"Endurance Technologies Limited Q4 FY2018 Results Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Endurance Technologies Q4 FY2018 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 call please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ashish Nigam from Axis Capital Limited. Thank you and over to you Sir!

Ashish Nigam: Thank you. Good morning everyone. Welcome to the Q4 FY2018 Results Conference Call of Endurance Technologies. From the management team, we have with us Mr. Anurang Jain, Managing Director, Mr. Satrajit Ray, Director & Group CFO, Mr. Ramesh Gehaney, Director & COO, Mr. Massimo Venuti, Director & CEO, Endurance Overseas, and Mr. Raj Mundra, Treasurer and Head - Investor Relations. I 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 everyone. I am Anurang Jain, Managing Director of Endurance. I would like to share details of how we have done in the Q4 of 2017-2018.

In India, the Q4 of 2017-2018 has been very good for the two-wheeler industry. As per the SIAM data, the two-wheeler industry sales grew by 25.2% compared to the Q4 of the previous financial year. Scooters grew by 24.1% and motorcycles grew by 27.1%. It is interesting to note that motorcycle growth has outpaced the scooter growth in this quarter.

In India in financial year 2017-2018, the growth in the two-wheeler industry has been encouraging as per the SIAM data, which showed a growth of 15.4% in FY2018 over FY2017, where scooter sales volume grew by 19.3% and motorcycles grew by 15.1%.

The three-wheeler sales received a boost towards the latter part of the year leading to a very high annual volume growth of 29.7%. When I speak about the financials for Endurance, you will note that our topline growth is well ahead of the market volume growth.

In Europe, in Q4, in spite of a 0.7% growth in the European Union Automotive Sales, our European operations have posted a total income growth of 8.3% in Euro terms. On a full year basis, the European Union Automotive Sales grew by 1.4% and our European Operations posted a top line growth of 7.6% in Euro terms.

On the financials, I will briefly talk to you about the Q4 of 2017-2018 and then about the full year of 2017-2018. During Q4, as compared to previous year same quarter, our consolidated total net income grew by 28.5% from Rs.13,921 million to Rs.17,894 million. Consolidated EBITDA grew by 31.4% from Rs. 2,017 million to Rs.2,650 million. Consolidated EBITDA margin percentage improved from 14.5% to 14.8%. The profit after tax was Rs.1,164 million at 6.5% of net income. The profit after tax grew 39.3% over the previous year.

During Q4, our standalone total income grew by 32.7% from Rs.9,637 million to Rs.12,792 million. Standalone EBITDA grew by 41.8% from Rs.1,174 million to Rs.1,665 million with an increased EBITDA margin percentage of 13% as compared to 12.2% in Q4 of the previous year. Standalone profit after tax was Rs.819 million at 6.4% of net income and a growth of 56% over the previous year.

I will now brief you on the financials for the financial year 2017-2018. Our consolidated total income grew by 16.8% from Rs.56,199 million to Rs.65,617 million. Consolidated EBITDA grew by 20.8% from Rs.7,874 million to Rs.9,513 million. Consolidated EBITDA margin percentage improved from 14% to 14.5% and the profit after tax margin for FY2018 was Rs.3,908 million at 6% after considering a one-time cost of Rs.269 million towards the Takve plant voluntary separation scheme for workers. This is a 18.3% growth in profit after tax over the previous year. Without this payment, the profit after tax would be Rs.4,083 million at 6.2% with a profit after tax growth of 23.6%.

During 2017-2018, our standalone total income grew by 19.7% from Rs.38,924 million to Rs.46,595 million. Standalone EBITDA grew by 25.9% from Rs.4,836 million to Rs.6,088 million with an increased EBITDA margin from 12.4% to 13.1%. The profit after tax was at Rs.2,716 million at 5.8% after considering Rs.269 million towards our Takve plant voluntary separation scheme for workers. This is a 22.6% growth in profit after tax over the previous year. Without this payout, our profit after tax would be Rs.2,892 million at 6.2% with the profit after tax growth of 30.6%.

We would like to mention that as a part of our operational strategy, we will continue to focus on consolidation of our plants and make them multiproduct plants to help get better economies of scale and thereby improve our profit margins. The detailed financials are available with the stock exchanges and on the Endurance Website.

During 2017-2018, 71% of our consolidated total income including other income came from Indian operations and the balance 29% came from our European operations. Our Indian operations grew 19.7% while our European operation grew by 10.2% in rupee terms and 7.6% in Euro terms.

The Bajaj Auto share of business on consolidated sales was at 35%, down from 37% in the previous year. This was despite our annual revenues to Bajaj growing by 10%. In India, there was a sizeable growth in business with Honda two wheelers or HMSI by 44%, Royal Enfield by 26%, Hero MotoCorp by 78% and Yamaha India by 28%. Our top five clients in India are Bajaj Auto, Honda two wheelers or HMSI, Royal Enfield, Yamaha India and Hero MotoCorp. In Europe, in Euro terms, we grew 37% with Volkswagen group including Porsche, Audi, and Skoda, 16% with Daimler, and 42% with BMW. Our top five clients in Europe are Fiat Chrysler, Daimler, Volkswagen Group, Opel and BMW. Opel has recently been acquired by Peugeot.

