Endurance Technologies Limited
Q2 FY2019 Results Conference Call

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Moderator: Ladies and gentlemen, Good day and welcome to Endurance Technologies Q2 FY2019 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 opening remarks conclude. Should you need assistance during the conference call, 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. Ashish Nigam from Axis Capital Limited. Thank you and over to you Sir!

Ashish Nigam: Thank you. Good morning everyone. This is Ashish Nigam from Axis Capital. Welcome to the Q2 FY2019 Results Conference Call of Endurance Technologies. From the management team, we have with us Mr. Anurang Jain, Managing Director, Mr. Ramesh Gehaney, Director and COO, Mr. Massimo Venuti, Director and CEO, Endurance Overseas, Mr. Satrajit Ray, Director & Group CFO, and Mr. Raj Mundra, Treasurer and Head Investor Relations. I will hand over the call to Mr. Jain for his opening remarks post which we will have Q&A. Over to you, Anurang!

Anurang Jain: Thank you, Ashish. Good Morning, everyone. I am Anurang Jain, Managing Director of Endurance.

I would like to share details of how we have done in both second quarter and the first half of 2018-2019.

The first half of 2018-2019 has been good for the two-wheeler industry. As per the SIAM data, the two-wheeler industry sales grew by 11.9% as compared to the H1 of the previous financial year. In two-wheelers, scooters grew by 6.5% and motorcycles grew by 14.8%.

It is interesting to see that in the first half of 2018-2019,, motorcycles growth percentage was much higher than the scooter growth percentage. As you are aware, 78.5% of Endurance's domestic sales are to the two-wheeler OEMs.

In Europe, in the first half of 2018-2019 growth in the automotive sales was 3.5%. Our European operations have posted a total net income growth of 5.0% in Euro terms and 15.8% in Rupee terms. But in Q2 of 2018-2019, the European Automotive sales grew by 1.6% and Endurance total income growth was 6.7% in Euro terms.

On the financials, I will briefly talk to you about the Q2 of 2018-2019 and then about the first half of 2018-2019.

During Q2 as compared to the previous year same quarter, our consolidated total income grew by 23.2% from Rs.15,782 million to Rs.19,447 million. Consolidated EBITDA grew by 22.2% from Rs.2,354 million to Rs.2,877 million. Consolidated EBITDA margin percentage was 14.8%. Profit after tax grew by 25.6% from Rs.997 million to Rs.1,252 million. The profit after tax percentage was at 6.4%.

During Q2 our standalone total income grew by 26.5% from Rs.11,390 million to Rs.14,404 million. Standalone EBITDA grew by 23.3% from Rs.1,548 million to Rs.1,908 million with an EBITDA margin percentage of 13.2%. Standalone profit after tax had a growth of 29.5% to Rs.946 million. The profit after tax percentage was at 6.6%.

We would like to mention that inspite of the two-wheeler industry growth of 7.0% and automotive industry growth of 7.1%,Endurance's standalone sales growth was 26.5% in Q2 of this financial year.

I will now brief you on the financials of the first half of 2018-2019.

During the first half of 2018-2019 as compared to the first half of 2017-2018 our consolidated total income grew by 23.3% from Rs.30,896 million to Rs.38,093 million. Consolidated EBITDA grew by 23.8% from Rs.4,550 million to Rs.5,633 million. Consolidated EBITDA margin percentage improved from 14.7% to 14.8%. Profit after tax grew by 27.3% from 1,962 million to Rs.2,498 million. The profit after tax margin percentage improved from 6.4% to 6.6%.

The consolidated ROCE was at 25.4% and ROE at 21.9%. The consolidated net debt was at Rs.3,156 million and the net debt to equity ratio was 0.13:1. The asset turnover was 2.49 times.

