

Transcript

Conference Call of Autoline Industries Limited

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Presentation Session

Moderator: Good morning ladies and gentlemen. I'm Indu, moderator for this conference. Welcome to the conference call of Auto Line Industries Limited. We have with us today Mr. Radhakrishnan CEO, MD of Auto Line Industries Limited and Mr. Tushar of Anand Rathi Securities. At this moment all participants are in listen only mode. Later, we will conduct a question and answer session. At that time if you have a question, please press * and 1 on your telephone key pad. Please note this conference is recorded. I would now like to hand over the conference to Mr. Tushar.

Tushar: Yeah thank you Indu. Good morning everyone. On behalf of Anand Rathi Securities, I welcome you all on the second quarter result discussion of Auto Line Industries. We have with us today Mr. Radhakrishnan Managing Director of Auto Line Industries. Without wasting further time, I would like to request Mr. Radhakrishnan to give a brief review of the second quarter performance of the company and future outlook of the business. So, over to you Mr. Radhakrishnan.

Radhakrishnan: Mr. Tushar thank you for organizing such a conference. Brief about the company as most of you know, started in 1995 with a first year turnover of about 11 lakh rupees, went into tool room activity around 1999, got into a little of software and in the tooling-design engineering around 2001 and we have done this public issue and got listed on January 31st of this year 2007. In the course of this, we have continuously upgraded ourselves from a simple sheet metal supplier to a bigger and bigger complex assemblies doing our own tooling and engineering designs and in the process, in March 2006 last year, we acquired a local company with about 40-45 engineers in the design engineering area and subsequently went on to acquire a 51% stake in Detroit engineered products so that now we are a design engineering manufacturing company. That is, we have a capacity from concept to delivery. A company gives a concept, then we can design the complete thing, test them completely on CAE analysis, make the tools, do

the prototyping and start supplying the components. So we have acquired this capability totally as a design engineering manufacturing capability. With the DEP acquisition, we have now 25 engineers in US Detroit, 60 engineers in Chennai and 45 engineers in Pune making a total of around 125 plus we have acquired a company which we announced yesterday which started as a tool room and now makes components called Nirmithi and they also have about 19 CADD engineers. So, totally we are having a strength of about 145 in the design area. Now these results will take a year to show because it will take time for this activity to pickup in its full form. What I would like to just add here is that Detroit engineered products apart from design engineering they are focussed till now in tool development. They have their own software tool which we launched in August. The world release was from India and Pune called Morpher. Now by January we will be releasing another software tool called Meshworks Morpher. Now the advantage of this tool will be that it will reduce the reengineering time by 90% that is if it is to take 9 months, it will take 1 month loading. So that is the importance of that and because of which DEP has customers like General Motors, Ford, Nissan, Hyundai, Honda as our customers all throughout, and offices apart from US in Japan, Korea, and Germany. Now coming to the quarterly results, all of you are aware that in June-July the production had come down but in August-September it has again picked up and in our case, we had shown a growth of almost 77% by sales compared to the comparable quarter and half year of last year and marginally better than the first quarter of this year because in our industry especially first 2 quarters are less, it picks up in the third more and January to March is the real peak and in case particularly for our company we have done this IPO, we have invested 2 new lines automatic. The results are just going to start and it will add to the production now and even if there is a downturn in the automobile industry, we will not be affected because what we are targeting from the OEMs is the outsourcing that is whatever they are doing inside they are giving the work outside to concentrate on making more vehicles and all of you will be aware the OEMs are now more and more looking at people who can get integrated systems rather than components or assemblies. So we have geared ourselves to be more of an integrated system supplier and in that we are looking at good growth prospects. Now with the DEP and also General Motors, Volkswagen, Daimler all coming to India in a big way and that too to Chakan where we are located, these are all going to add the business much more and also the software tool and DEP is going to be of big help to them. Already they are customers. In fact, today also we

have a visit from GM for audit and all that and during this quarter or in the last 6 months, we have got some very good letters of intent from Cummins for supplies to their Minneapolis Cummins power generation. So almost we have got letter of intent for 11 items and there is a lot more scope further Daewoo Korea based on our supplies for the Novas of Tata Motors in Jamshedpur has given orders for their trucks in Korea and we have already started supplying to Daimler Chrysler for their trucks in India in a small way. So this is what last quarter apart from the results, which I think is already there with you, because I think it is published in Financial Express today and what I would like to add further is that we have acquired 100% stake. Yesterday the board has approved a Nirmithi auto component which is.....the projected sales of this year is around 45 crores but the main thing is that they are very strong in tool making. The company started as a tool making plant and the main entrepreneur who will be with us for the next 3 years is very good in tooling activities and we ourselves are setting up a very big commercial tool room 60,000 sq. ft at our Jharkhand plant again as part of the IPO proceeds and this is also almost getting ready by January. This will also contribute to the sale. The main thing is that in tooling the profit margins are anywhere between 25% to 30% for the local and based on our engineering design outside of India, if we start making tools the margins are much more higher in that. So that is why there is a strategic importance of acquiring this company though the turnover will be addition will be around 45 crores only plus this company has already started supplying Uttaranchal to Tata Motors and they have 2 acres land, based on this Tata Motors has agreed to give another 3 acres of land to us so that Uttaranchal also will start straight away. Because some of you maybe aware that we did not go to Uttaranchal earlier because of our present expansion in Chakan to the public issue and all those things. So this will now add to that and about nothing particular to add about our results except that generally we have 35% to 40% sales in the first 6 months and the balance is covered from October to March. Secondly this year we will have additional sales from the new facilities which we have created. It is slowly starting to pickup once the automation and all is on plus this tool room will contribute in a way from January to the sales and the bottom line plus the exports, exports have also slated to start around January. All the tooling and pre-export activities are going on. So that will also contribute and so in a way we will be able to meet all our guidance in the coming 6 months. So I think I will stop here or before stopping yesterday, the board has approved our 3 short-term, medium-term and long-term goals. So our short-term

goal that is in the next one year is to develop the ability to build new customer relationship based on innovative offering and business processes while, of course, at the same time maintaining the aggressive growth rate in revenue and profit. I mentioned some time back that lot of this OEMs are coming to India especially you have been reading every day our Reno Chairman called Carlos was saying that India frugal engineering and frugal manufacturing and they want to make their \$3000 car in India. So a lot of these tier 1 suppliers to these big companies are also coming here. We had visits from Tower automotive, (not sure) and some other tier 1 suppliers for a possible collaboration, joint manufacturing, and also from Delphi. So we are trying to just gear ourselves to build this new relationship in the short-term. Say by another 3 years that is in the medium term by 2011 we ought to expand the scale and scope of these offerings to global levels through establishment of multi location engineering and production centers to US, Europe and Asia and basically the board, we have submitted with these by 2011-12 we should touch a 1 billion dollar in sales about 4000 crores and our long-term objective is to achieve a leadership position as a design engineering manufacturing solution provider with US\$ revenue of around 2 billion by 2013. So this is our long term goal. We are working in a way to achieve this vision to be an innovation driven global leader in the design engineering and manufacturing of industrial mechanical systems. I think Mr. Tushar, I will stop with this and then if you can specific questions, I will try and reply to those.

