



“Endurance Technologies Limited Q2 FY-17 Earnings  
Conference Call”

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**MODERATORS:** **MR. ASHISH NIGAM – AXIS CAPITAL LIMITED**

**Moderator:** Ladies and gentlemen, good day and welcome to the Endurance Technologies Limited Earnings Conference Call hosted by Axis Capital Limited. 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 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. Thank you and over to you, sir.

**Ashish Nigam:** Good afternoon everyone. This is Ashish Nigam from Axis Capital. Welcome to the Q2 FY17 Results Conference Call of Endurance Technologies. From the management team, we have with us Mr. Anurang Jain – Managing Director; Mr. Ramesh Gehaney – Director & COO; Mr. Massimo Venuti – Director & CEO, Endurance Overseas; Mr. Satrajit Ray – Director & Group CFO; and Mr. Vikas Maheshwari – Head of Treasury and Investor Relations. I will now handover the call to Mr. Jain for his opening remarks post which we can have Q&A. Over to you, Anurang.

**Anurang Jain:** Good afternoon, everyone. I am Anurang Jain – Managing Director of Endurance. Let me first brief you on the two and three-wheeler industry for the half year ended September 2016. Our source of the data is SIAM.

The two-wheeler industry sales including both domestic and exports grew by 13.2% mainly due to the domestic demand which grew by 17.47% while exports de-grew by 12.45%. Exports continue to face challenges from Sri Lanka, African and South American countries who are the largest importers of two-wheelers.

Out of the two-wheeler industry sales of scooters continue to grow faster than motorcycles. Scooter sales including exports grew by 26.53% whereas motorcycle sales including exports grew by 7.38%. Three-wheeler sales de-grew by 12.61% mainly due to the sharp decline in exports which de-grew by 39.32%. Though domestic market for three-wheelers grew by 13.39%.

In Europe, the passenger car sales grew by 7.8% in the first half. The first quarter experienced a 10.5% growth and the second quarter of 4.9% growth. As you all know in our overseas operations in Europe 85% of our sales comes from passenger car sales. On the financials, I will briefly touch upon the sales for the September 2016 quarter as well as for the half year ending September 2016. In the July to September 2016 quarter company's total income including other income and excluding excise duty grew by 7.3% to Rs. 14,535 million and consolidated profit after tax grew by 14.8% to Rs. 892.25 million. The consolidated EBITDA grew by 11.4% to Rs. 2,061.20 million.

The consolidated EBITDA percentage as a whole on consolidated grew from 13.7% to 14.2% as compared to the earlier financial year quarter 2. And the consolidated PAT percentage which is the profit after tax percentage grew from 5.7% to 6.1% as compared to the second quarter of previous financial year.

During first half i.e. April to September 2016 our company's total income including other income and excluding excise duty grew by 10.1% to Rs. 29,026.34 million and the consolidated profit after tax grew by 11.9% to Rs. 1,724.55 million. The consolidated EBITDA grew by 14.4% to Rs. 4,015.07 million. The consolidated EBITDA percentage grew from 13.3% to 13.8% as compared to the first half of the previous financial year. The consolidated profit after tax percentage grew from 5.8% to 5.9%.

Our aftermarket sales (from India) grew by 15% to Rs. 970 million. Exports from India grew by 27.6% to Rs. 754 million. These exports were mainly of aluminum castings to Getrag in Mexico and UK and from our aftermarket operations overseas. Detailed financials are available with the stock exchanges and on the company's website.

I would also like to share certain other points with all of you. In the first half of the year Bajaj Auto share of business on consolidated sales was at 39% compared to 42% in the same period of the previous year. So it has gone down by 3%. There was a sizeable growth of business with Honda two-wheelers which showed a 49% growth as compared to earlier year. Royal Enfield showed a 27% growth and overseas we grew both with Daimler and General Motors.

As you all know we are setting up a new plant at Halol, Gujarat for Hero MotoCorp to cater to 100% requirements of their suspension parts. The land acquisition is in process as of today and we are planning to start this plant in the first half of next financial year, which is 2017-18. Our new machining plant in Massenbachhausen in Germany which is catering to casting machining parts for Daimler and Porsche will start in the fourth quarter of this financial year. We expect the sales to be about €15 million per annum from this plant.

Our 26-acre vehicle testing track which is in Aurangabad close to our operational plants is progressing well and we will be ready with this testing track by early 2018. This will help us to strengthen our target of giving first time right products to our customers.