Our Aftermarket sales in India grew 13.8% from Rs.2,122 million to Rs.2,415 million. This included both the domestic and export sales. Our domestic aftermarket sales grew by 27% which is a reflection of the market favouring organized players like Endurance, post the GST.

GST has enabled us to close 11 CFA stock points in various states and serve our customers directly from our plants. For the first time, we touched the Rs.1 million mark for annual sale of shock absorber products in the aftermarket. We have introduced, in trading, new products such as connecting rods, cables and cone sets and did Rs.100 million sales in 2017-2018. We have also strengthened our sales network by appointing more than 100 new stockists in India and 7 overseas during the year.

Our exports from India grew by 30.9% from Rs. 1,679 million to Rs.2,198 million. Our exports mainly comprised of aluminum castings, front forks, shock absorbers and aftermarket exports to 23 countries. Getrag Transmissions who is a key supplier of transmission assemblies to Ford is our major export client for aluminum casting. The export to Getrag plants in Mexico, UK and France in 2017-2018 saw a 35% increase in sales over the previous year. Getrag transmission constituted 46% of our total export sales.

I would now like to brief you about certain other key highlights at Endurance. I am happy to inform you that Endurance acquired Rs.12,430 million of new business in 2017-2018 mainly with HMSI, Hero MotoCorp, Royal Enfield and Hyundai. Further to the 2017-2018 new business acquisition, I am happy to inform you that HMSI has given us, in this week, a letter of intent for 2.3 million numbers per annum order for scooter rear shock absorbers for all their 4 plants. We are presently supplying to HMSI's third and fourth plants, but this order will be for all the 4 plants of HMSI.

The scooter front fork orders of 2.76 million numbers per annum was already informed to all of you during our con-call in February 2018.

Hyundai Motors is emerging as a large customer for aluminum casting business for us, with a new approx.Rs.1,000 million order. This will start from 2018-2019 onwards. This is a part of our endeavour of acquiring more four wheeler business and supplying fully machined castings with higher profit margins.

Also the value of export orders for upside-down front forks and rear shock absorber for KTM and Husqvarna 401 to 790 cc motorcycles have further increased in this financial year to Rs.420 million. This is a very important order for us and would help us in attracting new export orders from other large motorcycle OEMs.

Our new plants are progressing very well. Our Sanand Gujarat plant expansion to supply aluminum castings to Hero MotoCorp's Halol plant requirement has already started in April 2018. Our two wheeler suspension plant in Halol, Gujarat is going as per plan and supplies will start from July 2018. We have 100% share of business for front fork and shock absorbers for Hero's Halol plant.

The Narsapur Karnataka plant is also going as per plan and will start supplies of shock absorbers from September 2018.

The ABS brakes tie up with BWI (USA) is also progressing well. There is very close coordination between the teams at Endurance and BWI. We are on track to give final prototypes to our client by August 2018. We believe that the learnings from these interactions will help us to convert future ABS enquiries at a much faster pace. We will continue to target February 2019 to be ready for commercial supplies.

Our 29 acre test track is taking slightly more time as we need to ensure the quality of the track and it will now be ready by July 2018.

Our CSR activities are also progressing very well especially on the vocational training which helps approximately 300 people per annum to get jobs or be self-employed, as well as on supporting villages with infrastructure including safe drinking water and toilets as well as education and health support.

There are large opportunities coming our way in all our four product areas including new products being the 150 cc and above motorcycle suspension front forks and shock absorbers, paper friction plate, clutch assemblies, front and rear disc brake assembly, scooter continues variable transmissions and fully machined aluminum castings for four wheelers. It is also a goal to add more products to our existing four-product portfolio. We are actively engaged to identify opportunities for M&A or technical tie ups. However target identification and negotiations can be a protracted process and therefore we are evaluating very carefully such opportunities and not acting in a hurry.

We at Endurance will also continue to focus on growing business in all our four product areas with our existing clients and new clients, which is a big growth driver for us. Also we are focusing on increasing our aftermarket and export business in India and looking at organic and inorganic opportunities both in India and Europe. With these opening remarks, I would like to invite questions from everyone. Thank you.

Moderator: Sure, thank you very much. We will now begin the question and answer session. First question is from the line of Jamshed Dadabhoy from Citi Bank. Please go ahead.

Jamshed Dadabhoy: Good morning. Thanks for taking my question. If I look at your domestic incremental EBITDA margin, (which is basically incremental EBITDA of Q4 minus Q3 divided by incremental revenues) it seems to have come down to about 9% or 9.5%.If you think about your capacity utilization trending up etc., , the incremental margin should have been substantially higher. So is there any bunching up of fixed overheads which is there in the Q4 like CSR spends or something which are not recorded… not apportioned in the first nine months, which have only reflected in the Q4?

Anurang Jain: Our EBITDA margin for Q3 was 13.1 and EBITDA margin for Q4 is 13.0. So, the basic issue is the raw material cost- aluminum and steel prices went up. So that has an impact on the margin, but we are pretty well off if you look at the quantum of profit that we earned.

