Endurance Technologies Limited Q3 FY-22 Earnings Conference Call

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Moderator: Ladies and gentlemen, good day and welcome to the Endurance Technologies Limited Q3 FY22 Earnings 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, please signal an operator by pressing "*" then "0" on your touchtone telephone. 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 so much. Good morning, everyone. Welcome to Q3 FY22 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 Business, 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 start the Q&A. Over to you Mr. Jain.

Anurang Jain: Thank you and good morning to everybody. I would like to share details of how we have done in the third quarter of this financial year in the first nine months also of this financial year FY22. In India in the third quarter of FY22 as per SIAM data, the two-wheeler industry sales de-grew by 19.7% compared to the previous financial year. Scooters de-grew by 25.87% and motorcycles de-grew by 16.38%. The automotive industry as a whole in India had a de-growth of 17.2%. In Europe in Q3, there was a de-growth of 23.4% in the European Union Automotive sales.

On the financials, I will briefly talk to you about the third quarter of FY22 and then the first nine months of FY22. During Q3, our consolidated total net income was Rs.18,965.89 million as compared to Rs.20,467.03 million in Q3 of the previous year. Consolidated EBITDA was Rs.2,106.74 million as compared to Rs.3579.71 million in Q3 of FY21, consolidated EBITDA margin was at 11.1%. The net profit was Rs.946.36 million at 5%. There was no Maharashtra state mega project incentive in Q3 of FY 22. There was no net debt as there was a positive cash available of Rs.3785 million. During Q3 of FY22, our standalone total income was Rs.14,939.05 million as compared to Rs.15,320.49 million in Q3 of FY21. Standalone EBITDA was Rs.16 99.50 million as compared to Rs.2,632.90 million in Q3 of FY21. The EBITDA margin was at 11.4%. Standalone net profit was Rs.878.46 million at 5.9%. There was no Maharashtra state mega project incentive in Q3.

The reasons for lower EBITDA margin percentage in India was due to the large commodity price increase, mainly in aluminum alloy and steel. There was no mega project incentive in Q3 of this year while Q3 FY21 had a mega project incentive of Rs.234 million. There was a drop in volumes in Q3 of FY21, leading to a loss of contribution on lower sales. In Q3, the two-wheeler industry as I mentioned earlier was down by 19.7% largely due to the chip shortage. As far as Europe is concerned, the low EBITDA margin has been deeply affected due to the high drop in passenger car volumes due to chip shortages, and a huge increase in power cost, which will be later explained by Mr. Massimo Venuti.

During the first nine months of FY22 our consolidated total net income was Rs.54,987.02 million as compared to Rs.44,379.61 million in the first nine months of FY21. Consolidated EBITDA was at Rs.7,358.64 million as compared to Rs.7318.77 million in the first nine months of FY21. Consolidated EBITDA margin was at 13.4%, the net profit was at Rs.3,245.21 million at 5.9%. This includes the Maharashtra state mega project incentive of Rs.590.43 million for the first two quarters of this financial year. During the first nine months of FY22, our standalone total income was Rs 41574.16 million as compared to Rs.31,850.57 million in the first nine months of FY21. Standalone EBITDA was Rs.5465.87 million as compared to Rs.5,057.19 million in the first nine months of FY21. With an EBITDA margin of 13.1%. Standalone net profit was Rs.2,670.09 million at 6.4%. This includes the Maharashtra state mega project incentives of Rs.590.43 million in the first two quarters. There was no net debt and there was a positive cash available of Rs.2788 million. The detailed financials are available with the stock exchanges and on the Endurance website.

I would now like to share certain key points for the first nine months of this financial year.

