"Federal-Mogul Goetze (India) Limited Q2 FY'21 Analyst Conference Call"

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MANAGEMENT: **MR. VINOD KUMAR HANS – MANAGING DIRECTOR, FEDERAL-MOGUL GOETZE (INDIA) LIMITED**
MR. MANISH CHADHA – CHIEF FINANCIAL OFFICER AND DIRECTOR-FINANCE, FEDERAL-MOGUL GOETZE (INDIA) LIMITED
DR. KHALID IQBAL KHAN – DIRECTOR-LEGAL AND COMPANY SECRETARY, FEDERAL-MOGUL GOETZE (INDIA) LIMITED
MS. SHRUTI BHARDWAJ - ASST. MANAGER - LEGAL & SECRETARIAL
MR. ASHISH SAMAL – PERFECT RELATIONS

Moderator: Ladies and gentlemen, good day and welcome to the Federal-Mogul Goetze (India) Limited Q2 FY'21 Analyst Conference Call. 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 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 Mr. Ashish Samal from Perfect Relations. Thank you and over to you, sir.

Ashish Samal: Thank you, Stanford. Good afternoon and thank you for joining us on Federal-Mogul Goetze Q2 FY'21 Earning Conference Call. Today, we have with us senior management represented by Mr. Vinod Kumar Hans --Managing Director, Mr. Manish Chadha -- CFO and Finance Director, Mr. 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 "Interactive Q&A Session."

I would like to now request "Mr. Vinod Kumar Hans to make his Opening Remarks and give an Overview about the Company." Over to you, sir.

Vinod Kumar Hans: Thanks, Ashish. Good morning, good afternoon. This is our first call, so, I thought it would be appropriate that we run through a very quick overview of the Company in 5-10 minutes and then Manish can run through the financials for the quarter, and after that we leave the forum open for Q&A.

So, we have shared this presentation already on platform. So, I will quickly go through the key points. So, if you refer to slide #3, it gives you kind of a history of the Company. Basically it was started in 1954 as JV with the Goetze-Werke. We are listed on BSE and NSE. We have our production units in Patiala, Bangalore, Bhiwadi and also to support our customer in Rudrapur. We are currently operating as a subsidiary of Tenneco Inc. and this is post acquisition of Federal-Mogul by Tenneco.

So, in terms of key highlight, I would say that, we have a strong global technological support, we have a seamless access to the technologies available being a subsidiary of company, not only the technology, but even on financial or any other server we have a direct access, we are well represented in all the market segments, be it passenger vehicles, light commercial vehicles, heavy commercial vehicles, two-wheeler, tractor, the industrial or even we participate in railways and defence. And then in terms of customer portfolio, we are supplying to almost everyone who is making engine in India.

In terms of leadership position, I would say the OEM market position in India, we clearly have a leadership position in Piston Ring and also in Valves Seats and Guides.

In Pistons-we are overall number two, in Diesel Pistons-we are number one. But overall we are number two in Pistons.

Going to next slide, our operations we have a total strength of 4,770 people, all our facilities are certified, whether it is ISO/TS or OHSAS or ISO 14,000. Besides these four manufacturing sites, we also have four assembly warehouses to serve our customer and the local regional geographies and we have 16-plus kind of service centers to again serve our aftermarket servicing point.

And then as I mentioned, we are supplying to almost everyone who has an engine in India and some of these customers are appearing on your slides. Just want to emphasize that, since we are well diversified across the segment and within the segment, we are well diversified within the customer portfolio. So, none of our customers is more than 10% of our business. So, our customer portfolio, I would say, we are pretty risk-free.

In the slide, you will also notice, we also have a JV where it is consolidated into FMGIL, we have 60% participation, and it is in Bangalore.

On the next slide #5, basically, the idea is giving a perspective from our side. These are the three broad drivers which are shaping up the future or the technology we can apply. Of course, one is emissions. And you are well aware that of late India has taken a good catch up on the environmental position side right from Euro-IV and then very quick we had a kind of skip level from Euro-V and jump straight into Euro-VI. So, I would say we are almost at par with the global standard at present.

