Endurance Technologies Limited Q1 FY21 Earnings Conference Call

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

Moderator: Ladies and gentlemen, good day. And welcome to the Endurance Technologies Q1 FY21 Results Conference Call, hosted by Axis Capital. As a reminder, all participants' lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by entering '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Nishit Jalan from Axis Capital. Thank you and over to you, Sir.

Nishit Jalan: Thank you. Good morning, everyone. Welcome to Q1 FY21 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 of Endurance Overseas, Mr. Satrajit Ray – Director and Group CFO, and Mr. Raj Mundra – Treasurer and Head of 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, Mr. Jain.

Anurang Jain: Thanks a lot. Good morning, everybody. I am Anurang Jain, Managing Director of Endurance. I would like to share details of how Endurance has done in the first quarter of the financial year 2020-2021.

In India, in the first quarter of FY21, as per the SIAM data, the two wheeler industry sales de-grew by 72% compared to the previous financial year, scooters de-grew by 78% and motorcycles de-grew by 70%. The automotive industry in India had de-growth of 73.5% due to the COVID-19 crisis. In India, two wheelers first quarter sales volume was 1.63 million numbers, which included the June 2020 two wheeler sales volume of 1.2 million numbers. June 2020 two wheeler volumes were 38% lower than the June 2019 volume. The two wheeler companies which did especially well in June were Bajaj Auto and Hero MotoCorp.

The sales recovery is now being driven by demand for entry-level bikes in rural and semi-urban India, due to a good winter crop, and on hopes of a bumper summer crop due to a good monsoon. Also going forward, preference for personal vehicle ownership amidst the COVID-19 outbreak should boost two wheeler sales. But at the same time, we need to keep in mind the issues of intermittent lockdowns which could happen, and challenge of getting 100% of skilled manpower who were available in the pre-COVID period.

We are happy to inform you that the sales in the second quarter of this financial year are looking good. In July, in India, our net sales value reached 75% of the normal pre-COVID net sales value. This month, in August 2020, our net sales value should be back to the pre-COVID net sales value.

In Europe, there was a decline of 52.5% in the first quarter in the European Union, including UK automotive sales. Our European sales had a de-growth of 57% in euro value terms, partly also due to the fall in aluminum alloy prices. The July 2020 actual sales and the short-term forecast for Quarter II show signals of a rebound in passenger car sales in Europe. It is also helped by the incentives mostly for the EV passenger cars, but also from ICE vehicles also by almost all the EU countries. We are very positive on our casting supply for EV applications, especially for the Porsche Taycan car, which sales are rapidly growing.

On the financials, I will briefly talk to you about the first quarter of 2020-2021. During quarter I, as compared to previous year same quarter, our consolidated total net income de-grew by 68% from Rs. 19,160 million to Rs. 6,140 million. Consolidated EBITDA de-grew by 84.6% from Rs. 3,481.5 million to Rs. 535.8 million. Consolidated EBITDA margin percentage is at 8.7%, the net loss was Rs. 249.2 million at (-) 4.1%. This quarter one's consolidated financial includes the Maharashtra state's mega project incentive of Rs. 100 million.

During quarter I, our standalone total income de-grew by 73.6% from Rs. 13,645 million to Rs. 3,603 million. This is against a de-growth in two wheeler industry sales of 72% in quarter one. Standalone EBITDA de-grew by 97.3% from Rs. 2,488 million to Rs. 67 million, with an EBITDA margin percentage of 1.9%. Standalone net loss was at Rs. 318.5 million at (-) 8.8%. This quarter I standalone financial includes the Maharashtra state mega project incentive of Rs. 100 million.

We wanted to especially mention that standalone net sales in quarter I were Rs. 3,603 million, was at 26.4% of previous year's quarter I sales are Rs. 13,645 million. In spite of this, our focus on lowering fixed cost, variable cost, material cost and CAPEX has helped us to contain the net loss in this quarter.

Our company had a consolidated net debt-to-equity of 0.03:1 as on 30th June, 2020. The India standalone had no net debt, as there was net cash available of Rs. 275 million.