1. In the first nine months of FY22, 75.6% of our consolidated total income, including other income came from Indian operations and the balance 24.4% came from our European operations.
2. In India in the first nine months of FY22 Rs. 5884 million of new business was won from OEMs other than Bajaj, which included HMSI, TVS, Hero MotorCorp, Royal Enfield, and Ather Energy. This included Rs.1390 million new orders for EVs, including Rs.530 million orders from Ather for brakes, and Rs.700 million orders for the Polarity Smart Bike, a company in Chakan, Pune for suspension and brakes. New order wins also includes non-automotive casting business of approximately Rs.1000 million for applications like gensets and 5g Telecom. These businesses will start in April 2022. I would like to mention that we have Rs.18,936 million worth of request for quotes from the OEMs.
3. We are happy to announce that we have added a new product vertical which is the drive shaft. The drive shaft is a high technology proprietary product in an automotive application. A drive shaft transforms the torque generated from an engine through its transmission to the wheels. The application is for three wheelers and four wheelers including some LCVs. The drive shaft is a product required for EVs also. It has lucrative margins and competition in India is mainly from GKN Driveline and Nexteer Automotive. The Indian drive shaft market is approximately Rs.20,000 million per annum for three-wheeler and four-wheeler applications.
4. We are starting business with Bajaj Auto in May 2022, and our new state-of-the-art plant is already set up in Waluj, Aurangabad. We are at an advanced stage of securing orders from TVS for three wheelers and from Mahindra for three wheelers and four wheelers, including for EV applications. We have already filed five patents to make the product superior to competition. Our shortened development times, competitive pricing, our world class manufacturing facility, and a strong supply chain is our USP which will help us in business growth in the future.

5. At Endurance overseas, we have acquired 100% stake in a small company called Veicoli SRL. Veicoli SRL enables fleet operators to increase route efficiencies, enhance safety, optimize maintenance activity, and lower their fuel cost. This is done by monitoring vehicle movement, engine parameters and driving habits on Veicoli software platform. With this acquisition, we seek to expand our innovative solution offerings in the mobility sector in Europe.
6. I would like to mention that Endurance is focusing on more value add and profitable product mix in its future business, which includes:

a. braking, suspension and casting supplies to two and three-wheeler, EV OEMs, and startups.
b. 200 cc+ motorcycle brakes and clutch assemblies with help of acquisition of Adler and Grimeca in Italy in the year 2020. The 200 cc+ motorcycle brakes business has already started from October 2021 and the 200 cc+ motorcycle clutch business will start in the next financial year.
c. Paper base clutch assemblies, replacing cork based clutch assemblies for motorcycles with a higher value add.
d. Starting continuous variable transmissions or the automatic clutches for scooters. We are in advance stage with Hero MotoCorp where the testing has already been cleared.
e. We are also increasing the anti-lock brake systems or ABS business for 150 cc+ motorcycles with our collaboration partner being Beijing West Industries. . We have started supplies of ABS to Bajaj Auto from September 2021 onwards.
f. We are also increasing our business of 200 cc+ motorcycle inverted front forks and adjustable rear mono shock absorbers. This is with the help of our collaboration partners KTM AG. We are working with KTM to increase supply for on-road vehicles and also to start with off road motorcycles, higher technology inverted front forks and rear shock absorbers. We have made a three-year plan for it as the volumes will substantially increase over the next three years.
g. We are also focusing on fully finished machined castings as compared to raw casting and semi-finished castings for two wheelers, three wheelers and four wheelers.
h. As far as the brake assemblies are concerned this business is growing with addition of Bajaj, TVS, Royal Enfield, Yamaha, Hero MotoCorp and HMSI new business. We are increasing supplies of brake assemblies from 285,000 brake assemblies to 570,000 brake assemblies a month. And disks from 375,000 numbers a month to 675,000 numbers a month. By March 2022, we will have the capacities in place. Our second plant at Waluj, Aurangabad has already started operations.
i. In September 2021 we've also started supply of aluminum cylinder head low pressured die-castings at Pantnagar, Uttarakhand plant. This order is for 7,20,000 machined cylinder heads per annum.
j. As mentioned earlier, we have already started two-wheeler ABS assemblies from September 2021. I'm really happy to inform you that from this evening we are starting ABS assembly supplies to Royal Enfield also. Our plan is to reach a run rate of 400k ABS assemblies per annum by September 2022 which is currently affected due to the short supply of the ABS ECUs which are dependent on chips. As you may be aware,

competition is mainly from Bosch which controls the major market share in the Indian ABS motorcycle market, which requires approximately 3 to 3.5 million ABS assemblies per annum. There is a large business opportunity for Endurance as there are very few suppliers and all are foreign companies due to the high technology requirements.

k. We also focus on supply of our products for EV two and three wheelers. We have already started supplies of brake assembly, suspension and aluminum castings for electric scooter and three-wheeler. Our focus is to supply our EV products for two and three wheelers with OEMs both existing and new, including Ola Electric, Ampere, Okinawa, Ultraviolette, Ather, and Hero Electric. We are also focusing on E-bicycles business, not the E-bikes but the E-bicycles, especially for our suspension and brakes. And we already in advanced talks with certain OEMs.

