



Endurance Technologies Ltd. Q2 FY22
Earnings Conference Call

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MODERATOR: **MR. NISHIT JALAN – AXIS CAPITAL**

Moderator: Ladies and gentlemen, good day and welcome to the Endurance Technologies Q2 FY22 results conference call hosted by Axis Capital Limited. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing '*' then '0' on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Nishit Jalan from Axis Capital. Thank you and over to you, sir.

Nishit Jalan: Thank you, Melissa. Good morning, everyone. Welcome to Q2 FY22 result conference call of Endurance Technologies. From the management team we have with us. Mr. Anurang Jain – Managing Director; Mr. Ramesh Gehaney – Director and COO, Mr. Massimo Venuti – Director and CEO, Endurance Overseas, Mr. Satrajit Ray – Director and Group CFO and Mr. Raj Mundra – Treasurer and Head Investor Relations.

I will now hand over the call to Mr. Jain for his opening remarks post which we can have the Q&A session. Over to you Mr. Jain.

Anurang Jain: Thanks a lot. Good morning to everybody. I would like to share details of how we have done in the second quarter of the financial year 2021-2022. In India in the second quarter of FY22, as per the SIAM data, the two-wheeler industry sales de-grew by 4.5% compared to Q2 of the previous financial year. Scooters grew by 2.3% and motorcycles de-grew by 6.3%. The automotive industry in India had a de-growth of 1.4%. As you all know, our two-wheeler business in India is approximately 80% of the total Endurance India standalone business. As per the SIAM report, the two-wheeler volumes for Q2 FY22 were at 5.22 million numbers as compared to 5.46 million numbers in Q2 of FY21. This 4.5% decrease from Q2 FY21 to Q2 FY22 two-wheeler volumes, was mainly due to the shortages of the ABS ECU for the 150 cc plus motorcycles and the lower rural demand leading to lower entry-level two-wheeler sales. Against this two-wheeler volume drop of 4.5%, Endurance standalone topline sales grew by 16.5%. For our overseas operations in Q2 of this financial year, the European and UK market saw a decrease of 23.6% in the volume of passenger cars sold, while our European sales de-grew by 19.5% in Euro terms.

I will now brief you on the financials of the second quarter of FY22. During Q2 of this financial year, as compared to previous year same quarter, our consolidated total net income grew from Rs. 17,772.9 million to Rs. 18,957.5 million. Consolidated EBITDA de-grew from Rs. 3,203 million to Rs. 2,681.9 million. Consolidated EBITDA margin was at 14.1%. The profit after tax de-grew from Rs. 1,671.5 million in Q2 FY21 to Rs. 1,333 million and was at 7%. This included the income of the Maharashtra package scheme of incentives of Rs. 302.6 million. There was no consolidated net debt and company had a positive net cash of Rs. 3,524 million. During Q2 of this financial year our standalone total income grew from Rs. 12,927 million to Rs. 15,057 million. Standalone EBITDA de-grew from Rs. 2,357 million to Rs. 2,170 million, with an EBITDA margin of 14.4%. Standalone profit after tax de-grew from Rs. 1,343.9 million in Q2 FY21 to Rs. 1,223.6 million and the profit after tax was at 8.1%. This included the income of the Maharashtra package scheme of incentives of Rs. 302.6 million. The main reason for the

drop in EBITDA percentage was the RMC percent increase from 59.8% in Q2 of FY21 to 64.8% in Q2 of FY22. This increase is mainly due to the large aluminum alloy and steel price increases. We would like to mention that Endurance is focused in both its Indian and European operations, on profitable growth and in growing higher than the industry growth. The detailed financials are available with the stock exchanges and on the Endurance website.

I would also like to now share certain key points for Q2 of this financial year:

