



Endurance Technologies Q3 Earnings Conference Call

February 09, 2023



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



*Endurance Technologies Limited
February 09, 2023*

Moderator: Ladies and gentlemen, good day and welcome to the Endurance Technologies Q3 FY23 Conference Call hosted by Axis Capital Limited.

As a reminder, all participant lines will be in the listen only mode and there'll 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 “*” and then “0” on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Nishit Jalan. Thank you, and over to you, sir.

Nishit Jalan: Thank you, Mike. Good morning, everyone. Welcome to Q3 FY23 Post-Results Conference Call of Endurance.

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 Q&A. Over to you, Anurang.

Anurang Jain: Thank you, and good morning to everybody.

I would like to share details of how we have done in the third quarter and the first 9 months of this financial year FY23. In India, in the third quarter FY23 as per SIAM data, the 2-wheeler industry sales degrew by 0.43% compared to the previous financial year. Scooters grew by 14.5% and motorcycles degrew by 4.6%. The automotive industry in India had a growth of 3.8%. In Europe in Q3, there was an increase of 14.9% in the European Union Automotive Sales including UK.

On the financials, I will talk to you about the Q3 FY23 and then the first 9 months of FY23.

During Q3, our consolidated total net income grew by 11.1% to Rs. 21,067.5 million from Rs. 18,965.9 million in Q3 of the previous year. Consolidated EBITDA grew by 19.2% to Rs. 2,510.2 million from Rs. 2,106.7 million in Q3 of FY22.

Consolidated EBITDA margin was at 11.9%. The net profit grew by 14.4% to Rs. 1,082.3 million from Rs. 946.3 million in Q3 of FY22, and the net profit was at 5.1%. There was no Maharashtra state megaproject incentive in Q3. There was no net debt and there was a positive cash available of Rs. 3,065 million. During Q3, our standalone total income grew by 7.4% to Rs. 16,047.46 million from Rs. 14,939.05 million in Q3 of FY22.

Standalone EBITDA grew by 9.2% to Rs. 1856.33 million from Rs. 1699.50 million in Q3 of FY22. The EBITDA margin was at 11.6%. Standalone net profit grew by 5% to Rs. 922.06 million from Rs. 878.46 million in Q3 of the previous year. The net profit was at 5.7%. There was no Maharashtra state mega project incentive in Q3.

The Endurance overseas sales growth in Q3 FY23 was 26.1% at €60.1 million as compared to €47.6 million in Q3 of FY22. EBITDA margin grew by 64.6% to €8.6 million in Q3 of FY23 from €5.2 million in Q3 of FY22. The EBITDA margin percent grew from 11% to 14.4%.

As far as Maxwell is concerned, the EBITDA loss of Rs. 61.5 million in Q2 FY23 has come down to Rs. 46.7 million in Q3 of FY23. The main reasons are the postponement of the launch of the Hero MotoCorp EV scooter Vida and semiconductor shortage. Our full focus is to have a profitable growth from the next financial year. For this, at Endurance, we are investing in our own in-house BMS assembly line, which will substantially lower the major cost of the BMS. Also, RM costs led by the semiconductor chip prices will come down. Maxwell, being a startup, was not expected to post profits in the first year.

During the first 9 months of FY23, our consolidated Total Income grew by 19.9% to Rs. 65,943.19 million from Rs. 54,987.02 million in the first 9 months of FY22. Consolidated EBITDA grew by 5.4% to Rs. 7,754.83 million from Rs. 7,358.64 million in the first 9 months of FY22. Consolidated EBITDA margin was at 11.8%. The net profit grew by 5.7% to Rs. 3,431.09 million from Rs. 3,245.21 million in the first 9 months of FY22. The net profit was at 5.2%. This includes the Maharashtra state mega project incentive of Rs. 585.56 million.