On the 29th May, 2020, CRISIL has reaffirmed our credit rating of long-term as AA with positive outlook, and for short-term, CRISIL has given us the highest rating of A1+. The detailed financials are available with the stock exchanges and on the Endurance website.

I would also like to share certain key points for the first quarter of 2020-2021.

1. 59% of our consolidated total income, including other income, came from Indian operations, and balance 41% came from our European operations. Europe had a lower de-growth than the Indian operations.
2. In India, Rs. 828 million of new brake assembly business was won with TVS and Yamaha; this business will start from the year 2021-2022.

I would like to mention that we have Rs. 15,438 million worth of requests for quotes in India from various OEMs.

- For our new customer TVS, we have been awarded Rs. 1,220 million of two and three wheeler brakes business, and Rs. 320 million of two and three wheeler suspension business. Further, Rs. 540 million of brakes business and Rs. 276 million of suspension business is being discussed.
- As combined braking systems (which are normally used for up to 125 cc motorcycles) business is growing, with addition of our new TVS and HMSI combined braking business, both of which will start in this year. Also, in order to de-risk our operations from our single plant at Aurangabad for brake assemblies, we are setting up a capacity of 600,000 per annum CBS brakes at our Pantnagar plant, which is in Uttarakhand state, which will start operations by April 2021.

I would also like to mention that Endurance is focusing on a more value-add and profitable product mix in its future business, which includes

a. 200 cc plus motorcycles brakes and clutch assemblies, with help of acquisition of Adler and Grimeca in Italy in the last five months.
b. Paper based clutch assemblies replacing cork based clutch assemblies for motorcycles,
c. Continuous variable transmissions or automatic clutches for scooters,
d. Anti-lock brake systems or ABS for 150 cc plus motorcycles,
e. Inverted front forks and adjustable rear mono shock absorbers for both domestic and export OEMs. This is with the help of our collaboration partner KTM Components.
f. Fully finished machine castings as compared to semi-finished castings for two wheelers, three wheelers and four wheeler applications.

For our European operations:

1. I had mentioned in the last call that in the last two years EUR 110 million business has been won for electric and hybrid cars, which is started in this year and will reach peak volumes in 2023. Therefore, 45% of our last year's total Europe business value has already been won by us. Out of this, EUR 110 million value, EUR 30 million value of business won is for electric cars for Audi and Porsche, and EUR 80 million of business won is for hybrid cars for Volkswagen, Daimler, BMW, FIAT Chrysler and Maserati.
2. Also, further EUR 45 million business is being discussed with Volkswagen for their electrical and hybrid cars, and we hope to win at least 50% of this business.
3. In Europe, a focused cost containment program has been started, which includes lowering our labour costs, tight control on general expenses like travel. And we are also

consolidating our foundry activities from two plants to one plant in Italy, which will lead to a saving of EUR 600,000 per annum. This consolidation will be completed by September, 2020, which is next month.

4. As mentioned earlier, our overseas company Endurance Overseas SRL has acquired 99% stake of the two wheeler clutch company Adler SpA, and 100% stake of the two wheeler brake company Grimeca.
   Both these acquisitions include all know how, patents, brand and trademarks. This has helped our Indian operations in getting new business for 200 cc plus motorcycle clutch assemblies and brakes, which will start in the year 2020-2021.
   I would like to especially point out that Endurance is actively involved in technology oriented and new product organic and inorganic growth.

I would also like to mention that:

