



Endurance Technologies Limited
Q3 FY2019 Earnings Conference Call

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Moderator: Good morning, ladies and gentlemen, welcome to Endurance Technologies Q3 FY2019 results conference call, hosted by Axis Capital Limited. 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 Nigam from Axis Capital Limited. Thank you and over to you Sir!

Ashish Nigam: Thank you. Good morning, everyone. This is Ashish Nigam from Axis Capital. Welcome to the Q3 FY2019 Results Conference Call of Endurance Technologies. From the management team, we have with us: Mr. Anurang Jain, Managing Director; Mr. Ramesh Gehaney, Director and COO; Mr. Massimo Venuti, Director and CEO, Endurance Overseas; Mr. Satrajit Ray, Director and Group CFO; and Mr. Raj Mundra, Treasurer and Head Investor Relations.

I will now hand over the call to Mr. Jain for his opening remarks, post which we can have Q&A. Over to you, Anurang!

Anurang Jain: Thank you, Ashish. Good morning, everybody. I am Anurang Jain, Managing Director of Endurance. I would like to share details of how we have done in the third quarter of 2018-2019.

In India, in Q3 of 2018-2019, as per SIAM data, the 2-wheeler industry sales grew by 9% compared to the Q3 of the previous financial year. Scooter grew by 4.5% and Motorcycles grew by 11.5%. Motorcycle sales growth was more than double the growth of scooters.

In Europe, in Q3, in spite of a decline of 7.8% in the European Union automotive sales, our European operations have posted a total income growth of 6.5% in Q3 in rupee terms and a decline of 1.4% in euro terms.

On the financials, I will briefly talk to you about the third quarter of 2018-2019 first and then about the first 9 months of 2018-2019.

During Q3, as compared to previous years' same quarter, our consolidated total net income grew by 18.1% from Rs.15,428 million to Rs.18,223 million. Consolidated EBITDA grew by 13.5% from Rs.2,313 million to Rs.2,623 million. Consolidated EBITDA margin percentage is 14.4%. The profit after tax grew 23.5% from the previous year and is Rs.966 million at 5.3% after considering the Manesar plant closure legal dues and settlement cost payment of Rs.208 million to our 164 workers. Without considering this one-time payment, the profit after tax would have been Rs.1101 million at 6%.

During Q3, as compared to previous years' same quarter, our standalone total income grew by 23% from Rs.10,822 million to Rs.13,307 million. Standalone EBITDA grew by 12% from Rs.1,471 million to Rs.1,646 million with an EBITDA margin percentage of 12.4%. Standalone

profit after tax grew 29% and is Rs.629 million at 4.7% after considering the Manesar plant closure legal dues and settlement cost payments of Rs.208 million to our 164 workers. Without considering this one-time payment, the profit after tax would be Rs.764 million at 5.75%.

The reason for the lower 12.4% EBITDA margin is mainly due to the RMC percentage going up by 0.8%, including the increase in tariff rates of certain imported items, which includes the previous quarter effects also. And secondly, the Manesar closure and shifting of the business to Pantnagar had a onetime impact of 0.5%. Thus, these items contributed 1.3% impact on EBITDA margin in comparison with the margin for Q3 of the previous financial year.

I will now brief you on the financials of the first 9 months of 2018-2019. During the first 9 months of 2018-2019 as compared to the first 9 months of 2017-2018, our consolidated total income grew by 21.6% from Rs.46,324 million to Rs.56,316 million. Consolidated EBITDA grew by 20.3% from Rs.6,863 million to Rs.8,256 million. Consolidated EBITDA margin percentage is at 14.7% and the profit after tax grew 26.2% and is Rs.3,464 million at 6.2% after considering the Manesar plant closure legal dues and settlement cost payment of Rs.208 million to our 164 workers. Without considering this one-time payment, the profit after tax would be Rs.3,599 million at 6.4%. The consolidated ROCE is at 24% and ROE at 20%. The consolidated net debt is at Rs.2,758 million, and the net-debt-to-equity ratio is 0.11:1. The asset turnover is 2.42 times.

During the first 9 months of 2018-2019, our standalone total income grew by 25.3% from Rs.32,642 million to Rs.40,887 million. Standalone EBITDA grew by 21.2% from Rs.4,423 million to Rs.5,362 million with an EBITDA margin percentage of 13.1%. The profit after tax grew 30.5% and is Rs. 2,476 million at 6.1% after considering the Manesar plant closure legal dues and settlement cost payment of Rs.208 million to our 164 workers. Without considering this one-time payment, the profit after tax would be Rs.2,611 million at 6.4%. The standalone ROCE is at 25.8% and the ROE is at 18%. The standalone net debt is at Rs.1,933 million and the net debt to equity is at 0.1:1. The asset turnover is 2.6 times.

We would like to mention that Endurance is focused in both its Indian and European operations on growing higher than the industry growth.

The detailed financials are available with the stock exchanges and on the Endurance website.

I would now like to share certain other points on the first 9 months of 2018-2019.