During the first 9 months of FY23, standalone Total Income grew by 23.5% to Rs. 51,361.31 million from Rs. 41,574.16 million in the first 9 months of FY22. Standalone EBITDA grew by 10.1% to Rs. 6,016 million from Rs. 5,465.87 million in the first 9 months of FY22 with an EBITDA margin of 11.7%. Standalone net profit grew by 14% to Rs. 3,044.06 million from Rs. 2,670.09 million in the first 9 months of FY22. The net profit was at 5.9%. This includes the Maharashtra state mega project incentive for Rs. 585.56 million. There was no net debt and there was a positive cash available of Rs. 1,836 million.

CRISIL, in January 2023, has reaffirmed our rating as AA+/ stable for long-term funding and the highest rating of A1+ for short-term funding. The Endurance strengths cited included operations, financials, customer strengths and diversified revenue streams. The risks cited were moderately high customer concentration and the industry cyclicality. The detailed financials are available with the stock exchanges and on the Endurance website.

I would like to share certain key points for the first 9 months of this financial year.

1. In the first 9 months of FY23, 78% of our consolidated Total Income including other income came from Indian operations and the balance 22% came from our European operations.
2. In India till date of FY23, Rs. 8,774 million of new business was won from OEMs other than Bajaj Auto. This included orders from HMSI, Hero MotoCorp, Ather Energy, Hero Electric, Mahindra, TVS and Tata Motors. This new business win includes Rs. 7,221.3 million of new business and Rs. 1,552.7 million of replacement business. The total business win for EVs, electric vehicles till date is Rs. 5,771.8 million. This included Rs. 1,987.8 million worth new orders in this financial year for the EVs, mainly from Ather energy, Hero Electric and Aptiv.
3. I would like to mention that we have Rs. 19,866 million worth of requests for quotes from OEMs. Since FY20 in India, Rs. 27,440 million of business has been won out of which Rs. 19,620 million is new business and Rs. 7,820 million is replacement business. Out of Rs. 19,620 million of new business, Rs. 4,410 million will happen in this financial year of FY23. A further Rs. 6,730 million will further increase this business in FY24, and the balance Rs. 8,480 million will begin in FY25 and FY26.
4. Our consolidated net worth is now in excess of Rs. 40 billion. Our customers recognize us as a trusted and a capable partner in their value chain in terms of both our technical and financial strengths.
5. As I mentioned last time, the electronic vehicles market continues to offer significant opportunity for growth for the auto component industry. It is estimated that the Indian EV market will touch Rs. 150 billion by 2030, growing at a CAGR of 90% in the next decade. Therefore, at Endurance, we have taken a major step forward to harness this opportunity by executing a share subscription and purchase agreement for acquiring 100% of equity share capital of Maxwell Energy Systems Private Limited in a phased manner. We have already concluded the acquisition of 51% stake in Maxwell. Maxwell is in the business of advanced electronics, particularly in the battery management space for automobile EVs and stationary storage.

We are happy to inform you that we have recently won Rs. 700 million order for BMS from Hero Electric, which supplies will start in Q1 of the next financial year. With the current order book, order pipeline and technical strengths as well as synergies between Endurance and Maxwell, we are extremely confident of achieving our goals in the embedded electronic space.

6. In Europe, to help our overseas operations to grow in the profitable 2-wheeler component aftermarket business, we have acquired an Italian company, Frenotecnica in July '22. This company is involved in the business of friction materials and components for braking systems, like brake pads for 2-wheelers. They have a renowned brand name Brenta, in the aftermarket and replacement business. This

acquisition gives growth opportunities to the Endurance Group in the aftermarket as well as provide access to in-depth knowhow or process technologies of friction materials, especially for the brake applications.