Another one is, of course, fuel economy where we really participate nicely in terms of section and advance combustions and also hybridizations.

And other driver of course, is the durability. You might have noticed that now-a-days, the requirement of the end user, at least from the engine perspective, they do not want to open till a couple of hundred, or thousands of engines running. And that is again a driver for us, where we come in very nicely, positioning our product and winning new business.

In terms of making FMGIL stronger, if you refer to slide #6, these are the key, I would say focus point. There has been a continuous effort on margin expansion and cash generation. So, the three levers broadly if we can summarize is one is the reduction of operational cost. So, we are pretty much focused on fixed costs reduction and operational efficiency, and we are watching the market carefully and we are not shying from the investment but then lower capital intensity is the key metrics here we are looking at.

And, of course, the new environment which I mentioned in the previous slide, there was a lot of growth opportunities, whether it is emissions or getting increased popularities of the turbo engines and also the mile hybrid vehicles, which there is a recent trend.

Because of all these efforts, we have a good, I would say, recognitions and appreciation from customers. So, these are maybe more than 10 customers where we got an award right from a partner level to quality to that supplier performances from some of these big names which are appearing on your sheet.

With that, I will hand over to Manish Chadha, who can run through the financials. Over to you, Manish.

Manish Chadha: Thank you, Vinod. Good morning and good afternoon to all. So, I will start with the historical financial performance and you can see in the presentation, financials, at the top, revenue, which is INR10,912 million for the year '20. Our growth in revenue, I would say, it is declining, it is in line with the drop in automobile industry, primarily driven by the impact of COVID in the last quarter of March '20. And also during that year, automobile industry went down in almost all the segments and it has impacted the Company.

EBITDA for the year '20, we are in the range of 10% which is INR1,144 million and it has gone down from the previous year mainly because of drop in the volume and the activity level which I have explained is due to the drop in the automobile industry in the last year.

ROCE, Return on capital employed also impacted due to drop in the activity level which is 3.2%, and PBT and PAT is also impacted by that.

So, I think the financials for the year '20 has been impacted due to the lower activity level, drop in automobile industry, and if you see previous year, we were doing EBITDA in the range of 16%/17%, and we were having by EPS 14.83 and 14.93 level. So, I think we were having good numbers and last year impacted by the volume drop.

If I go to the Q2 results, we are almost INR28,800 million, which is up by 6.5% from the previous year. So, we have started seeing market picking up after the COVID impact. So, this quarter was really good. The net profit after tax for the Q2 was INR133 million which is 4.8% of the revenue and EBIT has improved to INR171 million versus INR48 million in the previous year. So, you can see the conversion for this Q2 because of the pickup in the volume, is very good, it has actually picked up because of the activity level and then fixed cost reduction which Vinod has just talked about the focus which we are talking about, so which really helped. And accordingly, EBITDA INR394 million which is 14.1%, up by INR127 million versus previous year. So, you can see the increase in EBITDA percentage with the pickup of volume and as well as the productivity and fixed cost absorption which we are talking about.

Cash is another key which we have generated INR443 million, primarily driven by strong earnings, resiliency and effective working capital management which I think Vinod has talked about in the previous slide. Liquidity, we have almost INR780 million as of end of September and we have generated approximately INR300 million in last six months. So, despite of this tough situation, we were able to manage our cash in the six months.

Next slide is the "Financial Update" which I have already talked about. It has a comparison with the Q1 and also with the similar last year quarter. You can see that EBITDA has improved from 10 percentage to 14 percentage points and accordingly we have profit after tax and profitability has also gone up from the previous year. So, I believe that is all from my side.

I think I will hand it over to Khalid to take over next few slides. Khalid, over to you.