1. 79.4% of the consolidated total income including other income came from our Indian operations and the balance 20.6% came from our European operations.
2. In India till date Rs. 2,364.40 million of new business has been won in this financial year, from OEMs which included Hyundai, Tata Motors, Case New Holland, Hero MotoCorp, Mahindra & Mahindra and Sanmina. We would like to mention that in addition, we have Rs. 19,948 million worth of requests for quotes from OEMs which are being discussed. Our focus is to supply all our four product areas to all our OEMs.
3. I would also like to mention that Endurance is also focusing on a more value-added and profitable product mix in our future business which includes:
 - a. Braking, suspension and casting supplies, to two and three-wheeler EV OEMs and the new startups.
 - b. High cc motorcycle brakes and clutch assemblies with the help of acquisition of Adler and Grimeca in Italy in the year 2020.
The 200 cc plus motorcycle brakes business has already started from September 2021 and the 250 cc plus motorcycles clutch business will start by Q1 of the next financial year.
 - c. The paper-based clutch assemblies replacing the cork based clutch assemblies for motorcycles, the continuous variable transmissions or automatic clutch for scooters,
 - d. The antilock brake systems or ABS for 150 cc plus motorcycles where we have a collaboration with Beijing West Industries which is ex-Delphi. We have already started ABS supplies to Bajaj Auto from September 2021 onwards.
 - e. 200 cc plus motorcycle inverted front-forks and adjustable rear mono-shock absorbers. This is with the help of our collaboration partners, KTM AG.
We are working with KTM to increase supply of both the on road and also start with the off-road motorcycle higher technology inverted front forks and rear shock absorbers and have made a five-year plan for this collaboration.
 - f. We are also focusing on fully finished machined castings as compared to raw castings and semi-finished castings for two, three and four wheelers. We are also focusing on aluminum casting machined business for non-automotive applications like gensets and the telecom industry. We have been already awarded a total business of Rs. 1,100 million for this non-automotive casting business which will start from April 2022.
4. The brake assembly business is growing with addition of Bajaj, TVS, Royal Enfield, Yamaha, Hero MotoCorp and HMSI new business. We are thus increasing brake assemblies capacity from 2,85,000 brake assemblies a month to 5,70,000. Also,

brakediscs capacity from 3,75,000 numbers a month to 6,75,000. We will reach full capacity by March 2022. Our new plant at Waluj, Aurangabad has been set up for this increase in volumes and we will start by end of this month..

5. On 2nd February 2021, we started operations at our new plant at Vallam near Chennai to supply machined aluminum castings for Hyundai, Kia, Royal Enfield and now we are in the process of acquiring further new business for this plant from both existing and new OEMs.
6. In September 2021, we have also started supply of aluminum cylinder head low pressured die-castings from our Pantnagar , Uttarakhand plant. The capacity is for 7,20,000 cylinder heads per annum.
7. We are also happy to inform you that the supply of two-wheeler ABS assemblies has started from September 2021. Our plan is to reach a run rate of 4,00,000 ABS assemblies per annum by July-August 2022. As you may be aware, competition is mainly from Bosch which controls the major market share in the Indian ABS market that requires approximately 3-3.5 million ABS assemblies per annum and this market is growing. This is a very large opportunity for Endurance as there are very few suppliers due to the high technology requirements.
8. We are also focused on supply of our products for EV - two and three wheelers. We have already started supplies of brake assembly, suspension and aluminum castings for electric scooters and three wheelers. Our focus is to supply our EV products to two and three-wheeler OEMs, both existing and new, including Ola Electric, Ampere, Okinawa, Ultraviolette, Ather, and Hero Electric and new startups which are funded by existing OEMs. We have recently won the brake system order from Ather, which will commence in Q1 of the financial year 2023.
9. Due to increased orders from Bajaj and Yamaha India, we are increasing capacity from 240,000 alloy wheels a month to 3,20,000 alloy wheels a month in our existing Chakan plant near Pune, and the production will start in November, 2021.
10. As far as Europe is concerned, till Q2 of FY22 we have won €10.03 million of business from Porsche, Daimler, Case New Holland and Stellantis which is Fiat's new JV. As mentioned in previous investor calls, I would especially like to point out that in the last three years, €130 million of business has been won for electric and hybrid cars, which has already started in FY21. Out of this €130 million value, €35 million business won is for electric cars for Audi and Porsche and €95 million business won is for hybrid cars for Volkswagen, Daimler, BMW, Stellantis and Maserati and will reach peak volumes in FY25.
11. Endurance, both in India and Europe, is actively pursuing its focus on gaining access to new technology and focusing on new product launches through organic and inorganic route.
12. I would also like to mention that Endurance has also entered into two backward integration product areas which are import substitutes.

Aluminum forging parts required for our inverted front forks. Endurance has entered into a technical collaboration with FGM Italy, and supplies will start at Aurangabad plant from December, 2021.

Wire braided hoses for ABS applications for mid and high-end bikes. The supplies have already started in June 2021 from our Aurangabad plant. Both these projects will help us in our future profitable growth.