7. Also, in November 2022, we acquired another Italian company, New Fren Srl. New Fren is engaged in the business of brake discs, centrifugal clutches, pads, and brake shoes for 2-wheeler vehicles. The operations are carried out from its plant in Italy and its subsidiary namely GDS Sarl situated in Tunisia in Africa. The primary business activity comprises of sale of products under its trademark “NewFren” through the aftermarket channels.
8. The acquisition of our past Italian collaborator, Adler and Grimeca in 2020, Frenotecnica Srl in 2022, and now with acquisition of New Fren, we at Endurance Overseas want to create a Center of Excellence in Italy for the business of premium components in the 2-wheeler segment, giving profitable growth opportunities to the Endurance group.
9. I would like to mention that Endurance is focusing on a more value-added and profitable product mix in its future business which includes:
 - a. Braking, suspension, advanced electronics, and aluminium casting supplies to 2 and 3-wheeler EV OEMs and startups. It also includes the 200 cc plus motorcycle brakes and clutch assemblies with the help of acquisitions of Adler and Grimeca in 2020. The 200 cc plus motorcycles brakes business has already started and growing, and the 200 cc plus motorcycle clutch business, will start in Q1 of next financial year.
 - b. Some other product mix focus areas are paper based clutch assemblies replacing cork-based clutch assemblies for motorcycles. We are setting up a paper manufacturing plant in Waluj, Aurangabad as a backward integration and the operations will start in Q1 of the next financial year. This will help in lowering the cost of the paper and also the dependence on imported paper, which comes mainly from the US and China. Another focus area is the continuous variable transmission or automatic clutch for scooters. With Hero MotoCorp, we are at an advanced stage of testing and we expect to start supplies from the next financial year.
 - c. We will increase our anti-lock brake systems or ABS business for 125 cc plus motorcycles with the collaboration with Beijing West Industries. We have started supplies to Bajaj and Royal Enfield and are engaged with other OEMs for acquiring new ABS business.
 - d. We are also increasing business of the 200-cc motorcycle inverted front forks and adjustable rear mono shocks. This is with the help of our collaboration partners, KTM AG. We are increasing supply for on-road and also, we'll be starting with the off-road motorcycles for inverted front forks and rear shock absorbers. We also started supplies of inverted front forks to HMSI in India, and have won orders for the inverted front fork from Hero MotoCorp, and also are in engaged with other OEMs to get new business for the inverted front forks and rear mono shocks.

- e. We're also focusing on fully finished machined castings as compared to raw casting and semi-finished casting for 2, 3, and 4 wheelers as well as for non-automotive casting.
 - f. Our brake assembly business is growing with the addition of Bajaj, TVS, Royal Enfield, Yamaha, Hero MotoCorp, Ather and HMSI new business. Our second plant at Waluj, Aurangabad has been set up for this increase in volumes and has already started operations.
10. The supply of 2-wheeler ABS assemblies to Bajaj Auto started in September '21 and ABS assemblies to Royal Enfield supply started from February '22 onwards. We will reach a run rate of 4,00,000 ABS assemblies in this month. As you may be aware, competition is mainly from Bosch which controls the major market share in the Indian ABS 2W market, which is about 3 to 3.5 million ABS assemblies per annum. We are also in the process of supplying dual channel ABS by June 2023. And we are putting up additional assembly lines by adding volumes of 200,000 ABS assemblies per annum by March 2023, which will take our total volume to 600,000 ABS assemblies per annum. We are further planning to increase the volumes to 1.2 million single and dual channel ABS assemblies per annum from the second half of 2024. We will also from March '23 manufacture in-house the ABS valves, which is not only a technology component, but will help in substantial lowering of our costs and increasing the profit margins on the ABS.
11. We also focus on supply of our products for EV 2 and 3-wheelers. We've already started supplies of brake assemblies, suspension and aluminum castings for electric scooter and 3-wheelers. After the acquisition of Maxwell, we are also supplying BMS for 2-wheeler EVs and battery pack makers. Our focus is to supply EV products to all the existing as well as new 2 and 3-wheeler OEMs. Till Q3 of this financial year, we have won Rs. 1988 million of new business for EVs. The total business win for EVs is Rs. 5,570 million till date. We have received LOI a few days ago from Ather for the front fork and rear shock absorber business for the Ather 450 electric vehicles. The business value is Rs. 230 million and it will start in the end of Q1 of the next financial year.
12. We're also focusing on E-bicycles business, especially for our suspension BMS and brakes. This is both for Indian OEMs as well as exports.
13. Due to increased orders from Bajaj, Yamaha India, TVS and Hero Electric, we have added a new plant at Chakan to help increase supplies of from 240,000 alloy wheels a month to 380,000 alloy wheels a month. This plant has started operations last year in July '22. Supplies also started in the same month. Supplies to Hero Electric will start from this month onwards.
14. As far as Europe is concerned, till date of this financial year, we have won €67.4 million of business mainly from Volkswagen Group, Daimler and Stellantis. So, in the last 2 years, approximately €140 million of new business has been won. I would also like to point out that Endurance, both in India and Europe, is actively pursuing its focus on gaining access to new technology and focusing on new products, organic and inorganic growth.