The recent demonetization has affected our business also. Generally third quarter of every financial year is the weakest but this has further compounded the problem. We also believe that as the two-wheeler transaction amounts are lower as compared to passenger cars and commercial vehicles and two wheelers are essential items for the people who buy it this is only a postponement of demand and not a cancellation. As you all know the India business had 80% of the India business is for two-wheeler products and 12% for three-wheeler products. So this is important for us.

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

**Moderator:**

Thank you very much. We will now begin with the question-and-answer session.

We have our first question from the line of Mahesh Bendre from Way2Wealth. Please go ahead.

**Mahesh Bendre:** Sir, this is your first conference call post listing, we have not heard you much. Is it possible to share the growth outlook for the company over the next three years across like existing business segments and also the new business you want to enter and even domestic and international?

**Anurang Jain:** The future also depends on how the clients do. So it is very difficult to talk about product wise and how the growth will be for every product portfolio. But what we have said is that overall we are targeting a 10% CAGR growth in the next three years. Now this can be better or this can be worse but this is what we are talking about. It depends on opportunities which come our way whether it is opportunities from existing customers or it is opportunities from new customers or it is acquisition opportunities which come. So it is very difficult to give you such data. But I can only share with you that we are targeting a 10% CAGR for the next three years.

**Mahesh Bendre:** I fully understand that the industry has to perform then we will be able to grow. I just wanted to know in terms of related to the industry will you be able to outperform the industry growth or we will grow along with the industry, what is your view on that?

**Anurang Jain:** See to be honest historically we have been outgrowing the industry. Now to be frank for the future you are seeing especially in this financial year that the scooter growth is almost three times the growth of bikes. So our focus will be how to add more value added products to scooters like continuous variable transmissions which is in place of a clutch which we use in a motorcycle or you have a trend of front forks which are replacing shock absorbers. We already have orders from Honda for their two new Activa vehicles in Gujarat which are coming up next financial year.

So our focus will be on scooter products as it is growing more. We have always outperformed two wheelers, because motor cycle growth has never been so low compared to scooters in the past. But going forward what I would like to say is that our focus will be also a lot on scooters to get a value added growth or increasing the content per vehicle of scooter as we go forward.

**Mahesh Bendre:** And sir, there is a debate and discussion regarding the electric vehicle two-wheelers, if at all that fructifies, how this will influence our business?

**Anurang Jain:** Most of our products including casting, whether it is an electric vehicle or not will be used because you need a suspension, transmission and castings products for the same. As regards a four-wheeler electric vehicle we were at the Geneva Motor Show in March and saw a Tesla vehicle. The content of aluminum castings in the electric vehicle was about 80% to 85% compared to the existing vehicles of petrol and diesel which are only 45%. So we will have to wait and see but definitely in no way will the opportunity be lower with electric vehicles. However, we are not seeing a trend of getting enquiries on electric two-wheelers yet. But definitely if it comes, Endurance will be one of the first to take part in this.

**Moderator:** Thank you. We have our next question from the line of Jinesh Gandhi from Motilal Oswal Securities. Please go ahead.

**Jinesh Gandhi:** A couple of questions from my side. First is, of the 80% revenues from two-wheelers how much would be scooters?

**Anurang Jain:** You are saying out of 80% or from the 100%?

**Jinesh Gandhi:** 100% of domestic?

**Anurang Jain:** So 80% is two-wheelers. So the absolute number out of 80% is 10% is approximately scooters. The reason being that today Bajaj Auto which is 39% of our consolidated sales of 55% of India sales makes only motor cycles. And Royal Enfield also where we have a large share of business of almost 70% to 90% is also in bikes only. You know that is the reason today our supplier of motorcycle products is high but like I mentioned earlier, the scooter focus is because we are working on continuous variable transmissions with customers. Front folks are replacing shock absorbers gradually and the proof of that is the new plant which we have set up of for Honda in Sanand. There is the largest scooter plant in the world with a capacity 1.2 million with a high share of business. This is a move towards that strategy of increasing our content of business for scooters.

**Jinesh Gandhi:** Right, do we already supply CVT to any other player?

**Anurang Jain:** No, we have started with Mahindra but we are at a very advanced stage with Hero and we are starting with HMSI because they have given the clearance to start with them.

**Jinesh Gandhi:** Okay so when will the orders for products for the new vehicles commence?

**Anurang Jain:** I think it will start somewhere by end of 2017-18 for Hero and for HMSI from 2018-19.

**Jinesh Gandhi:** Right and sir can you indicate about the brakes business of which is currently very small how are we positioning that business considering the changing regulatory norms on that side?