13. In the second quarter of this financial year, our aftermarket sales grew from Rs. 713.54 million in the previous year to Rs. 1,100.5 million in this financial year. The aftermarket business was at 7.3% of our net India standalone sales in the second quarter of this year.
14. We are exporting our aftermarket parts to 30 countries and we are adding 4 more countries in this year. We have started trading in two and three-wheeler tyres for both India and exports.
15. In Q2 of FY22, the export sales for the India standalone business increased by 52% from Rs. 427.23 million in Q2 of FY21 to Rs. 516.93 million in Q2 of FY22.

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

At Endurance it will be our continuous endeavor to grow through organic and inorganic route with a focus on technology upgradation, quality improvement, cost, and environment health and safety. We will do our best to fulfill all our stakeholder expectations by following our five values of Customer Centricity, Integrity, Transparency, Teamwork, and Innovation.

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

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

Ashutosh Tiwari: As you mentioned that you received the brake assembly order from Ather, is there any order from any of the other EV OEMs? What would be the quantum of this Ather order?

Anurang Jain: Ather order is about Rs. 500 million per annum and we are actively engaged with all the major two-wheeler EV companies, and are at quite an advanced stage with many of them.

Ashutosh Tiwari: Will Ather order start from Q1 FY23?

Anurang Jain: Yes.

Ashutosh Tiwari: On the alloy wheels side - is there a delay in the ramp up? You had earlier mentioned about starting the plant in October 2021.

Anurang Jain: Indeed, there has been a slight delay in starting the plant. But as far as the supplies are concerned, we are supplying from our existing plant. So, we have not allowed customer schedules to be

affected at all. Of course, this led to some pressure on the existing plant. From next month, it should be much better. We are starting increased supplies to both Bajaj and Yamaha India. And we are also talking to other OEMs quite actively. We want to increase alloy wheel business from the new plant.

Ashutosh Tiwari: So, the new plant capacity will be 320,000, so the overall capacity will go to 320,000 units per month.

Anurang Jain: Overall, capacity is 320,000 numbers. It includes 80,000 numbers of alloy wheels a month from the new plant. We can further increase it based on customer orders as we have the space.

Ashutosh Tiwari: Are you seeing good traction in this alloy wheel business?

Anurang Jain: We are interacting with a few other OEMs and are in advanced stage. Whenever it fructifies, we will of course inform you.

Ashutosh Tiwari: Can we get some sense of the margins in the alloy wheel business?

Anurang Jain: We can assure you that the margins are decent, otherwise we would not expand.

Ashutosh Tiwari: You mentioned that even excluding the material cost impact there was growth in high single digit in India operations YoY. So, which projects are driving this growth? .

Anurang Jain: The major areas which are driving growth is of course the brakes business. We are also growing in the casting business, since we are into fully finished castings which have better margins. We are also getting into non-automotive machined castings business, like 5G telecom and gensets.. We have already received business of Rs. 1100 million. Supplies will commence from April 2022 our die-casting plants located in Chakan and Vallam. Further there are good prospects on the EV front, alloy wheel, suspension, brakes, non-automotive as well as fully machined castings for existing OEMs. We are also actively evaluating new organic and inorganic growth opportunities. Surely, any break-through happens - we will let you know.

Ashutosh Tiwari: This Rs. 1100 million new business is from which customer?

Anurang Jain: This business will commence from April 2022 for a company called Sanmina which is in 5G telecom infrastructure and Generac which is in gensets.

Moderator: We have the next question from the line of Jinesh Gandhi from Motilal Oswal Financial Services. Please go ahead.

Jinesh Gandhi: Can you share what would be growth for our two-wheeler segment revenues and what would be the contribution of CV segments now in second quarter versus last year?

Anurang Jain: The two-wheeler segment revenue is about 81% of our standalone turnover, now. It is normally in the range of 75-80%, but two-wheelers share is going up. It depends upon how the two-

wheelers are doing versus three-wheelers and four-wheelers in terms of volumes. Our major customer Bajaj Auto, has done quite well in its exports business which is about 45% to 50% of sales. They continued to do well in the COVID times

Jinesh Gandhi: Would CVs be still high single digit? Has that segment also grown quite rapidly.

Anurang Jain: Four-wheeler business share has also grown to 6.5% of our India sales. Four wheeler Castings business is a focus area for us. Hyundai, Kia, Tata Motors, Mahindra & Mahindra are our key customers, like I mentioned last time.

