dr. Khalid Iqbal Khan: In India, in the auto sector, I am not aware.

Vinod Kumar Hans: So, Apollo, if you see, if you go to their site, they are very, I would say, transparent, they have declared their portfolio very nicely, so to our understanding it is pretty large, $500 billion, widely distributed into very highly reputed companies, so they do debt financing, they do this capital equity, so after recent, I would say, media news you would have seen, so Apollo is very much involved into the debt financing part in India, so if you pick up the media news during last 4 or 5 weeks, particularly which, we started looking at from that perspective, so there were three major debt financing done by Apollo and three of the big, I would say, big names in India, I would say they know India pretty well, but we don't know whether in the equity side, besides us, if they are invested or not. It is not appearing on their portfolio.

Moderator: Thank you. Ladies and gentlemen, that was the last question for the day. On behalf of Perfect Relations, that concludes this conference. Thank you for joining us and you may now disconnect your lines.

Dr. Khalid Khan: Thank you.

Vinod Kumar Hans: Thank you all, thank you.

Manish Chadha: Thank you everyone, thank you.