"Endurance Technologies Limited Q2 FY2020 Results Conference Call"

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MODERATOR:	**MR. NISHIT JALAN – AXIS CAPITAL**

Moderator: Ladies and gentlemen, good day and welcome to the Endurance Technologies Q2 FY20 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. Nishit Jalan of Axis Capital. Thank you and over to you Nishit!.

Nishit Jalan: Thank you. Good morning everyone. I welcome you to the Q2 FY2020 Conference Call of Endurance Technologies Ltd. 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 & 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 and good morning, everybody. I would like to share details of how Endurance has done both in the second quarter and the first half of 2019-20.

The first half of 2019-20 has been tough for the two-wheeler industry. As per the SIAM data, the two-wheeler industry sales degrew by 13.5% compared to the first half of the previous financial year. In two-wheelers, scooters degrew by 16.6% and motorcycles degrew by 11.5%. Endurance standalone business degrew by 3.4%. In Europe, in first half of 2019-20, automotive sales degrew by 0.6%. European operations have posted a total income growth of 1.5% in Euro terms.

On the financials, I will briefly talk to you about the second quarter of 2019-20, and then about the first half of 2019-20. During quarter 2 as compared to previous year same quarter, our consolidated total income degrew by 8.3% from Rs. 19,447 million to Rs. 17,827 million. Consolidated EBITDA grew by 5.1% from Rs. 2,877 million to Rs. 3,025 million. Consolidated EBITDA margin percentage was 17%. Profit after tax grew by 35% from Rs. 1252 million to Rs. 1691 million. The profit after tax percentage was at 9.5%. This included the mega-project incentive of Rs. 230.55 million (pre-tax) and reversal of corporate tax of Rs. 224.7 million for Q1, owing to the income tax rate in India being reduced to ~25%.

During quarter 2, our standalone total income degrew by 9.7% from Rs. 14,403 million to Rs. 13,005 million. Standalone EBITDA was at Rs. 2,051 million. EBITDA margin percentage improved from 13.2% in quarter 2 of the previous year to 15.8% in quarter 2 of this financial year. The standalone profit after tax was Rs. 1,366 million at 10.5%. This includes the mega project incentive of Rs. 230.55 million (pre-tax) and reversal of corporate tax of Rs. 224.7 million for Q1, owing to the income tax rate in India being reduced to ~25%.

I will now brief you on the financials of the first half of 2019-20. During the first half, as compared to previous year's first half, our consolidated total income degrew by 2.9% from Rs. 38,092 million to Rs. 36,986 million. Consolidated EBITDA grew by 15.5% from Rs. 5,633 million to Rs. 6,506 million. Consolidated EBITDA margin percentage improved from 14.8% to 17.6%. Profit after tax was at Rs. 3,347 million. Profit after tax margin percentage improved from 6.6% to 9%. This includes the mega-project incentive of Rs. 932.1 million (pre-tax) and corporate tax benefit of Rs. 358 million due to reduction of income tax rate in India to ~25%. Consolidated ROCE was at 24.7% and the ROE at 22.4%. Consolidated net debt was at Rs. 1886 million and net debt-to-equity ratio was at 0.07:1. Asset turnover was at 2.18x.

During first half of 2019-20, our standalone total income degrew by 3.4% from Rs. 27,581 million to Rs. 26,649 million. Standalone EBITDA was at Rs. 4,539 million. The EBITDA margin percentage improved to 17% as compared to 13.5% in the first half of the previous year. Standalone profit after tax was at Rs. 2,656 million and profit after tax percentage was at 10%. This includes the mega-project incentive of Rs. 932.1 million (pre-tax) and corporate tax gain of Rs. 358 million due to reduction of income tax rate in India to ~25%. Standalone ROCE was at 26.5%, and ROE at 21.4%. Standalone net debt was at Rs. 1,064 million and net debt-to-equity was at 0.05:1. Asset turnover ratio was at 2.23x.

In the last 6 months, we have lowered our capital expenditure by Rs. 640 million, working capital by Rs. 650 million and lowered our raw material cost and employee cost. Therefore, you are seeing better profit margins in spite of degrowth in sales.