**Anurang Jain:** See, one is the existing disc brake assemblies. What we are supplying is disc brake assemblies for motorcycles and we are also supplying three-wheeler brake panel assemblies. So coming to two-wheelers which is mainly motorcycles, we have just started about five months ago supplies to Royal Enfield which is for the 350 cc vehicles and we want to increase the share of business. So we are already in touch with both Hero and Honda and Yamaha to get into the braking products because for Hero and Honda we are mainly supplying to castings as well as suspension products.

We have already got clearance, we are going with a step-by-step approach. So therefore after transmission it will be brakes. So one part is adding the brake product also to all the two-wheeler clients. And the second is on the CBS/ABS. We are ready with the CBS. We have showcased it to all our clients. It is in process because supply will start in 2018 and 2019 as you know and for the ABS I can only tell you that we are at a pretty advanced stage with a collaboration which we are doing for ABS. Because ABS is an electronic braking system there are very few players in the world with this technology like Bosch and Continental for example.

We are at a pretty advanced stage and of course our focus is to get this as soon as possible with this company we are talking to whose name we cannot share at this stage. But we are highly focused to get into both the CBS and ABS.

**Jinesh Gandhi:** Okay and sir lastly with respect to exports from India, can you share your strategy because that is one area which has been relatively small for us, are we targeting that part of the business to grow materially?

**Anurang Jain:** Yes, so we have two targets here. One is the aftermarket business. Today approximately I think about 40% of our sales comes from exports in the aftermarket and we are adding new countries to this block. We have Sri Lanka, we have Bangladesh, we have the African countries, South American countries, we are doing for even those clients whom we do not supply as an OEM supplier. So we are really widening the base, we are also looking the opportunities in trading, products we do not make. So exports is of course a very big thing for the aftermarket.

The second part is the aluminum castings. For example, Getrag is a transmission maker for Ford So they will make the power train. So we are, this year going to do Rs. 75 crores of sales for them for the Getrag UK plants. We have last year got an order which will be starting next financial year which will grow and this Rs. 75 crores will go to Rs. 175 crores by 2018-19.

So if you talk about exports we see opportunities where we can make money but as you know Endurance is focused on profitable growth in the aftermarket products and the aluminum castings products. In the two-wheeler Product , today it is only Asia we can look at so we are looking at South East Asian opportunities. We have one opportunity which we are looking at, so we may start in a small way in South East Asia but otherwise Europe and USA do not have a two-wheeler market.

Exports of Aluminum castings for passenger cars and commercial vehicles or to Tier 1 like Getrag are big opportunities to increase our profitable growth for exports. So to answer your question it will be aluminum castings for four-wheelers and aftermarket.

**Jinesh Gandhi:** Right and thus getting a foothold with Honda Motor Cycles in India give us opportunity to tap?

**Anurang Jain:** Yes, it does and that is the opportunity I am talking to you about which we have got.

**Jinesh Gandhi:** Okay understood. And sir, lastly to clarify this machining plant in Europe you indicated revenues of €15 million?

**Anurang Jain:** Yes, that is the value that is only machined without castings.

**Moderator:** Thank you. We have our next question from the line of Aachala Kanitkar from Birla Sun Life Mutual Fund. Please go ahead.

**Aachala Kanitkar:** Sir, I just wanted to get a sense as to how do you see the next two, three months for a two-wheelers?

**Anurang Jain:** See I think I have understood your question you are talking about the next two to three months, right?

**Aachala Kanitkar:** Yes.

**Anurang Jain:** Yes, so of course like I mentioned earlier that third quarter generally is a weak quarter for our company every year. The demonetization has further compounded this issue which is there. Of course October was a great month but the effect was felt from last month as you know from 8<sup>th</sup> of last month. So I think it is very difficult to say how the fourth quarter will go. I mean as far as this quarter is concerned we are trying to target the same financials as last year because of this external impact of demonetization.

Fourth quarter I cannot say. Now it depends how fast the two-wheeler growth comes back. Of course we are very optimistic, like I said being a small transaction item plus be an essential item is more of a postponement of purchase. So when this postponement happens whether it happens in January, February or March, it is very difficult to say.

**Moderator:** So sir, as it is also expected from the similar?

**Anurang Jain:** I mean she was asking me something else. I could understand the second part. See unless the question is clear we will not be able to answer, that is the problem.

**Moderator:** Thank you. We have our next question from the line of Agam Shah from Raj Tradings. Please go ahead.

**Agam Shah:** I wanted like two things like can you give a brief detail or like how the demonetization affect will have on your business? And second question is break up of your revenue briefly like how much is coming from exports and how much from the domestic business?