Question and Answer Session

Moderator:

Thank you sir. Ladies and Gentlemen we will now begin the question and answer session. If you have a question, please press * and 1 on your telephone keypad and wait for your turn to ask the question. If your question has been answered before your turn and you wish to withdraw your request you may do so by pressing # key.

Our first question comes from Mr. Ranganath from LKP Shares.

Ranganath:

Yeah. Good morning and thanks for the introductory remarks. Sir, just to add one question, if you could just reiterate what is the guidance for the coming year and whether we are in course for achieving what we had stated earlier despite all the cost pressures that we are witnessing?

Radhakrishnan:

Whatever guidance we had given earlier for the next 6 months I think we should be able to achieve because we had factored in all the factors which I mentioned like the outsourcing work which is coming out of the OEM. Second is the new work, I mean this is also for the new machinery which is installed. The new tool room January to March which will contribute, the contribution from exports and also we have taken a stake in a company which is also growing. With all this we will be able to meet whatever guidance we had given earlier.

Ranganath:

Okay thank you.

Moderator:

Thank you sir. Next question comes from Mr. Chetan Owra from Odyssey Capital

Chetan Owra:

Hello good morning sir. I just wanted to ask in relation to your acquisition of these US based company Detroit Engineer, what would be your focus....you will be using your expertise in the Indian market or it would be used in US markets?

Radhakrishnan:

Good. At present their customers are all US and Japan and Korea based, that is Hyundai, Honda and General Motors and all that. These are totally aiming for products. One I said Meshworks Morpher will be launched in January. So they have launched only Morpher, which depends on other software for getting the basic things, Meshworks Morpher will be a totally integrated tool and mainly they will be used there and here also. But what we are now trying to achieve, they were just developing the software tool which is R&D intensive and with not much earnings and the profits. What we are now targeting to all these companies whether in USA, Japan or India wherever they sell, we are trying to provide the engineering services from India. That will contribute in a way. You know, design engineering services is the next growth area in the software area in the next.....because of these companies and they themselves are setting up design engineering centers, we have offers for some collaborations, some training and all that from them. So we are focussing on the design engineering services also. One thing is the tool, which is anyhow being developed and will be launched add to the bottom line. But we are also targeting the design engineering service and for your question, I will say that all our CAD people like who are in our manufacturing unit have shifted under this company. So they do our own work which is quite large. So in our own company we are trying for this design engineering, process automation and something called design optimization or tool optimization. Based on optimization tools we have offered to even Tata

Motors reduced weight in some of their components in which we supply as much as 20% and to share the savings like whatever the profit made or the savings made out of it at 50%-50%. All this is possible through this DEP.

Chetan Owra:

Okay fine and I wanted to understand how the revenue model of this design goes on, on what basis the prices get determined or something like that.

Radhakrishnan:

The basic is that whatever software tools are there, they are all priced like different modules. Either they can buy outright big companies or they are leased out. That is from the software tool...but based on the tool you have to work on the tool. You have to have the capability, training. Now in this area there are three CADD. CADD we are good at because that is the basic design. CAE-Computer Aided Engineering is the next area which is analysis in which you have lot of software. So this is going to combine CADD and CAE and then we have CAM-Computer Aided Manufacturing which is again in the plan. So this software, what it will do is, in CAE itself you can modify so that you do not have to go to CADD again to redesign like and just save time by 90%

Chetan Owra:

Okay fine. So basically, you are just like the manufacturing out source. So designing is also going to be out sourced?

Radhakrishnan:

Designing also because they are seeing a lot of value. What is happening is that the life cycle of a car or a vehicle is much shorter than it used to be. The developing costs are very high. So the companies abroad or in India, they want to cutdown on the cost also. By using this tool, many of your earlier tools you keep, what they do is like you take a Xerox copy that is morphing in this language, so they morph the earlier model, change the concept design basically and automatically all the CADD gets shifted, redrawn, in much lesser time and you also save because many of the things need not be changed from the earlier vehicle. When you buy a new vehicle, many things like the engine, the interior systems, they do not change over the years. The main thing that changes is the body and that is taken care by reducing the cost. So we see a huge potential in this area.

Chetan Owra:

Okay fine sir. Just one last question, right now your product mix is totally coming from tooling and assembling and going forward, what would be the revenue like how much do you see, what is the market for this designing engineering, can you quantify the market size?

Radhakrishnan: The market size is too huge. I forget. McKenzie report carries that but I do not remember the figures. We have not really worked out. We are now about 145 people. We are targeting to grow up to 250 in another 6 months time. This revenue model we have still not worked out, in our guidance or the projections this is not carried. It is definitely a much higher margin area.

Chetan Owra: Who are the big players in this area?

Radhakrishnan: In this area, the big players are the InfoTech Enterprises, Geometric Software. In both the cases, they do not have manufacturing ability. They stop at the design stage go back to US or the European customer. In our case, we can also do the proving, we can do the tooling, we can do the prototyping and if they want, we can also manufacture the component for the (inaudible). That is the advantage. That is what I meant when I said we are in Art to Part, concept to Delivery Company we are providing a total solution to them.

Chetan Owra: Fine sir. That's it sir.

Moderator: Thank you sir. Next question comes from Ms. Ami of Asset Alliance.

Ami: Hello, I just see your margins this quarter has been improved nearly by 100 basis points from 9.42 previous quarters to 10.46% this quarter-your operating margins. I just want to know that the basic reason behind this and going ahead whether you will be able to sustain these margins or not?

Vineet: There is a marginal increase in our profitability the reason being in the first quarter, normally when we make our purchases, at that time the cost is at a normal level and then we get various credits depending upon our purchase capacities and the quantities. Secondly, in the first quarter, we had some new products added in our production line like we had supplied some side walls and all that to our OELs. In that the cost was a little on the higher side because we were new to that and some R&D was put into that. But this quarter we have stabilized the production and that is why there is a marginal increase in the operating margin. This will continue further.

Ami: This will continue further?

Radhakrishnan: All the things I told about our design capability and optimization, these margins will surely keep on increasing.