15. Also, as mentioned earlier, Endurance has entered into backward integration for product areas which are import substitutes. First is aluminum forging axle clamps required for our inverted front forks. Endurance has entered into a technical collaboration with FGM, Italy and supplies have already started from our Waluj, Aurangabad plant to both Bajaj Auto as well direct exports to KTM. We also received orders for stem assembly and under bracket aluminium forgings from Hero MotoCorp. We are also engaged with other OEMs for supply of aluminium forgings other than for inverted front forks. The aluminium forging segment is a huge opportunity for growth at Endurance.

The second product is the wire steel braid hoses for ABS applications for mid and high-end bikes. This supply already started last year and both these projects are helping us in our profitable growth.

16. In the first 9 months of this financial year, our aftermarket sales grew 7.33% from Rs. 2,874.48 million in the previous year to Rs. 3,085.15 million in the first 9 months of this financial year. We are exporting aftermarket parts to 31 countries and this aftermarket sales growth is a large focus area for us.
17. In the first 9 months of this financial year, the export sales of the India standalone business degrew by 2.87% from Rs. 1426.12 million in the previous year to Rs. 1385.13 million in the first 9 months of this financial year. The major impact was due to lower export orders in the countries like Africa, South American countries like Colombia as well as the ASEAN belt.

On the environmental front, I would especially like to mention that Endurance is striving to be carbon neutral in its plants, by effective use of solar power and wind power, creating carbon sinks by driving tree plantation and thereby creating dense forests and driving use of natural gas and LPG in place of electric power and furnace oil. The use of furnace oil has been completely stopped at Endurance. We're also focusing lowering hazardous waste generation and to achieve zero waste to landfill.

At Endurance, it will be a continuous endeavor to grow through organic and inorganic means with a focus on technology upgradation, quality improvement, cost and Environmental Health and Safety. We will do our best to fulfil all our stakeholder expectations by following our 5 values of Customer Centricity, Integrity, Transparency, Teamwork and Innovation.

We, at Endurance, have a very positive outlook based on new large business wins since the last 3 years including for electric vehicles, both in India and Europe.

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

Moderator: Thank you. We will now begin the question answer session. We have the first question line of Aditya Jhawar from Investec. Please go ahead.

Aditya Jhawar: My first question is on our EV components. So, firstly, congrats for the BMS order from Hero Electric So, going ahead, what is the expansion strategy for EV components?

Anurang Jain: As far as our strategy is concerned, you know that suspension, brakes as well as aluminum castings are the EV orders we have been winning so far apart from the BMS of course. Hero Electric order which we have already won is for the BMS. So, these are the products as of now, which we are focusing on. There are also new products, but I can't talk about this. Once we start that or we are about to start that, I will talk about the other new products in the electronics space also. But we are working very, very actively on that. So, right now, you can say for the EV our product include suspension front forks and shock absorbers, brakes and different types of aluminum castings including case transmissions, battery housings, motor housing. So, these products will be our focus and, of course, our focus on EV is to engage, with all the existing as well as the new OEMs and we are fully engaged with them. And that's why the EV wins are happening quite fast, though we have been a late entrant by a year. Despite this delay, because of our strength in process and product technology, the business wins are happening quite fast. That's why we have already won in 9 months, Rs. 8,774 million rupees worth of new orders, including almost Rs. 2,000 million of EV orders. So, the strategy is to win orders from existing and new OEMs and we are engaged with all of them.

