



## “Endurance Technologies Q4 FY 2017 Results Conference Call”

May 11, 2017



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**Moderator:** Ladies and gentlemen good day and welcome to the Endurance Technologies Limited Q4 FY2017 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 “\*” and then “0” on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ashish Nigam of Axis Capital. Thank you and over to you Sir.

**Ashish Nigam:** Thank you. Good morning everyone. This is Ashish Nigam from Axis Capital, welcome to the Q4 FY2017 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. Biswajit Choudhury – President – Aftermarket and Exports. I will now hand over the call to Mr. Jain for his opening remarks post which we can have Q&A. Over to you Anurang.

**Anurang Jain:** Thank you Ashish. Good morning everybody, I am Anurang Jain, Managing Director of Endurance. This is our first year as a listed entity in India and I am happy to share details of how we have done in 2016-2017 as well as the Q4.

FY2016-2017 has been a mixed year for the two-wheeler industry. The growth pattern differed sharply between the first and the second half of this year. As per SIAM data, the two-wheeler industry sales grew at 13.2% in the first half, but during the second half of October to March, the two-wheeler sales had a degrowth of 2.75%. As a consequence during FY2016-2017 the two wheeler sales grew by 5.23% and out of which the scooters grew by 11.51% and motorcycles grew by 1.62%. As we have been observing for sometime two-wheeler growth in India is strongly driven by the sale of scooters, if you see the last five years, the share of scooter business, as a total share of two-wheelers, has grown from 20% to 33% while the motorcycle sales for 2016-2017 stands at 65%. In India, two-wheeler sales from a number of OEMs got adversely affected due to demonetization and hence the second half of the year experienced degrowth in volumes, this impacted the Endurance sales and financials also. Two-wheeler products, as you know, comprise 80% of Endurance sales in India. In Europe, the passenger car sales grew by 6.8% and by 8.4% in the Q4 - January to March 2017. The total net income from our subsidiaries in Europe stood at 30.7% of the consolidated net income of Endurance Group, during financial year 2016-17 which is a 7.1% growth over the previous year.

On the financials, I would briefly like to talk to you first about the Q4 of 2016-2017 and then about the whole financial year. During Q4, our profitability in India came under some strain, the effects of demonetization on volumes lingered during this quarter also. This impacted our profits. Many plants mainly the casting plants that need to work on an optimum volume got affected by the lower demand pull during this period. Moreover as you all know we have embarked upon a consolidation of our Pune plants where four plants are being consolidated into three plants and

the impacts of the cost arising out of the same, such as the compensation under a voluntary separation scheme for workers has also impacted our profits in this quarter. Benefits of this consolidation will start getting realized only from the second half of this financial year 2017-2018. During the Q4, our consolidated total income grew by 4.3% from Rs.13,350 million to Rs.13,927 million consolidated EBITDA grew by 6.2% from Rs.1900 million to Rs.2017 million and the consolidated EBITDA margin improve from 14.2% in the previous year to 14.5% in Q4 of 2016-2017. PAT grew by 3.3% from Rs.808 million to Rs.835 million. During Q4, our India standalone total income grew by 4.5% from 9229 million to Rs.9642 million, standalone EBITDA came down by 6.1% from Rs.1251 million to Rs.1174 million with a lower EBITDA margin at 12.2% which included other income. The reason for the drop in operating margin, as mentioned earlier, during this quarter, is mainly due to poor volumes in certain key plants especially the casting plants and additional cost arising out of the Pune consolidation activities. It would also be appropriate to note that our new plant at Sanand is still in the ramping up stage. For the financial year of 2016-2017, the consolidated total income grew by 6.8% from Rs. 52,633 million to Rs.56,220 million. The EBITDA grew by 10.5% from Rs.7125 million to Rs.7874 million. The EBITDA margin percentage increased from 13.5% to 14%. The profit after tax grew by 9.9% from Rs.3004 million to Rs.3303 million and the PAT margin percentage increased from 5.7% to 5.9% on a consolidated basis. In the financial year 2016-2017, the standalone India net income grew by 5.8% from Rs.36,811 million to Rs.38,944 million. Standalone EBITDA grew by 5.2% from Rs.4599 million to Rs.4836 million. EBITDA margin stood at 12.4% as compared to previous year's 12.5%. The profit after tax grew by 6.2% from Rs.2086 million to Rs.2215 million with the PAT percentage margin remaining the same at 5.7% for both the years. The aftermarket sales from India operations grew by 14.9% to Rs.2122 million. As you know the aftermarket sales comprises both domestic as well as exports. The exports from India grew by 16.6% to Rs.1679.08 million. The detailed financials are available with the stock exchanges and on the Endurance website where you can see it.