**Anurang Jain:** I will ask Mr. Satrajit Ray, Director and Group Chief Financial Officer to answer this.

**Satrajit Ray:** As far as the demonetization is concerned we have seen softening of the market in November and December. We would expect that this would play out in the shorter term because to answer one of the earlier questions Mr. Jain explained that we are looking at it as a postponement of purchase. So therefore we would expect that maybe in Q4 the effect of demonetization would play out completely. And to answer your second question, 30% of our revenue comes from Europe and 70% comes from India.

**Agam Shah:** So you are basically saying that demonetization impact will be negated after Q4?

**Satrajit Ray:** No, I am not saying that, I am expecting that, that is all. I am not taking a position because it is too early to take a position.

**Agam Shah:** But then there are some effects on the business, post the demonetization?

- Satrajit Ray:** Q3 has seen softening of demand, yes.
- Moderator:** Thank you. We have our next question from Aachala Kanitkar from Birla Sun Life Mutual Fund. Please go ahead.
- Aachala Kanitkar:** So I was just trying to get a sense on the same thing. So what kind of preparations the OEs are doing at their end to take care of this temporary slump in demand that we are seeing now? So are we actually looking at production getting cut as a precaution so that the inventory does not go up significantly?
- Anurang Jain:** See of course very difficult to answer for them. But definitely what we feel they will try and get rid of the inventories they have, I mean the high inventory. I think they are also trying to give better pricing in the market to get rid of the inventory from what I see in the papers. So I think these two actions they are taking.
- Aachala Kanitkar:** Okay so nothing has changed for you at least on the production schedule. So for you their production schedules are in line?
- Anurang Jain:** See Aachala, I will be honest with you that normally the production schedules in the last quarter especially last two months of the third quarter are generally weak. They are the lowest two months every year. Now to be honest demonetization how much impact it has had on each customer we do not know because you have customers like Royal Enfield which are doing well, which has not been affected at all. So whether it is the effect of demonetization to what extent very difficult to say. But definitely I would say that what we feel is that demonetization has affected the sales and it could have been higher. But this is only a feeling we have.
- Moderator:** Thank you. We have our next question from the line of Nakul Manaktala from Samaira Investments. Please go ahead.
- Nakul Manaktala:** So two, three questions. First in terms of the quarterly run rate you are looking at for like the Honda Gujarat plant as well as what you expect to gain out of the Hero Plant in Halol, could you just give us some numbers in terms of the INR quarterly run rate?
- Anurang Jain:** What I will do I will ask Mr. Ramesh Gehaney, our Director and Chief Operating Officer to answer this question.
- Ramesh Gehaney:** This is Ramesh Gehaney here. You are looking at the INR every quarter, on the value of the sales that is what you are asking?
- Nakul Manaktala:** Correct in Gujarat the Honda Gujarat plant as well as the Hero plant that is at Halol?
- Ramesh Gehaney:** See Honda Gujarat has already see the complete ramp up in the last two months although the softening has happened in December for them also. But once the sales come back to normal, I would see every quarter generating around Rs. 24 crores of sales.



- Nakul Manaktala:** Rs. 24 crores per quarter?
- Ramesh Gehaney:** Yes, Rs. 24 crores per quarter and later the front forks once the scooter as Mr. Jain said earlier that shockers will be converted to front forks in the scooter, that will be extra.
- Nakul Manaktala:** And how much would that be?
- Ramesh Gehaney:** See generally the ratio of shock absorbers to front forks can be almost 1:3, 1:4. So for those scooters which will have front forks that will be the ratio but depending on the volumes.
- Anurang Jain:** It will depend on what will be the changeover plan, right because there has to be a transition period everything is not going to change overnight. So there will be a changeover plan and model wise change over plan.
- Nakul Manaktala:** So run rate then on a normalized basis would be how much given the whole conversion, let us assume the conversion happens per your plans, what type of run rate would you be looking at?
- Anurang Jain:** Well, I think that would be a specific model it would go to, Somewhere around all of it will be changing over within one year or so maximum.
- Nakul Manaktala:** So the Rs. 24 crores could go up to like what type of number would you look at there on a normalized basis?
- Anurang Jain:** See right now we do not have those figures which are there, maybe we can share it separately with you. Because see what is happening is apart from the shock absorbers being replaced with front forks we can see what kind of volumes actually happen next year at the same time we are also getting some extra casting orders for this plant in Sanand which will be supplied to the third plant. This will also happen in sometime from June-July of next year. So we expect this Rs. 24 crores a quarter to increase. But very difficult to say how much it will increase, but it will definitely increase. One is extra casting orders to go for the third plant in Karnataka and second is front forks replacing shock absorbers.
- Nakul Manaktala:** And in terms of Halol what are you looking for in that? I think you talked about that getting commissioned by end of FY18 what type of quarterly run rate which you will be looking at that assuming that takes place?
- Anurang Jain:** Halol plant has already started production for Hero. We are now starting supplies from the Aurangabad plant because this plant is also supplying front forks shock absorbers similar ones to the Neemrana plant which is in Rajasthan. So we are putting up a plant which are targeting around August-September of 2017. where of course their plan is in 2017-18 to reach 2,700 a day which will include almost 40% to 45% scooters. As you have seen, scooters are growing almost three times the motorcycles and we also endeavor to increase our content per scooter in the business.