Jamshed Dadabhoy: What I am asking is that incrementally between 3Q and 4Q your net sales are up Rs. 155 Crores, and your EBITDA is of Rs. 15.5 Crores. So 15 Crores divided by 155 Crores just about 10% margin, so I am trying to fathom if the top-line increase is only optical because of material cost and if that is the case then how much…

Anurang Jain: It is material cost.

Satrajit Ray: This is mainly the impact of the sharp increase in steel prices, which has happened in the fourth quarter, only. There are certain pass on to customers which are underway, which we will get in April and May 2018. Until we get the amendments, we cannot take them in the Q4 financials. Because the price rise has been so high, there are certain negotiations happening with the customers mainly on the steel. Aluminum price adjustment, which we should have got by March 2018, also got delayed. We are already seeing it happening in April and May. So these impacts will come in April and May and hopefully a large part of the amendments on steel and aluminum will be taken care of.

Jamshed Dadabhoy: Okay. So what is the tonnage growth if we could measure it that way, I know it is difficult, but do you have a sense of what the tonnage growth would have been quarter on quarter or year on year?

Anurang Jain: Okay, what we can do is get back to you with the figure. Right now, we do not have the figures here, but we will get back to you with the tonnage growth on the aluminum casting front.

Jamshed Dadabhoy: Okay. Thank you. Next question on the European business. Really good set of numbers! The EBITDA margin which you have reported – a little over 19%. Is there any one-off in the revenues? Is there some increase in tooling revenues or something for the quarter?

Massimo Venuti: No. The result of the last quarter was absolutely normal considering the revenue from the operations and low other income from tooling. In the quarter we closed with 64.5 million Euro from sale of parts and 0.2 million Euro of Other Income. Completely in line with the previous year, so there are not extraordinary effects. We have had a positive EBITDA compared to the previous year, and also compared to the previous quarter due to the fact that starting from January 2018 we sold more of less 10,000 parts of the new cam cover for Volkswagen. Now we are producing 4000 parts a month. Through this, our growth in VW revenues was 80% in Q-4 vs the Q-4 of FY-17. For the full year, the growth was about 35%.

Jamshed Dadabhoy: Okay Massimo, what is your order backlog or revenue cover right now in the European business?

Massimo Venuti: It is more or less EUR 310 million, considering the last order acquisitions that we have done in the last 6 months with Porsche and Daimler. For Porsche, Mission E project (electrical vehicle), we acquired 2-clutch housing, more or less 80,000 parts per year. Also, we got orders for the new adapter gear, and the new transmission for Daimler worth more or less, EUR 15 million. With these last acquisitions and the ramp-up till 1 million pieces of VW cam cover, we can reach in 2021-2022 of more or less EUR 310 million. For sure, it will depend on the situation of the market at that time

Jamshed Dadabhoy: Okay**.** Got it. I will come back for more questions. Thank you.

Massimo Venuti: Thank you.

Moderator: Thank you. Next question is from Jinesh Gandhi from Motilal Oswal. Please go ahead.

Jinesh Gandhi: Hi team, congratulations for great set of numbers.

Anurang Jain: Thank you.

Jinesh Gandhi: First question pertains to the four wheeler opportunity for the India business, so Hyundai business has just started. Are the products which we have developed in India based on the technology we have in India or this involves leveraging on the technology which we have in European business?

Anurang Jain: This technology is from India itself. Hyundai is an old customer of ours. In the last year and a half, the opportunities have really grown in Hyundai and we are looking at more and more machined castings where the value added is much more. So, to answer your question we have a castings engineering center in Pune. We have an in-house tool room also, for many years. So this technology is homegrown. But whenever we had an issue in some other four wheeler businesses with Getrag, we did take the help of overseas company to identify the tooling supplier, who helped us with supplying toolings and for 3D models. So we do take help where we require, but for the Hyundai business, this is all Indian technology on product and process.

Jinesh Gandhi: Okay, so likewise are we in discussion with other big customers?

Anurang Jain: Yes we are, but we are very sensitive to the volumes and the pricing when we are taking the business because the investments in four wheeler business is higher than in two wheeler business.

Jinesh Gandhi: Okay. So any sense on by when can we expect some headway to that business?

Anurang Jain: It is already in process. Apart from the Rs.1000 million Hyundai business we took last year, new businesses are in process. Getrag exports is a huge opportunity for us because it has been acquired by this large group called Magna and now we will get opportunities also for the Magna Group, So there is a lot happening. The question will be how much we can invest, looking at our bandwidth of investments. So we will have to go step by step because we do not want to do too many things at the same time. We will have to do things that we can handle and make sure that we give them the quality and the timely supplies, and at the same time make our money.

Jinesh Gandhi: Okay and secondly can you share your revenue contribution from key customers, India and Europe?

Anurang Jain: If I see for the consolidated sales for whole of last year, about 34.68% was Bajaj, 13% was the Fiat group and 9% was HMSI, 8% was Royal Enfield and 5% was Daimler, 4% was the Volkswagen Group, Yamaha was 3% and Hero about 2%.

Jinesh Gandhi: Okay and what would be the growth for Fiat for the full year?

