



“Endurance Technologies Limited  
Q1 FY2020 Results Conference Call”

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**Moderator:** Ladies and gentlemen, good day and welcome to the Endurance Technologies Limited Q1 FY2020 results 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 the operator by pressing “\*” then “0” on your touchtone phone. Please note that this conference is being recorded. I will now hand the conference to Mr. Ashish Nigam of Axis Capital Limited. Thank you and over to you Ashish!

**Ashish Nigam:** Thank you. Good evening, everyone, and I welcome you to the Q1 FY2020 Conference call of Endurance Technologies. From the management team, we have with us Mr. Anurang Jain - Managing Director, Mr. Ramesh Gehaney - Director & COO, Mr. Massimo Venuti - Director & CEO - Endurance Overseas, Mr. Satrajit Ray - Director & Group CFO, and Mr. 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, Ashish. Good evening, everyone. I am Anurang Jain - Managing Director of Endurance. I would like to share details of how we have done in the first quarter of 2019-2020.

In India, the first quarter of 2019-2020 has been a tough quarter for the automotive industry, including the two-wheelers and three-wheelers.

As per the SIAM data, the two-wheeler industry sales degrew by 9.74% compared to the Q1 of the previous financial year. Scooters degrew by 16.46% and motorcycles degrew by 6.24%. Three-wheeler sales degrew by 10%.

In Europe, in Q1 of 2019-2020, the passenger car sales degrew by 3%.

On the financials, I will briefly talk to you about the first quarter of 2019-2020.

During the Q1, as compared to previous year same quarter, our consolidated total net income grew by 2.8% from Rs.18646 million to Rs.19160 million. Consolidated EBITDA grew by 26.3% from Rs.2756 million to Rs.3482 million. Consolidated EBITDA margin percentage was at 18.2%. The profit after tax was Rs.1656 million at 8.6% of Total Income. The Profit after tax grew 32.9% over the previous year. This included the mega- project incentives for 2018-2019 and for Q1 of 2019-2020 of Rs.701 million. For your information, without the megaproject incentives, total net sales were at Rs.18458 million with the EBITDA at Rs.2780 million at 15.1%, and the profit after tax was at Rs.1199 million at 6.5%. Our consolidated ROCE is at 24.8% and ROE at 20.4%. Our consolidated net debt is Rs.1659 million and net debt-to-equity ratio is 0.06:1. During Q1 of 2019-2020, our standalone total income grew by 3.5% from Rs.13177 million to Rs.13645 million. Stand-alone EBITDA grew by 37.7% from Rs.1808 million to Rs.2488 million with an EBITDA margin of 18.2%. The profit after tax grew 43.3%

and was at Rs.1291 million at 9.5%. This included the megaproject incentives for 2018-2019 and for Q1 of 2019-2020 of Rs.701million. For your information, without the megaproject incentives, total net sales were at Rs.12943 million with an EBITDA margin of Rs.1787 million at 13.8% and the profit after tax of Rs.834 million at 6.4%. Our standalone ROCE is at 26.2%, and ROE is at 18.4%. Our standalone net debt is at Rs.1331 million with a net debt-to-equity ratio of 0.06:1.

The detailed financials are available with the stock exchanges and on the Endurance website.

During Q1 of 2019-2020, 71.2% of consolidated total income, including other income, came from Indian operations and the balance 28.8% came from European operations. Bajaj Auto share of business on consolidated sales were at 37.7%. In India, there was a growth in business with Bajaj Auto at 6%, Yamaha also at 6% and Hero MotoCorp by 35%.

In Europe, we mainly grew 55% with VW group. Our top 6 clients, comprising about 75% of Endurance Group net sales, are Bajaj Auto, Fiat Chrysler, HMSI, Volkswagen Group, including Porsche and Audi, Royal Enfield and Daimler. Our aftermarket sales in India grew 11.6% from Rs.531 million to Rs.592 million. This included both the domestic and export sales.

I would now like to brief you about certain key highlights at Endurance:

1. This morning, at our Board meeting, we took in-principle approval for a proposal to pursue tyre manufacturing for -two and three-wheelers, for which we took approval for land acquisition, and had also indicated the estimated capex. We would like to assure all of you, that the project is at an initial proposal stage with no project activity started. We are in the process of evaluating this project and will not be going ahead unless we are 100% confident of our profit margins and the return on capital guidelines. This means that we may not even proceed with the project. I would like to reassure you that Endurance has always focused on higher than industry growth, profitable growth and has maintained high focus on financials, including ROCE and ROE.

2. As for the inverted front forks, the volume will be doubling in the next 18 months and as you know, this is a very high-value business for us. We are entering the aluminum forging business to start making triple clamps and active clamps in-house for our inverted front forks. We have signed a technical collaboration agreement with FGM in Italy. These aluminum forgings will be an import substitute, and we will offer the same at lower prices to our OEM clients.

This will also help us increase our profit margins and give us an opportunity to also grow this aluminum forging proprietary business to serve other two-wheeler and four-wheeler aluminum forging requirements, including for electric vehicles. The supplies are targeted to start from June 2020. The potential is to reach Rs.1250 million within 3 years after start of supplies.