I would now like to share certain other important points with you also. The Bajaj Auto share of business on a consolidated basis dropped to 37% in FY2017 compared to 41% in the financial year 2015-2016. There was a sizable growth of a 30% business of Honda two wheelers as well as Royal Enfield. Both these clients now constitute 10% of our India sales and 7% of our consolidated sales. In Europe, we grew 9.9% with Fiat Chrysler group, 29.5% with Daimler, 14% with BMW, and 6% with General Motors. The Fiat Chrysler business now constitutes 16% of our consolidated sales and Daimler constitutes 5% of our consolidated sales. On a consolidated sales, our top five clients are Bajaj Auto, Fiat Chrysler group, Honda which is HMSI, Royal Enfield, and Daimler. I am happy to inform you that we have signed a license and technical assistance agreement with BWI USA for ABS products for two-wheeler applications. BWI is a company having rich experience in braking products for both the four-wheeler and the two-wheeler ABS technology. Our scope of the agreement includes the hydraulic controls unit assembly, the electronic control unit assembly, the complete ABS assembly all the interface software as well as the production validation and test equipments, which are required for the same. We have kept a target to be ready with the ABS product by January 2019. This will be a high-technology product

for Endurance as it involves electronics with a very huge business potential as all the existing and new two wheelers above 125cc will have to have this ABS braking system from 2019-2020 onwards. As mentioned earlier, I would also like to mention that we are setting up a plant for Hero MotoCorp. This plant will be at Halol in Gujarat where we will cater to 100% of the requirement of front fork and shock absorbers. We have been allotted a 7.5-acre land next to Hero MotoCorp at Halol and this acquisition will be completed in this month and we are planning to start this plant by the Q4 of this financial year. In the meanwhile as Hero has started its plant at Halol already, we are already supplying 100% of their front fork and shock absorber requirement catering to approximately 700 vehicles a day from our Waluj plant. As mentioned earlier, Hero has a plant to produce 6200 vehicles a day by the end of 2018-2019 at Halol out of which 1900 per day will constitute scooters. Also as I have informed earlier, our new machining plant in Germany catering to Daimler has started on January 10, 2017. At Waluj, Aurangabad our 29-acre vehicle testing track is progressing well and we will be ready in early 2018. This will help us to strengthen our target of giving 'first-time right' products to all our clients in India as well as abroad. I am also extremely happy to inform you that amongst the many awards won in 2016-2017, two have been extremely prestigious for us. First was the Grand Award as a best supplier for the year from Honda Motorcycle and Scooters India. This means a lot because they have a lot of suppliers from all over the world and Endurance was an Indian supplier chosen as a best supplier of the year for 2016-2017. Second is the Yamaha Global TVP award for quality improvement and efforts in optimizing loading cost for Yamaha. Endurance was the only Indian supplier to get this award, which was given, in Yamaha's global vendor meet in Hamamatsu, Japan on April 20, 2017. Both these awards will definitely help in our growth of business with both Honda and Yamaha. To conclude, we continue to focus on penetrating all our four-product offerings to our existing clients as well as adding new clients. Also we are focusing on increasing our aftermarket and export business in India and we are looking at organic as well as inorganic opportunities in both India and Europe. With these opening remarks I would like to invite questions from all of you. Thank you.

**Moderator:** Thank you very much sir. Ladies and gentlemen, we will now begin the question and answer session. Our first question is from the line of Aditya Jhawar from Investec Capital. Please go ahead.

**Aditya Jhawar:** Thanks a lot for the opportunity. Sir if you would like to throw some light on our performance in Europe so as you mentioned that the growth of passenger vehicles in Europe was around 8.4% in this quarter but our revenue growth from Europe was just about 3.7% if you can throw some light on this.

**Anurang Jain:** I will request Massimo Venuti to reply to this question.

**Massimo Venuti:** Okay thank you. So during the last quarter in Europe, we had Euro 59.9 million turnover compared to Euro 55.3 million in the previous financial year. It is more than Euro 4 million and certainly 8.3% more compared to the previous year but if you compare the data under the same conditions, taking into account the effect of about Euro 2 million of reduction due to lower

aluminum price, the increase of turnover would have been 12% compared to the previous year. This I am referring to Q4. While speaking about the full year, the increase in sales, considering the same price of aluminum would have been about 12% while the market growth was 6.8%. So we were able to double the revenue compared to the market and in the last quarter, we achieved 40% more compared to the market.

**Aditya Jhavar:**

Okay. That explains I think. Sir secondly just in the domestic business while the OEM production got impacted because of demonetization, we understand that volume growth would be around 1% to 2% but sir what about the price hike that lot of OEMs are talking about that we have taken price hike in the sense that aluminum passed through so what is your colour on the increase in ASP or the realizations specifically in the segment of die casting.

**Anurang Jain:**

See as far as the price increases are concerned, as we have mentioned, is only on the raw material of whatever components, which is every quarter or every six months depending on the customer. Now of course the customers have their own right to increase prices, we do not have that leverage with the customers unless there is a big increase in power cost or there is a labour cost or there are some cost which affects the value add which we get. So what we have to do as an auto component company is to make sure that we are operationally very efficient. What really hit us is that in spite of all our operational efficiencies which we have been telling you whether it is outsourcings to suppliers, whether it is consolidation of plants which we are doing in Pune or the production efficiencies which we have been following over the years and that is why you see that the Q4, of course including other income, has been at 12.2% EBITDA but something like a demonetization which happened which is something out of the blue, you could just imagine that when it was announced on 8th of November, immediately after that for at least two months again the sales were down by 40%, so you can imagine what it does to die casting plants which are depending on certain economies of scale and certain volumes. Company did a lot of efforts like shutting plants for two weeks/ for 10 days/ for a week, as and where required; so there is a lot of effort going from the management to see that we have really not gone that much down. I mean it could have been worse, it could have been a loss situation but we have experienced these things and that is why I say uncertainty is a new normal in industry, so we are prepared. That is why on the operational efficiency front, we are consolidating four plants to three plants and taking other measures including outsourcing of certain parts to our suppliers so that we can absorb the shocks if they happen in future in a much better manner. The realizations of consolidation will be felt in the second half of this financial year. Customers correct their pricing when it hits their business, to sustain in this very competitive market, so I cannot really speak for them but as far as we are concerned, we have to work in our own domain whatever prices we are getting to be as efficient as we can and that is what we are trying to do at Endurance.