l. Due to increased orders from Bajaj and Yamaha India and a new Rs.1446 million alloy wheel order from TVS, which we recently got, we have added a new plant at Chakan to help increase supplies from 240,000 numbers alloy wheels a month to 320,000 numbers alloy wheels a month. This plant will start operations in this month. The supply for TVS will start in June 2022.

m. As far as Europe is concerned, in Q3 of FY22 we are happy to inform you that we have won €53.91 million business from Porsche, Daimler, CNH, BMW and Stellantis. This includes a recently won € 40.5 million order for transmission housings for the mild hybrid and the full hybrid EV applications for Stellantis. This business will start in second half of 2023.

n. I would also like to point out that Endurance both in India and Europe is actively pursuing its focus on gaining access to new technology and focusing on new products organic and inorganic growth.

o. I would also like to mention the Endurance have entered two backward integration product areas which are import substitutes also, first is aluminum forging parts required for inverted front fork requirements. Endurance has entered into a technical collaboration with FGM Italy and supplies will start at our Aurangabad plant from this month.

   The second product is wire braided hoses for ABS applications and mid and high-end bikes. This supply has already started from June 21 from Aurangabad plant. Both these products will help us in our future profitable growth.

p. In the first nine months of this financial year, our aftermarkets sales grew by 50% from Rs.1917 million in the previous year to Rs. 2874 million in this financial year. We are exporting aftermarket parts to 30 countries and we are adding four more countries in the next financial year, most probably in the first quarter of the next financial year. As mentioned earlier, we also started trading in two and three-wheeler tyres for both India market and exports.

q. The export sales for India standalone business increased by 22.7% from Rs.1162.41 million in the first nine months of FY21 to Rs.1426.12 million in the first nine months of this financial year.

On the environment front, I would especially like to mention that Endurance is striving to being carbon neutral in its plants by effective use of solar power and wind power, creating carbon sinks by driving tree plantations and thereby creating dense forests and driving use of natural gas and LPG in place of electric power and furnace oil. The focus is on lowering hazardous waste generation and to achieve zero waste to landfill.

At Endurance it will be a continuous endeavor to grow through organic and inorganic growth, with a focus on technology up-gradation, quality improvement, cost and environment health and safety. We will do our best to fulfil all our stakeholder expectations by following our five values of Customer Centricity, Integrity, Transparency, Teamwork, and Innovation. With his opening remarks, I would now like to invite questions from all. Thank you.

Moderator: Thank you very much, Sir. Ladies and gentlemen, we will now begin the question-and-answer session. Our first question is from the line of Ashutosh Tiwari from Equirus Securities. Please go ahead.

Ashutosh Tiwari: What is the power cost as percentage of sales in Europe and what is the increase and by when can we pass on the impact to customers?

Massimo Venuti: The impact of higher energy cost in the third quarter 2021-22 was €2.8 million. Please consider that the average price of gas in Endurance Overseas in the last three years was more or less €20 per MWh. And in December, we reached peak of €166 with an average of €100 per MWh, five times compared to the past prices for gas. Similarly, for electricity, the average price in the last three years was €50. And in December we reached a peak of €400 but the average was €240, again five times compared to the previous year. So, as you can imagine, on top of the effects on our conversion costs, our suppliers are also requesting us to recognize the price increase. We are doing the same with our customers. This is an absolutely strange situation because the energy prices have reached to an unprecedented level. For sure, there are many reasons mainly linked to the European dependence on the gas supplies from Russia: geopolitical reasons first of all, due to the confrontation on Ukraine between Europe, the United States and Russia. Further, there was an impact due to delay in the approval of the disputed North Stream2 new pipeline directly connecting Russia to Germany, and also due to a shutdown of several new nuclear plants in France and also in Germany. These factors are unfortunately affecting our profitability. We are discussing this with our competitors and our customers in order to find the solution and to recover from this situation as soon as possible. Frankly speaking, I don't believe that this situation can go on in this way. At Endurance, we are trying to offset and reduce the risk for the future quarters by partly fixing the energy price. The future gas and energy prices in Europe are showing an important reduction starting from September 2023 and, we hope, partially also for the next financial year. With this in mind, we are trying to fix the prices for a part of our consumption at a price that is not at the pre-spike level, but is lower than the current market. We are also working on medium-term actions by accelerating the initiative for the installation of solar panels in all our plants. But in Q3, we have had an impact of about 6% reduction in our EBITDA only due to the impact of the energy.