Dr. Khalid Iqbal Khan: Thank you Manish. So, on the next slide, it is showing the shareholding pattern. So, we have promoter shareholding; we have got two promoters; Federal-Mogul Germany is holding 14.93% whereas Federal-Mogul Holdings Limited, Mauritius is holding 60.05%. Besides the promoter, we have a 'Person acting in concert', FMGI Holdings, LLC which is holding 20.75%. If you come to the category of public shareholding, FII and FPI are holding 0.01% and others are holding 4.26%.

Next slide is on "CSR Initiatives" that the Company is doing. So, we are doing a lot on CSR activities, which is as a good corporate citizen as well as in compliance with the legal requirements. So, the Company has launched coronavirus awareness campaign at various locations through our NGO partners. And the Company used the lockdown period to upgrade the school buildings and premises at Harchandpur School at Bhiwadi and Deri School at Patiala. Women were trained in tailoring centers at Gurugram and Bhiwadi. They were engaged in making masks for corporate. They were provided material to work from home so that they are not exposed to coronavirus. And then there was a lot of work happening in SOS Children's Village; we have sponsored education of girl child; this is happening at Bangalore and Rajpura where we have our plants.

That is it from my side. I would hand it over to the moderator. Thank you.

Moderator: Thank you sir. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Saket Kapoor from Kapoor & Co. Please go ahead.

Saket Kapoor: Firstly, sir, if you could clear what is the status of the OFS currently sir, and what is the next step taken by the company to comply with the SEBI requirements of minimum shareholding?

Dr. Khalid Iqbal Khan: So, last OFS did not receive a good response, so, there was a sale of 6,01,860 shares only which is around 5% of the total shares offered in the OFS. So, our merchant banker of Tenneco would be coming out with another OFS at the appropriate time. So, we need to complete everything within a year's time, so the Acquirer, Tenneco, is working on that. Thank you.

Saket Kapoor: So, when is the one-year deadline end?

Dr. Khalid Iqbal Khan: January 2021.

Saket Kapoor: On the pricing front, what is the parameters sir, what averages are being considered?

Dr. Khalid Iqbal Khan: Merchant bankers are working on this. So, they will fix the right price for the investors.

Saket Kapoor: And now the management has to take that step so that they sail through this time. The pricing was not appropriate, otherwise, it would have envisaged a good response and even the COVID environment was also there. I think these two reasons why it dint work out.

Dr. Khalid Iqbal Khan: I think COVID was more to blame on this.

Saket Kapoor: On the operational front, if you could give us what is our current utilization levels for the September quarter?

Manish Chadha: This is Manish. So, if you ask me for the September quarter, I think we were running full capacity in all the 3-4 product units. So, you can say within 90% to 95% we were running.

Vinod Kumar Hans: If I may add…this is Vinod. Since you asked about September quarter, so September quarter itself had a big ramp up. So, the month of July was maybe at 70% of the month of September. So, that was the kind of ramp up. So, Manish's answer was mainly related to the month of September, not for the full quarter.

Saket Kapoor: What would be the blended one, just wanted to get an understanding, how this quarter would be shaping up if things remains the way as October and November have been on the similar trends in the terms of utilization level, 90%-95%?

Vinod Kumar Hans: So, basically, it will not be fair to give you exact picture for this but I can only say as more than half of the quarter is gone, probably, this is one of the best seven weeks for the Company in the history. And probably that is in line also with what you saw in the market record sales and good, I would say, traction. So, yes, very good of these seven weeks. We are just waiting to see post-Diwali whether this can continue, there is already a seasonality angle to that. But to answer your question, seven weeks were one of the best.

Saket Kapoor: And you told that there was a gradual ramp up from July onwards to September, in the month of September, we were in the 90% to 95% level, this is what the correction you made?

Vinod Kumar Hans: Yes, correct. So, we are operating almost full now, we are not operating in 100% in all the value thing, but we are close to that kind of level.

Saket Kapoor: In terms of the market share, if you could give us an idea about a product profile, what kind of market share do we garner, and if you could give us a peer comparison?