During the first half of 2018-2019 our standalone total income grew by 26.4% from Rs.21,819 million to Rs.27,581 million. Standalone EBITDA grew by 25.9% from Rs.2,952 million to Rs.3,716 million with an EBITDA margin percentage of 13.5%. Standalone profit after tax had a growth of 31.0% to Rs.1,847 million and the profit after tax percentage improved from 6.5% in the previous year to 6.7% in the first half of this year.

The standalone ROCE was at 27.6% and the ROE at 20.0%. The standalone net debt was at Rs.2,068 million and the net debt equity was at 0.11:1. The asset turnover was 2.64 times.

We would like to mention that Endurance is focused, in both its Indian and European operations on growing higher than the industry growth and on profitable growth as can be seen in the quarterly and half-yearly financials.

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

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

1. 72% of our consolidated total income including other income came from Indian operations and the balance 28% came from our European operations. This was due to the growth in Indian operations being higher than European operations.

2. In India there was a sizable growth in business with Bajaj by 32%, Honda two-wheelers by 22%, Royal Enfield by 12%, Hero MotoCorp by 46% and Yamaha India by 17.5%. It is

important to note that in the first half of 2018-2019, despite Indian two-wheeler industry growth of 11.9% and the total auto industry growth of 12.75%, Endurance standalone business grew much higher at 26.4%.

3. In Europe, in the first half of the year, we acquired 20.5 million Euro of new business with Volkswagen, Fiat Chrysler and Daimler.

In Euro terms, we grew 76% with Volkswagen Group including Porsche and Audi and 17% with Daimler.

Our top five clients in Europe are Fiat Chrysler, Daimler, the Volkswagen Group (including Porsche and Audi), BMW and Opel which is now owned by Peugeot.

4. In the first half of 2018-2019, our aftermarket sales in India grew by 23.8% from Rs.983 million to Rs.1,217 million. This included both domestic and export sales.

5. In the first half, our exports from India grew by 71.6% from Rs.748 million to Rs.1,284 million. Our exports mainly comprise exports of aluminium castings to Getrag [now part of the Magna group], motorcycle front forks and shock absorbers to KTM, Austria and our aftermarket exports to 23 countries.

I would now like to brief you about certain key highlights of domestic business at Endurance.

1. Since April 2018, Rs.7,334 million value of business has been awarded to Endurance. The new business is mainly from KIA Motors, HMSI, Hero MotoCorp, Yamaha India, Royal Enfield, Fiat India and Tata Motors. This also includes new product platforms as well as a small order for electric two and three wheeler business for suspension and braking products.

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

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

Our Kolar, Karnataka plant for supplying front fork and shock absorbers to HMSI will start supplies from January 2019. The building work is already complete.

In Chennai, we have purchased approximately 9 acres of land at Vallam for our second die-casting and machining plant at Chennai and we are targeting to start production by September 2019. The customers to start with will be KIA Motors, Hyundai and Royal Enfield.

As mentioned earlier, we want to discontinue our manufacturing operations at our Manesar plant. This is held up due to the order dated August 28, 2018 from the Department of Labour, Government of Haryana. Our company has challenged this order in the High Court of Punjab and Haryana. We are now awaiting the final order, which is expected after the 12th of this month. Our customers have been assured that their supplies will not be affected as we have made arrangements in our other plants.

3. Upside down front fork and rear shock absorber export supplies for KTM/Husqvarna 401cc to 790cc motorcycles are going smoothly and KTM is extremely happy with our quality. We have now started work on supplying inverted front forks and shock absorbers to KTM's 890cc bikes also.

4. The ABS brakes tie-up with BWI USA is also progressing well. There is close coordination between the teams of Endurance and BWI. Our client has already started joint tests of our ABS on their test track. As mentioned earlier, our plant capacity is planned at 500,000 ABS assemblies per annum and we are now targeting July 2019 to be ready for supplies.

The rear disc brake assembly orders are increasing and we have supplied 45,000 rear disc brake assemblies in September 2018. We are investing to reach a capacity of 100,000 rear disc brake assemblies a month as well as 200,000 front disc brake assemblies a month totaling 300,000 disc brake assemblies a month by Q4 of this financial year. This is an increase from our existing total capacity of 185,000 disc brake assemblies a month.