So first year 2017 and 2018 they are targeting 2,700 a day, and they are going to go to 6,200 a day by end of 2018-19. This means for us the business will be by end of 2018 and 2019 almost Rs. 275 crores a year.

**Nakul Manaktala:** Okay, so that is good. Two more questions I am sorry for spilling over. In terms of your revenue mix between casting, suspension, transmission brakes in aftermarket, I mean what do you see the trend in terms of change in the mix?

**Anurag Jain:** See, if you see as of today I am talking about India now. India what we are experiencing in six months is 44% is castings and 56% is proprietary with the suspension, transmission braking. If we are looking at opportunities which are happening today, we feel this 56% of our proprietary business will increase. We feel that next year it could be anywhere between 60% to 65% it depends on the opportunity again. It depends upon how fast we can come up with the ABS also. So proprietary will move faster than castings.

**Nakul Manaktala:** Okay now one more last question. In terms of obviously your European business is almost 30% of your business plus you know you are doing exports to different countries and as you know you had a kind of volatility of currency in Nigeria so there is so much volatility in the currency market. I mean are you going to do some hedging or what is your way to mitigate that is so prevalent in the market today?

**Anurag Jain:** Okay this question will be answered by Mr. Ray.

**Satrajit Ray:** See as far as the European sales are concerned, we do not need to do any hedging because the entire European revenue and cost is in Euro, the 30% of our sales which happens from Euro is in Euro we have nothing to do with that in Indian currency. There is an accounting translation gain or loss depending on the way Rupee and Euro move. Exports from India in the first half was at about Rs. 75 crores, now we borrow against exports by availing PCFC you know from banks and we use exports and PCFC both as natural hedge against each other. So we really do not have a currency risk and as far as other imports are concerned in India we have we take full coverage for that. We forward cover everything in full.

**Moderator:** Thank you. We have our next question from the line of Divya Wahi from Samaira Investments. Please go ahead.

**Divya Wahi:** So my question is regarding your supplies to Bajaj. So do you supply both for domestic markets as well exports for Bajaj?

**Anurag Jain:** Yes, we do because what is happening is ultimately all our four product portfolio are supplied to Bajaj plants in India and then they export the vehicles or they in completely knocked down condition to different countries. So our supplies still remains to the Indian plants of Bajaj so to further clarify your answer they do have two assembly plants in Nigeria, Egypt, Columbia. They take our parts and send it to these countries to be assembled.

**Divya Wahi:** Right so you would not know what is the spread in terms of what you are supplying to them like where you have been?

**Anurang Jain:** No, that we will not know.

**Divya Wahi:** And the other thing is that regarding Bajaj, are you participating in all the new launches that they have lined up you know going forward so you are participating in all those or these the growth that you are expecting the 10% that is purely on the legacy business that you have with Bajaj?

**Anurang Jain:** No, see if you heard my initial opening remarks, Bajaj has come down from 42% to 39%. And in spite you know Bajaj having a de-growth in this first six months about I would say 2% in two-wheelers and of course more than 10% I think in three-wheelers. So it is more of the product mix we have gained 2.5% business. We enjoy a large share of business because see Bajaj has a system of long term sourcing you know long term preferred suppliers. They started this about seven, eight years ago. For our products we are normally the first choice when it comes to any new product introduction for any new vehicle.

So therefore to answer your question we participate in normally all the products where we are taking part. You know but at the same time there could be certain products like our competition in Brembo or FCC may do higher end brakes and clutches where we are not a part of that. So those kind of requests will go to them. Though our focus is to go on the higher end plus assemblies and brakes also as we go along and we are going step by step you know for the 280, for the 220, for KTM. So we are taking a step by step approach. But the overall share of business of Bajaj is intact.