1. 73% of our consolidated total income including other income came from Indian operations and the balance 27% came from our European operations.
2. Bajaj Auto share of business on consolidated sales was at 38.8% due to its high growth of 29% in motorcycles and 31% in 3-wheelers in the first 9 months.

3. In India, there was a sizable growth in business with Bajaj by 32%, Honda 2-wheelers by 15.5%, Royal Enfield by 8%, Hero MotoCorp by 54.5% and Yamaha India by 20%.

It is important to note that in the first 9 months of 2018-2019, in spite of the Indian 2-wheeler industry growth of 11% and the total auto industry growth of 10.9%, Endurance standalone business grew much higher at 25.3%.

4. In Europe, in Euro terms, we grew 73% with Volkswagen group including Porsche and 24.5% with Daimler.

5. Our top 6 clients on a consolidated basis, which comprises 75% of the Endurance group business are Bajaj Auto, FCA, HMSI, Royal Enfield, Daimler and the Volkswagen group including Porsche and Audi.

6. We are extremely happy to inform you that we have got our first order from TVS for disc brake assemblies, which will start from Q3 of 2019-2020.

7. We are also very happy to inform you that HMSI has given us an inverted front fork order for 50,000 vehicles per annum, which will start from June 2020. This is our first order for inverted front forks from HMSI. Bajaj and KTM are our key customers for inverted front forks.

8. Since April 2018, Rs.9,223 million value of business has been awarded. The new business is mainly from Kia motors, HMSI, Hero MotoCorp, Yamaha India, Royal Enfield, Fiat India, Tata Motors and TVS. This also includes new product platforms and electric 2 and 3 wheeler business for suspension and braking products.

9. In Europe, I am happy to inform you that effective 7 January, 2019, our 100% European subsidiary, Endurance Overseas Srl has acquired a 100% equity stake in Fonpresmetal Gap SpA, an aluminum die casting company in Bione, Italy. This company has a capacity of 6,500 metric tons per annum and sales of 27.5 Euro million in 2018. 50% of these sales are to the Endurance group companies in Europe. This acquisition will help in backward integration and strengthening of our die-casting operations, which is important for our profitable growth in Europe.

10. In the first 9 months of 2018-2019, our aftermarket sales in India grew by 18.8% from Rs.1,648 million to Rs.1,958 million. This includes both the domestic and the export sales.

11. Also in the first 9 months of 2018-2019, our exports from India grew by 47.8% from Rs.1,390 million to Rs.2,055 million. Our exports mainly comprise of exports of aluminum castings to Getrag (now it is a part of the Magna group), motorcycle inverted front forks and shock absorbers to KTM Austria and our aftermarket exports to 23 countries.

12. The status of our new plants are as follows:

(i) Our 2-wheeler suspension plant at Halol, Gujarat started production in September 2018 and is now supplying 100% of front fork and shock absorber requirement of Hero MotoCorp's Halol plant.

(ii) Our Kolar, Karnataka plant was supplying front forks and shock absorbers to HMSI or Honda 2 wheeler, will start supplies from Q2 of 2019-2020. The building work has already been completed.

(iii) In Chennai, we have purchased approximately 9 acres of land at Vallam for our second die-casting and machining plant at Chennai and we are targeting to start the production in the end of the third quarter of 2019-2020. The customers to start with will be Hyundai, Royal Enfield and Kia Motors.

13. As far as our Manesar plant is concerned, we have discontinued operations and I am now happy to say that we have finalized and reached a settlement with our workers on the compensation to be paid to each worker in view of the closure of the plant.

14. The ABS brakes tie up with BWI, USA is also progressing well. There is close coordination between the teams at Endurance and BWI. We plan to give newly tested ABS to our first OEM client by this month-end for their test and evaluation. The plant capacity is planned at 400,000 ABS assemblies per annum. This plant will be ready by Q3 of 2019-2020.

15. On our 29-acre test track, the ABS tracks are completed and our ABS testing is on. Other test tracks including the gradient and durability tracks and the building with the control center and workshop will be ready by March 2019.

16. Our company has received an eligibility certificate for incentives under the Maharashtra Package Scheme of Incentives-2013. Based on investment in fixed assets from April 2013 till March 2018, our company get incentives totaling an amount of Rs.3,673.82 million spread over the next 7 years. This incentive amount is not considered in our first 9-months profit margins, as we expect to get this incentive in Q4 of this financial year.

We are extremely excited about all the new business as there are large business opportunities coming our way in all our four product areas, including new products being the 150 CC and above motorcycle inverted front fork and shock absorbers, paper friction plate clutch assemblies, front and rear disc brake assemblies, scooter continuous variable transmissions and fully machined aluminum castings for 4-wheelers. It is also our goal to add more products to our 'existing four product area' portfolio. We are actively engaged to explore and identify opportunities for mergers and acquisitions and technical tie-ups with different overseas companies.