Vinod Kumar Hans: I am not sure we should go into the peer comparison market share perspective, but as I mentioned that in the first slide itself that we have clearly a leadership position in seats and guides as well as the piston rings. So, they are good, 30%-plus market share range approaching towards 40%, that kind of a range. And in piston also we are close to kind of a 30% range, if that answers your question.

Saket Kapoor: If I come to your raw material basket, what are the main key components and how are the inflationary trends going to impact going forward?

Vinod Kumar Hans: Our strength is we buy the virgin raw material, if I have to use that word, and our key strength is manufacturing of alloys ourselves. So, whether it is in terms of making a piston alloy or ring alloy, or mixing our powder, so, that is the core strength. So, we buy these commodities and we have dedicated, I would say, arrangement, if you talk about aluminium and the company's Nalco, Hindalco and then a few of elements like nickel, we are also importing the silicon depending upon our sensitivity of quality and other things. And powders also, we have a good situation that we have our own power know-how as well as we are buying mainly from market. So, it is a good check. And in terms of inflationary pressure, again, it goes by the market, so I would say the market really softened during the COVID time but as the market is coming back, we also see a little bit of inflationary trend in this material. But still I would say, overall a better situation than last year.

Saket Kapoor: What I am trying to delve on is the cost of materials to the revenue constitute a larger chunk of it, i.e on a sale base of Rs.270 crores, the raw material constitute around Rs.94 crores?

Manish Chadha: We have an edge, I would say our agreement with the customer, any inflation or deflation we have to pass on with each other, so we have already had this arrangement with our customers.

Saket Kapoor: There is a lag effect to that, sir?

Manish Chadha: Yes, there is always a lag of three to six months but we accrue the books based on information or factual available. So, I have said that we have arrangement with the customers for passing on or recovering for any inflation or the raw material prices going down. So, we have already made that arrangement with the customers.

Saket Kapoor: In your presentation, you have hardened on the point of building a stronger FMGIL and the key points about this reduction in operation cost, the capital intensity and targeting growth opportunity. So, on these criteria's, where are we currently? And going forward, what kind of reduction are in the anvil and going forward that is going to materialize? And if we take even your employees cost also, sir, as a percentage of sales, we find that to be also to the tune of 27% to 28%, correct me sir if I am wrong, if we take the last financial year numbers, so how this factor also going to play going forward, when utilization will improve, this variable part will come into play then?

Vinod Kumar Hans: Well, thanks, I think you have pointed out rightly that this is one of the areas which we are targeting, or we are trying to achieve productivity. So, the last year we were having almost 26% of the labor cost to the revenue and if you see in the current quarter, if I mention that our conversion is very good, it is because of one of the action points we have taken in the labor cost, our labor cost has gone down to almost 24.5%. So, there is continuous efforts from the side of Company to bring it down and we are making significant efforts into this.

Saket Kapoor: So, going forward, what is the target in terms of the employee cost to sales?

Vinod Kumar Hans: We are looking to bring it gradually down for this labor cost, for example, now we have achieved from 26% to 24.5%, so maybe let us say, we are targeting maybe somewhere around 21%- 22 at least in the next one or two years' time.

Moderator: Thank you. The next question is from the line of Srinivas Baratam from Kriscore Financial Advisors**.** Please go ahead.

Srinivas Baratam: I had a question for Vinod. Vinod, the new PLI which was announced by the government, whereby about Rs.57,000 crores is set aside for the auto industry, which is clearly likely to help the auto industry, but will it also not help suppliers like you to the auto industry?

Vinod Kumar Hans: Thanks, Sreeni. We are waiting for a detailed blueprint to come over there. But overall my gut feel is that since we have a pretty good, I would say, global supply chain network and we are also doing reasonable I would say business with some of our global OEMs from here, and there are good possibilities now with the Euro-VI getting matured, our product line should be at global level. While we were in Euro-IV time, there was always kind of this confidence building measure which our customers were looking at. Now, with Euro-VI, we are at kind of a global benchmark, and once we have matured in Euro VI and this kind of possibility we will go up, and yes, we should benefit. In terms of a quantum of this actually, again, as I said, we are waiting for a blueprint and we will be happy to invoke our lever which are well placed actually.