- Endurance is entering two backward integration product areas, which are import substitutes for us.
    a. First is our aluminum forging axle clamps required for our growing business of inverted front forks. Endurance has entered into a technical collaboration with FGM in Italy, and production will start at our Aurangabad plant from April 2021. We are having a slight postponement to this.
    b. The second product is wire braided hoses, which are required for ABS brakes. We will start production of these hoses in Q3 of this financial year.
       Both these projects will help us in our future profitable growth. It will be a win-win situation as our prices will be lower, compared to the imports and our profits will be higher.
- Our aftermarket business in India was almost 4.7% of our net sales in the first quarter of 2020 -2021. The aftermarket sales de-grew from Rs. 592 million to Rs. 169 million in the first quarter of 2020-2021. The aftermarket sales are recovering fast, both in India and the overseas market, and we hope to reach the average monthly 2019-2020 sales value by Q4 of this financial year.
- Our new Vallam plant near Chennai for supplying machined aluminum castings to Hyundai, Kia and Royal Enfield, will start operations from this October. We will be starting supplying aluminum castings for the Bi3 or the upgrade Venue for Hyundai, the QXi or the Sonet platform for Kia and the QY platform for Kia.
- We are also happy to inform you that we have further received Rs. 1,100 million of requests for quotes for machined aluminum castings for Hyundai's plants in India, Korea and Russia.
- We are also targeting to supply our ABS brake systems in quarter IV of this financial year.

As part of our CSR work, during this COVID-19 pandemic crisis, Endurance has provided 4,300 food kits to people in rural areas of Aurangabad. And we have also taken over and are running a 80-plus bed COVID center at Waluj, Aurangabad, for asymptomatic patients.

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

Moderator: Thank you very much, Sir. Ladies and gentlemen, we will now begin the question and answer session. We have a first question from the line of Varun Bakshi from Equirus. Please go ahead.

Varun Bakshi: Sir, my first question is regarding this new brake business that we have won from TVS and Yamaha. Were these brakes earlier bought by TVS and Yamaha from China?

Anurang Jain: Initial discussions for this business started more than a year ago. At that time, we had no idea regarding this current issue of China tensions. So I think this was more of a de-risking by TVS. Both wanted to get a new Indian vendor who has the strength of technology, quality and cost.

Varun Bakshi: Last time, we had discussed that you have been in talks with one of the bigger OEMs for brakes business. Are we also looking at any other OEM apart from the ones mentioned? And what are the other areas that we are looking from the point of import substitution?

Anurang Jain: See, as far as the brakes business is concerned, the new customer is TVS, we have already started their Apache front brakes. That's a huge business we have got for two and three wheelers from them. So, we have started supplying brakes to TVS. We have been supplying to Royal Enfield and to Bajaj. We are starting with Honda from next month. And we have won this scooter business for CBS brakes from Yamaha which I said will start by end of next year. So, we are going step by step and covering all the OEMs. One of our focused growth initiative is to ensure that we are supplying all our four product segments to all the OEMs, which we have not achieved yet. So that is a growth driver for us.

Varun Bakshi: We have substantially higher margins than our competitors in European business, despite having much smaller size as compared to say, Nemak or George Fischer. What has led to such superior margin performance? Is it purely because of the product mix or any other particular reason for that?

Massimo Venuti: Yes. So, in the first quarter of 2020-2021, we have had a reduction in terms of turnover of 56.9%. But we have been able to reduce our total expenses from EUR 57.9 million of the previous financial year to EUR 24.8 million this financial year, with a reduction of 57.2%. So it means that we have been able to offset the impact of reduction of turnover, with corresponding reduction of cost. For sure, the results were an effect of the product mix. In the first quarter, Volkswagen Group became our largest customer. Here, we have a higher profitability due to the fact that 100% of the production for them is completely machined. The positive aspect is that we also increased the cash profit of the first quarter of 2020-2021 from 14.6% of the previous year to 18.1%. Basically, apart from product mix, we benefited from reduction of cost, which partly came through the support from the governments. Starting from the last week of March, we suspended our plant operations.in Germany and in Italy, where it was done in order to comply with national regulations. Operations restarted in May. We are eligible to receive support in the labour cost from the government for the unworked hours in Italy for a period of 18 weeks (during the period from March till October), and in Germany for a period of one year. We also focused on reducing costs, including general expenses, cost of materials and employee costs. . We closed around 120 flexible manpower contracts when the problem started at the end of March in 2020. Our competitors may not have had such flexibility. This is one of the main reasons why we have maintained a good level of cost reduction and profitability in these challenging circumstances.

Moderator: Thank you. We have next question from the line of Vimal Gohil from Union AMC. Please go ahead.