5. In Our 29-acre test track, our ABS track is complete and joint testing has started with BWI.

6. With large orders recently secured from HMSI, Hero MotoCorp, Hyundai, KIA, Royal Enfield and Bajaj you will see a higher capex intensity this year and our India capex could be in the range of more than Rs.4,500 million in this financial year against Rs.2,500 to Rs.3,000 million per annum in the last three years.

7. Our company had received an Eligibility Certificate for incentives under the Maharashtra Package Scheme of Incentive-2013. Based on investment in fixed assets from April 2013 till September 2017 and consequent employment generation in the state we got incentives totaling an amount of Rs.2,831.16 million spread over the seven years. Further additional incentives are expected on account of investment in fixed assets made during the period October 2017 to March 2018.

This incentive amount is not considered in our first half-year profit margins as we expect to get this incentive in Q4 of this financial year.

We are extremely excited about all the new business as there are large opportunities coming our way in all the four product areas including new products being 150cc motorcycle inverted front forks and shock absorbers, paper fiction plate clutch assemblies, front and rear disc brake assemblies, scooters continuous variable transmission or CVTs and fully machined aluminium castings for four wheelers. It is also our goal to add more products to our existing four product area portfolio. We are actively engaged to explore and identify opportunities for mergers and acquisition and technical tie ups with different overseas companies.

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

As you are aware our company has to achieve 25% public holding by October 2019. Towards this, Board approval has been taken and we will move for shareholders' approval too. The quantum of shares to be sold by the promoters and quantum of money to be taken in the company, if required, will be finalised at an appropriate time.

With these opening remarks I would like to invite questions from everyone. Thank you.

Moderator: Thank you very much. We will now begin the question and answer session. We have the first question from the line of Jinesh Gandhi from Motilal Oswal Financial Services. Please go ahead.

Jinesh Gandhi: Congrats on good set of numbers. First question pertains to India. Just a clarification, you have mentioned incentives have not been accounted; these are incentives upto September 2017 or the upcoming October 2017 to March 2018 incentives?

Satrajit Ray: This incentive will be accounted for from Q4 of this year based on the final government letter that we expect to receive. So far we have received about Rs. 283 Crores of approval from government but there has to be year-by-year application for which we will get final approval letters. We will book the incentive when we get the letter from the government for the respective year. We expect to get such letter for the first year in Q4 of this year.

Jinesh Gandhi: Understood. Second question pertains to segment wise growth in revenue share for India business?

Anurang Jain: Normally, we do not share the segment wise growth but I would like to tell you that we are focusing on all our four product segments. We are experiencing growth in machined castings for our casting business. We are experiencing growth in our brakes business with our rear disc brakes and in future the CBS and ABS coming in from the next year. CVTs will start from the next financial year. We are experiencing more and more cork based clutch assemblies shifting to paper based clutch assemblies. In suspensions, we are seeing more orders for higher cc suspensions including inverted front forks and rear shock absorbers from our clients. So our focus is on all the four segments in a large way and we are getting opportunities in all the four segments and in terms of the technology also expectations are going high in all the four product segments. So I will not be able to tell you the segment wise growth but you can see the 26.5% growth in the last six months accounts for growth in all the segments so there are no segments being left behind. Our focus is on all four.

Jinesh Gandhi: So there is a broad based growth across segments. Next question pertains to the outlook given by two-wheeler OEMs in India for second half, given that there has been some bit of weakness entering into the festive season.