Srinivas Baratam: So, clearly in the global market given that you have a better supply chain and probably better design suited for the global market, you will be better placed compared to some of the domestic players, in that sense your share of business with the OEMs may actually see a positive development?

Vinod Kumar Hans: Yes, something like that. If I could give one example, one of our global customers has ramped down in India but our business with that customer has gone up, just to give a perspective. I would not name the customer, but that customer has scaled down in India. But because of our associations and also, they had a good I would say confidence with us, so we are still doing a good export business with them. So, that is Euro-VI business by the way. So, those are the opportunities which we think that we should be able to capture it much quicker than others.

Moderator: Thank you. The next question is from the line of Saket Kapoor from Kapoor & Co. Please go ahead.

Saket Kapoor: Sir, what is our presence, if you could give that split between the OEM and the replacement??

Manish Chadha: Our domestic OEM contribute almost three-fourth of our business and the balance one-fourth business is aftermarket and export.

Saket Kapoor: You have spoken about ROCE also. What is our targeted ROCE sir say two to three years down the line, what is the trajectory we are going to chart?

Manish Chadha: The first step would be to retain the level where we have left from 2018-19, we were almost having somewhere around 18%/20% of ROCE, so we will be targeting that.

Saket Kapoor: And depending upon the current environment sir, what is the timeline you think these ROCEs are achievable?

Manish Chadha: It all depends upon how market is behaving. See, at this moment, I think it is very unpredictable that how this market will behave. So, our actions if you see in last quarter, we have made all the efforts to reduce the fixed cost and also working capital. So, I think we are taking this initiative but at the same time the larger picture is depending on the market. So, we are hoping that market should come back in one-year time or in coming future and then I think we are all ready to achieve those numbers.

Saket Kapoor: Sir, we find this GWIP of around Rs.34 crores. What does this factor into and when is this going to be capitalized sir, where is the money spent?

Manish Chadha: So, this is I think ongoing effort, if you see, we have a CAPEX of almost 70, 80 crores of CAPEX every year. So, this CWIP get capitalized within 6-7 months and I think we will be capitalizing it.

Saket Kapoor: So, this is general maintenance CAPEX type or any value addition or capacity will be added post this amount being capitalized?

Manish Chadha: If you have seen, Vinod has already mentioned that our strategy is to have improved CAPEX and revenue ratio,so, there will be balance of all those things in the CAPEX. Maintenance, we have to do that because we have an old plant but at the same time we will be spending CAPEX… and technology we are leading and we have to invest in that but we have to be very careful about the project where we have a better payback. So, I think it will be a mix of all these things.

Saket Kapoor: Just to delve it, currently, the fresh capacity addition is not there, this is about the technological upgradation, the maintenance part and these are where the money will be spent, it will not lead to any capacity addition?

Manish Chadha: If you see, this time the CAPEX is more on technological upgradation and productivity and maintenance and wherever we feel that we have a payback, yes, we add into the capacities also.

Vinod Kumar Hans: If you see, as the Euro-VI is ramping up, we will see very clear trend and we are already witnessing this that say for example in commercial vehicles space and also in some of the light vehicles space, the trend is to move towards the turbo engine or a loaded engine. So, we are following these I would say commercial and industrial manufacturers, if I have to name, Tata, Cummins, Ashok Leyland, Mahindra, so some of these CAPEX is building, is also reserved towards improvement in the commercial vehicles which the commercial vehicles guys are claiming that they are getting a good feedback from the Euro-VI trucks they are launching. So, you see the ramp up in light vehicles as well as two wheelers has already happened but commercial space it is happening now. That is the feedback we get from market. So, some of these CAPEX is towards that. So, it is a mix I think with respect to the technology as well as the capacity.