**Aditya Jhavar:**

Fair enough sir, just a little bit on the aluminum pricing sir what is the clause that you have with the OEM with regard to pass through.

- Anurang Jain:** There is direct pass through as per actual increase or decrease both ways.. For most of the customers it is every quarter while with some customers it is every six months. It is a direct pass through so we do not absorb anything on aluminum.
- Aditya Jhavar:** That is it from me, thanks a lot.
- Moderator:** Thank you. Our next question is from the line of Animesh Shah of L&T Mutual Fund. Please go ahead.
- Animesh Shah:** A couple of questions, one regarding this agreement with ABS tie-up. You mentioned about company having technology for two wheelers and four wheelers. So, the tie-up is specifically for two wheelers or four wheelers and ...?
- Anurang Jain:** See this tie-up is for two wheelers because as you know the law is becoming mandatory for all two wheelers above 125cc, all new vehicles being launched from 2018-2019 will be mandatory and for all vehicles including existing from 2019-2020, it will be mandatory. So this clause has basically come for the two-wheeler industry and today if you see the volumes are huge in the two-wheeler industry in the segment. So it makes business sense to invest in such a project for the two-wheeler industry.
- Animesh Shah:** I was just thinking that whether we are tying-up for four-wheeler also.
- Anurang Jain:** No we are not tying-up for four-wheeler as of now.
- Animesh Shah:** And secondly regarding inorganic opportunities, so you mentioned about both domestic, overseas so in which segment. Again it will be in domestic. It will be in two wheelers or four wheelers...?
- Anurang Jain:** See as far as India is concerned as you know, I would say 80% we cater to two wheeler and about 11% to three wheeler industry. Europe, it is only four wheelers. So definitely our preference in India would be more for the two and three-wheeler and something which is in the technology area which is required for the future, something like electronics or something like that is what we are looking at. Overseas will be mainly into aluminum castings, mainly large and complex castings and like we said before, we are looking at smaller acquisitions with large amount of space where we can put in greenfield projects with high EBITDA margin business so that is our strategy overseas. So overseas will be basically passenger car and truck business, CV business for castings as of now and India we would like to focus more on the two and three-wheeler acquisitions which are technology oriented, which have a sustainable future.
- Animesh Shah:** So nothing for four wheelers in domestic.
- Anurang Jain:** Domestic unless it is a technology product and we need to see what because we are getting a lot of offers, if it is not technology oriented products and we do not see a future beyond 5 to 10 years

then we would not enter these segments, it costs a lot of money and then the technology changes in future and technology is going towards electric vehicles now in future.

**Animesh Shah:** Thank you sir.

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

**Jinesh Gandhi:** A couple of questions firstly on ABS tie-up. You indicated that you will be ready with your product by Jan 2019. So from that perspective would it be fair to say that we would be looking at opportunity as the second supplier?

**Anurang Jain:** Yes, I mean the thinking is correct as you know the initial suppliers are the big guys like Bosch and Continental just to name two and of course, this technology as you know is not available in the world easily, there could be one or two other Japanese companies and like I said, our focus would be basically to give a more economical product with the same kind of performance and quality. That is the focus and BWI is already supplying to Harley Davidson and they are very good, I mean in technology for this.

**Jinesh Gandhi:** And second question pertains to preparedness for two-wheeler electric products and presuming you would be working with Bajaj and we have been talking on two-wheeler electric products. So any sense on how different these products would be both in terms of the complexity and in terms of value-add for us.

**Anurang Jain:** See actually Bajaj, to be honest or any other customer has not yet engaged with us on electric vehicles. I am sure some of them have their vehicles ready but somehow that discussion has not started with the R&Ds yet, so I will not be able to comment on that right now.

**Jinesh Gandhi:** And are we working on separately for relevant products for EV that are developing products or you would be waiting for our OEs to...

**Anurang Jain:** See I think it is very important to get a feedback from OE what are their requirement and then to start working. See for our four-product segments, we have all the technology and if it is required, we can go for it like we went for ABS. So we will have to see what is the specific requirement because technology is also changing very fast in this area so depending upon the requirement, we would like to invest.

**Jinesh Gandhi:** I understood and sir, third question pertains to the consolidation of plants, which we are doing from four plants to three plants, any sense on what kind of benefits are we looking at post these exercises done by 2HFY18.

**Anurang Jain:** Yes, we do foresee reaping benefits from consolidation of plants. However, it would be difficult to quantify the amount of benefits at this juncture. With consolidation of plants, we shall be

lowering our fixed costs of running a plant, without any loss of business. Even if a portion of business is outsourced to suppliers, the Company will continue to earn profits on account of economies of scale and lower fixed costs. So, the Company will be much stronger to absorb shocks of decline in sales, if any, from the customers, if it happens in future; which is a part of our strategy. Of course last we have done this in 2008-2009 when the financial crisis hit us where from 19 plants we went to 16. So now 18 plants will become 17, but because of the Halol plant coming up by the quarter 4, we will be back to 18 plants.