- Ami:** Yeah, thank you.
- Radhakrishnan:** And of course with our optimization offer whatever is accepted, the savings which will be a large amount, will be shared 50-50. That will again contribute to the bottom line.
- Ami:** Going around your entering into more of your high end business of designing and engineering, do you see this improving further or you see this stabilizing at this level?
- Vineet:** No this will improve much more one this totally gets integrated because this is quite new and there is a lot of scope in this area because this is a very new area. So we are also doing process automation that is the way we manufacture we are automating it more. That also adds a little bit to the bottom line. But apart from this operating margin improvement, bigger margins will come from these cost savings which we offer to the OEM and we share 50-50% of that. This will be quite large in the future.
- Ami:** Thank you.
- Moderator:** Thank you Mam. Next question comes from Mr. Ranjan from 21st Century Shares.
- Ranjan:** Good morning sir. I have a couple of questions to ask. The first one is the company derives around 85% of its turnover from Tata Motors. So this poses a risk of single client concentration, some clarity on this?
- Radhakrishnan:** What happened is we are supplying to Bajaj Auto, Tata Motors, somehow the Tata Motors business has been increasing because our capability is more in the 4 wheeler segments. So Tata Motors we supply the whole range of items from passenger cars, to SUVs, to LCV, HCV, trucks everything and a lot of re-engineering and a lot of our capability in tools are recognized here and less in 2 wheelers like Bajaj Auto. Mahindra & Mahindra is also picking up and because of our capability with Tata Motors the tier 1 suppliers who are now coming like General Motors, Volkswagen; they have been continuously talking and their tier 1 suppliers. So with our exports and other things, by next year Tata Motors should also come down. Well, of course volume wise it will increase but as a percentage from 85 I think it will come down to at least around 60% to 55%. We are not seeing any threat in that because we are supplying the whole range for all their vehicles and more than a supplier, we also double up, they take us into confidence and we are like a partner you can say. If I can use my prospectors again, we call ourselves

0.5 tier suppliers. We are not a tyre one supplier but a 0.5 tier supplier.

Ranjan: Okay, will Auto Line be the single source supplier of load bodies for Tata Motors Uttaranchal unit?

Radhakrishnan: No. Uttaranchal unit they are slowly targeting to increase the production to a very large extent. So there will be 2 sources. We will be there and another source will be there which is better for us also because the volumes are quite high. In January we are targeting around 100-150 from our side from Uttaranchal also.

Ranjan: Okay, for Tata Motors? And another thing is the company has reported wild fluctuations in its margins in FY07. What is the reason for those fluctuations 8% then again 9%, 10%, 12%?

Vineet: That is every quarter, in fact normally in the last quarter we get all the credit notes for our purchases. That is why in the last quarter the results look much better than other quarters and as I explained in the earlier question, in the first quarter of this year, we had some new supplies and there the cost was marginally higher because a lot of R&D was put in and there were some other issues also, material also the prices we had procured at a little on a higher side. The thing has stabilized. So the margin has improved in this quarter also.

Ranjan: So going forward also, it will improve?

Vineet: It will improve further year.

Radhakrishnan: But generally that March quarter- January to March the volumes are high and that is when all the credit. That is why when you see our advertisement point number 7 this year this time we have added "the credit for the raw material purchase are accounted for on cash basis" because we do not make it unless it actually comes. So that is why that slight fluctuation is there.

Ranjan: Sir, another last question is you have acquired that Nirmithi Auto Components. What is the acquisition cost roughly?

Radhakrishnan: Acquisition cost is for 76% is around 2 crores. For 100% acquisition it will be around 5 crores that is in the next 6 months.

Ranjan: Okay. This total 100% acquisition cost will be 5 crores, but now you have 76%?

- Radhakrishnan:** We had to have a capitalization, 2 to 3 crores capitalization of the company which will be in the form of ICD or loan.
- Ranjan:** Okay fine sir, thank you.
- Radhakrishnan:** Good question. Actually out of this 5 crores, we will be taking fresh equity to the extent of almost 1.5 crores. So strictly speaking, the balance is only the acquisition cost.
- Ranjan:** Okay. Fresh equity is 1.5 crores?
- Radhakrishnan:** Yeah. To be exact 1 crore 37 lakhs is the exact new equity to be issued. The rest will be the purchase from the owner, 76% initially due to technical reasons and another 24% in the next 6 months.
- Ranjan:** Okay thank you Sir.
- Moderator:** Thank you Sir. Next question comes from Mr. Girish from Tower Research Capital.
- Girish:** Sir, congratulations for the good set of numbers. Sir, I just have a couple of queries. First, if you can share some more details on what Nirmithi Auto Components financials looked like and this 45 crores you have given is for FY08 or 07, their sales figures?
- Radhakrishnan:** This is for '08 proposed. For '07 it was around 32 crores approximately and they are into pedal systems actually which we are not into. They give these pedal systems and door hinges and they are actually into smaller parts and some of them have a very good scope for exports also. That is another reason. They are already exporting in a small way to UK and Dubai. So that will help us. And in '08 45 crore will be the sale and there will be a saving in the manufacturing because of our side, like we buy steel at a lower cost than them. We can get some other synergies also. So the company will do better in its bottom line. The projected bottom line is about 2 crores but it will be much more than that for '08.
- Girish:** Okay, sir for '07 what was the profit net level?
- Radhakrishnan:** '07 was around 50 lakhs.
- Girish:** 50 lakhs and if you may get at operating level, how have they performed in '07, EBITDA or any other figures?
- Radhakrishnan:** Operating levels that is EBITDA was around 8%.

- Girish:** 8%...which will grow because of this one factor which you have said right now still procurement cost.
- Radhakrishnan:** Cost will get reduced with our intervention. Their cost of borrowing is also very high which will come down substantially with our intervention.
- Girish:** Sir, 200 standard basis points improvement is possible simply because of raw material cost?
- Radhakrishnan:** It is possible because they have also grown quite fast and the loans are at a very high rate. The interest rate is high. Procurement of raw material is higher. Even bought out components they do not get a good deal and Uttaranchal there was a delay in starting. So already in Tata Motors so that has just picked up now, Uttaranchal their supplies. So there was a blockage of the capital for some time in the initial development.
- Girish:** Sir, may I know the capacity breakup at Pune and Uttaranchal for this company Nirmithi?
- Vineeth:** Nirmithi has just started the operation. The date what the Uttaranchal government had fixed earlier was 31/3/07. For technical reasons they had shown a marginal turnover of some few thousands on 31/3/07. After that, when the date was extended even the Tata Motors expansion was on a little on the slower side. Initially in the rainy season there was no work done. I think on 31/9/07 they had made a supply of about 30 lakhs from their Uttaranchal parts and basically our acquisition for the Uttaranchal thing is because the Tata Motors is starting in a big way of Tata Ace production there and we have got a line which can be sent immediately there at supplies of Tata Ace within the next 15 days the moment we get the alloy for that. This is the basic reason for acquisition of Nirmithi.
- Radhakrishnan:** Approximately I can say that it will be 50-50% not in 45 but for the full year it will be 50% Uttaranchal and 50% in Pune.
- Girish:** Sir, what is the total capacity at least if you can tell the existing Pune capacity if at all?
- Vineeth:** Existing Pune capacity is around say, they had achieved on a full year basis if you take a 30 crore.
- Girish:** In terms of their manufacturing capacity, if you can specify?