Saket Kapoor: Sir, we find your current liability has gone up to Rs.20 crores if we take the March numbers of Rs.9 crores. And then there is a provision also which goes around of Rs.17 crores. What are these two figures related to?

Manish Chadha: If you see our current liability has gone up mainly because of accounts payable. So, as we mentioned that we are working on the working capital. So, we are taking double action; one is to reduce the inventories and also, we are negotiating with our vendors to extend the payment terms. So, you can see one of the benefits out from the accounts payable. In regard to the other liabilities, the last quarter for March the sale dropped because of the COVID and then there is a GST payable, it has a link to the revenue. So, if you see in September, this has gone up.

Moderator: Thank you. The next question is from the line of Vikram Mehta from Aditya Birla Capital. Please go ahead.

Vikram Mehta: Sir, just wanted a segment wise revenue mix for the Company, that is passenger vehicles, two wheelers, tractors, CV, etc.,

Vinod Kumar Hans: Let me first clarify that when you mentioned the passenger vehicle and light commercial vehicle, so we are supplying for engines and some of these engines are common between passenger as well as the pickup trucks. So, just to simplify, we call it light vehicle because sometime you do not know where our engine is going, whether it is going to Scorpio if I have to take an example or the same engine is going to some kind of a pickup truck. So, if you put that together and make it a light vehicle which is passenger vehicle and these pickup trucks kind of, we are almost half of our business is centering around that. And then remaining half of the business is somewhat similarly split between two wheelers and commercial vehicles and when I say commercial vehicles, I am referring to heavy commercial vehicles, and then the other piece is tractor and industrial. So, remaining half is I would say almost is split equally between these three segments.

Vikram Mehta: Just wanted a clarification. In your opening remarks you said probably in the month of October and November, we are at 90%/95% level. So, is it the utilization level or pre-COVID level?

Vinod Kumar Hans: They are in line with the market and some of these markets the customers have reported better than 2019 numbers.

Vikram Mehta: So, does that mean if the future demand comes up, we do not have excess of capacity to cater that?

Vinod Kumar Hans: I would not say like that. Our view is that this particular surge which is definitely much higher than pre-COVID and also the numbers getting reported are in the market in the month of October for example almost all good players have reported 15%/16% jump over last year also on a month-to-month basis. So, our view is that such a growth is difficult to repeat for several quarters on a sequential basis. And some of this is getting combined because we had a seasonality coming in and also there was pent up demand because during those three or four months there was no buying happening and also because of post-COVID, of social distancing and all, so, few of the end users are preferring to use personal vehicles. It cannot continue for say six, seven quarters. So, to accommodate that as I mentioned before we do have a good network of global supply chain. So, while we are preparing ourselves for this growth continues, we do have option to take support from our global network plants actually.

Vikram Mehta: Post the acquisition of Tenneco, acquiring the Federal-Mogul parent, how the things have changed with respect to business – are the new products of Tenneco likely to flow into Federal-Mogul's book probably in India? And what are the Federal-Mogul India's plan over say the next three to five years in terms of business plans with respect to revenues or profitability or product wise expansion or any other plan which you would like to share probably with us?

Manish Chadha: So, answering your question, all these businesses or product groups in India for Tenneco there is no conflict of interest with FMGIL and they are separately managed. And as far if you ask us post-Tenneco, I think the advantage is they are looking to a bigger global player. But as far as I you ask us locally, there is no change in the way we are doing the business and all these products are managed separately, and we do not see any plan at this moment to consolidate.

Moderator: Thank you. The next question is from the line of Kiran Naik from Mody Fincap. Please go ahead.

Kiran Naik: Sir, I would like to know how much is our market share in the products which we deal in? Secondly, promoter holding is 96%. So, I heard that it is going to come down to 75%. So, are you going to do OFS for that and at what price and how many months? Thirdly, sir, the Company is not paying any dividend. So, any plans of coming in the dividend line?