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

I would like to share certain key points related to the first half of 2019-20. 72% of our consolidated total income, including other income, came from Indian operations and the balance 28% came from our European operations. In India, there was a sizable growth in business mainly with Hero MotoCorp by 27%. It is important to note that in the first half of 2019-20 in spite of Indian two-wheeler industry degrowth of 13.5% and total auto industry degrowth of 14.4%, Endurance standalone business degrew by only 3.4%.

In Europe in the first half of the year, we acquired 18.26 million Euro of new business with Volkswagen, Fiat Chrysler and Maserati. In Europe, in Euro terms, we grew 51.9% with Volkswagen Group including Porsche. Our top 5 customers in Europe are Fiat Chrysler Group, Daimler, Volkswagen Group including Porsche and Audi, BMW and Opel, now owned by Peugeot.

In the first half of 2019-20, our aftermarket sales in India grew by 10% from Rs. 1,217 million to Rs. 1,339 million. This included both domestic and export sales.

Since April 2019, in India Rs. 3,435 million value of new business has been awarded and we have Rs. 12,245 million of request for quotes in hand, which does not include new business of Bajaj Auto. This new business which we have acquired is mainly from Kia Motors, HMSI, Hero MotoCorp, Royal Enfield, TVS and Tata Motors. This includes new product platforms and includes new and replacement business also.

The status of our new plants in India is as follows:-

Our two-wheeler suspension plant at Halol, Gujarat started the production in September 2018, last year and is now supplying 100% of the front fork and shock absorber requirements of Hero MotoCorp's Halol plant, which today stands at 2700 sets of front fork and shock absorbers per day. We are expecting to reach 6200 sets per day as per LOI by the end of next financial year.

Our Kolar, Karnataka plant for supplying front fork and shock absorbers had started supplies to HMSI this year in September of 2019 and will reach 3500 sets of front fork and shock absorbers per day by February 2020. This includes the replacement of scooter shock absorbers by front forks.

In Chennai, our second die casting and machining plant at Vallam will start supplies by end of next month. The customers to start with would be Kia Motors, Hyundai and Royal Enfield. We expect the sales in quarter 4 of this financial year to be approximately Rs. 350 million.

We are also extremely happy to inform you that that we have strengthened our partnership with KTM Components. I had also mentioned this in the last call. KTM will transfer to Endurance the latest technologies for the front forks and shock absorbers, including semi-active electronic suspensions and suspensions for off-road large bikes. It will also include cooperation for Endurance supplying suspensions to KTM for electric e-bikes and electric two-wheelers, and also for increased exports from Endurance India to KTM operations both in Austria and China. This is an extremely important step for Endurance.

As our inverted front fork orders are doubling in the next 2 years, we have entered the aluminum forging business and will start making triple clamps and axle clamps, in-house, for our inverted front forks. We have signed a technical collaboration with FGM in Italy. These aluminum forgings will be an import substitute, and we will offer our products at lower prices to our OEM clients. This will be an import substitute project. Today, we are importing forged parts from suppliers in Italy and Austria. This will also help increase our profit margins and give us an opportunity to grow this aluminum forging proprietary business and to serve other two-wheelers, three-wheelers and four-wheeler aluminum forging requirements, including for electric vehicles. The internal supplies will start from July 2020. The potential is to reach Rs. 1250 million of sales within next 2-1/2 to 3 years thereafter.

The ABS brakes tie-up with BWI is also progressing. Our ABS samples are in process of being tested for performance and road endurance by our OEM customers, at present. We are closely engaged with them. We hope to get clearance in Q4 of this financial year, by when we will be ready to start supplies also.

As far as TVS is concerned, after getting the two-wheeler disc brake assembly order, we further got orders for two-wheeler front forks and three-wheeler brake assemblies. the two-wheeler front fork supplies have already started. The supplies for all these orders will start in this financial year. We are in the process of getting further orders for brakes and suspension from TVS.