- Jinesh Gandhi:** Right and any indication of what kind of cost pertaining to this consolidation came in Q4?
- Anurang Jain:** Well, we had Rs.3 Crore for around 30 people, who took a voluntary separation scheme retirement, so the hit was Rs. 3 Crore on that.
- Jinesh Gandhi:** How many more employees will be pending there for VSS?
- Anurang Jain:** It could be anywhere between 100 to 150 or more.
- Jinesh Gandhi:** 100 to 150 more, okay.
- Anurang Jain:** This will happen in this financial year over a period of time.
- Jinesh Gandhi:** Understood and a couple of bookkeeping questions, one is can you indicate the growth in exports and aftermarket for Q4 especially?
- Anurang Jain:** Sorry?
- Jinesh Gandhi:** Growth for exports and aftermarket from India?
- Anurang Jain:** Generally Q4 is very good for the aftermarket, I know that for both exports and aftermarket, the fourth quarter has been quite good.
- Jinesh Gandhi:** Sure and secondly on utilizations of new plants other than the Germany plant can you indicate, what kind of utilization level they are working at in Q4?
- Anurang Jain:** I think see the Germany plant is, I will ask Mr. Venuti.
- Massimo Venuti:** In Germany, we started on 10<sup>th</sup> January 2017 with this new plant and we are now assembling now a new clutch housing for Daimler. The requirement for this financial year, on a quarterly basis, is more or less 32,000 parts per quarter and we are speaking about more or less Euro 6 million up till November. We will produce these clutch housing and also brackets for Daimler starting from September 2017.
- Anurang Jain:** As far as the Sanand plant is concerned we have almost reached the efficiency of 85%, but why we say it is in the ramping up stage is because now the front fork production will also start there



from the end of first half of this financial year and as you know there is a moving out of front forks replacing shock absorbers in scooters, so that is the ramp up we are further doing plus there is some further order on the aluminium casting front also and as you know Honda is doing very well, April growth was 34%, so we are expecting further ramp ups in future.

- Jinesh Gandhi:** Great. Okay. Thanks sir, I will come back in queue.
- Moderator:** Next question is from the line of Narottam Garg of Chanakya Wealth Creation. Please go ahead.
- Narottam Garg:** Good morning, my question has already been answered thanks.
- Anurang Jain:** Good morning.
- Moderator:** Thank you. We will take the next question from the line of Ketan Chaphalkar of Zephyr Financial. Please go ahead.
- Ketan Chaphalkar:** Good morning everyone, I just wanted to understand what is total market potential for the ABS and how much can be that by our company Endurance segment of India.
- Anurang Jain:** The market potential... pricing is yet not out, but of course this is a high value product, I said last time the pricing can be anywhere between Rs. 2500 to Rs. 5000 to Rs. 6000, so it is a very high-value added product, but will depend upon which segment because in ABS there is single channel system and a dual channel system depends which one they use, but you can imagine all above 125cc vehicles, which I think by the time it is introduced will form at least 40% of the total two wheeler market. Last year was I think 19 million so that we can imagine that in the 19 million all vehicle above 125cc you can take about 40% of that, so that is the potential in volume and to the pricing which could anywhere between Rs.2500 to Rs.6000 rupees is what is our guess because pricing is still being worked out by the way.
- Ketan Chaphalkar:** Okay. Thanks.
- Moderator:** Thank you. We will take the next question from the line of Jamshed Dadabhoy of Citigroup. Please go ahead.
- Jamshed Dadabhoy:** Good morning, most of my questions were answered, just one quick clarification on this ABS unit, how much do you think will be the local content versus import content?
- Ramesh Gehaney:** In ABS...? Jamshed, we are still working on the final configuration as you know that we have just tied up with BWI last month and we are looking at the best possible configuration to use the existing sources as well as developing new sources in India, so once we progress with our discussion with BWI, we will come up with the most optimal solution to bring up the most price-effective solution.

- Jamshed Dadabhoy:** Is there any existing ecosystem today for ABS in India for two wheelers?
- Ramesh Gehaney:** There is no...Bosch and Continental they are not into India manufacturing, although they have already declared that they are going to come up with the India manufacturing, but right now they are importing the part on 100% basis from overseas.
- Anurang Jain:** Since most of the assemblies will be done in India and we feel that Indian suppliers are capable, we intend creating supplies from India for various items. There could be some items like valves which we will see whether to import at competitive prices from China, from BWI China plant or not.
- Jamshed Dadabhoy:** Just to clarify what you all said in the Q4, you all lost about Rs.3 Crores as the VSS expense and due to the fall in the operating performance of the castings plants, can you give us some sense of how much the impact on profitability was?
- Anurang Jain:** I can only tell you that in the first half our EBITDA margin was 12.7% when the industry grew by 13.72%, in the second half the industry degrew by 2.75% and our EBITDA margin was 12.1% to 12.2%, so just will give an idea of the difference, but to get this 12.1 to 12.2 a lot of effort like I mentioned earlier has been made by the management.
- Jamshed Dadabhoy:** You said the benefit of the consolidation is something, which you will see from Q3 FY2018?
- Anurang Jain:** We are definitely very hopeful to get much higher profits.
- Jamshed Dadabhoy:** Okay, alright, thank you.
- Anurang Jain:** Thanks.
- Moderator:** Thank you. Next question is from the line of Chirag Shah of Edelweiss. Please go ahead.
- Chirag Shah:** Thanks for the opportunity. Sir, two questions, one on this ABS opportunity so it says for 125cc and above, but if you look at some of the models they are actually 124 point something, so they are not technically 125cc and above?
- Anurang Jain:** It is above 125cc.
- Chirag Shah:** So all these 124cc products which are...?
- Anurang Jain:** Up to 125 will be CBS.
- Chirag Shah:** Up to 125?
- Anurang Jain:** So, above 125 is ABS.