Massimo Venuti: 4.3% growth in the year and composition of Fiat in Endurance Overseas revenues is 44.1%.

Jinesh Gandhi: 44% in Euro?

Anurang Jain: Yes. And fiat comprised 13% of the consolidated revenues in Rupees

Jinesh Gandhi: Right. With Volkswagen new supplies starting, how would this 4% VW composition of consolidated sales look like? Do you expect it to be very sizable number or very different number than what it is for FY2018?

Massimo Venuti: Okay. In the Q4, Volkswagen Group closed with 11.7 million of Euro total turnover, or 18.1% of the quarters turnover in Euros. We did increase 79% compared to same quarter of the previous year. If we analyse the total year, Volkswagen with total turnover 33.4 million of Euro, percentage of 13.2% of Europe revenues with an increase compared to the previous year of 35%.

Anurang Jain: So for the year VW is 13% of Europe. This is already increased to more than 18% in Q4 and this will keep increasing going forward. Volkswagen Group includes Porsche, Audi, Skoda.

Jinesh Gandhi: European business margins have been phenomenal in this quarter. You expect this kind of margin between 18 to 19% to sustain or you expect some headwinds in terms of other cost or mix resulting in shift towards 17% or so?

Massimo Venuti: So pressure on margins is the daily situation for us .We are facing pressures from customers, suppliers and internal cost**.** For sure, flat markets will boost such pressure because of customers trying alternatives and that will attract all kinds of competition. But we are optimistic to protect our profitability by looking into all solutions and actions in the future as we have done in the past. So in our opinion, we can maintain this profitability because, we are starting with the new important product with higher volume. In this kind of product, we are able to perform in a more efficient way compared to small-volume orders.

Jinesh Gandhi: In European business, the price pass-through has been happening for commodity prices at a reasonable lag or that happens at the end of the year?

Massimo Venuti: The situation is similar around the world. In Q4 there was a problem with the aluminum prices, as you know. But we recovered these from the customer. And at this moment, we don't see any kind of problem in price pass-through.

Jinesh Gandhi: New business which you are getting from Hyundai on aluminum die casting, would profitability be similar to other 4W aluminum casting margins?

Anurang Jain: Yes, it will be.

Jinesh Gandhi: Okay. Great Sir. Thanks and all the best. I will come back in queue.

Massimo Venuti: Thank you.

Moderator: Thank you. The next question is from the line of Shyam Sundar from Sundaram Mutual Fund. Please go ahead.

Shyam Sundar: Hi. Thanks for the opportunity. Sir from European OE market perspective, we are hearing a lot of issues in terms of diesel backlash. We have also been seeing some softness in the OE volumes as well. How are you seeing the Europe Market evolving going forward?

Massimo Venuti: The problem at this moment in European market is total volume and not the percentage of diesel and gasoline products because according to the data released by ACEA in January 2018, the European market growth is expected to slow to around 1% in 2018 and in the quarter, new car registration in the EU grew 0.7% confirming these expectations. In terms of technology, 2017 saw reduction of diesel engines compared to the previous year of 10% due to the diesel scandal and also the new rule in terms of reduction of pollution.

There was an increase in electrical vehicle and hybrid solutions but, in absolute terms, only 5.8% of the total market in 2017 are with these kind of technology and so 95% of the total market continues to be with the gasoline and diesel. The percentage of diesel is 45% down from 50% reduction of 10% compared to the previous year. For sure, in the next year, there will be an increase of electrical and hybrid solutions because we are seeing all the customers are developing solutions to comply with emission regulation, exploring new technological options for hybrid electrical vehicles and also for full battery electrical vehicles. Considering Endurance's ability to produce high quality casting for all these vehicles, we do not see any significant problem in the medium term, if there will be changes in the technology. At this moment, as you can read in the newspapers there are different visions. Daimler continues to invest in a strong way in the diesel engine, Volkswagen Group says that within 2025, 20% of the total range of product will be electrical. Nevertheless at this moment, all the customers are investing in hybrid solutions which consists an internal combustion engine with electrical engine. As I told you in the past, for Endurance this is an opportunity because it means to increase the content of aluminum component in the twin engines and in the overall vehicle.

Shyam Sundar: I understand, this is the big opportunity for Endurance and also we are gaining market share into newer OEMs such as VW, How do you see the market evolving from the luxury segment perspective, do you see softness this year especially in the light of emission driving norms Thanks.

Massimo Venuti: Car makers make models with variants between diesel, gasoline and hybrid. Based on government norms, incentives and customer preferences, the volumes in each segment change. For example, in Germany, starting from June 2018, the government will give Euro 5000 incentive to the people that will change to Euro 6.It is very difficult therefore to say what will be the percentage of hybrid or gasoline or diesel in the future. As I told, in 2017 the European market closed with 5.8% of Hybrid + electrical of which only 1.5% is completely electrical and so I do not see the likelihood of a sharp growth from this front in the next two to three years.

Shyam Sundar: Okay Sir. Thank you. That is it from my side. Thanks a lot.

Moderator: Thank you. Next question is from the line of Nikunj Gala from ASK Investment. Please go ahead.