We at Endurance will also continue to focus on growing our profitable business in all our four product areas with our existing and new clients by leveraging our strength in R&D, our strong vendor base and our TPM approach on increasing the operational efficiencies. Also, we are focusing on increasing our aftermarket and export business in our Indian operations and looking at organic and inorganic opportunities in both India & Europe.

With these opening remarks, I would like to invite questions from all of you. Thank you very much.

Moderator: Thank you. Ladies and gentlemen we will now begin the question and answer session. Our first question is from the line of Ronak Sarda from Systematix Shares. Please go ahead.

Ronak Sarda: Congratulations on the first maiden order from TVS. A couple of questions. One, if you can highlight the quantum of this order? And second is, do you have a Q3 growth rate for the top 5 customers in India? You shared the 9-month growth, but if we could have the Q3 growth rate YoY.

Anurang Jain: In Q3, our topline grew 32% with Bajaj, Royal Enfield was flat, about 1%, then Honda was flat, Yamaha was 27% and Hero MotoCorp was 72%. That is mainly because of the Halol plant.

Ronak Sarda: Sure. And on the TVS quantum ...

Anurang Jain: This first order is for the front brake assembly, about 1000 sets a day. And order value is approximately Rs.40 Crores. So I think this is the start of a new chapter, and we are looking at other product areas also. We will go by a step-by-step approach here also, but it is a very important customer acquisition for us after 33 years in this business.

Ronak Sarda: Yes. I understand. Sir, second question is on Europe. You mentioned Europe industry growth has seen a sharp decline and we are seeing a slight decline for us as well in euro terms. Is this more to do with the WLTP related delay in schedules? Or this is more to do with the market growth? Another question: we have maintained the strategy of focusing more on machining and maintaining high profitability. Any specific reason why we are backward integrating to castings as well?

Anurang Jain: Before I request Massimo Venuti to answer, I will give my thoughts. Both in India and Europe, we have made our product strategy and operating strategy quite strong over the last 10 years. So even if you see in Europe, though we have declined 1.4% in euro terms, we still have a high EBITDA margin of about 19.8% in Q3. So the strategy of machined castings going forward is always going to be there. That is why we enjoy such high margins in spite of our sales dipping slightly. The decline in European Union was 7.8%, while we declined 1.4%. We still have a very high EBITDA margin. That is because of a very strong platform, which we have created in both India and Europe. I will request Mr. Venuti to answer this further.

Massimo Venuti: Good morning. Yes, the situation in Europe in terms of volume is not so good because in the previous quarter, industry saw a reduction of 7.8% but we lost only 1.4%. All the markets lost a lot of volume France minus 7%, Germany minus 8%, Italy minus 4%, and Spain minus 7.6%. So this is the situation in each country due, for sure, to the new law, which started from the 1st of September 2018. In terms of customers request, which drive our turnover, this is also the net effect of a reduction in terms of stock of the dealers for the disposal of vehicles produced before the 1st of September, according to the old homologation rules, that can be sold till August 2019 . It is not clear if and how this situation will continue also in the next few months due to the effects of the complexity of the WLTP standards or rather the cyclicity of the automotive sector. The month of January was also very bad in Italy minus 7.5%, and also in Germany, France more or less minus 2%. But frankly speaking, this is normal from my point of view because of the cyclicity in the automotive market in Europe, where periodically there is a reduction; after 7 years of continuous volume growth, normally the market goes down. But within Europe, we have to maintain our focus in where to take business. So we have to increase our share of market, taking business from competitors.

We want to maintain the focus in machining even if we acquired a company focused in casting, but one of the major possible synergies between Endurance group and the new company is the fact that they are buying from the market about EUR 4 million of machining services. So in-housing of machining is the first thing that we can do.

In terms of turnover of Fonpresmetal, the new company acquired (now Endurance Castings), it can contribute in our total turnover for more or less 50% of their production capacity equivalent to a turnover of EUR 13 million on an annual basis. But I am sure that we can start immediately with synergy between the companies in order to increase our profitability.

In the third quarter of 2018-2019, despite a reduction of 1.4% in terms of turnover, we increased our profitability from 18.3% of 2017-2018 to 19.8% in 2018-2019. And this is an effect of the mix of product with more added value in the new Volkswagen order.

Moderator: Thank you. We move on to the next question that is from the line of Bharat Gianani from Sharekhan. Please go ahead.

Bharat Gianani: Congratulations for a good set of numbers. You mentioned the order number that you got from new clients. Can you please repeat it for me?

Anurang Jain: The total figure I said was Rs.9,223 million, which we have got for the first 9 months of this financial year.

Bharat Gianani: And this would be executable over what period of time?

Anurang Jain: Peak will happen by 2021.

Bharat Gianani: You said that you will start the ABS supplies from the next year. I wanted to understand what would be the pricing of the product? And are we focusing on single channel or dual channel? So if you can just shed some light on that?