I am happy to inform you that our 29 acre test track at Aurangabad is completed, and all testings have started for our two and three-wheeler components. Ashish Nigam of Axis Bank had got investors to visit our test track on 27th August, and we would like to invite you all to come and see it also. This test track is one of the best tracks for two and three-wheeler testing in India and will help us to give "first-time-right" products to all our OEM clients.

Going forward, we see a large increase in our business volume and value by way of:

- Entering new product areas like aluminum forgings, which are also required for electric vehicles.
- Increasing supply of technology upgraded products, including paper based clutch assemblies, combined braking systems up to 125 cc bikes, rear disc brakes, ABS for 150 cc and above two-wheelers, inverted front forks and advanced rear shock absorbers for high cc bikes and fully machined castings for two-wheelers, three-wheelers and four-wheelers.
- We are also increasing our business with Hyundai and Kia Motors, and now we have Rs. 2790 million per annum of business, where peak sales will be in 2021-22. We are further working on orders from Hyundai and Kia Motors.
- Also as mentioned earlier, 2.76 million scooter front forks will replace front shock absorbers by 2020-21. These supplies to HMSI have already started from both our plants at Sanand and Kolar.

In our suspension business with Hero MotoCorp, where today we are supplying at 2700 front fork/shock absorbers a day, is expected to go up to 6200 front fork/shock absorbers a day as per the LOI, by the end of the next financial year. We are focusing on increasing our business with TVS mainly in the suspension and front fork business. Strengthening partnership with KTM Components will help us substantially increase our front fork and shock absorbers exports to KTM's Europe and China plants with the latest knowhow and technologies including electronic suspensions and supplying suspensions for e-bikes and electric two-wheelers.

So we at Endurance are focused to grow higher than industry by:

- increasing our share of business with existing clients,
- adding new clients,
- adding and upgrading to latest technologies required in our product areas through collaborations and in-house R&D,
- focusing on growth in new product areas,
- increasing our aftermarket and exports business, and.
- looking at inorganic opportunities both in India and Europe.

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

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Ronak Sarda from Systematix. Please go ahead.

Ronak Sarda: My question is on the disc brake industry. On the disc brake assemblies, how do you see the current penetration that has evolved pretty quickly? What do you think is the current penetration in motorcycles and scooters and what could be our market share now?

Anurang Jain: Endurance brakes business as a share of our total business in India was at around 7% last year. This has now grown to 10% largely because of increase in the number of disc brake assemblies with combined brake assemblies becoming mandatory from April up to 125 cc, and also ABS which has become mandatory above 125 cc. So, we have seen a huge increase in orders for disc brake systems, which are increasingly coming up on the rear brakes also. . So, as far as we are concerned, the penetration will be increasing.

As we speak, we also have the order from HMSI, we have the LOI, and we are starting our supplies from April 2020. That will mean adding a new client for the disc brake assemblies. And as I have told you, we are starting to sell brakes by the end of next month for TVS Apache. So for Endurance, the disc brake assembly business is increasing.

As far as our market share goes, we supply about 20% of the requirement of disc brake assemblies and about 31% of the discs. The numbers are different because, to, Yamaha we supply about 65,000 to 70,000 discs in a month which are exported to their plants in South East Asia also. So you can say Endurance has 20% of the India business, so there is a huge scope for increase there.

Ronak Sarda: And what about the rest 80%, is a lot of imports still happening, or is it largely other Indian suppliers?

Anurang Jain: I believe it is Brembo which is the market leader. I know there are some companies importing from China also which I think we will substitute in due course of time based on technology and price. There is a huge potential because as you know Endurance is a cost leader. I have always mentioned that our prices are lower than what our competition gets.

Ronak Sarda: And sir, a related question on ABS. From the checks we have done, you have started doing some business with Royal Enfield on the single channel ABS. I think you have started Oil filling. Where do you see this business in next 12 months, what kind of market share do you think is achievable?

Anurang Jain: That is a question, I would not like to answer right now. Our first focus is to get our ABS cleared. The testing is rigorous and on varied kind of test tracks - village roads, the cobbled roads, severe Indian road conditions. Our first focus would be to get our product cleared and then our focus will be to grow our share of business like we have always done in the last 20 years in proprietary business. So our first focus today stands of getting our ABS cleared with our first OEM customer and then we can talk about share of business later.