**Divya Wahi:** Right. And so the after sales market you mentioned a little bit is there some plan in terms of increasing the contribution in your revenue because right now it is very small, right?

**Anurang Jain:** Yes, right now in India it is about 5% consolidated it is about 3%. In fact in India to be honest we would like to target in the next three years at least 10% of Indian sales. So definitely we are now going into tier 3, tier 4 towns. First, we are investing in people to be able to penetrate both the markets in India as well as overseas.

So aftermarket remains very, very focused we have grown 15% we would have liked to grow at least 25%, 30%. But the challenge is like mentioned by somebody earlier that the African countries, the South American countries because of low oil prices it has become a challenge out there for them to open LCs.

**Divya Wahi:** Right sir, so you would like to increase it to 10% in India and?

**Anurang Jain:** 10% of the India. I mean that is our target after three years.

**Divya Wahi:** Right and what sort of inventory do you give to like how much of your inventory at their end?

**Anurang Jain:** To whose end?

**Divya Wahi:** Say Bajaj and like what sort of inventory like how your contracts structured do they have one month inventory or is it more?

**Anurag Jain:** No, in fact we supply just in time no it is not online, online supplies directly to the assembly line. So I mean these industries had evolved a lot in the last five, six years especially.

**Moderator:** Thank you. We have our next question from the line of Priti R.S. from UTI Mutual Fund. Please go ahead.

**Priti R S:** Sir, I have two questions. The first question on the European business. So if you look at just on a quarter-on-quarter basis or even on a half yearly basis our margins are looking better. So if you could help us with the machining mix last year and this year has there been any big improvement and this margins are sustainable, I mean has the product mix changed to some extent? Could you just help us with some clarity there?

**Anurag Jain:** Yes, I would request Massimo Venuti is our Director and CEO of the Endurance Overseas operations, I will request Massimo to answer your question.

**Massimo Venuti:** We closed at the end of September 2016 with an increase of 9.8 Euro million of revenue without considering operating tooling revenues, a 10% of the increase as compared to the previous year. And if you consider the first quarter and second quarter without operating tooling revenue the increase was more than the market, 4 Euro million in the second quarter and 5.6 Euro million in the first quarter. Therefore we are growing more than the market which registered an overall 7.5% increase at the end of September. 80% of customer sales related to FCA Daimler, General Motor, VW and also BMW. Our major customers are growing more than the market. FCA 15%, Daimler 15% so frankly speaking we do not see any kind of problem for us for the next month. In terms of profitability, regardless of the period considered, we are growing in terms of EBITDA and also of net results. For sure in the second quarter our results were weaker as compared to the first quarter. But this is normal due to the seasonality of our business and due to the fact that there are a lot of new products in the development for each customer because of as you know in the 2016 and 2017 a lot of car makers are presenting new engines and new vehicle.

**Anurag Jain:** But just to answer your question to further add what Mr. Venuti has said, basically the overseas showed a growth of I am saying in Rupees of 10.9% in the first half of the year when the passenger cars increased by 7.8% in the first half. So we have grown higher than the passenger cars market. Just to add one thing that passenger cars account for almost 85% of our Endurance overseas sales in Europe.

**Priti R S:** Sir and just because now Italy under focus what percentage of our sales geographically comes from Italy?

**Anurag Jain:** Massimo, can you answer the question? I think how much comes from within Italy your sales and how much comes outside Italy? So peer prices about 44% right of these?

**Massimo Venuti:** Yes. So far , at the end of September, the total income is more or less € 115 million of which about 50% is with FCA but considering the important share of the export of FCA, because of its presence in the United States and other European markets the sales linked to market in Italy is more or less from 25% to 30% of overseas revenues.

**Priti R. S.:** Just one more question on the Indian business. With regard to ABS so we understand that certain players who already went ahead and invested in the manufacturing capacity itself and correct me if I am wrong, we are probably in the stages of getting the technology on our side. So how would we be able to tap this opportunity but we would be the front end for the Boschs of the world or we would be actually making the product?

**Anurang Jain:** See there is no two things in saying that Bosch and Continental are the leaders when it comes to ABS whether it is four-wheelers or it is two-wheelers. Okay because they have been doing this for years. But also at the same time they are very expensive. Our strategy is like it has always been and that is what we have tied up in the last twenty years with the best companies in Europe to get the best technology put up R&D centers and give products which are competitive with a win-win situation.

Now our focus is to get the similar technology to Bosch and Continental in India to make these parts in India, import as less component as possible and to give the use the leverage of Indian manufacturing costs and to give equally good product at the more economical price. So that is our strategy going forward. And ABS definitely will be a big game changer for us because the value will be very high of this business. So that is why we are going all out to get this technology.