Aditya Jhawar: Further for our European business, we saw there was an energy price pass through for few customers, but should we expect another quantum of price pass through with some other set of customers to come in Q4 FY-23 or largely it is done in Q3 itself?

Massimo Venuti: In the third quarter of this financial year, we increased our EBITDA compared to the previous year and also compared to the previous quarter which was due to two positive situations. First of all, we received part of incentive from the Italian government. And the second was all major customers accepting to compensate more or less 60% of the total delta energy costs compared to the previous year. If you analyze our profit and loss with 14.4% of EBITDA compared to 11% of the previous financial year, and more or less the same increase compared to the previous quarter of this financial year, where, we didn't receive support from our customers.

For the future quarter, the situation with our customer is already defined. So, we can say that we can offset part of the increase of energy costs in the short term. Speaking about the incentives from the government, we have no information whether the Italian government shall support us post March 2023. It's not clear because the Italian government officially announced that they will support the industry till the end of March 2023 and they have not yet provided further indications. Fortunately, there has been reduction in energy prices in the last 2 months as compared to the previous quarter. And so, we are positioned to manage the situation fairly well.

Aditya Jhawar: Massimo, if you can give us some sense on how is the demand outlook looking in Europe, especially in countries like Italy and Germany? What is the sense we're getting from customers?

Massimo Venuti:

In the previous quarter, we closed with €60.1 million turnover compared to €47.6 million of the previous financial year. In Europe, we grew 26.1% in comparison to 14% growth in new car registrations in the market. We are taking share from our competitors. The sentiment in Germany, Italy, and in most of Europe is not so good in terms of volumes due to the very weak demand, due to the inflation, due to the increase in interest rates and so on. If you compare the results of this quarter compared to the previous ones, the situation is positive. But as far as the economy is concerned, the third quarter FY23 was the worst quarter in recent times, in Europe. The most positive news for Endurance overseas is regarding newly acquired business in the previous quarter, as Mr. Jain already told you before. We acquired €42 million business in one quarter of which €25 million with Volkswagen Group, €17 million with Stellantis. And please consider this €25 million with Volkswagen is for 100% electric product, and this €17 million with Stellantis is 100% of hybrid technology. So, it means that in the last two years we acquired more or less €140 million, more than 50% of our stable annual business, 30% completely electric, 53% completely hybrid.

We are following the markets in the correct way, because two days ago we received a study of the industry. The study says that, in the previous calendar year – January to December 2022, in Europe, electric vehicles reached 30% of the total market. So, it means that in terms of booking orders for EV and Hybrid businesses, we are in a strong situation in the market for the future.

Aditya Jhavar:

Similar question for the India business. Last year was a little bit of a challenging year for us. How are you seeing the next year both in terms of growth as well as on margins?

Anurang Jain:

I think the most important aspect for Endurance in its 19 plants in India is that while the capacities are largely used up there is still some room to add business. In fact, we could have done much better in Q3 barring the fact that towards the latter part of the quarter, the sales really dropped for all OEMs. Even if you see the sales figures of the industry, the last 30 to 45 days of the quarter was quite weak. And for us in the 19 plants, we have done enough of consolidations in the past. We don't plan to consolidate anymore. We want to get new business. And more than Rs. 20 billion of new business was won by us in the last three years. So, we have to use capacity at the plants.

As the capacities get used up, the margins become incremental for us. And that's why we feel we could have done much better with better offtake. Of course, Q3 is always worse than Q2 every year, because Q2 is more of quarter going in the festive period. And that's why Q2 is always the best, amongst the best Q2 and I could say Q4 also.

Out of order wins of Rs. 2,744 Crore, Rs. 1,962 Crore or 72% is new business. In this new business, sales increase this financial year was Rs. 4,410 million. Next year Rs. 6,730 million further new business would be added irrespective what happens in the market. And from FY '25 and FY '26 there will be Rs. 8,480 million further incremental business. So, our strategy is to go for profitable new business growth. And it helps us because when we occupy these plants, the economies of scale really improve for us and the profit becomes incremental. And of course, like I mentioned earlier, EV is the large focus for us, you know.