Ronak Sarda: But about the oil filling business for Royal Enfield, is it large enough or is it a very small part?

Anurang Jain: Mr. Gehaney can answer that. We have started for Bajaj and Royal Enfield.

Ramesh Gehaney: Right now we are doing it for the 350 cc Classic and Bullet and the volumes are around 15,000 per month which has to go up to 25,000.

Anurang Jain: So you can say we are one-third SOB - the same level of business we do on disc brakes with them. We are around 30 to 33% of their brake requirement, rest I think is done by Brembo.

Ronak Sarda: Sir, second question is on Kia - the model has been pretty successful, it has ramped up pretty quickly. So are we supplying currently, from any other plant or our business would only start from the next quarter?

Anurang Jain: No, it is being supplied from our existing plant in Chennai. The orders which we received up to the last quarter of 2018-19 from Hyundai/Kia was to the tune of 2790 million and this is very large. That is why the second plant at Vallam is starting mainly for Kia and Hyundai and also for Royal Enfield. We are getting lot of opportunities from these two companies and we are really excited about this because they are very stable companies. As you know a 40% of their production in India is exported. If you see their degrowth, it is very less, may be not more than 4% this year in such a bad environment. We are very excited about this business and we are getting a lot of opportunities and that is why the second plant at Vallam will start by the end of next month.

Ronak Sarda: So just a clarification, can you highlight what would be our revenues from Kia during the first half and if you can just re help us again the order book we have right now?

Anurang Jain: Kia has started around 2- 2½ months ago, We have the larger part of the business which Kia has awarded for both transmission and engine.

Moderator: Thank you. The next question is from the line of Varun Bakshi from Equirus. Please go ahead.

Varun Bakshi: Sir, firstly my question is on European gross margins, We had seen a sharp increase in gross margins in European business, is it only because of the raw material cost or it also include impact of mix improvement?

Massimo Venuti: The EBITDA grew by 4.2% from Euro 11.9 million to Euro 12.4 million in the second quarter of the financial year and considering two quarters of this financial year, the EBITDA grew by 5.6% from Euro 23.8 million to Euro 25.1 million. This is due to the better mix compared to the previous year. It is not due to reduction of aluminium prices, because the reduction is a pass through with the customer. The improvement is owing to better mix compared to the previous year, due to the increase of share of the Volkswagen business, which comprises more complex parts using highly automated production lines. We grew with VW more or less 46.6% in the second quarter and in the first half 50.9%. It is a better EBIDTA business compared to the previous business with Fiat Chrysler.

Varun Bakshi: Sir, similarly in India business also, on a Y-o-Y basis, our gross margins had improved sharply, so even if I adjust the Maharashtra government incentive, there is a sharp increase in the gross margin, so can you please explain that?

Anurang Jain: If I don't take the incentive benefit, our EBITDA margin has increased from 13 to 14%, i.e. by 1% point. Mainly because of the raw material cost reduction and employee cost control.

Varun Bakshi: Raw material cost has gone down because of our increase in share of the proprietary business?

Anurang Jain: Yes, that is a factor. The proprietary business is about 53% of our India business. If you add our Aftermarket sales, it is even higher.

Varun Bakshi: Are we supplying any EV components to Bajaj for its new Chetak scooter?

Anurang Jain: We will start supplying for the Chetak scooter. For the OEMs, there would be other EV components we are going to be supplying for the new EVs but I would not like to speak more on those. But for the Chetak which was launched - that will have our products.

Varun Bakshi: And if you could indicate will that be on the casting side or it will be on the proprietary field?

Anurang Jain: On the casting, suspension and braking side, as there is no clutch or CVT in the EV - so 3 of our 4 existing product areas we will be supplying.

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

Aditya Jhawar: If we adjust for our acquisition of Fonpresmetal what could be the growth in the Europe business on a like-to-like basis? What is the margin impact because of this backward integration?