Bhaskar: Hi. This is Bhaskar here from ASK. Thanks for taking the question. Just wanted to understand the ABS, CBS opportunity, how are we placed in terms of our preparedness and what sort of revenues we are targeting from this opportunity?

Ramesh Gehaney: As far as the ABS is concerned, we are already at the concept validation stage. All the parts have been made. We will simply have to assemble them and get them tested at the Arizona track in US. That process is already lined up and as Mr. Jain said earlier that we are on track to submit the samples by August 2018 and now our target continues to remain the same - to have the samples ready for mass production by February 2019.

Bhaskar: Okay and would you be able to give any broad guidance in terms of the revenues of the business that you are looking at ABS

Ramesh Gehaney: The capacity we are putting up is for 500,000 ABS systems. Cannot give you revenue because the pricing has not yet been finalized. As far as the CBS system, we are already ready; pilot lot supplies have already started to certain clients. That is lower value addition compared to an ABS.

Bhaskar: So ABS in terms of the price point versus the CBS will that be almost three times, four times higher than CBS, is that a fair assumption?

Ramesh Gehaney: In fact much higher than that also.

Bhaskar: Okay**.** Much higher than that.

Ramesh Gehaney: Much higher because ABS is electronically controlled, it is with a much higher technology than CBS and that is why people like Bosch, Continental are doing these kind of products.

Bhaskar: Okay. Great. Thanks. That is it from my side.

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

Aditya Jhawar: Thanks for the opportunity and congratulations for the great set of numbers. What is the share of our proprietary business in the standalone entity for this Q4 and FY2018?

Anurang Jain: proprietary is approximately 50%of the India business.

Aditya Jhawar: This is for FY2018?

Anurang Jain: This is for FY2018, yes.

Aditya Jhawar: And what was the comparable number for previous year?

Anurang Jain: Previous year was slightly lower.

Aditya Jhawar: Okay, going back to the previous question on the margin so if you can see that the gross margin contraction was about 240 basis point in 4Q for the standalone business, and since the share of proprietary business has also increased on a Y-o-Y basis, could you please explain why there is the compression to the extent of 240 basis point on a Y-o-Y basis?

Anurang Jain: As far as the margins are concerned, all margins have increased compared to the previous year, if I take annual, it is 12.4 versus 13.1 and if I take Q4 it is 12.2% versus 13%. So the EBITDA margins have substantially increased both Q4 as well as for the full year. Within the operating costs, RM costs, other costs and gross margins get impacted by product mix and sourcing mix. As you are aware, the aluminum and steel prices had gone up sharply. Though the amendments from customers did not come in by March, we have already started getting them from April and we will get the balance in May. So it will be a pass through, but it has been a late pass through, so I cannot book those profits on that unless I get the purchase order amendments. So that has happened but EBITDA margins have improved substantially in India compared to the previous year.

Aditya Jhawar: Fair enough. Every three months, will the commodity prices be passed through or you have to again renegotiate the pricing even for commodity?

Anurang Jain: It is passed through, usually on a quarter basis. In some cases, it is every six months but of-course there is always an interaction on what should be the increase. There can be a difference between a customer and a supplier. The pass through is there – how much pass through is there is a matter of looking at the market scenario, and adjusting the nuances but it is always a pass through. The negotiation will not make too much of a difference.

Aditya Jhawar: Right, fair enough. And for the Europe business is there 20% growth - if we can get breakup in terms of what was the volume, pricing or currency impact?

Anurang Jain: So the growth I have already mentioned for the last year was **7.**6% in Euro terms and more than 10% in rupee terms. It was higher in Rupee terms as the exchange rate was favorable. However, against 1.4% growth in the European Union auto sales we grew 7.6% in Euro terms.

Aditya Jhawar: Okay. Fair enough. There is 120 basis point expansion in the Europe margin to about 19.9%, it is pretty impressive. So what should be the sustainable margin in your view?

Massimo Venuti: We closed the year 2017-2018 with 18% of EBITDA. The target is to try to maintain this percentage because also in the previous year, we have had Q4 with 18.6% of EBITDA and this financial year 19.3%. Usually in the European market, the first three months of the year are the best. This is absolutely normal according to the historical trend. People usually buy the cars not in the last month of year, but in the first three to six months and this is the trend. For this reason, we performed very well in the Q4. Our target is to achieve more or less the percentage of EBITDA that we have had in 2017-2018. So we are speaking above 18%. This is the target.

Aditya Jhawar: Fair enough. Final question to Anurang. So what would be your guidance for growth for the consolidated entity as well as margin for FY2019 and 2020?

Anurang Jain: It is very difficult to give guidance. Earlier I have always mentioned, pre IPO also about 8%-10% CAGR. I can add easily today, that we will always outgrow the market, because of three reasons: diversification into new clients, increasing share of business with existing clients and supplying all the four products segments to all the OEMs. So these are our growth drivers for us. So we always do better than the industry growth. This is something I can assure. I have seen so many ups and downs in the last 10-15 years, it is very difficult to give a guidance because there are so many uncertainties which are beyond your control.

Aditya Jhawar: Perfect. Okay Sir. All the best from my side. That is it.

Anurang Jain: Thank you.