Vimal Gohil: In terms of your Indian operations, how have your key customers done in terms of growth? Or rather, how you have fared with them.

Anurang Jain: If we see quarter one last year to quarter one this year, we have been 68% down with Bajaj Auto, with Honda almost 88% because they practically didn't run in the first quarter. They started in a very small way from June. Royal Enfield was down about 78%, Hero MotoCorp also 78%, Yamaha about 84%. Bajaj Auto did the best because they restarted some operations in the end of April for exports, because they had a huge backlog of export orders. So there was a lot of pressure during lockdown to start supplying for their export requirement to their Aurangabad plant and their Pune plant. So we were least affected by Bajaj Auto, and that's what helped us generate some revenue in the first quarter.

Vimal Gohil: You were talking about some wins with TVS. If you could just highlight that for me again, that would be great.

Anurang Jain: We have won about Rs. 1,220 million of two and three wheeler brakes business. The Apache brakes we just started in this month, and we have won Rs. 320 million of two and three wheelers suspension business. And further, Rs. 540 million of brakes business and Rs. 276 million of suspension business is, under discussion with them.

Vimal Gohil: You do expect to get in line with your normal profitability levels as and when your sales normalizes post August, right?

Anurang Jain: I would say in August. We seem to be going to pre- COVID levels from this month, we are already at the run rate right now.

Vimal Gohil: That's great to hear, sir. All the very best. Just one last question, how much will be the CAPEX for Europe and India this year?

Anurang Jain: See, Europe is going to very less at EUR 2.5 million net, which I will request later Massimo to explain, I don't think more than EUR 2.5 million. But in India, the CAPEX would be, I had said last time, Rs. 1,500 million, it may go to Rs. 2,000 million because of the new opportunities on the new brakes plant at Pantnagar, we cannot lose that opportunity. And Hyundai and Kia have preponed some of the models, so at the Vallam plant I need to do some investments. And the alloy wheel orders have gone up. So this has slightly pushed up the investments, but outer limit would be Rs. 2,000 million. I had said Rs. 1,500 million last time, I remember. But I cannot lose on growth opportunities.

Vimal Gohil: Sir, this alloy wheel business have been a result of import substitution or market share?

Anurang Jain: I believe it's import substitution.

Moderator: Thank you. We have next question from the line of Aditya Jhawar from Investec Capital Services. Please go ahead.

Aditya Jhawar: So, you mentioned that we were back to at about 75% of normal volume level. Now, can you split the shortfall of 25% into bottlenecks in your ramping up production and slowdown in demand from the customer. Keeping aside the demand side, how is the supply taking place?

Anurang Jain: Even in July we were affected, because as you know, there was a nine day lockdown in Aurangabad. And we had to keep 600 people in our seven to eight plants in Aurangabad – who lived inside the plant during that lockdown, after undergoing antigen testing. We had to house people inside, make those arrangements. I feel if the 9 day lockdown would not have been there, the sales would have been higher. Because the demand was picking up and there was a lot of backlog of even the export orders of Bajaj. So the pressure was tremendous. The kind of swing we have gone through! It was like going to zero and coming back to 100% in four months. Our migrant labour had mostly gone back, and now we have got 70% back now; we had arranged special buses to get some of them from their respective states. The challenges have been huge. So it's been a very tough period, a learning period, but we love to have challenges. So it was good that we are back to normal volumes. It is a good problem to have. But to answer your question, this 9 day lockdown did affect our sales in July.

Aditya Jhawar: Anurang, that was in July, but are you still facing challenges in meeting to customer requirements in August?

Anurang Jain: Well, it is a challenge because the recovery is more than V-shaped. The challenges are mainly due to skilled labour which has gone back. Like I said, 70% has come back. Challenge is training the new people which we have begun from May, but their output is not the same. We are under everyday pressure. The pressure is tremendous, but we don't mind this pressure, We like to have this pressure because we want to go back to normal fast. I mean, we want to try and make up for the three months of low production.