- Chirag Shah:** I was trying to understand the classification, because most of this 125cc models are which have been marketed in the market are actually less than 125cc in the actual output, they are 124 point something, so technically they do not require to be in ABS compliant right?
- Anurang Jain:** Yes, but they will be CBS complaint, combined braking system.
- Chirag Shah:** Sir, if you can share some light on you have 17, 18 plants, generally what is the differential size of the plants they are largely of similar size or there is big difference between the size of the plant?
- Anurang Jain:** Sorry, I cannot understand the question.
- Chirag Shah:** You indicated you have 17, 18 plants in India, all of them are of similar size largely in terms of revenue generation or ...?
- Anurang Jain:** No, the sizes differ.
- Chirag Shah:** How big the difference can be and the plant that you are consolidating...?
- Anurang Jain:** As high as four to five times too...The question is plants have been based on certain criteria of economies of scale and depending on the product but as we go forward and looking at the opportunities of our penetration in all the four product segments, today the trend is towards multiproduct plants like Pantnagar is a multiproduct plants. We have plants in Aurangabad where one plant is a multiproduct plant, Sanand is a multiproduct plant, so the trend is going towards to get better economies of scale and the future will be of multiproduct plants rather than past where focus was on only one segment for a plant. So why you see some of the smaller plants are there because they were one product plants, so we will see how it goes as a part of our total economies of scale and operational efficiency focus, but the plant sizes do differ, ratio could be 1:4.
- Chirag Shah:** Would it be right to assume that over a period time you would be looking to consolidate more and more of your plants and make them multiproduct?
- Anurang Jain:** We will do that, but we also have to look at other risks. We should not put all our eggs in the same basket, there has to be a de-risking strategy in terms of workers, agreements, so we have to balance. One needs to have a balance between not to concentrate too much also. A consolidation happens to get more economies of scale and when the plant is stressed for lack of orders that is when we take these actions, but we have to keep our balance of not putting all our eggs in one basket.
- Ramesh Gehaney:** We will not be doing any consolidation at the cost or risk of losing our customer.
- Chirag Shah:** Sir if you can share one thing, is the plant that you are consolidating how big is that in terms of overall size, is it a very small plant?

- Anurang Jain:** No, this was quite a large plant of castings, but because of certain business call taken by Bajaj Auto and Royal Enfield, we are not losing order as a group. They wanted these orders to be... like Royal Enfield wanted to transfer our orders from Pune to Chennai where their three plants are located. Bajaj transferred Pulsar production to Pantnagar and Waluj, so the Chakan plant lost on those about 35,000-40,000 vehicles, so these are forwards taken by the customer and we did see a future of these orders coming back to the plant, that is what triggered this consolidation.
- Chirag Shah:** Thank you very much and all the best.
- Moderator:** Thank you. Next question is from the line of Venil Shah of ICICI Securities. Please go ahead.
- Venil Shah:** Thanks a lot for the opportunity sir. Sir, you mentioned that some of the orders for Royal Enfield were shifted to Chennai in that case does this mean that we have lost out on some of these orders?
- Anurang Jain:** No, the orders are within the group, it is just that our plant in Chennai has got all the orders, because the problem there is of transportation and packaging extra cost when you transfer goods from Pune to Chennai, so when the volumes were up to a certain level they were okay. Further, our Royal Enfield supplies are growing there, they have grown 31% last year, so they are going very fast and they want to give us more and more business, but they want us to be next door to them.
- Venil Shah:** Right sir, how you are looking for any major capex activity in the Chennai plant because I think last year, the plant was operating at something like 60% utilization level?
- Anurang Jain:** We are adding another whole building there and there is a big growth happening with both Royal Enfield and with this Hyundai Group and many new opportunities are coming with Kia Motors, which is setting our plant there and they have sent us RFQs. We have also received RFQs from Renault Nissan whose plant is located there.
- Venil Shah:** In the four-wheeler segment?
- Anurang Jain:** Yes, that is four-wheeler castings. Casting 6%, which we supply for the four-wheeler industry; 6% of our India sales is mainly into aluminium castings.
- Venil Shah:** Sir, for this quarter what would be the revenue share of proprietary products for both the quarter and the full year.
- Anurang Jain:** Yes, I know for the year. For the year the proprietary has gone up to 41% from 37% as a part of the India business, castings has gone down by 4.5% last year and extra 0.5% growth has come in aftermarket, so that is what explains the share of business.
- Venil Shah:** We would not have this number ready for the Q4 right?