Massimo Venuti: In the second quarter, the market grew by 2.3% compared to the previous year. The market has jumped in September by 14.5% due to the reduction of old car inventory due to the WLTP norms, after a degrowth of 3.2% for the period of July and August. In terms of major markets, sales were up in Germany by 6.8%, Italy by 4.2%. The market was down in Spain 11.4% and more or less stable in UK. In this period, the Endurance business was flat, more or less 0.2% negative. Actually, there was an increase of 3.1% if we take out the effect of the price reduction of aluminum, which is a pass-through with the customer. This is due to the positive impact of our growing business with Volkswagen Group. Also, the consolidation of Endurance Casting (erstwhile Fonpresmetal) had a positive impact on our revenues.

If you analyze the EBITDA, there was a significant increase in terms of percentage - compared to 19.4% of the previous year, we reached 20.2%. But the EBITDA of Endurance Casting was more or less 9% in the previous year. We are improving our EBITDA due to better mix compared to the previous year, and not due to the Endurance Casting consolidation. In fact, the impact of Endurance Casting is reducing the total EBITDA % margin. The strategy of Endurance was to buy Endurance Casting in order to use their production capacity for our customers. Day by day, we are improving the mix of Endurance Casting too.

Aditya Jhawar: What we understand is that 50% of the revenue of this acquired company was for outside customers and 50% was for Endurance. So if you exclude this acquisition which is not there in the base, what was the Euro decline in revenue for Endurance Europe business?

Massimo Venuti: If we exclude third party sales of Endurance Castings, we had around 7% reduction compared to the previous year. With Fiat Chrysler, we had a reduction of 33.8% in the two quarters. This, along with the reduction in aluminium prices, explains the reduction of 7%.

Aditya Jhawar: There was gross margin expansion of steep 950 basis points in the European business, but our EBITDA margin expansion was restricted to 100 basis points. Please help us understand this divergence. In the past also, we have seen that there is little bit of a volatility between our gross margin expansion or contraction and EBITDA margin movement

Massimo Venuti: Absolutely. Changes in EBITDA compared to the gross margin is also due, in addition to mix effect, to the acquisition of Endurance Casting. If you analyze our cost of material, there was a reduction compared to the previous year. But if you analyze the other expenses and labour costs, there was an increase. Because of the consolidation, the inter-company supplies that were recorded as material costs has partly been replaced by other heads of expense. Endurance Casting is only a foundry and they outsource the machining activity.

Aditya Jhawar: Any incremental breakthrough or discussions to start supply to electric vehicles manufactures in Europe?

Massimo Venuti: At this moment, we are discussing a lot of potential business. At this moment, I am very happy to inform you about the 1.5 liter cam-carrier business that we had announced with Volkswagen. This has proved to be a highly important acquisition for us, because 50% of the total volume of Volkswagen 1.5 liter would be assembled with hybrid technologies. It is an important opportunity considering that we are producing more or less 120,000 units per month. We have seen an increase of 51% in our business with Volkswagen Group. Further, we have won orders from Porsche as part of their first PPE program, in September 2018. Now we are discussing more future opportunities.

Aditya Jhawar: Anurang, considering October was a very strong month for retail volume for the Indian business, what sense are you getting from the OEMs for the next few months?

Anurang Jain: I think our sales of November will be similar to October, the way it is going so far. Future is very difficult to predict. I can only say that with a good monsoon and a low base, and public sector banks increased participation in financing to auto dealers and also buyers…hopefully growth will improve. We will have to wait and watch. It is a tough situation we are in. So as far as Endurance is concerned, we are working on all austerity measures because when good times return we want to be fully prepared for it. Right now, we are working on austerity measures by controlling working capital, CAPEX, and costs such as employee cost, raw material cost. I would say that both in growth and in low phases, you have to work hard.

Participant: What is the CAPEX guidance for FY20 and 21?

Anurang Jain: I think we have enough capacity now. There could be some maintenance CAPEX. The expansion CAPEX now will only happen in any new products, aluminum forgings or any new projects which we may do. So at present we have enough capacities. We do not plan to have much of expansion CAPEX next year. Because we have enough capacities and because the industry is down by 14%, 15%. So even if industry goes up by 14%, 15% next year, we have enough capacity. There will be more of maintenance CAPEX - for environment, health and safety and few growth projects which will be incremental like that aimed at moving towards fully finished castings for our two and three-wheeler customers. I do not see much CAPEX happening next year. We will control that. This year itself, we have controlled about Rs. 640 million of CAPEX.