Ashutosh Tiwari: So, you mentioned that roughly there is a impact of €2.8 million in this quarter due to power cost?

Massimo Venuti: Yes. In this quarter, we have recorded a turnover of €47.6 million Higher energy costs had a 6% impact on in our EBITDA.

Ashutosh Tiwari: And can you share that the sales EBITDA and the PBT number or PAT number in this quarter in Euro terms?

Massimo Venuti: Absolutely yes, we closed the quarter with €47.6 million turnover and €5.2 million EBITDA, which is 11% and €1.1 million of net profit which is 2.4% of turnover. Without the impact of energy and aluminum increase, the EBITDA margin would have been 17.8% substantially aligned to our previous year level. In the previous financial year, we closed the quarter with around 18% EBIDTA margin, and without being run over by energy prices, it should have been 17.8% in this quarter.

Ashutosh Tiwari: Okay. So, if I get it correctly, power cost will probably take some time but aluminum cost will that be pass on with the quarter lag?

Massimo Venuti: Yes, in fact aluminum is not a problem because we recover everything by pass-through. But if you have an increase in prices of aluminium, this can impact the representation in terms of EBITDA %. The EBITDA of the quarter has been 11% and without the increase of aluminium, the EBITDA should have been 11.6% And so it means that EBITDA margin fell by 0.6% only due to the increase of turnover due to the increase of aluminium prices.

Ashutosh Tiwari: Okay, got it. Secondly on this drive shaft business that we discussed about India. So, what business we have got, and what's the timeline especially in the EV products over there?

Anurang Jain: We are starting with Bajaj Auto in May 2022. There is line of sight with Bajaj, TVS, Mahindra. We think we should do about Rs. 2000 million by FY25. We are starting volumes of the three-wheeler requirements of Bajaj. We are in advanced stage of talks with TVS as well as Mahindra for three wheelers and four wheelers. So, volumes are quite good and as long as the three-wheeler industry is doing well, there's a very, very good potential for us to grow fast. This is a new product for us. This is a high technology part with lucrative margins. The major competition is GKN and Nexteer , both in a way international companies, so there's a very, very good scope of growth. The market in India is about Rs.20,000 million, and we already have filed for five patents to make our product much more competitive, superior in terms of safety. We have also filed one patent for our low-cost electronic version. So, like I've always said, we start a bit slowly but then we will pick up fast.

Ashutosh Tiwari: So, the current business that we got is mainly for your normal CNG or petrol vehicle IC engine, it's not for EV right now?

Anurang Jain: No, right now it's not for EV but we are discussing for both TVS and Mahindra for the EV and also in future with Bajaj, because Bajaj will also need it because the driveshaft is required, irrespective of vehicle being CNG or petrol or EV, so it's required for all applications.

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

Arvind Sharma: Sir, first of all would be the question on the Indian operations' reduced gross margin. You cited the reason as increase in aluminum alloy prices and chip shortages. In future, do we expect to see a reversal of these cost pressures going forward?

Anurang Jain: It depends on the market. Steel is already softening. Right now, aluminum alloy has not softened, but we'll have to wait and watch. The increase in third quarter was unprecedented if you ask me. So, I'm hoping this quarter, there would be a softening overall on the RMC rates. So let us hope for the best. Among the key reasons for lower margins, one is for the RMC but the second is regarding us having lost a lot of our premium business of 150 cc+, due to the chips issue.

In ABS where we have a capacity of 400k per annum, we are starting with Royal Enfield. The orders are there, the problem is the ABS ECU chips. Against order of 30,000-35,000 numbers, we are doing 10,000 currently. A lot of our high-end products - front fork, shock absorbers, clutches, brakes – all are affected due to chip shortage. I was talking to one of our major OEMS; they are losing 40,000 units a month on the high-end vehicles because of the chip shortage. I learnt that there is a strong pent-up demand which is building up. As soon as this chip supply recovery happens, which should happen from March 2022, there would be a pretty decent growth in premium two wheeler volumes from the first quarter of next year. Material costs may be softening a bit but are difficult to predict. Despite our costs actions on consolidation and having a strong vendor base, we are affected when we lose the economies of scale. We have plants which were setup for Hero or HMSI in Halol, Sanand and Kolar. When the volumes go down then the economies of scale are lost . You have to keep in mind that margins also depend on economies of scale in each plant. So, that is where we have suffered in Q3.