Vinod Kumar Hans: We had this question before. So, I will just summarize quickly. We have a leadership position in seats and guides and rings, and the market share is excess of one-third, maybe closer to 40% kind of range. In piston, we have closer to 30% market share range. That is a very rough numbers. So, in terms of position, as I said, number one in seats & guides and rings and number two in piston, but within piston we are number one in diesel pistons. On the OFS part, the target is to close by end of January. I mean that is a stipulated time. And I think there should be further round of OFS before that period for sure. Regarding the dividend policy, during last three or four years, there has been a conscious effort on the part of the customers that they are going beyond QCD level… when I say QCD level, it is quality, cost and delivery, these are the three metrics but you can imagine with Euro-VI coming in, the platforms are getting converged and the stakes are high. So, most of the OEMs they put also sustainability as one of the key metrics to give new business actually. And when they were looking into the sustainability, they were looking into balance sheet of the suppliers much more closer and in fact during last three or four years, we have to kind of give our Customers the confidence and if you see our position over last five years, so we have moved the Company toward a debt-free company. So, we are preparing ourselves to get confidence of the customers and this was one of the metrics they were looking at and we are pretty happy that customers are viewing it from a very different prism now after becoming debt-free. And also, during this time we have to really make ourselves to prepare for these kinds of transition from Euro-IV to Euro-VI. And I also mentioned in the earlier question that we are also watching very closely on the future emission norms and also there is a clear trend to shift towards the turbo and loaded engines, it is happening globally and it is a matter of time to happen in India. So, we want to preserve ourselves for such businesses which we are under a discussion with the customers for these next series of engines. So, we want to wait and see how we consume this and then probably at a good time we look into the dividend policy.

Kiran Naik: Who are our competitors in the listed space?

Vinod Kumar Hans: So, in seats and guides, a company called GKN, it is a UK-based company, then we have Sundaram Fasteners in a very small way, we also have Hitachi and NPR. So, the seats and guides are I would say, this space is occupied by the MNC companies. Only Sundaram had some kind of a tie up before, but that is over in this product category. In terms of piston and ring, I would say in terms of fully-owned subsidiaries, we are the ones which are in front and then we have Shriram Pistons & Rings, they have a couple of joint ventures and some technical arrangements, then there is a company called Menon Pistons, India Pistons they are domestic players, and then there is also MAHLE who is like us, kind of a subsidiary but they are operating only in piston and I would say much late to enter into the Indian market.

Moderator: Thank you. The next question is from the line of Saket Kapoor from Kapoor & Co. Please go ahead.

Saket Kapoor: In your presentation, you did highlighted this point of optimizing shareholder value creation through cash generation focus and targeted growth opportunities. And since we have overhang of this OFS also going forward, so sir, for investors, what are the sustainability key areas in our business so that when you go to your investors for this OFS sale, how convincing will be the story going forward? And definitely we are looking for a longer haul as a listed entity. So, what is the thought process of the management in targeting your existing shareholders since there is no free float as of now and you would be addressing entirely new set of investors going forward and how are shareholders going to get rewarded over a period of time?

Vinod Kumar Hans: So, as we mentioned, the good part is for us as a technology player and in the previous slides we did mentioned all the levers, whether it is emission or government driven lever or the expectation from the customers asking for CO2 reduction or improved fuel efficiency because now they want to run their vehicle at 20-plus kilometers, that is the kind of expectation. So, all these drivers are pushing our customers to come up with improved engine performance. And that is where we participate actually. So, when we say all these, it is driving to kind of a new alloys, new coatings and new designs and that is where our global experience as well as working with these customers much earlier is helping us. And some of these trends which I mentioned is only helping us to be ahead of the curve. And once this whole process of Euro-VI and these new lines up matures, you will see that kind of impact onto our balance sheet. So, please remember that we came from axle load to Euro-IV to Euro-VI and there was kind of a ramp up time. And during the ramp up time, you have to run through a short batches, there are a lot of premium phase and stabilization cost. So, once this matures, it really gives you the right margins which we target when we get the business. So, ultimately the target is achieved and the business is on a mature line. And that is what I mentioned before that we are entering into that maturity curve. Since we are already 90%/ 95% and nearly 60% of our business is transitioned into the Euro-VI, that is a right I would say platform to take off. And that is what we are waiting for and that is what probably the value creation would happen. In transition, the value creation is difficult to get from the start, go, I do not know I am able to explain you in that way.