- Anurang Jain:** Q4 I do not have it right now, but it can be given, it is not an issue.
- Venil Shah:** Sir, last question with respect to the ABS opportunity, as per our discussions currently what is the kind of capex that we are envisaging for this opportunity?
- Ramesh Gehaney:** Right now we are expecting that including plant, machinery, and building, this capex would go up to Rs.60 Crores spread over two years.
- Venil Shah:** Sir, not a major expense in terms of machinery and other capex?
- Ramesh Gehaney:** No, see that evaluation is going on because as you know that we just recently tied up with BWI, our team is already there. We have to evaluate...
- Anurang Jain:** We are just giving you an approximate tentative figure, which we have worked out. After talking to BWI, these can change. It can go downwards or upwards. It depends on the out sourcing also which we do, depends on that also, if we find good suppliers in India.
- Venil Shah:** Thank you so much.
- Moderator:** Thank you. Next question is from the line of Pratik Poddar of ICICI Prudential Asset Management. Please go ahead.
- Pratik Poddar:** Sir, just to understand the benefits of capacity utilization, could you just talk a bit about how many of your plants would be below optimal and how many of your plants would be above optimal and with the consolidation, which would happen in the next months, where would be blended average optimal utilization for the...?
- Anurang Jain:** What I would say is the Pune plants, mainly I will come to Pune plants. These plants are below 75% and they can easily go up to 85% easily and our focus is to do that with this consolidation from 4 to 3. The main concern is I think Pune, the plants should get full orders and we are doing this by not only consolidation, but increasing our export business with GETRAG, which last year we did about Rs.75 Crores, which is exports of aluminium castings to their plants in UK, France, and Mexico. We are going up to, I think approximately, about Rs.125 to 150 Crores this year, so it will also give us better economies of scale, so the combination of consolidation and higher exports from the three plants in the Pune belt. So we are doing a lot of work to improve the economies of scale from this plant. I think the main is this area and of course it is a continuous effort to improve efficiency in all the other plants. So proprietary is at a very good level of capacity because the investments are less there comparatively, so we can absorb shocks there much more easily, so during demonetization it was not such a big problem there.
- Pratik Poddar:** I understood that sir and just one specific question related to the Hero plant where you would be supplying for... you have 100% business for the suspensions. Is there some understanding with

the OEM that in case the utilization levels at the OEM front go down, they would compensate you or that is not there?

**Anurang Jain:** No, that is not there, but what we have a feeling as our comfort level is that Hero is a company, which will not lose a single incentive. When they set up the Haridwar plant they even diverted orders from other plants to Haridwar because to use the 100% incentive as fast as possible, so Halol also I am pretty sure they have good incentives. They will make sure that even if they have to produce more at the cost of the other plant(s) they will do it, that is our belief, so the 62,000 per day I think will be a reality by end of 2018-2019 is our belief.

**Pratik Poddar:** That is good for you, sir just on the optimal utilization part and economies of scale is it fair to understand that this cost, I mean, after the consolidation happening, your EBITDA growth would outstrip bad growth going into FY2018 because economies of scale would start...?

**Anurang Jain:** It is very difficult to talk like this about the future, but that is our aim of course that is the goal for the company, but you know like I said uncertainty in the new normal what I have seen in the last six years, you never know what comes and what hits you out of the blue, so we are just on the company doing our best to be better and better prepared as we go along to be able to absorb these shocks and try and increase more business which has higher profit margins.

**Pratik Poddar:** That is it. Thank you so much and all the best.

**Anurang Jain:** Thank you.

**Moderator:** Thank you. The next question is from the line of Amol Kotak from Enam Securities. Please go ahead.

**Amol Kotak:** Good morning.

**Anurang Jain:** Good morning.

**Amol Kotak:** I just wanted some of the things to be repeated, what growth did you get in the Europe customers in the current year.

**Anurang Jain:** Yes, you are talking about the four customers I mentioned, the four major ones.

**Amol Kotak:** Yes.

**Anurang Jain:** I will just tell you, Fiat Chrysler group was 9%, Daimler was 28% growth, BMW was 14% growth and General Motors was 6% growth.

**Amol Kotak:** BMW was?

**Anurang Jain:** 14% and 6% with General Motors.

- Amol Kotak:** What is the absolute number for revenues in aftermarket and exports for FY-2017?
- Anurang Jain:** I will just tell you that, Mr Choudhury how much is it?
- Biswajit Choudhury:** Rs. 82 Crores.
- Anurang Jain:** Export is Rs. 82 Crores out of that. Out of Rs. 211 Crores, Rs. 82 Crores are exports mainly to Africa, South American countries.
- Amol Kotak:** You mentioned exports grew by 16% in FY-2017, what is the absolute number?
- Anurang Jain:** Absolute number of exports?
- Amol Kotak:** Yes, revenue.
- Anurang Jain:** Only aftermarket?
- Amol Kotak:** Both put together.
- Satrajit Ray:** Is your question what is the total export out of the company?
- Amol Kotak:** Yes.
- Satrajit Ray:** Rs.168 Crores.
- Amol Kotak:** and aftermarket total revenue?
- Anurang Jain:** It is Rs.211 Crores total aftermarket, total aftermarket including Rs.82 Crores of exports.
- Amol Kotak:** I got it. What is the debt position as of FY-2017, gross debt?
- Anurang Jain:** Net debt is 0.26:1. It has come down from 0.43:1.
- Satrajit Ray:** Are you asking about gross debt for the group or for the Company?
- Amol Kotak:** For Endurance Company consolidated.
- Satrajit Ray:** Consolidated gross debt is Rs.694 Crores.
- Amol Kotak:** And what is the cash position?
- Satrajit Ray:** We have a net debt about Rs. 443 Crores because in Europe we have **considerable** cash.
- Amol Kotak:** You mentioned about 150 people will get VRS, so what...?