Anurang Jain: Our focus is profitable growth and higher than industry growth. Now even if we see Q2 the two-wheeler industry grew only at 7%. The automotive industry grew at 7.1%, Endurance grew at 26.4%. So we have been taking new business and starting new plants. Our new plant in Halol has started. Kolar, Karnataka plant with HMSI is starting in January 2019. Our new Chennai plant for Hyundai, GM, and Royal Enfield is starting by next September 2019. We are focusing getting new profitable business. Of course, the industry growth is very important for us, but our growth is not limited only to the industry growth. We have seen a slowdown in the scooter sales but motorcycles as well as Bajaj, fortunately for us, is doing well and as you know motorcycles is 70.5% of our Indian sales so that really helps us. When Bajaj does well and motorcycles are better than scooters we are in a good spot. That is all I can say for now, but we have to wait and watch the situation, but definitely in Q2 there has been a lower growth compared to Q1.

Jinesh Gandhi: Last question pertains to European business. So again Europe has seen a bit of a regulatory headwind in Q2 regarding WLTP. So are we expecting slowness of growth in Europe or is there an adverse offtake being shared by OEs there?

Anurang Jain: I will request Mr. Venuti to answer this question. He is also on the line, our Director & CEO, Overseas Operations.

Massimo Venuti: In the second quarter of the fiscal year 2018-2019, growth in sales of vehicles in the European Union reduced to 1.6% compared to the same quarter of the previous year. In the quarter, our European operations have posted a total income growth of about 6.7%. In the half year we have grown more or less 5% compared to 3.5% growth of the market. So our expectation is to maintain more or less the same level, also in the next quarter due to the fact that we are growing with Volkswagen. In fact we grew 67.6% in Volkswagen in Q2 despite WLTP headwind that hampered the production.

Jinesh Gandhi: Understood. Thank you. All the best. I will come back in the queue.

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

Ronak Sarda: Thanks. Congrats on decent set of numbers. Sir, couple of questions; one on the India business, how should we look at the product mix, given Bajaj's sale has increased in three-wheelers and the economy segment? I would like to understand penetration in three wheelers and economy segment versus the others.

Anurang Jain: Endurance has always leveraged its supplier base through Endurance Vendor Association and operational efficiencies in all categories, whether it is 100cc or it is a KTM bike. Endurance does not make less money on the lower cc motorcycles as compared to the higher cc bikes. We leverage our vendor base and our operational efficiencies to make a good amount of money in the whole range. So in the first ahlf, Bajaj Auto production grew 30% and we have grown 32% with Bajaj. If I take the sales number, which is not the right benchmark, Bajaj has grown 25%, we have grown 32%. This is our trend even with other customers. HMSI grew in the first half at 5.8%, we grew 22%. Yamaha grew 4.2%, we grew 17.5%. Hero MotoCorp grew 9.4% and we grew 46%. In Royal Enfield, we saw similar growth, 12.6%, as theirs. So we have always grown more than what our customers are growing, by taking new business.

Ronak Sarda: Yo started supplying a lot of rear disc brake assemblies as well to Bajaj. So if I assume that is incremental business, if I knock that off, how does that then compare?

Anurang Jain: That business I said is Rs.1500 million. Right now we have reached 42,000 per month. By Q4 we are raising it to 100,000 per month of rear disc assemblies. So this is an opportunity of around 1500 million or 150 Crore. Right now it is not a very big number, but it was zero last year. This was a complete surprise - additional new order for Royal Enfield and Bajaj.

Ronak Sarda: You have highlighted that our ABS products are now in testing phase with clients. If you can just give us some initial colour on the product performance….

Anurang Jain: The positive part is that our product is ready. That is very important, and now the testing has started. Of course, there is a bit of time is taken to meet customer expectations on performance and durability. So that process has started with the customer. That is the positive part, because it is a technology product. I would like Mr. Ramesh Gehaney to add to this.

Ramesh Gehaney: The basic testing on the lab and the vehicle has been done. Now as far as the final tuning is concerned, that depends on the calibration requirements of the customer. Each vehicle is tuned based on the requirements or the configuration of the vehicle. Now that is in process. That is the final stage that we are in with our customers' bike. So once the calibration is over, the software is going to be written on with those minor changes. Once that is done, then the calibration is complete. Then we go with the final offer to the customers.