**Priti R.S.:** I mean if you have worked out internally what would be the amount of CAPEX you would be requiring let us say if things fall through as per your assessment?

**Anurang Jain:** See we do have the figures but I think we will tell you at the right time when we are clear. I mean we are still about 1.5, 2 years away and it would not be fair to give a figure and that figure will change tomorrow. But we will have these Investor calls so we will keep you updated.

**Moderator:** Thank you. We have our next question from the line of Ashwin Reddy from CWC Advisors. Please go ahead.

**Ashwin Reddy:** One question. Can you expand a bit more about your topline guidance of 10% is this only for India or is it for consolidated and if it is the consolidated sales growth guidance, could you please break out for India and abroad? The reason I am asking is given that the opportunity in breaking and the fact that Hero and Honda are opportunities which has opened up 10% is this a conservative number or is this more fair number?

**Anurang Jain:** See to answer your question we have seen enough ups and downs, enough shocks you know in the past I would say ten years. So when we give a figure we do not know I mean we have taken a certain estimate. But when we talk to investors, we do not like to give a very rosy picture because we have seen like we see now six months have been a great year for the two-wheeler

industry. Now the demonetization has definitely had some impact. Now sitting in October, I do not think any one of us had an idea of external shock like this in the system for the automobile industry.

So whatever guidance we give there are opportunities both overseas in India like I said initially it could be acquisitions, it could be better opportunities in Europe, maybe new customers in Europe same thing could happen here. Maybe we penetrate ABS faster through that business, maybe we grow very fast with Hero and Honda we are growing very fast that happens even faster for transmission and brakes where we are not present.

So we have looked at a picture which we feel we can do. And this is what we are talking about. But to give a break up it would not be fair because we do not know that what kind of external situations may happen because we are in a very volatile world right now. We live in a very volatile world and there are external factors, we can control our factors, we can focus on R&D, we can improve operating efficiency we can do these things. But we cannot we have control on external factors. So what we are giving you I think it is quite reasonable and fair but very difficult to break it up.

**Ashwin Reddy:**

A quick follow up on that. Now so I am just trying to understand how do we think about the longer-term growth for you versus the two-wheeler industry. So in case the two-wheeler engine industry is growing at 10%, 12% so would it be safe for us to assume you would go to 2%, 3% points higher than that or in line with the industry or lower than the industry? How do we see that?

**Anurang Jain:**

See here what I would like to say is till the motorcycle industry were growing fast see Bajaj Motors and Royal Enfield are only motorcycles as of now. We do not know tomorrow what happens. Today if scooter industry grows three times more than motorcycle, we have to grow faster with scooter. That is why this initiative of the new plant at sanand in March 2016 will be better. It is only for scooters. Today 40% to 45% of the Halol plant and of Hero which will reach 6,200 vehicles a day is scooters. So we are in CVT shocker has been replaced by front fork. These are all scooter parts.

So our focus will be why I am saying 10% because if you had told me that motorcycles is growing at 10 and we do higher, I would say yes. But with scooters now going at three times and even if it continues and like I said only 10% of our 80% sales or I would say 10% out of 80% in scooters. So we have to work very hard to get this new business in scooter which we are. So we are already for Sanand, we have got Halol, now we have to get the CVTs, front forks will replace shock absorbers in the time to come in the next three to four years. That is our belief. So we have to work on that so that is why we are looking at 10%.

**Moderator:**

Thank you. We have our next question from the line of Nakul Manaktala from Samaira Investments. Please go ahead.

**Nakul Manaktala:** Sir, couple of follow up questions. So again in terms of CBS and ABS just want to gauge the quantum of the value add so compared to the existing brakes that you supply I mean what is the cost differential for the OEM to purchase the CBS and ABS?

**Anurang Jain:** See it will depend. See in CBS you get a mechanical and you get different types of hydraulics. Now the range could be anywhere between extra I am saying because this is an actuation what is the combined braking systems, it is a mechanism which controls simultaneously the front and the rear brakes. Now if it is a mechanical it could be Rs. 200, if it is hydraulic it can go up to a difference of Rs. 600. So it would depend. Now the minute you talk about ABS the indication we are giving could be anywhere between Rs. 2,000 to Rs. 3,500 again depending upon what type of electronic ABS are wanted. Whether it is single channel, double channel so definitely the value add more is going to come from ABS than from CBS. But for CBS the number of vehicles will be larger than ABS because ABS will be used for above 125cc.