Anurang Jain: The pricing, I cannot talk about here. We are focusing on the single channel. Our target is to give the first product by end of this month. We are creating a capacity of 400000, which will be ready by the beginning of Q3 in the next financial year. Like I said earlier also, the quality performance of our product has to be on par or better than the competition. Once that is established, business can start. Like I said, Endurance always goes in a certain way. We prove our product. Of course, on cost, we will be very competitive. And based on that, we will go and increase our share of business. That is what we have done in the last 20 years in all the businesses. So we plan to do that again for ABS. But we are going very cautiously. This is a very high technology product; it is electronic and hydraulic controlled unit. And I would say is the highest technology product that is coming our way so far.

Bharat Gianani: Okay. Lastly from my side, if you can just highlight what is the ABS industry size you foresee? And what kind of targeted market share would you like to have on that?

Anurang Jain: The market, if you see the above 125cc segment, from what I recall, is about 3.5 million vehicles in India, which will all go on ABS. To be honest, I am not looking at market share now. I want to first use the 400,000 ABS capacities. I have to see that we get the purchase orders for that. And then I look at the future. But first priority is to establish my quality. The performance and the quality is the first step.

Bharat Gianani: Thanks and all the best Sir.

Moderator: Thank you. The next question is from the line of Aditya Jhawar from Investec. Please go ahead.

Aditya Jhawar: Congrats on good set of numbers. Anurang. This quarter was relatively challenging from OEM perspective, other than Bajaj. Despite that, we have reported pretty strong numbers. So going into Q4, what is the sense that you are getting from OEMs for Q4 and the near-term demand?

Anurang Jain: Well, it is too early to say because all the OEMs are giving figures only at the end of the previous month for the next month. And we will take it month-by-month, so very difficult to predict. But I can definitely say that compared to Q3, definitely January-March should be better. Q4 should be better from what we have seen so far.

Aditya Jhawar: Secondly on our acquisition in Europe. If you can help us understand what impact it would have on our margin in terms of backward integration? If you can quantify that impact?

Massimo Venuti: The new company, Endurance Casting has total turnover in 2018 of EUR 27 million for casting and also tooling, more or less 50% of their production capacity of 6,500 tons a year was completely dedicated to Endurance group. The company is not aligned with our standard of

EBITDA margin because they are more or less at 7%-8% in 2018. Our target is to immediately integrate the company. We decided to buy this company, for securing of our supply, but also because they have a very good level of efficiency and expertise in terms of quality and technical capability. We are confident that making synergy in terms of economy of scale, tooling, materials and the technical department, we expect to increase the profitability of the company in a short time. Now we are doing the budget process, and we are trying to understand the impact of Endurance Casting in 2019-2020 on our profit and loss. For sure, I can tell you that the total turnover would be more or less the same as 2018 and so we will say about EUR 25 million. In our topline the impact will be only for EUR 12-13 million. After Endurance, the major customers of the company are Bosch, TRW, GKN, Wilo. But the target, as I told you before, is to try to make synergy immediately in the machining area because the company bought from the market a lot of machining services. We want to derive immediately possible synergy in our existing machining capacity in Endurance in order to increase the EBITDA in 2019-2020.

Moderator: Thank you. We will move on to the next question. That is from the line of Pramod Kumar from Goldman Sachs. Please go ahead.

Pramod Kumar: I had a question on the ABS. Globally, the ABS market in terms of units is not such a large market and India's going to be a big opportunity in terms of the volumes that it offers. And I understand, in the initial phase, you will have focus on quality and then slowly ramp-up. Once you have stabilized the ship, probably go for higher volumes, what could happen to the costs of the technology as the volumes ramp up?

Anurang Jain: Here, I would only say one thing. Our focus will be to be as competitive as we can to our OEM customers. There will be a bought-out imported content, tomorrow it can be Indian content. So there is a lot of work to be done there. But looking at operational strengths we have, our stronger vendor base, in the Endurance Vendors Association and our cost efficiencies, our purchasing efficiencies. I think we will be very competitive. My first focus though is to establish the quality right now.

Pramod Kumar: Yes. And on the related note, is there a significant cost difference between a single-channel, dual-channel ABS? Because we are seeing a lot of OEMs actually opting for the single channel, though dual channel is much safer. Is it almost doubling of the cost, for dual channel?

Anurang Jain: Well, I cannot say the percentage difference. But it will not be a very large increase. No, should not be double.

Pramod Kumar: The OEM pricing is going up so much, OEMs are playing it cautiously and going for single channel to begin with.

Anurang Jain: Yes. But let the Indian players like us come in, then we will see.

Pramod Kumar: I think that is very helpful. Thanks a lot and wish you all the best. Thanks a lot sir.

Moderator: Thank you. The next question is from the line of Narottam Garg from Chanakya Capital. Please go ahead.

Narottam Garg: Sir, my question was on the EBITDA margin. I think you gave a walk at the beginning of the call in terms of the impact of Manesar and increased import duty. So if you could just explain that again, sir? And is it a one-off impact or will it sustain for the next few quarters?