Arvind Sharma: Sir, thanks for this. Were raw material prices pass through or did we take the hit on earning?

Anurang Jain: The raw material prices are of course passed through. Only in case of HMSI, which is our second largest customer, it comes with a one quarter lag. Sometimes there are certain spot increases, which I mentioned earlier also, or sometimes we have certain increases like silicon price increase in Q3 which are not passed through. Silicon is required for our alloy wheel production. For sudden increases, which happen in a short term, the customer may not pay. There could be a difference due to unusual increases, say of silicon which is about 6.5% to 7% of aluminum alloy A356 which we use for alloy wheel. So this kind of things we have to bear. The last five quarters has been just crazy and erratic which we have not seen before. Normally the material prices are all passed on. There is no issue there, but what happens is a mathematical calculation which I've always mentioned that when our RMC goes up, despite pass through, there is an adverse mathematical impact on the EBITDA margin.

Arvind Sharma: What is the likely revenue contribution from the new driveshaft products?

Anurang Jain: In driveshaft, our differentiating USP would be competitive pricing and performance, which we will achieve through the patents we have filed and our world class manufacturing plant. I would like to invite you to Aurangabad to witness one of the best plant we have in terms of automation. We would like to get maximum market share, at least for three wheelers. I don't want to put up a figure. Penetration into four wheelers will take some time, because there we are going to go step by step. I have already indicated to you about Rs.2000 million revenue likely in three years that we would like to do, based on the line of sight we have. The three-wheeler market in India is roughly one million vehicles annually

Arvind Sharma: The Maharashtra government incentive - is it done for good or can it come back over the next quarters?

Anurang Jain: We still have incentive booking left for the next three years. So, similar quantum of incentive which was booked in this year will be booked in the next two years also and a smaller incentive in the third year. This is against the Maharashtra 2013 scheme. But having said this, we have also applied for the 2019 scheme of the government of Maharashtra, which is based on a minimum investment of Rs.3500 million. So, once we cross it, which should be by the end of this calendar year, then we are eligible for a second incentive under the 2019 scheme. We will tell you the details once we get the eligibility certificate. Waluj is a great area to be in, because whether you invest for electric vehicle or any other products, you get significant amount of incentive. For us these project based incentives are as attractive as PLI incentives or EV incentives, if not more. So to answer your question, next two years will be similar incentive amount as in this financial year. And third year will be a smaller, and plus we hope to add the 2019 scheme incentives in future. We will share details once we get the eligibility certificate, which is likely in a few months.

Moderator: Thank you. We'll take the next question from the line of Jinesh Gandhi from Motilal Oswal Financial Services. Please go ahead.

Jinesh Gandhi: What would be the order book from Bajaj Auto in this Rs. 5884 million -order book ?How much would be for driveshaft?

Anurang Jain: Bajaj Auto orders are not part of the Rs. 5884 million amount that I mentioned. Don't ask me to give you further figures, as I will not be able to answer. I can only say that it's a pretty decent order book even for driveshaft. Otherwise we would not have done do investments unless we see a very good future. You are invited to see our plant in Aurangabad.

Jinesh Gandhi: Right. Secondly is there any synergies with the existing business, with drive shaft business or this is pretty different?

Anurang Jain: This is completely a new product vertical, mainly for three and four wheelers. The synergy could be in terms of operational efficiency and the support system of our suppliers, including some of our existing outsourcing suppliers which we can use. However, it's a completely new process, a completely new set of operations. It's a very good high-tech area to be in, and the margins are pretty good.

Jinesh Gandhi: And this product is developed in-house or we have any technology partners for this?

Anurang Jain: No, this is all done in-house by our team. Therefore we have filed five patents. I've not been talking about it, though we have been working on this for the last two and a half years. Our plant is now set up and we are going to start SOP in May. A lot of work has gone into this, and we have a very good talented team.

Jinesh Gandhi: Got it. And you talked about Rs. 200 crores of revenue FY25, this would be largely from three wheelers?

Anurang Jain: Indeed, mostly from three wheelers and a bit from four wheelers. We are in touch with many four wheelers companies and three-wheeler companies. We are in advanced talks with TVS and Mahindra, and we have got the order from Bajaj. The potential is Rs.20,000 million which is larger in the four-wheeler, I agree. So, we have a long way to go. Rs. 2000 million in FY25 is our indicative line of sight.