**Nakul Manaktala:** Right and obviously like your Royal Enfields and obviously your new Bajaj Pulsars and almost of them are greater than 125cc. So they require ABS so it became high the value add?

**Anurang Jain:** Absolutely.

**Nakul Manaktala:** And in terms of a couple of basic questions regarding your tax rate for example that is increased a little bit this quarter. If you can talk a little bit about that? And your CAPEX guidance also just for next two, three years if you can give us some sort of guidance? I know you all have been to answer the ABS and CBS CAPEX guidance but just on a consolidate level what type of CAPEX you are looking at going forward?

**Anurang Jain:** See first I will take your question for CAPEX. See CAPEX what we are guiding is that this year in India it would be approximately about Rs. 300 crores going forward about Rs. 275 crores a year for the next three years the way we see it. It can change plus minus 10% you know. As far as overseas is concerned we believe this year will be about €19 million and going forward next three years could be €17 million a year. But again it depends on opportunities.

**Nakul Manaktala:** And then the Income-Tax I mean there were slight increase there this quarter? So can you give us some guidance going forward what is the normalized tax rates we can assume for next two, three years?

**Satrajit Ray:** See there are couple of things here. To take a number for future we will have to understand that Pantnagar which enjoys tax benefit which was a tax-free unit and this is the last year. If you know how the incentive works, first five years was 100% tax free, the next five years was 30% tax free. So this is the last year of that 30% incentive so we lose that by March 2017. So going forward this incentive will disappear. To answer your question about why the effective tax rate is higher, last year we had a tax credit so compared to that this number would look a little higher and if our profitability goes up the additional profit you know is charged to tax at the maximum marginal rate so that will also increase the tax rate to some extent. So going forward 28% to 28.5% would be a fair call.

**Moderator:** Thank you. We have our next question from the line of Divya Wahi from Samaira Investments. Please go ahead.

**Divya Wahi:** So basically I just wanted to talk to you about your acquisition strategy. I think you have mentioned in the past may be the size of it. If you could repeat that if that is the current size you are looking for and what is the whole motivation behind that acquisition? Is it when you are looking for companies in distress is it you have the fit or some sort of getting some sort of capability. So anything that you can give on that front?

**Anurang Jain:** See historically we have always gone for companies which make money. So definitely we are looking at companies with approximately around 10% EBITDA at least. But something which are small because ultimately we do not want to take large companies with big size because there are two issues there. One issue is the labor which becomes a liability in future, large number of labor. And second is generally the investments are old. So you have to plan apart from acquisitions you have to plan also for a CAPEX replacement.

So our strategy is to take around 10% EBITDA type of companies which have a lot of space available to do a greenfield project where we can put high EBITDA margin business from our customer base which has OEMs in Europe and put that business in these plants. So that is our strategy and these are the kind of companies we are looking at and we have looked at in the past also e.g. the two acquisitions we did in the last three years. So this is the philosophy because there is quite less risk in it. Like I said we are very profit focused company we are very focused on financial ratios, cash flows. So we do not take undue risks.

**Divya Wahi:** And in terms of the size what would it be and how much would you be willing to spend?

**Anurang Jain:** Size would be between € 20 million to € 40 million not beyond that. Sales I am talking about. And for example in the past also we looked at companies which had some technology also in it. So we can use that technology. Technology can be in process, can be in also a product. So technology is also a new criteria for us.

**Divya Wahi:** Right and you would sort of want to sort of pay up cash and not raise money for it depending on how much you spend like what are you comfortable with because right now you have I think pretty decent cash levels?

**Anurang Jain:** Yes, you see as of September our net debt to equity is 0.34:1. So going forward I do not think we need to raise any debt. So we will do this from our internal accrual.

**Divya Wahi:** And in terms of like what kind of multiples would you be willing to pay for it? You have mentioned the sales so what kind of size can we look at?

**Anurang Jain:** I mean that I cannot tell you right now. That actually we can tell you when that opportunity comes. But those multiples there would not be very high. I mean it would be like the multiples in India. I can only say that.



**Moderator:** Thank you. We have our next question from the line of Jinesh Gandhi from Motilal Oswal Securities. Please go ahead.

**Jinesh Gandhi:** Thanks, but my question has been answered.

**Moderator:** Ladies and gentlemen, due to time constraints that was the last question. I now hand the conference over to Mr. Ashish Nigam for closing comments.

**Ashish Nigam:** Thank you. On behalf of Axis Capital thank you all for joining the call today. And thanks again to the Endurance Technologies' management for giving us the opportunity to host this call.

**Moderator:** On behalf of Axis Capital Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.