- Anurang Jain:** No, what I said is this is an estimate. We do not know how many people would get VSS, so as the question was asked we are hoping that so many people may take VSS, but we do not know, this is the voluntary scheme, otherwise we will transfer them to our other plants because we have requirement for expansion we will transfer them to the other plants in Chakan as well other plants in Aurangabad.
- Amol Kotak:** Sure. Sir, I was trying to understand with the new plant, how would the employee counts move over the next couple of years?
- Satrajit Ray:** Which new plant are we discussing?
- Anurang Jain:** Are you talking about Halol plant or about what we are transferring from Takve to our Chakan plants.
- Amol Kotak:** So, we are consolidating certain plants, we are adding one more plant?
- Anurang Jain:** Yes, one plant we are shutting down and transferring the business to our plant plus outsourcing to our supplier also, it is a combination of both, one is to get a leverage on better margins and fixing our profits we are outsourcing to suppliers about nine machines are going there and rest we are going to transfer to our plant in Chakan, to the two plants in Chakan out of the three.
- Amol Kotak:** Could you also speak about some of the other opportunities, which you are looking as a company, so ABS is one of them, what are the other things, which you are looking on a larger scale?
- Anurang Jain:** Other opportunities I would say what are the growth triggers are for us, which are there. One is today except for Bajaj and Royal Enfield where we have high share of businesses, we have not penetrated on four segments with other customers, so for example Hero, we started with suspension and castings, our CVT and clutch is at advance stage of clearance. We hope to start by the end of this financial year for both the products with Hero. With Honda we were in two segments of casting and suspension. In March 2017 we started supplying clutch assemblies to them. The next product we are taking up with Honda is CVT and with Honda, our brakes' complete assembly is already under testing. Similarly, I told you about Hero and HMSI and then you have Yamaha. There also our clutch is under testing. We are in suspension and castings. The next product we are taking up with them is CVT, so one is the trigger of entering all four segments with the existing customers increasing the share of business with them. The other growth triggers apart from ABS is the CBS plus you have front forks, which are replacing shock absorbers. When you have a company like Bajaj Auto, which is getting into more value add, where a significant portion of supplies are for its commuter motorcycles for example hydraulic shock absorbers have been converted to oil and gas spring absorbers with and without canisters, where the value add is much higher. So the idea is to increase the share of business wherever we are, we are getting to all new four segments CBS, ABS, front fork replacing shock absorbers and



in clutches, paper clutch assemblies coming in place of your cork based clutch assemblies, where the price is much, much higher, so there are many growth triggers like this.

**Amol Kotak:** Over the next couple of years, all of this would materialize?

**Anurang Jain:** Yes, it will materialize and we have been saying even earlier to the IPO that the growth potential we will see is 8% to 10% every year. In the first half of the last financial year 2016-2017, we were at 9.7% growth in the first half that was in the range of 8% to 10%. The demonetization hit us and then we had a growth of 5.8%, so that is why 8% to 10% is our take going forward to grow with all this initiatives, which we are doing because it is very important to keep increasing your profitability also with growth. Growth without profitability has no meaning for us in Endurance.

**Amol Kotak:** Fair enough. Thank you very much.

**Moderator:** Thank you. We will take the next question from the line of Narottam Garg of Chanakya Wealth Creation. Please go ahead.

**Narottam Garg:** Good morning.

**Anurang Jain:** Good morning.

**Narottam Garg:** As you just mentioned that you have made inroads to brakes and clutches business for Honda now?

**Anurang Jain:** Yes, so clutch we have already started in March 2017 for their Dream series of bikes, motorcycles and for brakes, we have already given our samples to them, which is under testing.

**Narottam Garg:** So there are other players in the market you have, so this is basically an RFQ, which you have given in, you are yet to receive a response?

**Anurang Jain:** No, clutch we have started in fact the start of production had happened in March and there the share of business will increase based on quality. As far as the brakes are concerned our products are under testing. Once it is cleared, we hope that in 2018-2019, we will start the production, but Honda is the company once you are okay, once you are good, and that is why I said this Grand Award we got basically is for quality, cost, development, management, response time. There are many factors they see to give a Grand Award to a company as a best supplier of the year, so that is also helping us to really gain a lot of business with the fastest growing two-wheeler company in India and as you know, in April they are only 12,000 vehicles behind Hero now in terms of total sales of two wheelers.

**Narottam Garg:** Is there any visibility for getting business for the larger models like Activa for brakes and clutches?

- Anurang Jain:** Brakes are basically they have a combined braking system. They have a drum brake, which is of low value. We are not really keen on that to be honest, that is low value business, but yes CVT the main focus is CVT, which already is at an advance talk of getting started with the joint development programme, because this is a step-by-step approach. Clutch we have just started. This initially started more than 18 months ago, March 2017 we started the production. Now next will be CVT. Brakes, they already told us to give the samples last year, we gave it in this year, I mean mid January to March of the last year, so it is a step-by-step approach, but once you are cleared in Honda the growth is very fast. The share of business happens very fast.
- Narottam Garg:** Brakes is also for the Dream series or is it for Activa?
- Anurang Jain:** Well it is for different models now, there are of course you know K55 and all so I cannot tell you more, but it is for a large-product segment, I can just tell you that.
- Narottam Garg:** Got it, and you mentioned that you will be supplying CVT also for Honda now?
- Anurang Jain:** No, we will be starting the development of the CVT with them.
- Narottam Garg:** You have started development activities?
- Anurang Jain:** No, we will start the development. Clutch, we have started with them in March, the production and supplies and brakes are under testing with them, the complete assembly of brakes.
- Narottam Garg:** Okay. Thank you so much.
- Moderator:** Thank you. The next question is from the line of Rohit Sinha of Asit C Mehta. Please go ahead.
- Rohit Sinha:** Good morning sir, thank you for taking my questions. Just a few questions that what is your capex plan for FY-2018 and also what is your new capex and what would be the maintenance capex?
- Anurang Jain:** I can tell you that our Indian capex is Rs.275 Crores, overseas capex is Euro 15 million. For example last year we had planned Rs.275 Crores and we landed up with about Rs.230 Crores because the capex we spend when there is a requirement. This demonetization also did have an impact, so we postpone the capex, so going forward the capex will be Rs. 275 Crore out of which normally 60% is for expansion and 40% is for maintenance which includes EHS, safety activities, innovation, energy efficiency projects, R&D approach projects, but for expansion generally it is 60% of whatever capex we spend.
- Rohit Sinha:** So Rs. 275 crore would be your Indian Capex?
- Anurang Jain:** Yes, and overseas is about Euro 15 million. Specifically though we have said 15 it may become Euro 18 million that depends on the opportunities again.