Saket Kapoor: Sir, actually, what your prospective investors would feel is that they are getting the shares or the asset at the right valuation, there should be lucrative pricing for investors for a better participation going forward, otherwise, what will be our benefit in investing if it is not correctly priced? Earlier COVID problem, not an issue. Currently, we are going through a very good patch. So, there should be something left on the table for investors also so that there is a good participation going forward in the OFS and that could be made a good story out of it. So, the point I am trying to get more sense into is the peak revenue sir, what we did for 2018 and ’19 was in the vicinity of Rs.1,350 crores or Rs.1,360 crores. So, taking into that account, that is the peak capacity we can achieve sir going forward say one year down the line, this is the maximum peak level or with these optimization and other changes there is significantly higher base?

Manish Chadha: I think you are right that we have at this moment maybe that is 95%,/96% of the peak.

Vinod Kumar Hans: I would just add. To determine a peak will depend upon the market as well. What I am trying to say is we are preparing ourselves for such a situation. As we mentioned that these seven weeks probably have been the best weeks. So, we will be happy if it continues. And if it goes further, and that is what we want to project ourselves. And that is one of the reasons as I mentioned in the previous question, we want to reserve our cash for some time to use this opportunity. We should not be speculatively investing. We have to be careful because the whole uncertainty of the COVID and the few other things, it will be prudent to use our global capacities to kind of answer to the market in a near-term rather investing right now for 10-years. That is what we are waiting for. And that is what we mentioned in our slide that CAPEX intensity is a key while we want to grow, but we want to keep our CAPEX intensity in a good shape.

Manish Chadha: Also to see the opportunity in the market for turbo and highly loaded engine which Vinod is talking about on the technology front.

Saket Kapoor: Because we as investors, this is the story known to us earlier but we would be looking to participate in the OFS if it is rightly priced and it gives us an opportunity wherein our investment is correctly priced in the market, then only you can get the right set of investors participation, otherwise there will be another fallout going forward.

Vinod Kumar Hans: Our merchant bankers and all will take your input rightly. Not to argue but only a few months back, Rs.660 was the right price for the buyback mandated by court. So, I am just wondering what has changed actually from that level to now. We are almost that kind of a business actually. So, probably it needs a couple of more quarters to get that sinking feeling.

Saket Kapoor: That is correct sir. And if we can get some extension also going forward, I think that would be helpful, if we do not rush through this OFS by Jan, if an extension be given on COVID and other front, we should seek the regulators' approval for that and try to build upon the story, first gain the investor confidence and then come up with an OFS so that it could be a win-win situation for everyone of us, participating and you also. In the OFS this money will go to one of the investors only sir. Who is the seller in the OFS?

Dr. Khalid Iqbal Khan: Seller is IEH FMGI Holdings LLC, which is the person acting in concert.

Saket Kapoor: And that will be an exit for him? That is, it is not that this money is not going to come back to the Company?

Dr. Khalid Iqbal Khan: No.

Saket Kapoor: Thank you for the answer. If we seek any other clarification, I would be contact the company through the Perfect relations and I would thank Perfect Relations for conducting it. We would be looking for continuity sir. Thank you.

Vinod Kumar Hans: Thank you.

Dr. Khalid Iqbal Khan: Thank you.

Manish Chadha: Thank you.

Moderator: Thank you. As there are no further questions from the participants, on behalf of Federal-Mogul Goetze (India) Limited, that concludes the conference. We thank you all for joining us and you may now disconnect your lines.

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