Jinesh Gandhi: Okay. Second question pertains to the impact of aluminum prices or other overall commodity prices in India business, particularly in third quarter and how do you see that in the fourth quarter?

Anurang Jain: In the fourth quarter, overall material cost may soften a bit. Aluminium alloy has softened in certain areas, but not in all areas. It has softened compared to Q3 for alloys which are used in a major part of our two-wheeler and three-wheeler casting applications, but when I look at our smaller aluminum alloy wheel business they are affected due to the silicon increase, basically due to shortage from China. But compared to last quarter, RMC will soften Yes, that's for sure.

Jinesh Gandhi: But the stock aluminum prices have been increasing quite substantially even now. So, that should not have any vertical impact on our RMC in next six months?

Anurang Jain: I don't see in this quarter RMC doing any worse damage than it did in last quarter. So, it has softened. We have seen a softening in certain steel prices, and aluminum alloy which we use for majority of our two or three-wheeler castings, other than alloy wheel. , There, we will have to wait and watch as these things are outside our control. Also, this mathematical effect is totally outside our control, because aluminum castings is a large part of our business and also we use a lot of aluminium in proprietary parts. So when aluminium prices goes up like this, it definitely affects our EBITDA margin percentage, because of the RMC percentage increase.

Jinesh Gandhi: Right, any sense on how big is aluminum as a percentage of our RM cost?

Anurang Jain: I don't have that figure. I can just tell you that with alloy wheels, our casting business in India is slightly above 40%, and aluminium is the key raw material there. Also, we have some aluminum parts in our front forks, our shock absorbers, and our clutch assemblies.

Jinesh Gandhi: For the third quarter in European operations, we had about 60 basis point impact of RM cost. Similarly for India operations, any number which you can share as the RM cost impact in Q3?

Satrajit Ray: The difference between Europe and India is that, as far as European power cost is concerned, that hit the bottomline in absolute monetary value. Whereas, in India what we are talking about is when aluminum price changes, which we get back except for one customer where it happens with a time lag of one quarter. There could be some stray cases like silicon price increase where this could not come back. So, the situations are different here. In India, the margin drop in percentage terms is explained partly by the huge increase in our raw material prices. But if you want to understand the absolute rupee drop, the reasons are volume drop, particularly for high end products. You may recall that Mr. Jain had said in his initial remarks that, on one hand our prices have risen due to higher raw material costs , so the sales number in rupee value don't look too bad, but the volume drop has been substantial. And in that volume drop, we have lost some high-end products so there is a mix effect also, which led to lower EBITDA.

Moderator: Thank you. We will take our next question from the line of Ronak Sarda from Systematix. Please go ahead.

Ronak Sarda: Firstly just a clarification on Europe I did not get what Massimo mentioned on power cost. Is it a onetime impact or this will continue till Quarter 2 of FY23?

Massimo Venuti: We have reached the peak energy prices in the month of December, 166 Euro per MWh for gas and 400 Euro per MWh for electricity. For Q3, the average is 105Euro for gas and 240Euro for electricity - the energy cost is certainly five times compared to the past. The situation continues to be very tough. And it may remain so for some time. It is absolutely important to understand what we can do with our customer and we are discussing with them.

Ronak Sarda: So for the next maybe couple of quarters we should assume the current run rate of margin at around 10% to 12% as a steady state margin, will that be a fair assumption?

Massimo Venuti: In this quarter, we have had not only the impact of energy cost but also the market loss of 23.4% compared to the previous year and 30% compared to pre-Covid. In the first quarter of this calendar year, we are seeing an increase of volume, after many quarters of continuous reduction of volume. So I hope that with the increase of volume we can compensate part of this increase of the energy costs and we can improve our profitability.

If you consider the average now against the peak of December, there is more or less 40% of reduction. Nonetheless, in the current quarter we are seeing a price still almost 5 times compared to the levels of the past for gas and also for electricity.

Ronak Sarda: I understand the impact of commodity prices on your revenue and EBITDA percentage. Prices of commodities have been increasing for last four to six quarters and you were able to navigate the impact. So, is there a one off in this quarter?