Ronak Sarda: Sir, can we conclude that this has been pretty encouraging and given the costs?

Ramesh Gehaney: Absolutely. In fact, it has met a lot of the requirements. So we have a product now. The next step is to just fine tune as per the expectation and configuration of the customer.

Ronak Sarda: The final calibrations indicate a cost advantage you will retain over the other suppliers like Bosch?

Anurang Jain: That is our target.

Ronak Sarda: Perfect Sir. Just one clarification on the standalone business. Your employee cost has just grown 7% in this quarter. Sir, any one offs here because our topline growth has been pretty strong? Halol has come up as well.

Anurang Jain: We are managing our manpower quite efficient. Basically our sales per person is increasing which means we are doing more low cost automation. I have been talking for the last two years that low cost automation is our focus and you can see the result of that now.

Ronak Sarda: So this is sustainable, given our topline?

Anurang Jain: It is definitely our focus to keep doing that; I will put it that way, because I do not like to give too many tall statements.

Ronak Sarda: That is clearly visible. Thank you and all the best.

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

Aditya Jhawar: Thanks for the opportunity. Congrats on good set of numbers. One question on the domestic business if you look at the gross margins there has been a decline on YOY basis and QOQ basis, if you can help us understand this?

Satrajit Ray: Typically between Q2 of last year and Q2 of this year, the metal price has gone up. There is an impact of commodity price passed on to the customers on the margins. That percentage is 0.7%. EBITDA margin, as we compute it, for Q2 last year was 13.6% and this year 13.2%, which on a normalised basis is actually 13.9%. So that is one significant change. Similar logic holds good between Q1, Q2 where we are seeing cost increase. The other thing, which has happened from September in Maharashtra is that power cost has gone up in most of our Maharashtra plants. So that is the other impact that one can look at.

Aditya Jhawar: Was there any volume led incentive for our suppliers like Bajaj for instance?

Anurang Jain: No. I think the price reduction that they have offered is on the CT100 which is about 15% of their sales. Any vendor will see how sustainable the higher volume is in the long run and if the sales are continuing for a year or so, I am sure every vendor would be open to support the customer. So right now it has been only a few months. Vendors like us have been carrying a large capacity for last five years. A capacity of 375000 to 385000 a month of Bajaj and as you know in the last five years they have done less than 300000 per month. So if we see a long sustained increase, we would love to support our largest customer.

Aditya Jhawar: What is the share of Bajaj in this quarter?

Anurang Jain: 38% for H1 of this year.

Aditya Jhawar: 38% and previous quarter what was it Sir?

Anurang Jain: Around 36.5% in Q1 of this year.

Aditya Jhawar: Moving to Europe if you can help us what is the share of FCA in the Europe revenue?

Anurang Jain: Consolidated it is at 11.5% for H1 of this year.

Aditya Jhawar: What was the comparable number in the previous quarter?

Anurang Jain: It was 12.5% in Q1 of this year.

Aditya Jhawar: That is it from my side. I will get back in queue.

Moderator: Thank you. We have our next question from the line of Jamshed Dadabhoy from Citi Bank. Please go ahead.

Jamshed Dadabhoy: Good morning. Congratulations for good set of numbers. Just a few question from my side. You mentioned Rs.733 Crores of new orders, could you give us a broad split between how those stack between two wheeler versus four wheeler?

Anurang Jain: Probably, you can take 150 Crores for four wheelers approximately.

Jamshed Dadabhoy: These are all machined castings?

Anurang Jain: These are mainly casting with machining. Most of these orders except for Rs. 48 crore from Tata Motors, which will happen in our Pune plant, will be in our two Chennai plants. The existing one and the second one starting in September 2019, so these orders for four wheeler will peak at 150 Crores or Rs.1500 million in FY21.