Aditya Jhawar: Order backlog is still there. And by when do you see that you will be able to meet the customer requirement in a similar way as compared to pre-COVID level?

Anurang Jain: I think catch-up will happen in the second half of August. Customers put all kind of pressures, but they also appreciate the situation. They also want to go back to normal, so I can understand their pressure, as they have also suffered in the first quarter. I think we will be back to normal in second half of this month. And that won't be a problem. We are not able to build up enough inventory in the warehouses. We want to have 10 days inventory in our FG warehouses, we want to reach that situation so that we don't have the tension if another lockdowns happen. We will, then have enough inventory so that we are not under pressure and getting people live inside your factories and all that. Meeting current requirement is not an issue, I think it's more of an issue of warehouse stocks not being enough.

Moderator: Thank you. We have next question from the line of Priya Ranjan from Antique Limited. Please go ahead.

Priya Ranjan: Just two things: What kind of annualized run rate we can expect from TVS going forward? And secondly on Europe, what kind of incentive we have got in terms of employee costs, etc., in the first quarter?

Anurang Jain: About the TVS projected run rate, you have to ask them. I only know that in YTD July their volumes were down 57%. In the month of July, they were only down 8%. So they are definitely doing much better. And I have no doubt that they will come back pretty fast. But this is a question for them, it's not for me. As far as I am concerned, I am ready for the business they give me.

Massimo Venuti: We didn't receive any direct incentive from the government. The advantage that we have in Europe is to initiate the so-called short time work, wherein you have the possibility to reduce the cost of employment. Excess people stay at home and the government pays part of the salary for the unworked hours of such people. In Italy, the government pays upto 80% of the salary, but with a cap, only for maximum eighteen weeks, and in Germany for maximum one year. One of the major reasons of the reduction in our labor cost was the fact that we closed around 120 temporary contracts that we had in our company, because the strategy was to maintain flexibility. Usually when you have a flexible contract, you pay more compared to the fixed contract and so, a lot of companies prefer fixed contracts. The strategy of Endurance in the last 10 years was to maintain more or less 15%- 20% of the total workforce flexible. When there is a volume reduction as we saw also during 2008- 2009, the only way to maintain profitability is to immediately stop the temporary contracts. This is particularly important because we can't reduce permanent workforce, when support from the government is received; you cannot normally fire people, you can only reduce the workforce if you have flexible contracts; and this was our situation.

Priya Ranjan: Okay. And secondly, on India business, will it be fair to assume that second quarter growth of component sales will be much higher, because right now every OEM is trying to hold parts inventory because what has happened last couple of months?

Anurang Jain: We expect a healthy offtake at least up to the festive season of Diwali. And maybe even higher than last year but I don't want to commit anything. I can tell you about August because I've got the schedules and we are going to do the pre COVID level sales for sure. But yes, it looks good even after the festive season of Diwali.

Moderator: Thank you. We have next question from the line of Ronak Sarda from Systematix Group. Please go ahead.

Ronak Sarda: First question, you answered the utilization levels have inched up pretty quickly in July and August almost 80%, 90%. Now, how has the cost behaved now, given the sharp recovery. Are we seeing the benefits of cost rationalization holding, both at RM level and at admin level?

Anurang Jain: Yes. I would say definitely the fixed costs are at a reduced level. See, we cannot reach the fixed cost level of the first quarter because that even included some salary cuts, 5% to 25% is what we have done for our people in quarter I. They really supported us, I must say. We are back to normal from July on the salaries. I can yet say that from the pre COVID level at least on the fixed cost 10% reduction will be maintained, On material cost whatever advantage we have got, we have sustained it. We are also targeting reduction in variable cost percentage to sales. CAPEX, we have lowered which I told you from a normal Rs.3000 million to about Rs.2000 million in FY21.

Ronak Sarda: Once the production mix improves further that should only help right?

Anurang Jain: Yes, of course. So whatever I said about the product mix will definitely help us and that's been our focus, last 10 years we've been continuously improving the product mix.

Ronak Sarda: If I heard you correctly you said Maharashtra government incentive during the quarter was 10 crores?