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

Mahesh Bendre: So on the capital expenditure question, will it be lower than the depreciation cost in broad sense?

Anurang Jain: No capex will not be lower than depreciation, which is not very high. It is about Rs.1800 million in a year. So Capex will be higher than that in this financial year, for sure. Next year we will have to wait and watch what happens.

Mahesh Bendre: And sir general outlook on the European business and domestic business - though I understand it is very difficult to answer, but you are in a better position than us to look at for next 12 months?

Anurang Jain: This question should be asked to the OEMs. I think they are in a better position. We just follow them. We are focusing on our business and right now we are focusing on all austerity measures to continue to make more money. So when the recovery happens - whenever it happens - we are fully prepared because we have enough capacities built up in 2018-19 itself.

Massimo Venuti: Regarding Europe, the situation is more or less the same. It is not a predictable situation. The market is going down. This is a reality. In September, there was a jump because they were reducing the stock. If you analyse the production data in Germany, there is a big reduction, and that will reflect in lower car registrations in future months.

Mahesh Bendre: Generally on the industry side, when do you think two-wheeler industry will be able to show some kind of recovery?

Anurang Jain: Like I said earlier, the base is now quite low. I am an optimist. I have seen enough downturns since 1991 Gulf crisis, 2000-2001, and 2008-2009 and have observed that in India bad times do not last for too long. It does not mean that what happened in the past happens in the future too. But I am an optimist. I would not be surprised if it bounces back next financial year. Monsoon has been good, the base effect is low; public sector banks have started financing. So we will have to wait and watch.

Mahesh Bendre: And sir the grant we have received from Maharashtra government - will this be a recurring phenomenon or is it a onetime phenomenon?

Satrajit Ray: This sanction is about Rs. 367 crores receivable over seven years.

Mahesh Bendre: So every quarter we will have this number right?

Satrajit Ray: Every year it depends on how much sales we book in Maharashtra, GST collection and payment. It is accounted on accrual basis. So to answer your question you will see a concentration in the first two quarters every year.

Moderator: Thank you. The next question is from the line of Jinesh Gandhi from Motilal Oswal Securities Limited. Please go ahead.

Jinesh Gandhi: My question pertains to India business of aluminum die castings. What will be the influence of BS-VI on the two wheeler aluminum die casting business - do we see content going up or going down?

Anurang Jain: There will be no impact except some small design changes in the toolings.

Jinesh Gandhi: And secondly on aluminum die casting business on passenger vehicle - while we have got a breakthrough with Hyundai, Kia and Tata Motors, are you seeing increasing inquiries from other OEMs as well?

Anurang Jain: Yes we are.

Jinesh Gandhi: And who would be your competitor in passenger vehicles for aluminum die casting?

Anurang Jain: See the competition we have are Sundaram Clayton, Sunbeam, and Jay Hind Industries in Pune. These three are quite strong in PV and CV, I would say.

Jinesh Gandhi: Second question pertains to the European business. Massimo mentioned about improvement in product mix resulting in RM cost benefits, is it due to better pricing with Volkswagen or they have different products which have led to this?

Massimo Venuti: It is not a matter of better price with Volkswagen. The new VW parts are complex parts compared to the past, requiring high level of automation. . So we invested for them more or less €60 million. It is normal that we benefit in our contribution margin and EBITDA. A part of this benefit will also percolate to the net results. Our PAT grew more or less 9.1% in the second quarter from 3.8 million to 4.2 million and in the six months we grew 8.7% from 8.1 million to 8.8 million of the previous year. This is due to the better mx, unfortunately not owing to any increase in price with the same products as in the past.

Moderator: Thank you. The next question is from the line of Bharat Gianani from Sharekhan. Please go ahead.

Bharat Gianani: My question is again on the incentives. Rs. 367 crores is achievable over a period of seven years. This will reoccur for the next seven years - is it correct?