Jamshed Dadabhoy: I think that QOQ, we were expecting some sort of material price hikes, some pass through of cost pressures but on the gross profit margin it is a slight slippage. So is there any more cost pass through that we can hope for in the third quarter or fourth quarter?

Anurang Jain: Yes. There are some purchase order amendments of Q2 which are still on their way which will come in Q3. There is a bit of delay in some of the purchase order amendments, but they are happening with time.

Jamshed Dadabhoy: Directionally over the first half how much has STB (Suspension, Transmission, Brakes) become as a percentage of domestic revenues?

Anurang Jain: First half was 51%. Further, I would like to tell you that our castings business profitability is doing much better this year.

Jamshed Dadabhoy: Okay what is driving that?

Anurang Jain: It is a factor of efficiencies and price increases and thirdly more and more machine castings.

Jamshed Dadabhoy: Thank you.

Moderator: Thank you**.** We have the next question from the line of Chirag Shah from Edelweiss Capital. Please go ahead.

Chirag Shah: Thanks for the opportunity. The first question is on your maximum content per two-wheeler in India and four-wheeler outside India. Where can you reach or aspire to reach in next three years?

Anurang Jain: Bajaj and Royal Enfield we are already between 60%-100% SOB, depending on the product. It also depends on which model. For low volumes, it can be 100% in Bajaj and Royal Enfield. If you talk about the others, I would say one-third to 50% can be a good figure because there is a lot of competition there and we have a long way to go because we have room to increase the share of business percentage. We are not catering to all the plants, but the new orders for say Honda, front fork and shock absorbers, or the clutch or the CVT orders, they will be for more customer plants than what we are supplying today.

Chirag Shah: So when you say 100% it would be Rs.16000 to Rs.18000 a bike?

Anurang Jain: I would say reaching a figure of say 15% to 17.5% of the ex-factory price of per bike is not bad, that is for all the four segments.

Chirag Shah: Where it can go up to given the new product introduction you are targeting?

Anurang Jain: If we get a percentage of the ex-factory selling price, so even the customers will increase their prices., If I am talking about the ABS, our per bike revenue will increase but so will the OEM ex-factory price.

Chirag Shah: That is fair. For the car business in Europe?

Anurang Jain: No, there we do not have any percentages. Our aim is to just increase business, because there are too many products in a car. So we do not keep that track for the European business. It is only for the India business we keep the track, OEM wise.

Chirag Shah: This is helpful. I missed the point that you indicated you have won new orders in the car categories in India, if you can just help explain that it would be helpful?

Anurang Jain: So we have won order from Fiat India, Tata Motors, Hyundai and KIA. For Tata it is mainly commercial vehicles, where they are doing well, and we could get a much better price for commercial vehicles. For the other three OEMs, it is passenger cars.

Chirag Shah: What type of product?

Anurang Jain: These are machined castings.

Chirag Shah: This is helpful. Thank you very much Sir. All the best.

Moderator: Thank you. We have our next question from the line of Rakesh Jain from Asit C Mehta. Please go ahead.

Rakesh Jain: Congratulations on good set of numbers. My question was first on the new business for passenger vehicles, so are we going to make similar set of margins what we do in Europe or it is going to be slightly better?

Anurang Jain: For Machined castings, our target is the European margins of 17-18%.

Rakesh Jain: Sir what is your current share of four-wheeler business in the whole scheme of things?

Anurang Jain: In India in H1, it is 6.5% of our Standalone sales. Our Europe business, which is 28% of our total consolidated sales is all four-wheelers - passenger cars and commercial vehicles.

Rakesh Jain: Okay and what is the current capacity we are running at the Halol plant since we are supplying 100% now?

Anurang Jain: We have just started in September. Today I think they have reached 2500 vehicles a day and what we have been given to understand that in Q4 it will go to 5000 vehicles a day and full capacity by the Q3 of the next financial year will be 6200. But as far as we are concerned, we are fully ready.