Jinesh Gandhi: How do we compare 6.5% in Q2 this year as compared to same quarter of previous year

Anurang Jain: This 6.5% share is for half year which has increased by about 1% over last year

Jinesh Gandhi: Any update on the new product line, and when do you expect to close on that?

Anurang Jain: Two projects are at an advanced stage, and we shall let you know once either of them are finalised. There are developments on proprietary front which could be EV specific. Our criteria for evaluation is, of course, market size and growth potential. Also, it should be a technology product with high barriers to entry, should have few players, good profitability and ROCE, it should be EV agnostic, and should have synergies with our operations and R&D strengths.

Jinesh Gandhi: Are you getting any feedback on shortages of aluminum or magnesium and its potential impact on your India and overseas operations?

Anurang Jain: Like other commodities, aluminum prices have also been rising. First there was a scrap shortage, and scrap prices went up; now that has stabilised a bit, but now you have the shortage of silicon which is required for alloying. The silicon shortage is because of the power crisis in China, which is a major supplier of silicon. The prices of silicon have increased from Rs.50-60 Kg to Rs. 170 a Kg. This has had an impact on RMC percentage to sales. There is no issue with availability if you are willing to pay the price. OEMs are bearing the price increases as they cannot afford to lose sales.

Steel prices which were increasing from last three quarters, have stabilised now.

Massimo Venuti: Till today, we haven't had any problem with availability of aluminum. In Germany, we use magnesium to produce primary alloy. Magnesium is imported from China, but availability is not a problem. We have a strong contract with our supplier. We know that some of our competitors suffered due to the fact that they do not have strong contracts with a specific suppliers. Apparently, the situation will improve starting from February.

Jinesh Gandhi: Can you update how the European business has had an impact due to chip shortage? Do you see any recovery in Q3 & Q4 based on the production schedules which you are getting from customers?

Massimo Venuti: We have seen a very bad result in terms of new car registrations. In October, as you probably know, the market closed with more or less (-) 30% and also the production in Germany de-grew by more or less 40%. But now we are receiving the first positive signal for the months of November, December, and January. Apparently, we have seen an increase compared to the program of the last eight weeks. So, it probably means that we have reached the minimum level. The feedback from our customers is that, starting from the first and the second quarter 2022, we can come back to the normality. Also, because as you know the situation of the semiconductor affected a lot of automakers. Some like General Motors and Stellantis were impacted more severely than others like Toyota, Tesla, and BMW. So, it depends on the contracts that they had with their suppliers. In my opinion, the positive aspect now is that we are working closely with our customers, particularly for the newly developed parts. Customers apparently want to confirm the volume for 2022 as per their producer forecast.

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

Aditya Jhawar: You have mentioned in the press release that India business excluding the impact of aluminum price increase has grown at a high single digit, after adjusting for government incentive. Similarly, if you can share a number for Europe - what would have been the decline excluding the impact of aluminum price increase?

Massimo Venuti: Despite reduction of 23.6% in new car registrations, we have had a reduction in revenue, of 19.5%. But if I consider the same price of aluminum as last year, reduction was more or less 23.6% and it is completely aligned with the reduction in the market. If we speak about EBITDA, we closed the second quarter of this financial year with Euro 6.3 million of EBITDA - at 13.8% of sales. If we offset the impact of the increase in aluminum prices, the EBITDA would have been 14.7%.

Aditya Jhawar: For the die-casting business can you throw some light on order wins we are seeing for electric vehicles, which are the products in die-casting for EVs and how is the pricing as compared to ICE engine castings.?

Anurang Jain: The weight of EV casting is lower, but the number of casting parts is more as compared to traditional models. Also for EV castings, the value addition is better. The type of castings in EV portfolio include battery housings, terminal grounds, terminal phases, base MCU, upper plate, motor housing.. Also, castings like case transmissions castings, middle plate, upper plate – names are different compared to crank cases and covers and cylinder blocks and cylinder heads which are in an IC engine. However, we are finding the value-addition with machining to be better.

Aditya Jhawar: Have we won orders in die-casting for EV components?