Anurang Jain: The Q3 two-wheeler volumes were down by 19.7%. Volume drop has had an adverse effect. Moreover, our premium products with high value add going into 150 CC plus vehicles- front forks, shockers, brakes including ABS have taken a beating. We are losing sales corresponding to 40,000 vehicles a month mainly in the 150 CC plus segment. Our sale value is looking better than last year because of raw material price increase. The volume has actually dropped in all the premium products because of the chip shortage affecting production at OEM end. On chip shortage, I am hearing that the situation should start improving from March. If that happens, then premium vehicles volumes will go up. I also believe that the COVID-19 is subsiding which may also improve sentiment especially in rural markets. This year HMSI took a huge beating in scooters segment. Once the sentiment improves, I think the rural market and the lower end two-wheeler market should also do well. I am an optimist and I have gone through lot of ups and down in this 34-year journey. So the market has to come back and most OEMs I have talked to think there is a huge pent-up demand building up. So, what I am trying to tell you is that the volumes have dropped and that is where I am losing contribution. Secondly, not achieving the economies of scale in Sanand , Kolar and Halol plants have affected our results. These economies of scale can incrementally come back once volumes get back to normal. So we have to see the plant wise margins. That is why our focus in Endurance is to make our plants multi-OEM and multi product. Our focus for the future is to take care of these volume related risks.

Ronak Sarda: So once the volumes pick up, we can easily go back to 14% to 15% in EBITDA margin. Is that a fair assumption?

Anurang Jain: Once the raw material prices go back to normal, that is no issue for us. Mathematically also this normalizes our margin percentage to a range of 13% to 14%.

Ronak Sarda: What was the Maharashtra incentive in 9-month FY22?

Anurang Jain: We accrued incentive in the first 6 months only. We had booked Rs.590.43 million and a similar amount will be booked in the next two years of FY23 and FY24. In FY25, there will be a smaller figure. Moreover, we have already applied for the 2019 scheme. We should get that eligibility by the end of this calendar year once we reach investment of Rs. 3,500 million in the area of Aurangabad/Waluj. So that will be of course extra to this.

Ronak Sarda: And how is the ramp up for Hyundai and Kia in the four-wheeler?

Anurang Jain: So that ramp up is going well in the Vallam plant. We are increasing our sales with Hyundai, Kia as well as for Royal Enfield. We have won the non-automotive business for a 5G telecom infrastructure player and a generator manufacturer which are additional orders of Rs,1,000 million which will also start from April 2022. So Hyundai, Kia is doing well. We have a new order of Alloy wheels from TVS of Rs. 1,440 million starting from June in a phased manner.

So, I mean we are going all out after business. So already in the first three quarters of FY22, we have won more business compared to the whole year of FY21.

Ronak Sarda: I wanted to understand the ramp-up. Is the plant breaking even as we anticipated?

Anurang Jain: So these plants - Sanand, Vallam as well as Narsapura all are doing okay. But the volumes make a big difference in the economies of scale and incremental margins. So that is what we are looking to get back with a better situation after the COVID goes down, sentiments go up and the chips supply increases. This is the last thing we expected- chip shortage has become a major concern. We have ABS orders of 40,000, I can supply 40,000 a month, but off-take is low because OEMs cannot produce without chips. I just hope it goes back to normal fast because I have always said since the IPO, external environment is not in our control. We will do the best on matters in our control.

Ronak Sarda: For Ather and Polarity can you just repeat the numbers?

Anurang Jain: We have won about Rs. 1,390 million of EV orders in India, including from Ather for the brakes and from a company called Polarity which is coming up with smart bikes. I believe the Maharashtra government has waived off GST for the first 70,000 vehicles. This smart bike is for Rs. 40,000 and it is a very good bike. Their factory is situated in Chakan Pune and they are starting probably in the second half of FY23. It is a good order for brakes and suspensions. We hope to give all of you more good news as we are engaged with each and every EV player . So, we are very much targeting the EV market and like I said also looking at new products apart from the drive shaft. So we are at quite an advanced stage for new offerings and we will let you know when something concrete happens.

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

Aditya Jhawar: So on margin again is there an element of unabsorbed commodity inflation and you have not been able to pass on higher costs to some customers. Other than HMSI, which customers have requested for a delay in accepting the price increase?

Anurang Jain: All customers have agreed. On price increase, I may ask for 25 they may give me 23. That could be a small loss sometimes. Also, the spot increases and the silicon type increases for alloy wheels have to be absorbed. Though these are tough to get, we try our best. Of course, due to the HMSI lag also, we have lost out in Q3 . We hope to get that largely back in Q4, but otherwise RMC is a pass through.

Aditya Jhawar: Can you help us understand your broader thought process on Veicoli– are you considering getting the product in India and expanding our hardware capability to include more software and then possibly even expand to electric vehicle components?