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

Jinesh Gandhi: First, can you share the revenue, EBIDTA, PAT for Maxwell and for European operations?

Satrajit Ray: So, Maxwell Total Income for this Q3 was Rs.58 million, and loss at EBITDA level was Rs. 47 million. We started consolidating Maxwell from Q2. In the last quarter, their total income was Rs. 40 million, and loss at EBITDA level was Rs. 61.5 million. So, as you can see from Q2 to Q3, there has been a marginal increase in sales and the loss at EBITDA level has come down.

Massimo Venuti: At Endurance Europe, in the third quarter we closed with €60.1 million turnover with €8.6 million EBITDA, 14.4% EBITDA margin, and with the net result of €3 million, 5.1% PAT margin. Compared to the previous year, there was 26.1% increase in turnover, 64.6% in EBITDA and 171% in terms of net results. I want to underline that without considering the increase of aluminum price, the EBITDA% would have been 14.7%. But if I were to use raw material prices as prevailing two years ago, the EBITDA should have been 16.4% instead of our reported EBITDA% of 14.4%. So, compared to two years ago, we lost 2% in our EBITDA% only due to the increase of raw material prices.

Jinesh Gandhi: And continuing on the European business, so can you share the order intake number again?

Massimo Venuti: Yes. We acquired new business in the last quarter of around €42 million. We closed Q2 with €25 million business acquired and with Q3, the year-to-date is €67 million. Out of €42 million business won in Q3 €25 million is with Volkswagen Group for four different parts. 100% electric, and €17 million with Stellantis for a clutch housing of the new transmission for hybrid vehicles. Over the last two years, €140 million of business was won.

Jinesh Gandhi: And with respect to availability of chip supply, are you seeing that getting addressed? Obviously, it might not be back to full normalcy, but you are seeing sustained improvement on quarter-on-quarter basis on the chip supply?

Massimo Venuti: The situation of the chip supply is under control, because, the demand is very weak. In this moment, the volumes are not so good. For this reason, the customers are recovering this year. Probably, there continues to be some problem in specific premium cars, but I can tell you that is not a problem for the overall European market. In this moment, the problem continues to be the inflation and the interest rate, because with this level of inflation, we have to increase the salaries. Otherwise, we cannot manage 11% of the inflation in the European market. We are not used to having this level of inflation.

Speaking about the raw material, I believe that due to the recession that is expected to arrive in next months due to the inflation, there would be a reduction in raw material prices, and probably we can come back to the normative EBITDA% going forward.