Moderator: Thank you. Next question is from the line of Rakesh Jain from Asit C Mehta. Please go ahead.

Rakesh Jain: Hi. Thank you for the opportunity. Congratulations to the whole team for the numbers you achieved. Sir my first question was regarding the KTM order which you have told, so what is the quantum of that order, if you can spell out?

Anurang Jain: See it is approximately 40000 set of upside down front forks and rear mono shocks, these are very high technology items. As you know, we are the only supplier of upside down front forks commercially in India. We got this order for KTM and Husqvarna bikes because of the confidence they had looking at our supplies to KTM Bajaj in India and our long-standing tech tie-up with WP which is part of KTM. The total is about 40000 sets with Rs. 420 million sales value this year, I hope it continues to grow like this because KTM globally is growing a lot. They are doing very well including in India as well as overseas. I think this opens up new opportunities because even other OEM customers get confidence when you supply for a 401 cc to a 790 cc motorcycle. These are very high margin products and profitable products, so this opens up new opportunities, so that is what is about it, it is about 4000 sets.

Rakesh Jain: Okay, so what percentage of this supply are you contributing right now?

Anurang Jain: In India, they are doing about 80,000 to 85,000. Overseas must be going up to 150,000. I do not have the exact figure right now, I can give you KTM Overseas volume separately. So we are supplying quite a large percentage around 25%, if it is 40000 on 150000. This is direct export, this is nothing do with supplies to Bajaj in India.

Rakesh Jain: Okay. How much would it be with Bajaj?

Anurang Jain: Bajaj is about 85 to 90,000 sets of the same upside down, front forks and rear mono shocks.

Rakesh Jain: But then we get the same realization both in exports and Bajaj?

Anurang Jain: Well that is a question very difficult to answer, because if there are customers in the call I will be in trouble, okay! So rather I do not answer that! I am sure you want us to do much better, right?

Rakesh Jain: Sure, we will take that offline sometime. Sir second thing I actually missed out on the growth number of Hero and FCA for the last quarter, how much you did?

Anurang Jain: 42% in the last quarter for Hero because the last quarter of 2016-17 was very high also.

Rakesh Jain: And with FCA?

Massimo Venuti: 0.8% for Fiat Q4.

Anurang Jain: We are almost flat with Fiat.

Rakesh Jain: Okay and have we started CVT supplies of scooter?

Anurang Jain: No, not yet, we hope to start by the end of this financial year. Okay the testing is at a very advanced stage and it should be completed. We are a second source. So second source always takes a bit of time. Everything else is finalized. So let us hope we can start in this financial year.

Rakesh Jain: Sir on looking at your European business the growth has been phenomenal out there. So I mean what utilizations are we running at out there and do we think we will need additional capacities to set up in near term.

Massimo Venuti: At this moment in terms of capacity, we are producing 31000 tonnes in pressure die casting and we have a production capacity 35000 tonnes. Starting from June 2018, we are increasing our production capacity in Germany so we were working with 85% of saturation in the foundry. Regarding the machining, as you know, it depends up on specific product.

Anurang Jain: To answer your second question also, we will be doing new investments every year. We have already said about 15 million to 20 million Euro, it could be higher looking at the opportunities every year. We have always mentioned that. So the new investments will be required to increase capacity and if the opportunities are greater, we will even spend more.

Rakesh Jain: So an additional question on the Fiat-Chrysler, in the last quarter, Y-o-Y they degrew by 1.5% in European business and our sale to them also were flat almost. So how do you interpret this going forward for FCA as it contributes such a large portion of our revenue? What is the expectation from Fiat?

Massimo Venuti: As you know Fiat-Chrysler market is influenced mainly by its sales in Italy. Unfortunately in the last six months, the Italian market did not perform very well compared to the other countries such as Spain, France and Germany and for this reason, Fiat-Chrysler grew less. In the total year, the increase of volume compared to the previous year was 4.3% for Endurance Europe. We are seeing an important increase of Jeep despite reduction of brands as Lancia and Fiat. As you know in the month of June, there will be a new strategic plan for Fiat-Chrysler and we will see what the situation will be, but at this moment we are seeing that the total volume with Fiat-Chrysler is more or less stable compared to the previous year.

Rakesh Jain: How many units of shock absorbers and front forks we are supplying to Hero's Halol plant?

Anurang Jain: We have reached now around 1200 to 1300 sets a day but we are also supplying to the Neemrana plant an equal quantity of 1200 to 1300 sets a day of front forks and shock absorbers.

Rakesh Jain: What should be this by the end of FY2019?

Anurang Jain: Towards the end of FY2019, it should go to 3500 to 4000 sets and then of course will increase further after that.

Rakesh Jain: Alright that is it from my side. Thank you so much and all the best Sir.

Moderator: Thank you. The next question is from the line of Ashish Nigam from Axis Capital. Please go ahead Sir.

Ashish Nigam: So on the ABS and CBS - are we getting a sense of what configuration OEMs will use because you know in CBS also there are many options like hydraulic, mechanical and within that also drum and disc. So what configuration are OEMs most tilted towards right now?