Massimo Venuti: Endurance Overseas acquired 100% stake in Veicoli SRL on 12 November 2021 for €0.7 million. Veicoli SRL is more a software company and provider of fleet management services.

It's software platform enables fleet operators to increase efficiency, lower cost of maintenance and monitor style of driving from the safety perspective. We believe that these acquisitions can allow Endurance to get a different and wider vision about the mobility. In the previous 12 month period ended December 2021, Veicoli has revenues of about €500,000 with an EBIT/ EBITDA of €70,000 and net profit more or less zero. This is a small company having the ex founder and now three employees who have software skills and existing customers. We believe that we can make synergy in our activity, as we can deploy applications and software for our existing business considering that we are developing the aftermarket for Adler/ Grimeca products. Also, in our plants we have a high level of automation. Therefore, it is important to have this knowledge inside. Of course, our expectation is to grow also in their specific business. We are going to reinforce the commercial activity, hire a few more people and try to increase our turnover. We believe we will be able to grow, by exploiting the potential of this company to meet market needs considering also that it has the backing of Endurance.

Aditya Jhawar: In this quarter, we have seen a decline in depreciation sequentially both for the India and European operation. Could you please explain that and should we take as a current quarter run rate as a more sustainable number?

Satrajit Ray: This quarter, the depreciation that we booked is Rs.50.4 crores and last year corresponding quarter was Rs.52.6 crores . This amount has an impact because depreciation of dies follow a different pattern of depreciation vis-a-vis other assets. It is based on the number of shots.. So if die depreciation reduces due to lower volume in our die casting plants, you will see an impact like this. Q3 FY21 volumes were great, so that is why you saw Rs. 52.6 Cr. Q3 this year, the volumes are not so great, so you are seeing Rs.50.4Cr on account of lower depreciation of dies.

Moderator: Thank you. Our next question is from the line of Pramod Amte from InCred Capital. Please go ahead.

Pramod Amte: For drive shaft, will you be buying the forgings or will you be making in house?

Anurang Jain: The forgings will be bought from outside. We will be doing only the subsequent machining operations, the surface treatments as well as the assembly.

Pramod Amte: And will it also expand your scope and addressable market considering that you are now entering into power transmission type of products - will you look at more products like that?

Anurang Jain: Right now we are in the process of studying quite a few products. Some are at a very advanced stage. Most are EV agnostic or required for EVs.

Pramod Amte: And would you like to name few of them?

Anurang Jain: I cannot name them. I did not name the drive shaft for last one and half years. I cannot name the products because it is too sensitive for the competition and others.

Pramod Amte: Even though prices of the other commodities have come down, aluminum still seems to be inching up into a new territory altogether. How do you see your process improvement to reduce the consumption of aluminum? Do these improvements give you any competitive advantage versus your peers to reduce the content of aluminum and hence position yourself in a better manner to the OEMs?

Anurang Jain: See we are doing two things - one is on improving the operational efficiencies in terms of OEE overall equipment effectiveness. Another factor we control is scrap. Once you have higher scrap it goes to re-melting which requires more aluminum because of the melting loss. We have monthly reviews to focus upon and improve the efficiency.

Our casting engineering and tool room teams are constantly working on the product design as well as on the dies, to see how we can lower the weight of the castings and are looking at using multiple cavity dies instead of single cavity ones. So the gross weight per shot comes down when you have a two-cavity compared to a single cavity. Also even if it is a one cavity, we try to lower the weight of the casting through value engineering. So there is a lot of work which is going on and we have implemented it in many of the castings. So, this is a continuous process. This has been happening for many years. We have a very strong casting engineering center and tool room in Chakan, Pune. So there is a lot of work going on there.

Moderator: Thank you. Ladies and gentlemen that was the last question. I would now request the management team of Endurance Technologies to give closing comments. Over to you, Sir.

Anurang Jain: I would just like to say that these are unprecedented times never seen such kind of raw material price increases, nor seen such kind of power cost increases in Europe. We will keep doing our best to maintain operational efficiencies. We will continue buying at most competitive prices from our strong vendors. I can only say we will keep doing our best. Outside conditions are not in our control, we cannot do anything about it. So, please look at Endurance always in the long term and not in the short term of one quarter. Thank you all for all your support and again like to invite all of you to Waluj Aurangabad to see our new drive shaft plant and also to our Test track, in case some of you have not seen it.

Moderator: Thank you very much. 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.