Anurang Jain: We have already started supplies to Bajaj for their EV - Chetak. We are starting with 3-wheelers and now we are going to work with their new EV company. Also, we have received order for

castings with Aptiv which supplies to TATA Motors . We are also looking at 4-wheeler Tier-1 customers to supply too - those who are making battery packs which have good potential. Even for IC engines, we are working with Maruti, Sundaram JV and have won orders which will commence next year. Also received order from Cummins . We are working wherever we can make money and there is a good business opportunity.

Aditya Jhavar: Any update on the tyre business and what has been the contribution from the tyre segment and how margins of this segment are as compared to the company's average margins?

Anurang Jain: Let me clarify that we do not manufacture tyres. After the strong reaction we got in 2019 from all of you, we had – on the same evening – stopped the project to see the interest of our investors. Several investors didn't think tyres was a good business; so we don't manufacture tyres. We are trading in aftermarket. It is still a very small business for us - tyres for 2- and 3-wheelers. We hope to expand it. Our aftermarket margins are not bad. In trading including trading of tyres, we want to grow.

We are not in the 2- and 3-wheeler tyre manufacturing business. We are looking at a lot of more interesting organic and inorganic growth opportunities in the EV space as well as in proprietary space for 4-wheelers as well as for 2-wheelers.

Moderator: We have the next question from the line of Arvind Sharma from Citi. Please go ahead.

Arvind Sharma: On the ABS front we have a major global player that has a large share in the Indian market. Where do you think that your share in the overall pie can be in the domestic ABS market?

Anurang Jain: We have created confidence with our first customer. We had to benchmark our major competitor. Through our extensive testing that we conducted over last 3 years, we were able to match the product performance. Our focus is on quality and being price competitive. Our capacity is at 400,000 in a market of 3 to 3.5 million, and we should reach capacity by July/August, 2022. The semiconductor shortage from our key supplier is hindering us from reaching peak volumes from next quarter. The semiconductors supplies will ease from April 2022 which will enable us to reach a peak run rate at 400,000 per annum by July 2022 . We are also engaging with other OEMs for ABS since the opportunity is huge. Our 29-acre test track has helped us to achieve the standard of ABS performance faster.

Arvind Sharma: How cost efficient would be your ABS at the similar technology level? Does it provide the OEM more of a cost advantage while getting a similar or a higher quality of product?

Anurang Jain: We try to enter at lower price than competition. We have our own strategy on operations, on sourcing, technology and value engineering.

Arvind Sharma: What would be the revenue, EBITDA, and PAT in euro terms for this quarter for European operations?

- Massimo Venuti:** Turnover for Q2 FY22 is Euro 45.3 million; EBITDA Euro 6.3 million, EBITDA% 13.8%; PAT Euro 1.6 million and PAT % 3.4%.
- Arvind Sharma:** Can you share the similar number for Q2 FY 2021?
- Massimo Venuti:** Q2 FY21 turnover Euro 56.3 million; EBITDA Euro 9.8 million, EBITDA % 17.4%; PAT Euro 3.8 million, PAT% 6.8%.
- Moderator:** We have the next question from the line of Sonal Gupta from L&T Mutual Fund. Please go ahead.
- Sonal Gupta:** Could you repeat the aftermarket numbers for Q2 of this year and Q2 of last year?
- Anurang Jain:** For Aftermarket, for Q2 of this financial year turnover was 1100.52 million as compared to 713.54 million for Q2 of last financial year. So, we had a growth of 54% over last year .
- Sonal Gupta:** What was exports figures for last year ? You mentioned Rs. 516 million for this year
- Anurang Jain:** Last year was Rs. 427 million, so about 21% growth.
- Sonal Gupta:** There would be an overlap between these two categories – exports and aftermarket – or that is not much?
- Satrajit Ray:** Aftermarket exports in Q2 this year was about Rs. 31 crores compared to Rs. 22.5 crores last year. So, this grew by around 37-38%. Total Exports includes these numbers of aftermarket exports for the respective years.
- Sonal Gupta:** How would you be able to take advantage of PLI scheme ?
- Anurang Jain:** Basis what we have gone through in the recently published material, our only product right now which we can think of as covered in the scheme is CVT - continuously variable transmission. We need clarity whether it is applicable for 2-wheelers. And we are also going to check on whether ABS is covered. But certain projects we are looking at, like I told you, organically as well as inorganically, are fitting in this PLI scheme coverage. I cannot tell you what they are, but PLI will benefit us there.
- Sonal Gupta:** For Ather brake order, is the product same as the existing one or is it technologically different?
- Anurang Jain:** It is similar type of braking system..
- Moderator:** We have the next question from the line of Chirag Jain from DAM Capital. Please go ahead.
- Chirag Jain:** The supply chain for traditional OEMs is fairly well established, where outsourcing is done extensively and OEMs typically tend to do the assembly. Are we seeing similar sort of a sourcing

strategy even in the electric 2-wheeler startups or is there a lot of in-sourcing with them in the initial phase, so that they can respond to the market faster?