Anurang Jain: Yes. Rs.100 million, that is Rs.10 crore.

Ronak Sarda: In Europe, despite lower utilization the gross margin has been the best in the last five years. So, what has driven that - is it purely the aluminum cost, or is it more product mix driven?

Massimo Venuti: So, both of these had an impact. The product mix improved due to the fact that we have had an increase of volume with Volkswagen. With Volkswagen, we produce 100% of the components completely machined, which is more value added. Also, in this period we carried out the important activity of cost reduction. As told before, termination of around 120 temporary contracts, recourse to short time working and also cost reduction by utilization of leave accruals. We have done in-sourcing and outsourcing activity for some parts, to aid the margins. Another major impact on costs, for which activities have begun but benefit will be derived in full from September - October, is the consolidation of some the foundry activities resulting from the shutdown of the plant in Grugliasco and shifting of the production to Chivasso and the total annual savings here would be around Euro 600,000. I think, we can maintain the same level of fixed cost as percentage of sales in the first quarter also in the second quarter.

Ronak Sarda: We are closing down the foundry in one location, and are merging it into another. What kind of fixed cost do we incur in Europe to do that, is this substantial?

Massimo Venuti: We are closing the Grugliasco plant with more or less 38 people, of which 20 people are in indirect positions and only 18 are direct people. We are moving these 38 people to our plant in Chivasso. As I previously told you that we closed around 120 contracts for direct workers, but we are working for further reductions looking to have the possibility to reduce another 20/30 people in maintenance, production, logistics and so on. For this reason, we decided to immediately shut down the Grugliasco facility. For sure, this will reduce our production capacity because we will move only four machines compared to eight machines installed in Grugliasco. In this moment, foundry capacity is available, and so, we are sure that we can buy from the market at prices more competitive to the past.

Moderator: Thank you. We have next question from the line of Arvind Sharma from Citi. Please go ahead.

Arvind Sharma: The new orders that you have got in the first quarter - what is the annual revenue and till when can we have the incremental revenues?

Anurang Jain: Rs. 828 million of business for the brakes of TVS and Yamaha, - this is the annual sales value computed using the raw material prices of quarter IV of last year. The business will start from March 21 for TVS and October 21, for Yamaha. Those are the SOP dates given to us.

Arvind Sharma: Can you share with us the revenue and EBITDA in Euro terms this quarter and corresponding quarter last year?

Massimo Venuti: Sure. Yes, total turnover first quarter was Euro 30.4 million compared to Euro 70.6 million in QI last year, reduction of 56.9% or in absolute terms of Euro 40.2 million. EBITDA in first quarter, Euro 5.6 million, 18.5% compared to Euro 12.7 million, 18% of the previous year, a reduction of Euro 7.1 million, or 55.8% reduction in percentage terms. Net result in first quarter was Euro 0.8 million, 2.7% of sales compared to Euro 4.7 million in QI last year, 6.6% of sales in Q1 of the previous financial year.

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

Aditya Makharia: What is the portion of machined castings versus non-machined?

Anurang Jain: The overall figure, I will not have offhand. But for example, Hyundai and Kia new business is largely machined, Bajaj Auto we are going towards I would say 50% would be fully machined by this year and 50% by next year, and Tata Motors is fully machined business, Getrag exports are also fully machined.

Aditya Makharia: Sure. So overall would it be comfortably over 50%?

Anurang Jain: Yes, definitely.

Aditya Makharia: Right. And also who are our main competitors in the aluminum machined casting space?

Anurang Jain: Sundaram Clayton, Jai Hind Industries. Also, Rico Auto in a certain way. SunBeam is there. These four come to my mind immediately, Caparo used to be there but they closed down, Amtec used to be there and they too closed down.

Aditya Makharia: Similarly, please mention the competitors on the braking side. I know you mentioned that there's Brembo but I believe there's Bosch and Continental?