Anurang Jain: As far as Endurance is concerned, we are already supplying them disc brake assemblies. CBS is an actuation mechanism, which controls both the front and the rear braking system. So as far as we are concerned we will only be doing for hydraulic. The front has to be hydraulic. As far as we are concerned we will do it on our products. Like for example, if I supply to Bajaj so all the disc brake assemblies, which we supply to Bajaj, will have our CBS system. We are not getting into those lower cost CBS systems, which are mechanical. So we will be mainly doing hydraulic only.

Ashish Nigam: Are the OEMs more tilted towards hydraulic or they are trying just to get through with this normal mechanical only.

Anurang Jain: Right now the mechanical is still work-in-progress for motorcycles. We do not have clarity yet but we know one thing that whatever we are doing will be hydraulic. We have already started the pilot lot supplies for that.

Ashish Nigam: Also in ABS, there were some articles that ABS is doable with just a disc brake in the front, not the rear. Is that something we are hearing?

Ramesh Gehaney: Yes it is possible because if the disc brake is in the front, the ABS is a single channel and if the disc brake is on the front and rear, it is a dual channel. So ABS with front disc brake is possible.

Ashish Nigam: Okay and also a question for Mr. Jain. Your shareholding is currently 82.5% and as per the norms, you have to go down to 75% within the next year and a half. What are your thoughts on when you plan to do that?

Anurang Jain: We have up to October 2019. Honestly, we have no plans right now to dilute at all and like I said also in my opening remarks we are very cautiously looking at our fifth new product segment or product area and we have to be very careful about which segments to enter. Of course we are actively working on that. So unless we have a pretty good opportunity which will need funding earlier, and right now we are not seeing that. We have a lot happening in India and Europe in terms of greenfield investment and that is what we are focusing on. So to answer your question we have no plans right now to dilute. Until closer to October 2019, we will wait and watch.

Ashish Nigam: Okay this is good. Just one housekeeping question for Mr Ray. If you could just give us gross and net debt number for standalone and consol?

Satrajit Ray: Gross debt number in India was Rs. 198 Crores, the net debt Rs. 144.5 Crores and the consolidated numbers were gross debt Rs 814 Crores, net debt Rs. 266.5 Crores.

Ashish Nigam: Thanks so much.

Moderator: Thank you. Next, we have a follow up question from the line of Jamshed Dadabhoy from Citi bank, please go ahead.

Jamshed Dadabhoy: Yes, thank you again. So just a couple of follow up questions. Hyundai order for Rs. 100 Crores, when will you all start booking that as revenue - from which quarter…?

Anurang Jain: We are starting from 2018-19. This Rs.1000 million order is a part of the Rs. 12430 million orders we took last year. It is likely to start from Q3 of this year.

Jamshed Dadabhoy: And what is your market share on this business?

Anurang Jain: I think it is 100%. I mean whatever parts we got from Hyundai, it was 100%.

Jamshed Dadabhoy: Okay and which plant will you all be supplying this from?

Anurang Jain: This is from our Chennai plant. We have one plant already next to Hyundai and we have bought another piece of land also for our future expansion. So the Chennai area is really expanding very fast now but this order will happen in existing plant only.

Jamshed Dadabhoy: Okay. And what percent of your India business and the European business are you either single source or the primary supplier? Would you have a sense?

Anurang Jain: See, it depends on volumes. When we talk about 4-wheelers normally, the share of business is 100% for the products which we have and I am talking about only Endurance India now when you have talk about, 2- and 3-wheelers, barring certain cases where Hero gave us 100% per share of business for Halol, normally, there are always two suppliers. So generally, it is single source for 2 and 3-wheeler for lower volumes, and for higher volumes, it is always two suppliers. And for 4-wheelers, it is always 100% share of business where the volumes could be not more than 5000 to 10000 a month for each segment. So we have not experienced anything less than 100% so far in India 4W.

Jamshed Dadabhoy: Is this the same situation then even in Europe?

Massimo Venuti: 83% of the total volume, we are sole supplier; and 17% with other suppliers.

Jamshed Dadabhoy: Okay, and last question, any change in your capex guidance?

Anurang Jain: We have already mentioned Rs.2750 million to Rs.3000 million. But, what happens is that the capex can go up if there are new opportunities. Like I mentioned, just early on Monday, we got this LOI from HMSI, which is a very high share of business for shock absorbers for scooters starting from 2019-2020 onwards. And we got in February the scooter front fork, 2.76 million. So that is why we are going for a new plant in Karnataka. It will be started by September 2018. Because of such reasons capex could go higher than the guidance of Rs.3000 million for the full year.

Jamshed Dadabhoy: Okay. And the guidance for Europe is still maintained at about EUR 18 million?

Anurang Jain: Yes, I would say Euro 18 million to Euro 20 million. But again, if the opportunities happen from Volkswagen group and all, we would not shirk from spending money because our debt is very low. As long as it gives us proper growth, these figures can change. But as of now, what we can see is Euro 18 million to Euro 20 million overseas and Rs.3000 million in India as capex.

Jamshed Dadabhoy: If you had to take 2, 3-year time-frame, how much do you think your revenues from the 4-wheeler side would be on the castings?