Satrajit Ray: See this does not start from April. It started from August of 2018-19. So it is not evenly over seven financial years. We have already booked the eligibile amount for 18-19 and 19-20 is also pretty much done. This is done on accrual basis. So, we have another 5 years left, not 7.

Bharat Gianani: So for next five years I guess about 50 crore will be recurring?

Satrajit Ray: Yes.

Bharat Gianani: And you said that would be skewed in the first half?

Satrajit Ray: If I go at the current trend of sales, then between Q1 and Q2 almost entire booking should be done.

Moderator: Thank you. The next question is from the line of Priya Ranjan from Antique Stock Broking. Please go ahead.

Priya Ranjan: Couple of questions on key clients - What was our total share of Bajaj business in this quarter ? How has been the growth in Fiat etc. in the top line?

Anurang Jain: As far as first six months are concerned, our business with Bajaj has been flat. Though they have degrown I think in three wheelers about 14% and about 4% in motorcycles, our sales to them have been flat.

Priya Ranjan: So it is roughly around 50% of standalone business still?

Anurang Jain: Absolutely.

Priya Ranjan: Have we declined in Fiat and gained in VW?

Anurang Jain: So in Quarter 2, we saw the Volkswagen share of business increasing over Fiat level. I will request Massimo to speak on this.

Massimo Venuti: In the second quarter, VW is 29.2% of our turnover compared 27% of Fiat Chrysler. In six months, we have had reduction of 33% in Fiat, even if they lost in the market only 9.9%.This is due to the large reduction that we are seeing in the diesel technology in the European market. There was a reduction of more or less 20%, in some countries 40%, compared to the previous year in diesel car sales. We, historically, have been a supplier of diesel component for Fiat and for this reason we have had a major impact compared to the market. Fortunately we are compensating this impact with Volkswagen. We are producing for them only gasoline components and so we are compensating the reduction which we have suffered with FCA. In the process, our exposure to diesel is reducing.

Priya Ranjan: In terms of Daimler, are we growing this year? Last year we have grown significantly in Daimler as well.

Massimo Venuti: In Daimler, we have had 18.3% degrowth compared to the previous year, even if they grew 9.2% in Europe. This is due to the lower sales from Europe to Nafta, and tariff war between United States and China. From Endurance, we produce the components for the Series M cars that Daimler is producing in the United States from where they export to China. We are affected by this duty policy and so we have had a reduction in business with Daimler.

Priya Ranjan: And on the domestic business side, the four or five businesses where we are in , are pretty strong and in terms of overall market share is also quite healthy. So any new business apart from the ABS which probably will happen next year or so?

Anurang Jain: I mentioned to you we are getting into aluminum forging, which is also part of light weighting. We have signed up with an Italian company FGM near Turin and production will start by July 2020. This will start for our inhouse requirement of axle clamps and triple clamps for the inverted front forks. Further, there are huge opportunities for other aluminum forgings required for two wheeler, three wheeler, passenger cars that we will do in the next stage. So this is our new project and as we are talking we are looking at other projects which we will announce later once we are 100% clear on that, but we are working on other projects also right now.

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

Aditya Makharia: Just one thing are we also hoping to get some orders for the gearless scooters. I believe you were developing some products on that side into clutch and the gears?

Anurang Jain: So what we were planning was the CVT - the continuous variable transmission which is under testing at Hero and Honda. It is a part of our transmission group. We have been doing clutches now for motorcycles and three wheelers. So this will be a new product in the transmission side once the testing is complete.

As part of our focus on providing value-addition in Transmission, we have developed paper based clutch plate assemblies. Similarly, in other areas we are growing CBS or the combined brake system, bringing in ABS and offering fully machine casting and supplying double the inverted front forks. These are some of the growth drivers in our existing products apart from the aluminum forgings which we have got into now.

Aditya Makharia: So nothing immediate at least from the CVT side?

Anurang Jain: As we speak, CVT is under testing. We hope to get the clearance. Both CVT and ABS are under clearance. So we hope both things happen fast, obviously.