Rakesh Jain: This is purely suspension business.

Anurang Jain: This is front fork and shock absorbers, it is Rs. 300 Crores business or Rs.3000 million business.

Rakesh Jain: One question on the European side. In the last couple of months there were OEMs such as Volkswagen which had issued profit warnings. So they are not anticipating a good year ahead. So, have we felt any kind of impact or any indications as such?

Massimo Venuti: Certain OEMs expect weak volumes and have issued profit warnings. So far, the key reason for such outlook is lower exports of vehicles from USA to China. However, as demonstrated in this quarter, we will be able to grow faster than the market with our new order wins, which includes the large Volkswagen order.

Rakesh Jain: Going forward, how do you see this businesses growing with them? What is the percentage you have targeted?

Massimo Venuti: Our target is to grow more than the market. We have grown 5% in H1 FY19 as compared to 3.5% market growth. We have grown 67% in the second quarter with Volkswagen due to new projects that we acquired three years ago. This project went into production stage this year and we will have a benefit of it in the next few years. During the last quarter, we have acquired another 300000 units order from Volkswagen with turnover of 13 to 15 million Euro, and certainly we continue to take new business in order to compensate the low market growth.

Rakesh Jain: And was there any impact in the European business because of the tax rates because I see that the tax has increased substantially when I do the consolidated minus the standalone. Was there any rebate, which we had last year, and this year we had normalised it?

Massimo Venuti: The Brexit, the possible tariffs threats on cars manufactured in Europe and tax structure changes could lead to some shifts in production capacities. Now, coming to Endurance Europe's effective tax rate, this has not seen much change. Income Tax was ~33-34% of PBT in H1 of this year as well as H1 of last year.

Rakesh Jain: That is it. That is really helpful. Thank you so much. All the best.

Moderator: Thank you. We have our next question from the line of Mr. Ashish Nigam from Axis Capital. Please go ahead.

Ashish Nigam: Is it possible to quantify the impact of the Eicher Motors strike? Any impact on our numbers either on sales or margin?

Anurang Jain: We were growing at 25% with them and we have grown at 12% in the first half. Our sales to Royal Enfield in the first half was Rs.2,729 million with 12% growth. Because we have been growing at 25% every year, we can say that strike has impacted our numbers.

Ashish Nigam: But the labour troubles they have been having, has it been only with their plants or also supplier plants?

Anurang Jain: From what I know it is only with them. There is no direct impact of the strike on us for sure.

Ashish Nigam: Any outlook on when it normalizes? What are you hearing from them?

Anurang Jain: I cannot say that. We have no idea how long this will go on, but I think they are producing around 60000.

Ramesh Gehaney: Their target is to reach the original position of 70K this month, but it is still not sure because they are struggling to get the output.

Ashish Nigam: Also the Manesar plant, have we already moved that production to Pantnagar?

Anurang Jain: No, it is a step-by-step approach. What I can say is the sales had come down so substantially because no customer is growing in that area. Everybody is shifting plants outside. So some of the production, we have shifted to plants mainly in Pantnagar. But it is not substantial because the factory was not making very much. It was about Rs.70 million a month. It is not significant.

Ashish Nigam: I am just wondering the delay in the shutdown of Manesar plant has that led to some higher fixed expenses that are hurting our margin right now?

Anurang Jain: Yes, it is not significant, but there is a fixed cost, which is only mainly related to the workers. Till we get the order, we cannot do a settlement. But that is a small cost which we can live with till this issue gets resolved. We will be more clear after 12th of this month, when we are expecting the order from the High Court of Punjab and Haryana. We will face that cost. It is not much. In fact we will make similar amount of money in the next plant, it is not a problem. I am not worried about that part, but yes it is always good to complete the discontinuation that has been initiated but we cannot do anything till the order comes. The plant is open but the operations are not.