Anurang Jain: I would like to clarify to you regarding this. In brakes, there are two competitors for us - a Japanese company called Nissin that supplies to mainly Japanese OEMs, and the the second is Brembo. It was only on the ABS electronic and hydraulic control unit that technology is not there with Brembo and that is with Bosch and Continental. So Bosch and Continental will be our competition in ABS, when we start ABS production. We are targeting quarter IV of this financial year.

Moderator: Thank you sir. We have next question from the line of Jatin Nayak from ICICI Prudential Mutual Fund. Please go ahead.

Jatin Nayak: In the auto components industry we've seen that the component players are reasonably strong with the OEMs, and their wallet share remains fairly stable. Now you were strong with Bajaj but, in the past two years you have gained share with Hero, TVS and Honda. And now on the call, you mentioned that there are new order wins from TVS. So how do you think about scale up on the wallet share point of view from these OEMs? How long can this journey be, and how challenging is this scale up when there are already strong competitiors?

Anurang Jain: That's a very good question you have asked. See, one thing which is very important is the technology, in terms of product and process. You have to keep upgrading the technology, keep improving, and give more value add. With Adler, we have offered some really good +200 cc bikes clutch technology, which is better and maybe cheaper than the competition. We believe it is better in performance and cheaper than competition and that's why already three OEMs have given us the orders ; we start from next year.

This is the reason why we have got four R&D centers for each of our products, apart from advanced engineering cell, and now we have a proving ground also for 'on-vehicle' testing of products, to continuously raise the performance, durability and cost. These are three things which customers seek. We focus on these and thus always have an edge over competition. In customer penetration, the entry point is your technology and your price, and then the quality will dictate whether your business will increase or not or will it go down. We focus on offering value engineered products, could be through lower weight, could be through reduction in number of components in shock absorbers or brakes, or could be through use of alternative materials. You have to continuously re-engineer your products to deliver value for money, by working on the cost front without compromising on performance.

And we have the unique advantage of the 29 acre test track in Aurangabad, where we jointly work with customers to test our products, on the vehicle itself. Simulation tests in our R&D Centers are very important, but testing of products on an actual vehicle has its own importance. So, to get entry, we have the edge in technology and price. And then the quality dictates the share of business. Because quality has the highest weightage in vendor rating.

Jatin Nayak: Considering your free cash generation, any comments on any asset allocation strategies which you have in mind? You have earlier indicated some interest in the tyre industry, but any comments?

Anurang Jain: We dropped tyres because of all of you. Because our share price hit the lower circuit breaker. That's not good for you or for me. On a serious note, let me tell you, we are actively looking at some organic and inorganic opportunities in a new product areas. So, whenever the time comes, I will tell you. We are evaluating opportunities and that's a big focus area for us for sure.

Jatin Nayak: Sure. And how is the environment right now on the M&A side? Has it become more attractive? What we hear from some of the other component players is that in the overseas market, the strong government support, it has pushed their M&A timelines by a bit?

Anurang Jain: We are scouting and evaluating what is suitable for us based on our strategy going forward. We like projects which are technology oriented, relevant for EV, has a good aftermarket, has few players. We are actively looking at new products.

Moderator: Thank you. We have next question from the line of Pramod Amthe from CGSCIMB. Please go ahead.

Pramod Amthe: This is with regard to the alloy wheel business. Do you need to setup a substantial capacity. Secondly, is the additional alloy wheel business coming at a discounted price to China or this is at the same pricing or at a premium?

Anurang Jain: I'll only say that the pricing is fine. Without proper pricing, we don't do business, we are very clear on that. Certain opportunities have come immediately, for which we are investing is in the existing plant in Pune, This capacity increase can be done immediately in Pune Also, there are a lot of other OEMs who have approached us for which we will have to set up a new plant. So, the opportunity is being evaluated, there is a good chance that we will take it, but that won't happen this year. Such new plant may happen next year.

Pramod Amthe: Okay. And would you restrict yourself only to the two wheeler alloy wheels or you are open for 4-wheelers?

Anurang Jain: No, only for two wheelers.

Pramod Amthe: Okay. And the second question is with regard to the aftermarket. You seems to indicate in your remarks that it will take some time to recover to normalcy, and that would be reached in the fourth quarter.