**Rohit Sinha:** Fine and one more question on your balance sheet, if we look at the debtors, it has increased quite significantly from FY 16, so is it because of the demonetization factor or any other reasons?

**Satrajit Ray:** Last year we had done some account receivable purchase (debtor funding) that we did not need to do this year, so the cash position has improved very significantly.

**Rohit Sinha:** Just on update on your inverted front fork section. Currently are we supplying to any models or will be starting in next few months?

**Anurang Jain:** Inverted front forks if you see it is for all KTM models made out of India. Exporting for one model even to KTM, which is a 690cc bike and going forward we have a plan of increasing the exports in a big way with KTM, we have already got indications. I cannot talk about it right now.

**Rohit Sinha:** Basically it is KTM only right now?

**Anurang Jain:** Some is coming back to that, second is for Harley Davidson started inverted forks for them for the India requirement for their new bike, this production started I think about two or three months ago and third is for the Mahindra Mojo, which is a very small volume, they are doing hardly around 150, so right now these three but going forward as the trend goes towards higher bikes, we are getting indications of inverted forks coming in and as you know from India, we are the only manufactures of inverted forks as of today who is commercially supplying them.

**Rohit Sinha:** Okay. Fair enough. That is all from side sir, thank you.

**Anurang Jain:** Thanks.

**Moderator:** Thank you. Our next question is from the line of Ashish Nigam of Axis Capital Limited. Please go ahead.

**Ashish Nigam:** There was some talk earlier that to meet the CBS norms OEMs will have to replace drum brakes with disc brakes at least in the front, so what are we hearing from the OEMs on that?

**Anurang Jain:** See what is happening is that the range is from to 100 to 125cc, now if you see as you go towards 125cc you have disc brake assemblies, so where you have disc brake assemblies there will be a version of hydraulic mechanism in the front and a mechanical rear where we want to be. So for example if I am supplying disc brake assemblies to Bajaj, if I am doing say 100,000 a month of disc brakes, all the disc brake assemblies will have a hydraulic front and rear mechanical feature, but there could be bikes going forward, of course still not proven by any of the OEMs yet, where for 100cc they want to go for mechanical, mechanical, you know CBS, so we have to wait and watch for the next six months how these things will progress, but we are more interested in the hydraulic and mechanical version or hydraulic, hydraulic version, which is the disc version not a mechanical, mechanical version because that is low cost and we are not interested in that because the margins are not there.

- Ashish Nigam:** The cost increase, as you mentioned, would be in a range of Rs.2,500 to Rs. 6000 for ABS. For CBS what kind of cost increase could be there for the OEMs?
- Anurang Jain:** That pricing is yet not done, but it could be... see for the low-end mechanical, mechanical which we are not interested could be Rs.200, but what we are interested would be around Rs.600 is what is our estimate right now.
- Ashish Nigam:** This is the second question for Massimo, what has been driving the strong margin of the Europe business and how sustainable does it look...yes just on the margin of Europe?
- Massimo Venuti:** So, the last quarter or Q4 for the European company was the best in our history because we closed the quarter with Euro 60 million turnover and Euro 11 million of EBITDA 18% with a net result of 6.2%. This was due to many reasons. During the previous years, we invested in complex parts with different profitability so we hope to maintain this percentage of profitability also in the next quarter, but it depends for sure on the market performance. This expectation is sustainable if we will be able to maintain a good mix of products. Now we are looking for further additions to our product portfolio and so the target is to continue to invest in managing technology for complex parts and reducing the percentage of simple parts for which, as you can imagine, in Europe there are a lot of competitors from many different countries. In this case we can have a benefit in terms of EBITDA, because in the European market it is not possible to grow organically in an important way in terms of turnover. This financial year was very peculiar due to the recovery of the market after the low level of marked performances reached in the last five years and so our focus is to increase the profitability with the same level of turnover, this is the target.
- Ashish Nigam:** Okay and you know our Europe order book at the moment and therefore what kind of revenue growth can we work with, going ahead?
- Massimo Venuti:** As I already told, we continue to see Euro 300 million revenues at the end of 2020. This however depends on the level of worldwide market demand because unfortunately the export of the European cars' manufacturers in the last six months is not so good due to the situation in the other markets such as United States. However we have already started with the development of five different projects for German customers, Porsche, Daimler, and Volkswagen and these new projects we will start between 2017 and 2020; and have already booked business till 2025 if we speak about engine and till 2028 if we speak about transmission. For this reason, we are very positive, now we are developing these projects and we will start production capacity increase in Italy and Germany from 2018 to 2019.
- Ashish Nigam:** It has been over an hour so maybe we can close this call. Thank you team on behalf of Axis Capital. Thank you all for joining the call today and thanks to the Endurance management for giving us the opportunity to host this call.
- Anurang Jain:** With pleasure Ashish.



*Endurance Technologies Limited  
May 11, 2017*

**Ashish Nigam:** Thank you everyone, have a good day.

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