Radhakrishnan:

We don't do in tonnage we do as a turnover. So they are fully, I mean 30 crore is their capacity in Pune and what they have created in Uttaranchal is equal like 30 crores.

Vineeth:

Secondly, I would like to add even Nirmithi supplies more than 450 components to Tata Motors. Basically, in our particular type of industry, capacity cannot be defined because all these are assemblies and small parts, because we buy material in tonnage and supply in numbers. We normally account for it on a revenue basis. As Mr. Radhakrishnan rightly said, it is 30 crores here and 30 crores there. That is the capacity there.

Girish:

Okay. Sir apart from TML who are the other customers for Nirmithi or is it just TML concentrated....

Vineeth:

Again actually the major suppliers are to TML. They have many other suppliers. They also supply to JCB, they have a little export to UK, to Dubai and they supply to Mahindra & Mahindra through Misco again. They do not have a director vendor **court** Mahindra & Mahindra.

Girish:

I just wanted to know, we have launched in August one software Morphing. What kind of revenue or pickup are we seeing from that launch in terms of revenue addition?

Radhakrishnan:

In terms of revenue, I really will not be able to tell you because I have not collected from them. But it is just picking up. Even in India, it is picking up in a big way like and that was a much lower version. What will come in January will be a much bigger version like this Meshwork Morpher which has CAE and CADD. Sorry I will not be able to tell you exactly what the sale is.

Girish:

Okay. Sir the Tata Motor is particularly seeing a slowdown in passenger car segment also. So we were supplying aesthetic parts and things of that sort. So will that impact our growth as such because along with CV even passenger car division of Tata Motors is witnessing a tough time. So what is your outlook on that?

Radhakrishnan:

It has picked up again. In December they are launching a new model of this Indica pick up and all these components which we give....that is panel for the Winger, which is slowly picking up. They have a new vehicle called the Winger which was launched. All the 5 door assemblies we supplied for that model Winger and for car of course we are into critical components like the floor assembly and all that. As I explained earlier, even if there is a slow down in the total production what we are getting is what they are making inside they are transferring to us. So those are the

additional volumes coming in. Whatever we may lose supposing I don't think there is a projection is that far earlier. Even if there is a slow down our volumes will not go down because more and more work is coming out of out sourcing. That is whatever they are doing inside they are giving outside and making only the assembly. The potential is huge. We can get much more business out of Tata Motors but we are ourselves going a little slow.

Girish:

Okay. Sir do we supply anything for Magic their passenger car version?

Radhakrishnan:

Magic is being made in Uttaranchal in due course we will be supplying from there. Initially, we had supplied from here to there but now it will be made there. So this Magic, then new minibus being launched all we will be supplying from Uttaranchal. Development is taking place is here but supply will be from Uttaranchal.

Girish:

Sir can you throw some more light in terms of new business you are expecting from Daimler, from Cummins USA and things of that sort Tata Daewoo JV. You said you have started supplying in small quantities to their Korean venture when they started Daewoo. So can you give us a few details of what is the order size or kind of period of execution?

Radhakrishnan:

Daewoo is smaller but Cummins is a little bigger but I would not like to say at this stage the volume. The volumes are quite large especially Cummins. We had a visit to their factory and the number of items they are making and all that, there is a lot of scope but volume wise I would not like to comment right now. In our next conference, I will be able to give a month or two months down the line when all the development is ready for shipping and all that...

Girish:

Sir, at least, so in the next half we will be starting the supply or what?

Radhakrishnan:

Yeah by January some of these supplies will start.

Girish:

To Cummins or even to Daimler and even Tata Daewoo?

Radhakrishnan:

Daimler has already commenced that is in India only locally. But more important is starting to supply....because we have to meet their quality systems and they conduct a lot of audit on the audit on the company prior to supply. So Daimler in a small way we have started that is to their plant here only, whereas Cummins and Daewoo both are export and both will start in January or around January.

- Girish:** Okay and sir Daimler like we are just supplying to just heavy trucks or entire product range?
- Radhakrishnan:** They are making here. At present the parts are very small. Quantity is very small.
- Girish:** Okay. Sir in the beginning of the call you mentioned we maintain our stand on the guidance they have given of around Rs.40 EPS. We should be able to achieve because in H1 we have just reached around Rs.8 total?
- Radhakrishnan:** Yeah we will be able to achieve that 40 on a consolidated basis. Standalone will be three fourth of that approximately, 30 and another 10 coming from consolidation.
- Girish:** Sir, how do you see the raw material scenario? Because that has YOY it has picked up big time in terms of percentage of sales and any trace for mitigation measures to tackle this raw material risk?
- Radhakrishnan:** Raw material what happens as I explained earlier also, every quarterly basis it is reviewed. If the price has gone up we get a price revision upwards or if it has gone down, we have to give a credit note like. So we are not really affected by steel price increases. In all our contracts locally, domestically. In exports yes that impact we have to take into account for exports. But all our local supplies which are now covered sales are protected from the...
- Girish:** So you can pass on the entire hike to the customers.
- Radhakrishnan:** It is insulated yeah.
- Girish:** And sir roughly what kind of domestic and global revenue mixes we see in FY08 and 09?
- Radhakrishnan:** 08-09 we are seeing at least 20% for export and 80% internally all the projections and what is happening in their full steam like.
- Girish:** This is that standalone or consolidated level I mean, including your software division also?
- Radhakrishnan:** No this I am saying for standalone actual export. This I am saying only from standalone basis. This is what is being generated on a realistic basis.
- Girish:** Okay sir thanks a lot.