Ashish Nigam: Just lastly on the order book, so we has Rs. 1240 Crores worth of order wins in FY2018, and Rs. 730 crore over and above that. So we are almost at Rs. 2000 Crores kind of new orders right now?

Anurang Jain: This includes even new platforms. Some of the platforms could replace some of the existing platforms also.

Ashish Nigam: And these Rs. 2000 Crores would also include Europe or would Europe be over and above this?

Anurang Jain: This is only India. I am only talking about India.

Ashish Nigam: In Europe, what would be the order book now?

Massimo Venuti: Today the order book is more or less 290 to 310 million Euro. We have to see the situation in next March because the order book is a function of the number of vehicles sold and the growth in the new orders that Endurance acquires. We are compensating low market growth with new orders particularly on the Transmission side, and these are completely machined castings.

Anurang Jain: Transmission parts are used for hybrid and electric vehicles. So that is important.

Ashish Nigam: Thanks so much.

Moderator: Thank you Sir. We have next question from the line of Jamshed Dadabhoy from Citi Bank. Please go ahead.

Jamshed Dadabhoy: Just a couple of followups. So these 283 Crores of incentives, which will come through over how many years?

Satrajit Ray: Next seven years. Jamshed the point here is that in a year you get 85% so there is a 15% spillover to the next year so it is a bit of a complicated calculation, but broadly seven years is a good number to take.

Anurang Jain: And we still have to get from October 17 to March 19.

Satrajit Ray: So that 283 Crores will get pushed up to a figure which will be beyond 350 Crores as per our estimates.

Jamshed Dadabhoy: So basically we should think about it like a 50 Crores per year?

Anurang Jain: Initial one or two years would be less than that then it will go up slightly so it does not follow a sort of regular pattern.

Jamshed Dadabhoy: It is like a tax rebate or is it a cash inflow?

Satrajit Ray: It is a cash inflow against state GST, but fully taxable under Income Tax laws of India.

Jamshed Dadabhoy: That is very clear. Just wanted to touch upon this point that you made that your margins would have been 70 basis points higher had it not been for this material cost, the way you calculate it, so basically that is like say that your topline includes 70-odd Crores of input cost pass through?

Satrajit Ray: Whatever we have got, as commodity price pass through has impacted topline as well as cost.

Jamshed Dadabhoy: Thanks a lot. All the best. Happy Diwali to all of you in advance.

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

Aditya Jhawar: Thanks for the followup. In Europe business, Massimo if you can tell us the split between transmission and engine in Q2 and a comparable number in Q2 of last year?

Massimo Venuti: There was an increase of 3% compared to the previous year in the transmission. At the moment we are more or less 50% transmission and 42% of engines, 8% are other products.

Aditya Jhawar: That is helpful. You said 51% was the share of proprietary businesses in the first half, what was the number in Q2 of this year and Q2 of last year?

Anurang Jain: This year the proprietary as percentage of standalone sales was 51%. Last year, it was slightly lesser than 50%.

Aditya Jhawar: Thank you Sir. We have the last question from the line of Jinesh Gandhi from Motilal Oswal. Please go ahead.

Jinesh Gandhi: The last question pertains to this fund raising approval which you have taken. So is it fair to assume that this is contingent upon any M&A targets which we might finalise after the call?

Anurang Jain: Yes of course. See, we are just keeping this as an enabler that in case some very good opportunity comes our way in a good technology space then we have the funds available to the extent of whatever we have put in the enabling resolution which is Rs. 750 Crores, but in case if such opportunity does not come, then we would not do it. We are very clear.

Jinesh Gandhi: Understood. Got it. Thanks a lot. All the best.

Moderator: Ladies and gentlemen, that was the last question. I now hand the conference over to Mr. Ashish Nigam from Axis Capital for closing comments. Have a good day, everyone.

Anurang Jain: Thank you, team. On behalf of Axis Capital thank you all for joining the call today. Thank you again to the Endurance Management for letting us host the call.

Anurang Jain: Thank you everybody. Happy Diwali.

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