Anurang Jain: As far as closing and shifting of Manesar business is concerned, which includes cost of transfer of machines to Pantnagar, and employment cost, this is a onetime cost of 0.5%. It is only a one timer, because it was only incurred in Q3. It is not going to repeat again this quarter.

As far as the raw material cost is concerned, there was an increase, which happened mainly because of higher prices of steel in Q3. So I would say, out of 0.8%, slightly more than half could be attributed to that. It is a mathematical calculation. When the RMC goes up and sale also goes up, RMC as a percent of sale also increases.

And the other half has come from the change in tariff rate for certain imported items, which have been recorded for the past quarters also. We thought that the new tariff rate is correct. So going forward, we will be at a higher tariff rate. There was an impact of at least 3 quarters, which has impacted results in this quarter. So going forward, the tariff rate for these imported items will be higher. 10% will now be 15%. To mitigate the risk, we are trying to either get the products from Indian suppliers or doing it in-house. So that is our operating strategy going forward, to minimize this impact of the higher import duty faced.

Narottam Garg: And second question was, sir, you mentioned an ABS capacity of 400,000 that you are setting up?

Anurang Jain: Yes.

Narottam Garg: Okay. So that is a reduction from the initial capacity that you were planning for 0.5 million units, right?

Anurang Jain: Looking at the kind of machines you get, as well as cell size, we have chosen cell capacity of around 400,000 after looking at different machines. No point having 800,000, because, they would be just idle. Then the ROCE goes for a toss. We are very focused on financials. So let us get the business. Let it start first and then we will do further investments.

Narottam Garg: So you are saying the minimum unit of capacity is 400,000 and multiples of that?

Anurang Jain: Absolutely.

Narottam Garg: Thank you so much and all the best sir.

- Moderator:** Thank you. The next question is from the line of Chirag Shah from Edelweiss. Please go ahead.
- Chirag Shah:** Congrats on these set of numbers. The first question is a follow-up on this ABS. Is a large part of the ABS imported content?
- Anurang Jain:** No, it would not be a large part. We have a supplier right now for protos supplying from abroad. But ultimately, the supply will come from the India plant. The cost will come down when it is an India supply. Our focus will be to further lower these costs. There is this foreign supplier who is in India with its Indian operations. I will request Mr. Gehaney to shed some more light.
- Ramesh Gehaney:** Imported content will be approximately 40%.
- Chirag Shah:** And generally, what is the economic size for someone to put up, to localize the foreign suppliers? Is 400,000 a good size for somebody to come and set up a plant?
- Anurang Jain:** In fact, this person already has a plant. They would have other orders also, it is not only for our order.
- Chirag Shah:** Okay. My second question was on our share of business of key players, like, for example, for Royal Enfield or Bajaj and HMSI. What proportion of their pie we would be having presence as of now and where is the opportunity for next 2 or 3 years? While Bajaj accounts for around 35% your revenues, would you have 60% of Bajaj's SOB?
- Anurang Jain:** We have higher shares with Bajaj, it could be 50% to 80% depending on the product. So I do not see that going up. We also have very high share of business with RE. Bajaj grew so well this year, so we will grow. We can grow by volumes. More importantly, I think we will go for higher technology products, could be paper clutch assemblies, could be introduction of rear brakes, could be inverted front forks or more machined castings. So this will add more value at Bajaj and Royal Enfield.
- In Honda, we are doing castings and suspension. So in clutch assemblies, we would increase our share of business. Brakes also are in process. That is a huge opportunity, which is also coming our way.
- And with Hero, we are doing suspension and castings and we are looking at clutch and CVT now and also the disc. So that is in process.
- So there are a lot of things happening with different customers. So in Royal Enfield and Bajaj, there would be volume growth and more technology items which will drive growth. For the other OEMs, there is scope to increase our share of business and also to add new product areas.
- Chirag Shah:** So for Hero, Honda and some of the other guys like Yamaha and, you would be at 10% to 20% of share of business with them? Or, and this could double in 3 years for you?