I thought the aftermarket is faster to come back to normalcy as compared to the new vehicles.

Anurang Jain: There are a lot of restrictions in many countries. Of course now people are out of lockdowns. The markets have not fully opened up in South America and in Africa, the way it was pre COVID time. India is opening up very fast. So, India may be getting back faster. On the export front, we are adding four countries in this year, we have already added two actually- Qatar and Cambodia in the first quarter, and we plan to add Brazil and Congo. Our aftermarket team might be being a bit conservative when they say that the export market is opening up a bit slower, especially in these larger regions of South America and Africa, where a lot of two wheelers are sold.

Moderator: Thank you sir. We have next question from the line of Nitin Arora from Axis Mutual Fund. Please go ahead.

Nitin Arora: When we look at your "Other expenditure" in Q1 standalone versus a quarterly run rate of Rs. 200 crores, it's much lower at Rs. 70 crores this quarter. To what extent is it variable?

Satrajit Ray: There are two things to be understood. I will not give you a percentage here, but I will give you some perspective for you to figure out your answer. Firstly, in the first three months of this year, for almost 40 days we were closed down completely. That would have an impact on the Other expenses. Cost reductions related to full plant closure will not be sustained. Secondly, what Mr. Jain said was very important that compared to last year's normalized fixed cost we've taken some steps, which will help us reduce fixed cost in general by close to 10% or so. Thirdly, certain costs can't really be straitjacketed into fixed and variable; some of them are semi-variable as well. So they tend to pick up a little as and when operations grow.

Nitin Arora: Please give us your take on the new EV policy which the government came out with.

Anurang Jain: It is talking about mainly lowering the upfront cost of the EV by not including the battery cost which is normally 40% of the cost of an EV vehicle, and then the batteries can be offered on swapping basis, by the battery suppliers from India or overseas. The end-user may have reduced upfront cost, with the battery cost not being borne upfront and also 5% GST thereon. Today, if you compare an Ather Energy scooter with a Honda Activa, scooter, the end-user has to pay less for the Honda Activa. Not paying for the battery might tilt the picture. But then there are open questions on the swappable battery - how it will work, what will the cost incurred?

Nitin Arora: Okay, and just one clarification the TVS order. You've spoken about TVS order three or four quarters ago. Is it the same order that you discussed today, against which we will be now producing?

Anurang Jain: No, earlier we had spoken of a Rs. 40 Crore order for brakes, and some other small orders. Certain Suspension business also started in September 19. Our new orders from TVS have been growing and we expect further new orders to come. Bulk of the brakes will start in the third quarter because of final testing. Third and fourth quarter should see a big upswing, here.

Moderator: Thank you. We have the last question from the line of Sonal Gupta from UBS. Please go ahead.

Sonal Gupta: Sir just wanted to understand on the EV side, are there any new components?

Anurang Jain: Well, to answer your question yes. But, I cannot tell you what it is.

Sonal Gupta: For instance, in brakes, when you shift from ICE to EV vehicle, will the value go down?

Anurang Jain: I don't think it's going to go down. We are supplying the CBS for the Bajaj Chetak Scooter and it is as profitable as any other CBS brake. I don't see the value going down compared to a CBS of ICE engine scooter.

Sonal Gupta: And you have mentioned of reductions on the RM costs, but RM cost would be largely a pass through?

Anurang Jain: Yes, the element of commodity prices in the Raw materials cost is a pass through. When RM prices fall, the absolute EBIDTA does not change, but EBITDA margin % goes up. There are also other elements to our RM cost.

Sonal Gupta: Okay. And just lastly, how much is casting of your India business as a whole?

Anurang Jain: It is close to 37.5% of the India business.

Moderator: Thank you. Ladies and gentlemen that was the last question. I would now like to hand the conference over Mr. Nishit Jalan from Axis Capital for closing comments. Over to you, Sir.

Nishit Jalan: Thank you Vikram. On behalf of Axis Capital. I would like to thank Endurance management and all the participants for joining the call today.

Anurang Jain: Thank you very much.

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