- Moderator:** Thank you sir, next question comes from Mr. Amitabh from SKS Securities.
- Amitabh:** Hello Mr. Radhakrishnan, Lot of my questions actually has been answered but I just wanted to come back to clarify a couple of things which have been asked or replied to by you. One is sir; I am still at a little bit of a loss as to how you are going to achieve our guided numbers for the full year. I know you have given some indication on that, but just seems like a huge kind of target to achieve given the first half of the year is over, I mean I understand the seasonal nature of our business etc but is that from...can you clarify whether the guidance is from the existing businesses or is that going to be from potential planned acquisitions?
- Radhakrishnan:** Surely, as I explained earlier this is also based I think according to next quarter, we are aiming at around 120 crores and then around another 130 or something like that. This will come out of the normal business plus as I said the outsourcing, which is going to happen once all our pressline automatic presslines are fully ready. So this will be all large parts contributing a large volume you know big volume, then as I said earlier our tool room will also contribute from January some amount of exports all this put together we should be able to, as of now, yes we should be able to meet all the targets. In a way may be consolidation also will contribute to that.
- Amitabh:** Sure and out of this let us say 400 crores of projected consolidated sales for the full year, how much is Tata Motors is expected to account for that?
- Radhakrishnan:** Tata Motors will be approximately around 75%.
- Amitabh:** Of the full year numbers. Okay.
- Radhakrishnan:** Within 75 and 78 like that or to 80 like that.
- Amitabh:** Okay and basically what is...do we have like some kind of an order book on hand for the next quarter or two.
- Radhakrishnan:** See, how we work mainly with Tata Motors is that we get the overall picture for the year, then we get schedule for every month, but supplies are on a daily basis, so whatever that schedule come, sometimes it goes up to 700 to 800 car, so any other thing and some days it comes down also. So, this depends like, but there is every order is an open order like unless that vehicle or that model comes to our complete halt like, so all are open orders as

we call open purchase order. Most of our items are single sources. So, there are no two sources for that item.

Amitabh: Which basically means you are the only source; you are the only supplier to Tata Motors for those items?

Radhakrishnan: Yeah.

Amitabh: They are in that sense dependent on you for that? Just a couple of things again, when we look at the margins for the first half of the year and couple of questions related to the margins, how do you see the margin picture for the second half?

Radhakrishnan: Margin picture for the part we are already supplying will almost remain around the same level, but we are getting this outsourced and the bigger parts the margins will be slightly better because the capital investment is high in those parts. So, the margins will be better and third is we have given some offer for reduction in cost of certain items, once this comes through they have agreed that we will share the benefits 50-50, so that will directly contribute to the bottom line margin and of course, once our tool room gets ready and starts supplying on a commercial basis, there the margins are quite high 25% to 30% margins are there from January and there also quite a demand for tooling from a lot of company. All these things will contribute to the improvement in margin, which we are projecting in the next six months, some of them coming out of our capability of the design capability like in design optimization, tool optimization and cost reduction.

Amitabh: And secondly you compared yourself to companies Info tech Enterprises on the design engineering side.

Radhakrishnan: We are a very small compared to that

Amitabh: Sure.

Radhakrishnan: But that gentleman wanted to know which is comparable. Actually much more bigger than these two is TCS. TCS I believe has about 2,700 people working in this area followed by Patni which is huge contingent working in the design engineering area and I am not sure how much Infosys does, but what I wanted to tell at that time was none of these companies have further down like you know many times design goes back, it is not proved so it has to come back for redesigning. In our case we can prove them because we have the capacity and further tooling, prototyping and if that person, who is the company which has made this design, wants us to supply component we

can do that also like we can Art to Part. This is an advantage which I just explained.

Amitabh:

Is there proven model elsewhere, do you know of other companies in the world doing that because you know as far as the software part design services can be outsourced, but the actual manufacturing or the prototyping I suppose is done most the in house by the larger OEMs right?

Radhakrishnan:

To our knowledge there is no company who is having this model at present, but this is going to be the future. See as a customer every customer does not want any problem in between something you decide, he wants in a time bound, turnkey basis you know, so that is how the things work because TCS used to bring their clients to us for doing this, so like that we thought that why not get into this area. It also adds a lot of value because basically we are in an area of sheet metal which is a very low margin, high volume business. By getting into the design area and also providing a commercial tool room of 50,000 sq ft with latest facilities, we are trying to upgrade ourselves as a complete solution provider and that is what in future, you know the world is going very fast now, so everything is going very fast, so everything everybody wants as of yesterday everything, so we are just positioning ourselves for that.

Amitabh:

But are you seeing any encouraging signs that this is something which your clients would want to or you know what would be desirable from you as a concept to delivery kind of model, is that something like you are seeing some, you know positive response from your existing or potential clients?

Radhakrishnan:

Yes definitely because this tier 1 supplier to these big companies like bit three like General Motors, Ford, when they come we have had interaction with at least four of them and they were quite surprised with our design engineering capability, which they themselves do not have in US and get it done and all of them are setting up design engineering centers here and we have offered to collaborate with them for their own work because we have the local knowledge, we have in the local Pune very strong in this engineering availability of graduates, we take them, we train them, of course we leave them for bigger companies, but we continue our training. So there is a huge scope in this and even this company may be in due course, trying to tie up with companies like so that they also have the manufacturing ability or some kind of that collaboration. So, I see a huge potential in this. Because this is the demand of the day, nobody can do like earlier now go to the drawing board, make CADD design, make a

proto as a mold then test it everything is done through computers now, this is the computer aided engineering, so you can before even taking up the tool for making or prototyping you can do noise, vibration, harshness everything that means the complete car can be tested on the software without actually manufacturing, so that is the biggest advantage in the design engineering.

Amitabh:

Right, and just once again since you know these companies might have much higher margins on the software design side, are we expecting to see similar margins for the design side of the business?

Radhakrishnan:

Right now it will be high but as these companies come and set up there re collaborate the margins will come down but it will be still very substantially much higher because there is a shortage in this field right now.

Amitabh:

Okay, and very quickly what is our CAPEX plan for the rest of the year and going forward, let's say next year is there a...?

Radhakrishnan:

We have based on the short-term, long-term and this we have made a plan, so in the next two year, the long-term is around 125 crores to achieve all this what I said about earlier, but in the immediate near future, we will be just completing what we had told about in the prospectus, all those things will be completed latest by December, some of this exports whatever little investment is required for that and of course some of these people are interested in joint venture. So, if any joint venture is coming up, the investment is going into that. So, may be in this year, depending upon the potential, it will be around 30 to 50 crores if required.

Amitabh:

Okay, so, for example this how much have we spent already for the first half of the year?

Radhakrishnan:

We have spent around 10 crores in the first half and we have a line already like ...

Amitabh:

You mean...

Radhakrishnan:

Yeah, thing for which like this tool room and the additional capacity which we are making over and above what was projected earlier.

Amitabh:

Okay and what is our cash position as on date as in how much funds we have available for the CAPEX of this year?