- Anurang Jain:** I cannot put a figure, but I am focused towards quality, cost, delivery, introduction of products and demonstrating strong management by really addressing concerns of customer, increasing the trust. I feel we have created trust. We are totally focused towards profitable growth, and you have seen that. The fact that this year also, in the backdrop of growth for the automotive industry of 10.9%, we have grown 25.3%. So this should answer your question. I have always said we grow higher than industry. How much, I cannot say. Even during the IPO, I had told all the investors that we will grow 8% to 10%, I never said such high figures which we have delivered. But if the industry does well, we will grow higher.
- Chirag Shah:** Thank you very much and all the best.
- Moderator:** Thank you. We will move on to the next question that is in the line of Jinesh Gandhi from Motilal Oswal Securities. Please go ahead.
- Jinesh K. Gandhi:** You talked about disc brake business in the past. Can you give us an update on how that business is shaping up for the quarter?
- Anurang Jain:** It is shaping up very well. Our capacity of 185,000 per month- we are increasing it to 275,000 by March 2019 and then later to 300,000. Because of the introduction of rear brakes, where we have already reached 45,000 brakes a month. So that is a huge opportunity. I mean, it is a bigger opportunity than the ABS. In 2017-2018, we did not have any rear brakes being supplied. So that is, of course, a huge opportunity. TVS came with such a large brake order, and there are other customers giving us large orders for brakes. So we are going to increase the capacities further, early next year also.
- Jinesh K. Gandhi:** Okay. And this 275000 is annual capacity?
- Anurang Jain:** No, it is per month. 275000 brakes assembly is per month. Front and rear, both put together.
- Jinesh K. Gandhi:** Right. And here, you are doing up to, 200 mm or higher than that as well, in terms of the size?
- Anurang Jain:** We are going up to 280 I think. Mr. Gehaney, can you throw some light on this?
- Ramesh Gehaney:** Yes, at this time, it is 292 mm.
- Anurang Jain:** But we can do higher sizes.
- Jinesh K. Gandhi:** Yes, the 290 would be almost entire market effectively? So Royal Enfield will be 280?
- Ramesh Gehaney:** Yes, Royal Enfield is 280.
- Jinesh K. Gandhi:** Okay. And any sense on share of business over here? Considering that there are currently 2 players.

- Anurang Jain:** It is about 30% share of business approximately. About 25,000 sets each of front and rear is what we have planned for Royal Enfield.
- Jinesh K. Gandhi:** Okay. Right. And Bajaj would be much higher share?
- Anurang Jain:** Well, I mean, we plan to go higher and higher, of course. And it is not only Bajaj. Now you have TVS, which is another 25000 per month. And then you have others, which I cannot talk about right now.
- Jinesh K. Gandhi:** On the same braking business side, considering that our ABS plant will be operational in 3Q FY2020, would it be fair to say the ramp-up can only happen towards FY2021-2022?
- Anurang Jain:** No, it will happen in 2021. That is our target.
- Jinesh K. Gandhi:** Okay. And this ramping up of ABS post the first supply?
- Anurang Jain:** I think it will depend upon how well our ABS does and the customer is satisfied with the quality and performance. It will depend on that.
- Jinesh K. Gandhi:** Okay. Because being practical, even the second stage of ordering ...?
- Anurang Jain:** Endurance, I told you earlier, has always been second or third. But then on QCDDM, we have always got the higher share of business. It will only start slowly but properly and then scale up. That has been our strategy. By being the second or third, you understand the market better. You can learn from other people's mistakes. So it is good to learn from others also.
- Jinesh K. Gandhi:** 100%. There is certainly more advantage at times.
- Anurang Jain:** Yes. Absolutely.
- Jinesh K. Gandhi:** And coming to CVT, any update on the ordering from Hero and where will we be with HMSI?
- Anurang Jain:** As far as CVT is concerned, it is going slow. It is under testing. It is a slow process, but we are quite confident. It is going a bit slow but we are pushing to see that we start this new product fast, at least in 2019-2020. But let me not say anything more right now, because it is better to start and then talk.
- Jinesh K. Gandhi:** Sure. And it is under testing at both Hero and HMSI, or just with Hero?
- Anurang Jain:** Yes. Well, it is with both. But with HMSI, we are doing some other improvements, and then we will give the samples to them.

- Jinesh K. Gandhi:** And a housekeeping question on RMC costs, where you indicated that there is an impact on margins. So if I just compare YoY, our RM costs is higher by about 250-basis points. If 50 basis point each is for steel and the Manesar impact. So balance of 150 basis point impact is of tariff or I am getting it wrong?
- Satrajit Ray:** Jinesh, this is Satrajit Ray here. What Mr. Jain explained is the impact on profit. You are looking at the RMC percentage on sale. So 0.8% was because of the steel price increase and the tariff and 0.5% was a onetime cost of the Manesar closure and shipping expenses. That was the total change of 1.3%.
- Jinesh K. Gandhi:** All 3 put together is 1.3%?
- Satrajit Ray:** Yes. Correct.
- Jinesh K. Gandhi:** Lastly on European business, we have seen increase in employee cost both on Y-o-Y and Q-o-Q basis, particularly on Q-o-Q is a bit difficult to comprehend because revenues have come down. So is there any one-off? Or is it because of the December ending?
- Massimo Venuti:** In the quarter, there was an increase of EUR 0.4 million compared to the previous year, 0.9% higher in terms of percentage of sales. It is a different mix in 2018-19 compared to 2017-2018. There is a major impact in terms of employment cost for certain kind of products, because we do special trimming and blasting in some parts and in other parts we do not do. But instead of the single line of cost you have to look to the overall EBITDA, of course, which grew from 18.3% to 19.8%.
- Jinesh K. Gandhi:** Sorry. My question was regarding the employee cost is EUR 11.2 million or EUR 11.6 million?
- Massimo Venuti:** EUR 11.2 million was 2017-2018, EUR 11.6 million is 2018-2019. It is an increase of EUR 400000.
- Jinesh K. Gandhi:** Sure sir, fair enough. Great, thanks and all the best.
- Moderator:** Thank you. The next question is from the line of Jamshed Dadabhoy from Citigroup. Please go ahead.
- Jamshed Dadabhoy:** Thanks for the opportunity. Congrats, good set of numbers. Just a quick question, what is the proportion of proprietary business in the 9 months, year-to-date and the domestic versus last year?
- Anurang Jain:** It is 51% on India sales.
- Jamshed Dadabhoy:** How much was it last year for 9 months?
- Anurang Jain:** Last year, it was 49.5%.