Anurang Jain: For our products which are brakes, suspensions, and castings, we are seeing the same sourcing strategy. There is no change. In fact, the good part is that for the castings, they are fully machined from Day1 . When we started ICE engine business for castings, a lot of the customers had in-house machining – whether semi-finished or full machining. For EV we have been receiving orders which has good value addition. . With regard to brakes and suspension, they don't have the technology , hence it is done by us.

Chirag Jain: For EV startups, is the pricing slightly lower, considering there can be prospective players willing to enter the market.?

Anurang Jain: The pricing is attractive. And the competition is the same. I don't see any new players coming.

Chirag Jain: Any thoughts on multi component die-casting technology used by Tesla for 4W? Can this be a disruptive risk over long term?

Anurang Jain: We are not engaged with Tesla, but they have their own technology called Giga Press which they are doing in-house or may be working with an Italian company called IDRA.I do not believe that the Giga Press technology will have an impact on our die-casting business. Mr.Elon Musk of Tesla has reduced the number of die-casting components which requires a massive press and much more investment. It is their own technology, to make these special presses which they may have worked upon, jointly with IDRA. We do not know whether these machines are available to all.

Moderator: We have the next question from the line of Pramod Amthe from InCred Capital. Please go ahead.

Pramod Amthe: With regard to ABS what are the production challenges that you are facing for critical components and what type of global capabilities you may have to bring on board considering that it has lot of electronic parts involved which you may have to ramp up to meet the requirement of the OEMs?

Anurang Jain: The focus is on process controls and quality. It is our target to have zero customer complaints and no warranty claims. We have started with few thousand numbers a month, and we will be slowly ramping up to reach our capacity by ensuring quality standards. The semiconductors shortage is a challenge but we have already placed long term orders which would start increasing from January onwards and then we should normalize our monthly requirements keeping in mind our peak capacity. We would like to derisk as much as possible, and would evaluate manufacturing in-house at an appropriate stage, as we are doing for wire braided hoses for ABS. Similarly, we are going to do aluminum forgings for inverted front forks, reducing dependence on high cost suppliers from Europe.

Pramod Amthe: On ABS, considering your experience, do you have more confidence now to customize your product faster for new models?

- Anurang Jain:** Based on our experience of last three years to meet the bench mark standards, we will be able to complete the process within a short period of time. One of the biggest advantage Endurance has its own test track. We do not need customer test track or the ARAI test tracks or other test tracks. We will do all testing on our test track with supervision of our OEM customers. So, this will shorten the lead time for product development.
- Moderator:** Thank you. We have the next question is from the line of Jinesh Gandhi from Motilal Oswal Financial Services. Please go ahead.
- Jinesh Gandhi:** Can you throw light on reduction in staff cost on QoQ basis vis-a-vis first quarter for Europe? Is this a one-time feature? Or is it in line with the production numbers?
- Massimo Venuti:** Employee cost in Q1 was Euro 13.2 million and in Q2 was Euro 10.7 million. There is a reduction of 2.5 million euro. This is primarily on account of drop in revenues and leaves taken during summer break. This is broadly in line with drop in revenues. Our employment costs are also impacted by outsourcing/ insourcing decisions. The first activity that we do in Europe when there is a reduction of volume, is to reduce Other Expenses by stopping the manpower leasing contracts and to in-source activity in order to work with our payroll people.
- Jinesh Gandhi:** What will be the tax rate for the full year, considering that the second quarter had a negative tax amount? What will be the sustainable tax rate going forward?
- Massimo Venuti:** Negative tax amounts in our European operations is due to the tax break on investments that we have done in the past. These benefits are for fixed amounts independent of the PBT. We will see more normative tax rates starting from the first quarter of 2022.
- Moderator:** Thank you. Ladies and gentlemen that was the last question I would like to hand the floor back to the management for closing comments. Please go ahead.
- Anurang Jain:** No further comments. I want to just thank everybody for their time on this call.
- Moderator:** Thank you members of the management. 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.