- Radhakrishnan:** Right now we have kept around 30 crores we have taken ECP, we have utilized almost about 10 crores, so 20 crores available for the CAPEX, for further expansion.
- Amitabh:** So, which is envisaged over the next six months, is it?
- Radhakrishnan:** For the next six months yeah.
- Amitabh:** This would include acquisition like the one which you...
- Radhakrishnan:** No acquisition, you know this not permitted that is coming from the internal actual. This CAPEX is through an ECP at 1% above LIBOR and that will be used only for fresh investment, fresh capacity investment or acquisition abroad that is permitted.
- Amitabh:** Right, and so in terms of our ambitious plans for the next two years, do we plan to raise any fresh funds from the market envisaged in the next one year or so?
- Radhakrishnan:** Our next board meeting is on January 30, 2008 when these things will be again put up the progress and all that and at that time a decision will be taken whether we should go for any fresh...because right now we have a capacity to borrow, so we will be going for borrowings right now immediately.
- Amitabh:** What would be our present borrowing capacity?
- Radhakrishnan:** Right now based on our...we can easily go for another 50 to 60 crores in the borrowing. Our net worth is 110 crores, but on a conservative 1:1 estimate I am telling we can go to around 50 to 60 crores like, but on a more aggressive basis, we can go. Today, what has happened in India for companies like us is that both opportunities are there and money availability is also there. So, we are gearing up our managerial abilities creating a stronger team to meet all these things. So, though you call it ambitious plan, yes I will also call it ambitious, but this is a kind of opportunity, which is emerging for the auto component sector, because of the number of companies coming here, if you can visit our plant in Chakan right in front Daimler is developing 100 acres and just behind Volkswagen is with 500 acres and along side this side is 450 acres of Bajaj Auto and if you go a few kilometers down, General Motors with 300 acres, and Hyundai further truck with another 50 acres. The whole area is undergoing a change. So, whatever we have projected is based on the opportunity available, now it is our ability to raise the money, gear ourselves up to that. So, that is how we have projected.

Amitabh: Okay, just quickly can we talk about net worth and your borrowing capacity, what is your current debt level?

Radhakrishnan: Current debt level in terms of term loan is 22 crores, around 30 crores if you take the short-term loans and other things, our term loan is around 30 crores and working capital as on date is around 20-25 crores like.

Amitabh: Working capital, okay and just you talked about actually you touched upon the management issue, which was actually my next question. How are we planning to shore up our management depth to take on these fresh challenges and achieve our vision in the next four to five years?

Radhakrishnan: That is the biggest challenge. So, we have recruited quite a few people we have made our organizational structure because we have grown quite fast, we have created departments, we are training them on a continuous basis, we have taken up core strength of some 20 people into that and made them heads for all the units and SBOs. We are still working on that, we have engaged some good consultants to give them training down the level. We have graded. So a lot of steps have been taken before we take the next move like the Nirmithi what I said, we have acquired now. It is a very well run company though smaller in size. They also have this TS accreditation TS 16949, but we also have ISO 14000 and also ISO 18000, well run, well managed, so we will slowly bring in to our team people like him. Now he will become a part of our team like. 20 years he has been in this business, he himself trained this people in tool room and all that, so our endeavor will be while taking company or while recruiting people to have people like this with a lot of managerial ability and to carryout all this tasks, which we are setting ourselves for the future.

Amitabh: Okay, thank very much.

Moderator: Thank you sir. Next question comes from Ms. Shilpi from TNB.

Shilpi: Hello, good morning sir. Sir, I wanted to ask you are we facing any kind of threat from China in terms of manufacturing or the designing capabilities that we have?

Radhakrishnan: Really not because the whole pie is too large here, but it is a good question because China is very good in low cost manufacturing, but in designing they are much behind. It will take a lot of time that is why whatever part we get for exports, and every one of us both in the case of Cummins

and all the orders told us that in due course we have to reduce the cost. We have to re-engineer, we have to suggest how we can reduce cost, how we can even in logistics as a design engineering company we did an exercise for a tractor manufacturing company who is exporting. They used to ship four tractors in one container. We gave them a solution to shift 6 tractors in one container. These are the challenges which they are looking with China, at present does not have the capability. Definitely in mass manufacturing they are very low cost, may be in future they will become the low cost manufacture and we will become the low cost designer and we will have to work together but that is long way. Right now it is not a big challenge for all these highly skilled parts we are supplying.

Shilpi:

And Sir with regards to these free trade agreements that are coming up especially one with Thailand, are these OEMs and big players though they are venturing into India, do we also see them moving to Thailand and then importing the same here?

Radhakrishnan:

Not exactly because they have also been given an indication that whenever they go, we have also to set up in Thailand. So, see when the OEMs are coming from abroad, they move with their suppliers whom they know well. Such opportunity will come to us also to go and operate out of there in the free trade agreement area. We are on a level playing ground at that level.

Shilpi:

Okay. And sir one more question, how do you plan your production. Do you have your long-term contracts with these players or is it on some rolling basis one month rolling plan or something that?

Radhakrishnan:

As explained earlier our major is Tata Motors and is all open orders like you know for the different models and on a monthly basis they give the schedule. They give an overall indication for the quarter / year. Monthly basis they give the schedule and even in that monthly, daily they give the schedule and we will have to supply daily.

Shilpi:

On daily basis, you do that. So, what kind of inventory you maintain for this?

Radhakrishnan:

Raw material around 45 days, then but fast moving items are there which are much lesser. So, we carry the inventory on their behalf. So that is another challenge we have.

- Shilpi:** Okay and sir with regard to your designing capabilities, is skilled labour in any way a challenge would be safe here?
- Radhakrishnan:** Yes this is our challenge because you know all the software companies like Infosys and Wipro everybody they recruit mechanical engineers also. We need only mechanical engineers and mechanical engineers who say no we want to stick to this line and what we are doing is we are also taking some colleges inside mechanical engineers training them, and the threat is limited to the four to five companies which I have mentioned earlier, so human tendency to go for but we will continuously train and we are also trying to create enough opportunities.
- Shilpi:** So, basically we do employ people we train them and then bring them to our standards of engineering design that we need.
- Radhakrishnan:** Yeah, exactly because they have our own software tools, we have to train them on that software tools, make them conversant apart from the general tools which they learnt. So, we have to give them overall training, but of course there is a core level of people project engineers who are as the middle level also we recruit, but most of our people will be grown from inside only.
- Shilpi:** Okay, sir other than the skilled labor, is there any other bottleneck that we face with the engineering site, on the designing in the engineering part other than manufacturing, is there any kind of bottleneck we face?
- Radhakrishnan:** No, bottleneck for us that we didn't have an US face, you have to have a marketing office in US, which we have now acquired through DEP.
- Shilpi:** All right.
- Radhakrishnan:** Second is our infrastructure is much better now in terms of broadband and other things, but the cost of that has to come down. Otherwise, there is no bottleneck, once you get an order getting the people and getting them onto that business in only challenge, which we are geared up right now.
- Shilpi:** Okay. Thanks you sir. That is all from my side.
- Moderator:** Thank you madam. Next question comes from Mr. Rithesh from Key Note Capital.
- Rithesh:** Afternoon sir. I would like to know about the software the Morpher software that we are talking about and the

software that we shall launch in the month of January, how would this be sold, through outright or lease and it at all it is leased then do our person go to them and then train the plans and how to go about it, how do you use the software and all that stuff?