- Jamshed Dadabhoy:** Could you share with us what was the volume growth you all saw in castings business, year-to-date? Domestic?
- Anurang Jain:** Yes, just let me see that we have stated. Just give me a minute. Yes, see, I will tell you. Casting grew about 22%, and it was mainly because of alloy wheels, which was 52%.
- Jamshed Dadabhoy:** Alloy wheels were up 52%?
- Anurang Jain:** 52% for alloy wheels, which is now a pretty decent profitable business. So 22% for castings including alloy wheels, of which alloy wheels was 52%. Suspension was 26%, transmission was 30%, brakes were 47%, because the rear brakes coming in.
- Jamshed Dadabhoy:** Got it. Sure helpful, thank you, I will come back for more.
- Moderator:** Thank you. The next question is from the line of Priya Ranjan from Antique Stock. Please go ahead.
- Priya Ranjan:** Thanks for taking my question. Just on ABS part, in terms of testing, how long do you say that testing will take probably? And in terms of kilometers, probably 1 lakh kilometers or 50000 kilometers or 20,000 kilometers, you require a continuous testing to get the final approval?
- Anurang Jain:** Okay. I will request Mr. Gehaney to answer that question.
- Ramesh Gehaney:** Normally, the customers would take a road endurance test of roughly 30000 kilometers. And I believe it would be approximately 300 kilometers a day. So it will take approximately 3 months, or 2.5 to 3.5 months to complete the test.
- Priya Ranjan:** Durability testing will also be in the similar range?
- Ramesh Gehaney:** No, all put together, the lab test and the field test will take approximately 4 months.
- Priya Ranjan:** That is all from my side. Thank you.
- Moderator:** Thank you. The next question is from the line of Jayesh Chandra Gupta from JM Financial. Please go ahead.
- Jayesh Chandra Gupta:** Good morning Anurang. Congrats on the numbers. One question relating to Europe. The WLTP has happened and we have seen the impact. What are other transitions in the next one year should we take note of which could impact our European operations?
- Massimo Venuti:** The new law started in September 2018 for all the new passenger vehicles and in the last quarter, the market lost 7.8% but at this moment the impact for the next few months is not so clear.

Jayesh Chandra Gupta: Just a follow up. So WLTP has 4 stages. So the second, the fourth stage will start on September 1, 2019.

Massimo Venuti: 2018.

Jayesh Chandra Gupta: Sir that was the first stage. If we talk about the 4 stage, there, we talk about the corporate level emissions. When we see any impact from, arising from that?

Massimo Venuti: Starting from September 1 2018, the new WLTP norm began for all the new passenger vehicles even if with the possibility to sell, till August 2019, the vehicles produced before the introduction of the same. Starting from January 1, 2020, there will be another important reduction in terms of fieldwork emission as the tolerance currently at 110% will be reduced to 50% for the new homologations. Starting from the January 1, 2020, there will be another set factor. This was already forecasted in 2016. So the real problem is not only the level of emissions but also that the WLTP requires, as you know, each type of car (depending to the different levels of settings/optionals) has to reach the target. In the past, the segment of the car had to reach the target. Now each type of car and probably a lot of customers continue to have a problem to fulfil the tests for all the variety of models, for such extensive checking considering also the RDE test.

Jayesh Chandra Gupta: Thank you Massimo. Thank you Anurang.

Moderator: Thank you. The next question is from the line of Mahesh Bendre from Karvy Equity. Please go ahead.

Mahesh Bendre: Thank you for the opportunity. Last year, European business was around EUR 250 million. So what is the contribution in the first 9 months of this financial year?

Massimo Venuti: In the first 9 months, we closed with EUR 190 million turnover.

Mahesh Bendre: Sir, what is the outlook for this business? You just mentioned that during the quarter, the European OEMs actually degrew by more than 8%, 9%, but degrowth in terms of Euros was only 2%. So we have actually outperformed the OEMs. So what makes us to deliver that?

Massimo Venuti: We had outperformed the OEMs due to recent large order wins. Also, while industry numbers for January also shown degrowth it is heartening to note that the customers are saying us to maintain a good level of stock, and so it means that probably they think there will be strong orders for future months.

Mahesh Bendre: Are we going to expect any growth next year in this business?

Massimo Venuti: Next year, it will depend. We are growing in an important way with the new VW projects and so we will have the benefit of this ramp up of new projects. So our expectation is to maintain the same level of turnover and to grow, if it is possible, in spite of the market going down.