- Jinesh Gandhi:** My next question pertains to the India business. We have seen some moderation in demand for specific season in the two-wheeler side. How does the order book or production schedule look like from our customers in the fourth quarter?
- Anurang Jain:** Q4 is always better than Q3. So, it will be better for sure.
- Jinesh Gandhi:** And are we seeing any benefit of low metal prices now percolating to our P&L based on perspective of mathematical benefits?
- Anurang Jain:** I don't think so because there has been a correction already in the aluminum as well as steel. I am not seeing any further likely correction in Q4.
- Moderator:** Thank you. We have the next question from the line of Aashin from Equirus Securities. Please go ahead.
- Aashin:** Sir, our aftermarket sales this quarter are down 6% year-on-year which you have highlighted due to some headwinds from exports. So, could you help us with domestic aftermarket sales numbers and give a guidance on how aftermarket sales in the domestic market are?
- Satrajit Ray:** Our Q3 domestic aftermarket sales for FY '22 was Rs.844 million versus Rs.871 million, which is a 3% increase Year on Year basis. And exports declined from Rs.303 million to Rs. 208 million, which is a decline of more than 31%. So, the total aftermarket sales for Q3 FY22 were Rs.1,147 million in comparison with Rs.1,078 million for Q3 FY23, which is a 6% decrease. But if you look at the nine-month period, domestic sales went up from Rs,2,061 million to Rs,2,531 million, which is an increase of 22.8%, and exports came down from Rs.8.3 million to Rs.5.54 million, which is a decline of 31.8%. So, in totality, Rs.2,874 million, that is YTD December FY '22 versus Rs.3,085 million YTD December FY '23, which shows us a growth of 7.3%. Export market predominantly Sri Lanka, Bangladesh, Egypt, and certain parts of South America have not picked up as soon as they should have, but we believe that in the next three to six months, things will improve in the export market.
- Aashin:** My next question is regarding ABS. So, we were saying that in last quarter we have mentioned that by December '22 we would get a approval of dual channel ABS from RE. So, where are we on that? And also, if you can share the 3 months and 9 months numbers for revenue from ABS, how do you see that run rate going forward?
- Anurang Jain:** Our is dual channel is under approval first at Bajaj, and RE will follow. Our capacity will be ready by end of March, and we hope to start supplies sometime in Q1 FY24, because our capacity will reach 600,000 which will include about 200,000 of dual channel. We will subsequently increase capacity to 1.2 million by the second half of 2024. Well, I can't tell you the value, because though I have told the number. I cannot give the value, you will know the pricing, and that's the concern for me. I cannot disclose the ABS segment revenue.

- Aashin:** And then what sort of run rate do we see from ABS going forward?
- Anurang Jain:** What you will see is a more profitable growth. Like I said, this is a technology component, and, we are starting in-house production of valves actually end of this month itself, and March will be the normal supply. We have the technology from BWI which has really helped us with this. And this would substantially bring down this price compared to outsourcing. I think this initiative will give us much more profitable growth on the ABS.
- Aashin:** There are a few players who are facing actions due to FAME –II subsidy being taken off. So, if you can give us some idea about what percentage of our order book is coming from these players? And do you see any problem over there?
- Anurang Jain:** I think we will have to see how that plays out on their subsidy. We are engaged with everybody who is significant in the EV space, and we are going to win orders from everybody. And what volumes they do, that depends on the market and how their vehicles sell.
- Aashin:** The CVT supply to HMSI. We have said that from Q4 FY '23 we expect that to begin. So, where are we on that?
- Anurang Jain:** The testing has almost been cleared for HMCL. I would say, we are on the acceptance criteria. So, that is something which I know has gone slower than expected, but we are totally at it to see that we get this cleared fast for supplies.
- Moderator:** Thank you. We have the next question from the line of Nishit Jalan. Please go ahead.
- Nishit Jalan:** I have two questions, Anurang. Firstly, on the casting side, we had got a lot of orders from four-wheeler OEMs and also some non-auto customers. So, just wanted to understand where are we in that? And how much ramp up can we see in that business over the next one to two years?
- And my second question is on Europe. Massimo talked about incentive from Italy government in this quarter. So, just wanted to understand what was the quantum of that? And will this be recurring in nature? Or will we get this in one or two quarters in a year?
- Anurang Jain:** As far as the four-wheeler business in India is concerned, we have got almost Rs.250 crores of Hyundai and Kia. That's why we started the second plant at Vallam last year. And we have also got orders from Tata Motors and Mahindra & Mahindra. So, I think the four-wheeler business increase is already started to play out. Basically, the casting business is driving up our share of business in the four-wheeler.
- So, if the share of the four-wheeler was at about 6.5% of standalone sales a year ago, and is now more than 8%. And slowly we want to take this high, step by step.

So, definitely, we have a very large focus on the four-wheeler casting business, with total machining. And of course, the non-automotive business, we have got from Sanmina for the casting required for Jio towers, which is worth almost Rs. 750 million business. And orders from Generac for genset for export to the US, that's about Rs. 450 million business, which is still to start. So, cumulatively the four-wheeler and the non-automotive business, we want to take it more than 10%.

Nishit Jalan:

And in the Europe side?