Radhakrishnan:

Yeah, it will be both sold and leased and though I am not very technical in this, what I know is of Morpher which we have already launched. It can copy an earlier design, do the analysis through the existing software you know that are many software like (not sure) and CAE software and in due course when Meshwork Morpher is launched and of course once you analyze, you have to go back to the CAD and do it again that is change the design. Whereas the next product, which we are launching is Meshwork Morpher what that will do is in the CE itself after analysis, you need not go back to CADD, you can make the changes and make the design as it is without going back, which will save time a lot. Now as far as application is there, many of the big companies are already aware. See from Korea also people go to Detroit and they are trained there or they are trained there only, so they take some of our people and train their people, so that is the mixed model in that. So depends on the company like a very large company will outsource totally, smaller companies may prefer to buy or lease it and then take our services on that and these software have been ready just a year back and these are all in what you say getting mature or scalable size. While on the subject since you asked, one more tool, which is in the making in the future, which will be coming is the knowledge based engineering tool. That is the company which buys that tool and does work on that, it will capture some of the internal data and keep it, so that engineer does something which is not the company's way of working or the policy or the way it is done, it will guide it say that this cannot be done like this, this has to be done like that. Something like you see in Microsoft you know like when you type a word some suggestions come, that kind of tool, but that will take another year to be launched. I hope I have answered you sufficiently or you can ask me again.

Rithesh:

Yes sir, I would like to still...are we confirmed on the pricing aspects of these products?

Radhakrishnan:

Morpher has been priced at around Rs.5 lakhs for that whole package, but I do not know there are some (not sure) in that part of it can also be bought whereas Morpher is yet to be priced. This Meshwork Morpher to be launched is yet to be priced and for your information since you asked last year that is 2007 current, General Motor

itself has purchased this software product worth Rs.1 crore it will increase like this. This is just the beginning like you know. So, that is kind just to give you an indication.

Rithesh:

Okay, sir the reason Morpher product which has been launched, it has been launched very recently and BB out there in US was not selling this product up till now right?

Radhakrishnan:

No it was. This is the version IV; sorry I did not mention that. It is not a fresh launch of the entire thing; it was a very highly upgraded version of the Morpher, which was being sold. If I am not wrong, I think this is given then free of cost to the people who had bought it earlier.

Rithesh:

Okay, up gradation kind of.

Radhakrishnan:

Up gradation kind, yeah. With all these General Motors, Hyundai, Honda our people are also working closely with them because this is all in development stage.

Rithesh:

Sir, what was the turnover for DEP 07 if you would have.

Radhakrishnan:

Till the three quarters of this year that is 08 they follow a calendar year, it is around 2.1 billion. Because mainly it is the sale of the tools hardly any engineering services are in that, that we are just adding now.

Rithesh:

Correct. Sir would it be easy for us to classify the revenue makes amongst our product say toolings, assemblies, and margin for each of these products?

Radhakrishnan:

Yeah, what we can do is say may be in the next meeting or something, we will try to work out all these under different head like because tool room is likely to start by January, the year just coming in. So right now whatever tooling we do maintenance is only in house. Earlier we used to for outside parties, now we are not going doing for outside parties, whatever work we get, because we get the work also based on our tool room ability like you know big dyes, maintaining them, correcting them, modifying them, so we will workout what will be the percentages to come from tool room, from export, from general assembly, and that exercise may be in the next couple of months, we will arrive at that.

Rithesh:

Sir, in 08 we expect a turnover of about 400 crores, am I correct? Hello?

Radhakrishnan:

Yeah, we expect a turnover of around 400 crores in March 2008, '07 – '08.

- Rithesh:** In 09 the expected turnover sir?
- Radhakrishnan:** '09, we have really not worked out because what we have submitted to the bank is a normal 20% growth.
- Rithesh:** Okay sir.
- Radhakrishnan:** But, we will be working out in the next two months that also like exactly based on all the initiative short-term objective and the medium term objective how much and from where it will come. We are in the process of working. We had a board meeting yesterday first time; the paper was presented to the board.
- Rithesh:** Okay. Oh that is all thank you.
- Moderator:** Thank you sir, next question comes from Mr. Ashish from SSKI Securities.
- Ashish:** Good afternoon sir. Sir, just a quick question on your Uttaranchal plants, I would like to know what kind of capacity you would be initially setting up there.
- Radhakrishnan:** Initially we are just starting out of the ...
- Ashish:** Say number of units or number of under bodies or something.
- Radhakrishnan:** See they have given as a few items for development now. See apart from this, vehicle which is being Ace they are coming out with two version of Ace, one higher model, another one the lower model. These are in the development stage. I can tell you only about Ace which is now presently will be around, we will be supplying from January around 150.
- Ashish:** 150?
- Radhakrishnan:** 150 per day apart from whatever we will be doing at Pune, till it is stopped. We will have line in Pune and we will have a line there. When they completely stop in Pune, then we will think of removing it. Initially we will have a capacity about 150 to 200 there.
- Ashish:** Okay, including Puna how much will this be?
- Radhakrishnan:** Right now we are doing 400 at Pune.
- Ashish:** So, you are saying out of 400, 150 to 200 will shift there and the balance will be from Pune.

- Radhakrishnan:** No that depends on Tata Motors and the demand at that time. We can still continue 400 here in spite of that.
- Ashish:** Sure so, you will be setting up new lines there or will be shifting something from there.
- Radhakrishnan:** The history of Ace is that, actually when we were first selected, we set up a line for 150. They said that it will pick up to 100 a year's time, but within four months, it picked up more than 100 or must be 200. So we put up a second automatic line with the public issue proceeds, we had taken a loan earlier and done it which has a capacity of around 450 separately. So, some of these were used there but we had taken out and kept that line. That line is being used for Uttaranchal initially. That target in the long run, which will have 1,200 per day from Uttaranchal. There will be another source at Uttaranchal.
- Ashish:** Could you tell me who the second source is?
- Radhakrishnan:** Second source is SM Rolling.
- Ashish:** SM Rolling.
- Radhakrishnan:** Different company names, I do not know in which name it is, but it is SM Rolling.
- Ashish:** Okay, sir it is a local company there or...?
- Radhakrishnan:** Local company here, they are also supplying their parts to Tata Motors like us.
- Ashish:** Ok sir it is again in Pune based company which is also setting up in Uttaranchal?
- Radhakrishnan:** Exactly, you are correct.
- Ashish:** Okay sir, sir and we just said that we looking at revenues of 400 crores of the full year, so what are the kind of profits you are looking for the full year?
- Radhakrishnan:** That exactly on a consolidated basis, we are looking at around say 40 crores.
- Ashish:** Okay fine sir, okay thank you sir.
- Moderator:** Thank you sir. Next question comes from Mr. Jannis from Quantum Mutual Fund.
- Jannis:** Good afternoon sir, this is Jannis here. I have a couple of questions; one is on the acquisition cost of Nirmithi. You

paid around like 5 crore into (not sure) for that and on revenue base of around 32 crores and you have said that most of it is coming from the tooling business.