Mahesh Bendre: Sure. My next question is to Mr. Jain. We have got 6 clients contributing 75% of our revenues now. So going into FY2020, are we seeing a growth along the lines of these OEMs? Or is it that we will keep outperforming all the OEMs in terms of growth?

Anurang Jain: We have grown and we want to grow higher than the OEM growth. We are increasing with their increased volume but we also benefit from an increase of our share of business or through higher sale of technology products with higher value add. Like I said, whether it is the paper clutch assemblies or front forks and shock absorbers, machined castings, or in the rear brakes. Also when some smaller CC bikes are going into front disc brakes. So there are huge opportunities even where we have a high share of business. And as far as the others are concerned, we have to get into all the 4 segments and increase the share of the business. Now we have TVS, we want to start with them, grow this business and get into other product areas also. We have done it in the past. We plan to do the same in the future.

Mahesh Bendre: You just mentioned that around 3.5 million 2-wheelers will be on ABS probably. So even if I take Rs.5000 cost per ABS, the market size will be around Rs.800 Crores? So is this the right understanding?

Anurang Jain: No. On price, it is not the right understanding for the future.

Mahesh Bendre: It will be higher?

Anurang Jain: It will be lower. But I will not answer anything more than that.

Mahesh Bendre: And Sir, what kind of market share would you like to have? Maybe not now, but maybe later?

Anurang Jain: I cannot answer on this. My first focus will be to occupy my 400000 capacity, and then I will take it from there as it grows. Because we are a new starter. So let us first learn to walk and then we can run.

Mahesh Bendre: Last question on capital expenditure plan over the next 2 years?

Anurang Jain: See, one thing is for sure that we have done a lot of investments especially in the last 3 years. And next year, though we will, grow, but we are going to really be tight on the capital expenditure. We will be very tight. There will be more of consolidation of capex and sweating our assets. Because there are a lot of uncertainties, you never know which company does well, how the industry will do So I would say next year, we would like to consolidate, focus more on cost controls, lower capex, try and work more on the margins. That will be our focus next year.

Mahesh Bendre: But in terms of, I mean, at least will the cost will be higher than depreciation, because I think we will have Rs.400 Crores in depreciation this year. So we will spend more than that? Or lower than that?

- Anurang Jain:** It will be similar, I think. It will be similar.
- Mahesh Bendre:** Thank you Sir.
- Moderator:** Ladies and gentlemen, due to the time constraint, we will be taking the last question. That is from the line of Rakesh Jain from Asit C. Mehta. Please go ahead.
- Rakesh Jain:** First, we had about Rs.733 Crores of orders until last quarter and Rs.932, so Rs.190 Crores is the incremental order we have got in Q3. So about Rs.190 Crores of incremental orders which we have got. And this includes the rupee and how much would be the European?
- Anurang Jain:** No. This is only will be Indian.
- Rakesh Jain:** Okay. And any new business from Europe?
- Massimo Venuti:** We have acquired in the third quarter of 2018-2019, more or less, EUR 10.5 million of new European business, so of which EUR 6 million will be Fiat Chrysler and EUR 4 million with Daimler and Volkswagen.
- Rakesh Jain:** Okay. That is good. And Sir, just additional question on this acquisition, which we have done, I mean it is good that we are going backward but have we considered the option of using India as a low cost facility. The margins would have been better if it would have been manufactured here in India rather than in Europe?
- Massimo Venuti:** Our strategy with Europe is to produce in Europe for the European market and to produce in India for the Indian market. If we speak about complete machining, I agree with you that we can find some synergy with our India production capacity. But when you speak about raw parts and the assembly parts, there is no such synergy. We are going in a direction where we supply big components, and it is not convenient to transport these parts part from India.
- Rakesh Jain:** Sir, last question on what is the outlook on Royal Enfield right now? And a sub-question to that is have we seen any traction from Yamaha Motorcycle?
- Anurang Jain:** Yes, of course, we have seen traction from Yamaha motorcycles. Because of our new business acquired, we have grown 20% with them. But it is very difficult to say how they will do the next year, because we do not have plans for 2019-2020 from anybody. They will tell us some time towards the end of March. So let us see how they plan at their end. Having said that, there has been traction. We have taken new business from them, including Alloy Wheel business, so we are doing quite well with them actually.
- Rakesh Jain:** Okay. And are we expending any capacities in alloy wheels?

Anurang Jain: We are already in the process of expanding. And now we are about, you can say, 120,000 sets or 240,000 wheels a month. So 240,000 wheels a month is what we are going to supply.

Rakesh Jain: Thank you so much Sir and all the best.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to Mr. Ashish Nigam for his closing comments.

Ashish Nigam: Thank you. On behalf of Axis Capital, thank you to the management and all the participants for joining the call today. Have a good day, everyone.

Anurang Jain: Thank you.

Moderator: Thank you. Ladies and gentlemen, on behalf of Axis Capital, that concludes today's conference. Thank you for joining us. And you may now disconnect your lines. Thank you.