Anurang Jain: See, right now, it is 6.5% of our India sales. But the percentage is a factor of total business. If we keep taking 2 and 3-wheeler business, then in spite of a great growth in 4-wheeler castings, we may still be at the same percentage. Also in, 2 and 3-wheeler business because of high volumes, the value is very high. And 4-wheeler business, has very high investments where we take a look at ROCE very carefully. Of course, the profit margins are higher. But talking about growth focus in the business, there definitely is a huge focus on aluminum casting machined business whether for exports to people like Getrag or to Indian OEMs. Hyundai is only one customer. I cannot speak about others because discussions are in process right now.

Jamshed Dadabhoy: What are your Getrag revenue?

Anurang Jain: It was Rs.141 Crores or Rs.1410 million.

Jamshed Dadabhoy: In FY2018?

Anurang Jain: Yes, FY2018 and this will further grow in FY2019.

Jamshed Dadabhoy: Thank you very much.

Moderator: Thank you. Next question is from the line of Nitesh Goyal from Kotak Securities.

Nitesh Goyal: Thanks for taking my question. When you are talking about, Rs.1243 Crores of new orders, what timeframe are we looking at?

Anurang Jain: Starting from 2018-2019 onwards and will peak to these values in 2020-21.

Nitesh Goyal: And this includes all the orders that you have recently stated.

Anurang Jain: Except for the HMSI, scooter, shock absorber which we got only on Monday.

Nitesh Goyal: Okay, so that is additional to that?

Anurang Jain: That is additional.

Nitesh Goyal: And could you give any guidance on how much higher can you grow ahead of the industry to the industry in India? Basically, like other players...

Anurang Jain: Very difficult. See, like I said earlier, I have seen so many ups and downs in the last 10-15 years. I can only tell you we will grow higher than the industry because of growth drivers of taking more share of business, supplying all the four product segments to all OEMs and increasing the number of OEMs we have today.

Nitesh Goyal: Okay. Sir, my final question is on the European business. Basically, what I understand is in the European business, when you bid for a model, the pricing is decided upfront for the model life, until there is a mid-model change or refresher or something, . So I was a little surprised to hear that you guys also get the price increase on raw material on the European operations by customers. It is difficult to get price increases if I am right?

Anurang Jain: Well, for aluminum it is normal. I have not heard of anywhere in the world where for a commodity like aluminum, they do not give a pass-through because people would not survive otherwise. . So for us, it is normal, and this is normal for all customers of ours in Europe.

Nitesh Goyal: Okay. Great. Thank you and best of luck.

Moderator: Thank you. Next question is from Ridhi Mehta from Anand Rathi. Please go ahead.

Ridhi Mehta: Good morning Sir and congratulations on great set of number. Can you give me the revenue breakdown segment-wise and product-wise?

Anurang Jain: No, that is something we do not share for good reasons. So you will have to excuse us from giving that.

Ridhi Mehta: Secondly, if you can give the breakup of how much contributions is from 2 wheeler, 3-wheeler and 4-wheeler segment?

Anurang Jain: That I can share with you. For example, in 2017-2018, motorcycle was 68%, scooters was 7.5%, which makes total 2-wheelers 75.5%. 3-wheeler was 13% and 4-wheeler was 6.5% and rest is , other income So that was the break up for 2017-2018.

Ridhi Mehta: Coming to the aftermarket segment, can you give me the breakup how much was domestic and how much was the export?

Anurang Jain: Yes, we can give you that.

Ramesh Gehaney: Aftermarket was Rs.241.5 Crores, of which export was Rs.75 Crores.

Anurang Jain: Rs.241.5 Crores or Rs.2415 million, 31% was exports.

Ridhi Mehta: Okay. Secondly, for the Europe business, what was the contribution from key customers for Euro revenue?

Anurang Jain: We are sorry. We cannot share that. You will have to excuse us.

Ridhi Mehta: Currently, how many manufacturing plants are in a working mode? Post consolidation for India and Europe?

Anurang Jain: We had 18. We have closed operations in our Takve, Pune plant, and we have another plant in Chakan doing alloy for us. We have outsourced it to a contractor. So right now, we have 16 plants. But this year, the Halol plant will start in Gujarat from July; and from September, our Karnataka plant will start in Narsapur. So it will be back to 18 plants then.

Ridhi Mehta: Okay, and for Europe?

Anurang Jain: In Europe, we have 8 plants, 5 around Turin and 3 in Germany.

Ridhi Mehta: Please throw some lights on the content per vehicle during current year and as well as for previous year and your view on the same.

Anurang Jain: I can only tell you the content is increasing. But right now, I do not have those figures to share with you.

Ridhi Mehta: Okay, so do you see the increase going forward?

Anurang Jain: As we enter all our four product segments with OEMs, it will increase and it has already increased last year and will keep increasing.

Ridhi Mehta: Thank you Sir.

Moderator: Thank you very much. That was the last question in the queue. I would now like to hand the conference back to Mr. Ashish Nigam for closing comments.

Ashish Nigam: Thank you team. On behalf of Axis Capital, thank you all for joining the call today. And thanks again to the Endurance management for giving us the opportunity to host the call again. Have a good day, everyone. Thank you.

Anurang Jain: Thank you.

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