Radhakrishnan:

Not tooling, this is started as a tooling company, now major is coming from the components, hardly any tooling. We do tooling for the components.

Jannis:

Okay, so I just wanted to know what kind of facilities we have acquired in the cost on the books on for this because it seems a little lower on looking at the kind of expansion plan and kind of revenue generation potential, acquisition cost is quite effective looking at that and...

Radhakrishnan:

So, I'll just explain as I explained. It is a good question you give me a chance to elaborate further, is that one point 1.37 will be taken by way of new equity and we will be paying about 3.5 crores to the entrepreneur by March, I mean in a phased manner and after that in 3 years we targeted to grow the company in much more profitable way, where we will be paying him incentives he will be in charge of the company, though it will be a 100% subsidiary, so that is the deal like, so though it looks less, of course the market value as on today of the company is around 14 crores, 14 - 15 crores. If you take the book value or the assets and all that it is around 10 crores, but the main incentive for the promoter is the growth. He is a much more bolder entrepreneur in the sense; he started 20 years back, much more earlier than us. He is very mature in this business. He has an in depth knowledge himself and having started as a tool room, which is the area, which is now coming up, he has developed good people in tool room. He has employed 19 people in the CADD area, that's how he has got the strength with the Tata Motors and other OEMs because of these abilities. So, that is how we have taken, so you are right, though it looks low, we will also be compensating him out of the earnings of that company for the next 3 years.

Jannis:

And the second is on the tool room itself, again since you have said that your tool room will be starting operations from January, I believe that the business is the quite a long efficient period and you will require a lot of accreditations and confirmations from the client before you start supplying tools, so just I wanted to know what stage of this business is and how the scale is going to come up from this business?

Radhakrishnan:

What I told about approval, accreditation is for the people whom we did do design for foreign companies, right now

Tata Motor itself has offered a business of 4 crores to immediately start with and they are much more dyes to be made. All these companies which are coming also, they will have their own design, so will not do their design for them, it only manufacture, once the set is ready, there is a huge work. There are four or five independent tool rooms also working in Pune who are all overloaded. Tool room is only place where it works 3 shifts; all the machines are run because it costs around 1,200 to 1,500 per hour for the machine. These are run more than 2 shifts also sometime. So once the tool room is steady, work is not a problem right now. It will start immediately. That is outside work. Of course internal work is there, which will be done in the old room only.

Jannis: But, what kind of capacity in terms of revenue these tool rooms will be having?

Radhakrishnan: When it is completely ready and total, it will be, we are aiming something like 50 crores per annum.

Jannis: 50 crores on a 3 shift basis?

Radhakrishnan: 4 crores per month, because this can be scaled up also by adding certain machines.

Jannis: Do you meant to say that the tool room can be easily scaled up to around say 50 crores total capacity in less than a year or year-and-a half time am I correct to assume that? Hello?

Radhakrishnan: Hello

Jannis: Am I correct, assume that like your full capacity utilization for this tool room can be achieved in a year or year-and-a half time?

Radhakrishnan: In a year's time, it can be achieved.

Jannis: Okay and this will be both mix of domestic as well as export?

Radhakrishnan: Just repeat your question.

Jannis: I just wanted to know that by what time you see the capacity, the full utilization of your tool rooms that is around 50 crores revenue mark, by what time you plan to achieve it and second is, you said going to be split between the domestic and the exports.

Radhakrishnan:

So, between domestic and export, I will not be able to tell you right now because that all depends on the designing demand and whether we classify all the General Motors and the new car which are coming up whether we say as an export or domestic. To clarify that most of the dyes are now made in Taiwan, Korea. So, we have an offer from Taiwan and an offer from Korea. In fact my other partner will be visiting them for collaboration for making dye. So, with if we collaborate with them, then the scope is further, because they have their own marketing throughout the world. So, right now I will not be able to give you. Definitely doing outside work will be more profitable.

Jannis:

Basically with this kind of...a lot of companies have been merging tenders when it comes to the (inaudible) taking time to speed up. I just wanted to know what kind of a space you are expecting and utilizing your tool room facilities?

Radhakrishnan:

The challenge right now is that all the companies if you come and see us in Chakan, all the companies whether it is Daimler or Volkswagen all the work is in full swing and many of them they said by 2009, they will be launching their car, the small car, or the new car. So, with this Bajaj Auto is also launching a new car that is what they have announced, a \$ 3000 car. With all these actually the demand will be too high. Of course it will also be made in Taiwan and cannot be made here. It will wait. But the scope is there, actually and the pace will be very fast. As I said earlier things are moving very fast now.

Jannis:

How you face, when you look at the competitive landscape to get Taiwan what kind of advantage you will be having in terms of refining or in terms of (inaudible).

Radhakrishnan:

Now, we are much cheaper than Taiwan and in this high tech area, the software is coming at a very rapid pace. New software, new machinery also getting reduced and the accuracy is improving. When as a new tool room, we will have probably the latest machinery like you know latest, so collaboration will be good because we will get their technology, their views and all that.

Moderator:

Thank you sir. There are no further questions. Now I hand over the floor to Mr. Tushar for closing comment.

Tushar:

Yeah, thanks Indu. I would like to thank the whole management of Auto Line Industries for taking out their time from their busy schedule and giving invaluable insight about their business. So, thank you very much Sir. Best of luck for you all in future endeavors.

Radhakrishnan:

Thank you Mr. Tushar. All of you also who have present are with very good questions because that makes us starting thinking. Before we went public, we did not have this opportunity of getting the feedback from the analyst and you people were much experienced with so many companies, very good valuable feed backs. We have acted on some of the feed backs like some of them said about the timing and the integration and all that. So, we learned a quite a lot from you and it was really I must thank Mr. Tushar and Anand Rathi and Indu and all of you present. Thank you very much for giving this opportunity.

Tushar:

Yeah, thank you sir.

Moderator:

Thank you sir. Ladies and Gentlemen this concludes your conference call for today. Thank you for your participation and for using Door Sabha's conference call service. You may disconnect your lines now. Thank you and have a pleasant day.

Note:

- 1.This document has been edited to improve readability.
2. Blanks in this transcript represent inaudible or incomprehensible words.