Moderator: Thank you. The next question is from the line of Ronak Sarda from Systematix. Please go ahead.

Ronak Sarda: For the H1, if you can highlight for the India business what has been the growth you highlighted Bajaj, but did we see growth for HMSI, Hero and Royal Enfield as well?

Anurang Jain: See normally we do not give individual figures. I can only say that degrowth in our sales to the customers everywhere has been less than what they have degrown. We do not share those numbers except for Bajaj, but Bajaj is my largest customer. I said earlier that our sales to them are flat while they have degrown as you know.

Ronak Sarda: And another clarification on the incentive. Did you say it would be more tilted in the first half?

Anurang Jain: Yes. Well, it is adjusted against state GST; so looking at our quantum of sales, the annual accrual will continue to happen in the first two quarters, largely. This should happen for the next five years or so.

Ronak Sarda: But for H2 FY20 you would not receive similar benefit is that the way or you have received?

Anurang Jain: Yes. We will not repeat the similar benefit.

Ronak Sarda: But it would come for next five years the same number?

Anurang Jain: The next five numbers mainly in the first two quarters.

Moderator: Thank you. The next question is from the line of Chirag Shah from Edelweiss. Please go ahead.

Chirag Shah: Sir, between brake assemblies and ABS, what is the pricing difference that you can incrementally generate?

Anurang Jain: See that is a discussion I cannot get into.

Chirag Shah: On a broader basis, how should we try to understand the incremental value content increase.

Anurang Jain: I will not like to talk about that.

Chirag Shah: The gross margin improvement that we have seen in Europe is largely because of the change in product mix – Is it because VW volumes came in? From Q1 to Q2, if I look at gross margins- sales minus raw material -that ratio has gone up from 61.4% to 68.1%. So that jump seems to be too sharp.

Massimo Venuti: It is due to a mix effect, and also due to the acquisition of Endurance Casting. In the second quarter compared to the first quarter there was, an impact of the machining activity that we buy from the external market. This activity was higher compared to the first quarter. In fact, you can see a difference of 4% points in other expenses. For this reason, we focus on the EBITDA margin.

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

Aditya Jhawar: On aluminum die casting business in India specifically for four wheelers, your thought process was that the margins and ROCEs were not that attractive, so that is why you were defocusing from that business. Is the margin this time around and ROCE now better? Will our aggregate margin not get diluted because of increase in proportion of die casting for passenger vehicles?

Anurang Jain: We are focusing on machined castings. The CAPEX is higher but the ROI is much better in machined casting because the value add is good in machining. So OEMs are also now getting more and more open to give machined-casting business as compared to the past. One of our major focus areas is to do fully machined casting even for the existing business. So to answer your question, castings for passenger cars with machining is a good business to be in with very good EBITDA margins.

Aditya Jhawar: But will it be comparable to the proprietary business?

Anurang Jain: Definitely.

Aditya Jhawar: So essentially it will be margin and ROCE accretive in your assessment?

Anurang Jain: Yes absolutely. In the casting business, we have increased the margin in this year compared to last year.

Aditya Jhawar: Primarily because of increase of share of machined products?

Anurang Jain: Also because of that; and better purchasing of material and improvement in efficiencies also.

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

Mahesh Bendre: Sir, what could be the tax rate we should assume for the domestic and international operations for FY20?

Anurang Jain: Domestic around 25%.

Mahesh Bendre: And what is the international?

Anurang Jain: International would be 28%.

Mahesh Bendre: Will our content per vehicle will go up in EV?

Anurang Jain: No, it will not go up; it will go down because you do not have any clutch in EV vehicles.

Moderator: Thank you. As there are no further question I now hand the conference over to Nishit Jalan for closing comments.

Nishit Jalan: Thank you. On behalf of Axis Capital I thank Endurance management and all the participants for joining the call today. Mr. Jain I will hand it over to you for any closing remarks or if you would like to just conclude.

Anurang Jain: I can only say that we are focused towards profitable growth and higher than industry growth which we will keep doing both in good and bad times.

Moderator: Thank you. Ladies and gentlemen on behalf of Axis Capital Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.