Massimo Venuti:

Speaking about the energy, the Italian government gave incentive in Q3, and also in the first two quarters of this calendar year. An incentive of 45% of the delta energy costs compared to the previous year shall be provided. This 45% incentive is recorded such that we have the benefit immediately in our profit and loss statement. And we can use this credit for payment of taxes in terms of avoiding cash payout. This incentive is only for shorter term, because starting from April the intent of the government has not yet been announced.

The German government has earmarked Euro200 billion for the next three years in order to support consumers and companies in high energy price situations. Considering the conditions, we are still trying to comprehend regarding how the German government will intervene in different energy price situations. In Q3, there was a reduction of 50% in the electricity prices and 52% in gas prices compared to the peak reached in the previous quarter. Now the energy price situation is more or less under control. And for this reason, the government is taking time in order to define the future of the incentive.

Nishit Jalan:

Just one last question. What was the total CAPEX for us in the nine months so far? And I understand that in India, we would not need to incur the major growth CAPEX, even the capacity utilization is low. But in Europe, we are growing very well, gaining market share. Would we need to incur any CAPEX in Europe next year?

Massimo Venuti:

Yeah. So, speaking about Europe, in this financial year, considering the situation till the end of December, we expect to close with a gross CAPEX of more or less €25 million. The net CAPEX will be lower, since we would be recovering part of this investment from our customers. Speaking about 2023-24, in this moment we are preparing the budget.

But I can tell you that the next financial year will be one of the most important in our history in terms of investment, because we are installing the production capacity for the €140 million business acquired in the last 24 months. And so we could reach €40- €50 million, but now we are speaking about total investment and not about cash out because we have to see what will be the impact of the support from our customers in terms of the lump sum for the machines, and also for the tooling of parts. We could spend about €45 million in the next financial year.

- Moderator:** Thank you. We have the next question from the line of Anik Mitra from Finartha Research. Please go ahead.
- Anik Mitra:** In the presentation, it was mentioned that elevated metal prices help sales growth. Can you throw some light over this?
- Satrajit Ray:** When metal prices go up, it affects our raw material cost, and similarly, there is a pass on of that cost on my top line through the sales price. So, suppose today I am at Rs. 100 of sales and Rs. 70 of raw material cost, if there is a Rs. 2 increase, 100 will become 102, and 70 will become 72. So, that's the kind of impact that higher metal cost has on sales growth. So, in Q3, that amount was not extremely large for a company of Endurance's size. It was close to Rs. 30 crores, but for the nine months, it was much larger, close to Rs.300 crores.
- Anik Mitra:** That means Sir, 100% pass on is possible from your end?
- Anurang Jain:** Yes.
- Anik Mitra:** My next question is about Frenotecnica and New Fren SRL. So, the names sound quite similar. Are these two separate entities altogether?
- Anurang Jain:** They are both separate companies, bought from different owners.
- Anik Mitra:** When we can expect some contribution from these companies to our top line and EBITDA?
- Massimo Venuti:** Both these companies are EBITDA positive. The strategy is to enter the aftermarket in the two-wheeler segment in Europe. And for this reason, we decided to acquire two important companies. New Fren is absolutely, very well recognized in terms of brand for clutch and for brake components, not only in the two-wheeler motorcycle, but also in the bicycle. The acquisition of New Fren in November 2022 has a reason also in the footprint of the company because they have a plant in Tunisia also, and this plant could be really competitive in terms of the cost of production for all the range of products of the two-wheeler.
- The strategy is to try to make synergy between Adler, Grimeca, the brand already in our portfolio in the previous financial year, and now also Brenta, the brand of Frenotecnica, and New Fren, and to define a different position for each brand into the markets for two-wheeler, motor bike, bicycle markets, and to increase the profitability. We are expecting a total turnover for these companies to reach €13-€14 million levels in next three to four years.
- Moderator:** Thank you. That was the last question. I would now like to hand it over to the management for closing comments.



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Anurang Jain: No, I don't have any further comments. I have made my opening remarks. But I want to thank everybody for this call.

Management: Thank you.

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