3. We are also extremely happy to inform all of you that we have strengthened our partnership with KTM components. We will be investing 4 million Euro over a period of 2 years in KTM Industries, which is a publicly listed company. KTM will transfer to Endurance the latest technologies for the front forks and shock absorbers, including semi-active electronic suspensions. It will also include cooperation for supplying suspensions from Endurance to KTM for electric e-bikes and electric two-wheelers, and include increased exports from Endurance to KTM in Austria, China and supplies to India. This is an extremely important step for profitable growth in future.

4. In Q1, in India, Rs.1880 million value of business has been awarded, mainly from HMSI , Kia Motors, Hero MotoCorp, TVS and Getrag with SOP starting in Q3 of 2019-2020 and the peak sales reaching in 2020-2021. In Q1 in Europe, €12.8 million new business has been awarded, mainly from Maserati and Fiat Chrysler where the SOP will start in 2020.

5. The status of our new plants is as follows:

Our two-wheeler suspension plant at Halol, Gujarat had started supplies from September 2018. It has now reached 2600 front fork / shock absorbers sets/day. The LOI is for 6200 front fork /shock absorber sets per day.

Our Kolar, Karnataka plant for supplying scooter front forks and shock absorbers to HMSI, will start supply for September 2019 and reach a peak of 3500 front fork/shock absorber sets/day from January 2020. We will also be supplying front forks to TVS from this plant.

The Vallam plant will start supplies in Q3 of this financial year, mainly for Hyundai and Kia Motors.

The ABS brakes tie-up with BWI, USA is progressing well. Our ABS samples are in the process of being tested for performance and road endurance tests. We hope to get clearance in Q4 of this financial year, by when we will be ready to start supplies also.

6. As far as TVS is concerned, after getting the two-wheeler disc brake assembly order, we further got orders for two-wheeler front forks and three-wheeler brake systems as well. The supplies for these orders will start in this financial year. We are in the process of getting further orders from TVS.

7. Our 29 acre test track is virtually complete, and you all are welcome to come and experience it. We are organizing a visit to the track for institutional investors with Mr. Ashish Nigam of Axis in this month itself. This test drive will give us “first-time-right” products to our OEM clients.

Going forward, we see a large increase in our business volume and value by way of:

- entering into new product area of aluminum forgings, which are also required for electric vehicles.
- Increasing supply of technology upgraded products, including paper based clutch assemblies, combined braking systems up to 125 cc bikes, rear disc brakes, ABS for 150 cc and above two-wheelers, inverted front forks and advanced rear shock absorbers in high cc bikes and also fully machined castings for two-wheelers, three-wheelers and four-wheelers.
- Also, we are increasing business with Hyundai and Kia Motors, and now we have Rs.2790 million worth of orders per annum, which peak will be reached in 2021. This will be supplied both from our existing plants as well as new plant at Chennai.
- Also, 2.76 million scooter front forks will replace front shock absorbers from 2020-2021. This will be supplied from our Sanand and Kolar plants from Q3 of this financial onwards, as I mentioned earlier.
- We are also going to start two and three-wheeler brake assemblies and front forks for TVS from this financial year.
- Strengthening partnership with KTM components will help us substantially increase our front fork and shock absorber exports for KTM's Europe and China plants with the latest technologies, including electronic suspensions and supplying suspensions for e-bicycles as well as electric motorcycles and scooters.

So we at Endurance are focused to grow higher than industry by:

- increasing our share of business with existing clients,
- adding new clients,
- adding and upgrading to latest technologies required in our product areas through collaborations and our in-house R&D,
- focusing on growth in new product areas,
- increasing our aftermarket and export business. and also
- looking at inorganic opportunities in India and Europe.

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

**Moderator:** Thank you very much Sir. We have our first question from the line of Ruchit Mehta from SBI Mutual Fund. Please go ahead.

**Ruchit Mehta:** With regard to this proposal of your investment into the tyre business, if you could clarify three things: One Assuming that since you have gone to the Board for preliminary approvals, and you have taken permission for a certain amount of money to be spent and have identified the parcel of land, then some detailed work would have been done. So, what is the opportunity size for you?

What is expected return ratio for the business? Second: So far we always felt that you will grow on a proprietary side. So how does getting into two-wheeler and three-wheeler tyres fit there? And third: Is this being done at a request of your customer? The customer has asked you to sort of invest in this business, and therefore you have to consider doing this?

**Anurang Jain:**

Yes, this idea has come across because one of our OEM clients also talked to us about doing this business. This was a talk with one of our OEM clients, and that is how this subject came about a few months ago. When we did the initial project study, it definitely looked very interesting.

As far as we in Endurance is concerned, and when I speak for the 'promoter family' having a 75% shareholding as well, we have a very, very high focus on ensuring that we do not lose shareholder value for our 25% shareholders.. We in Endurance will not take up any project unless we are very convinced on the profit margins and the returns on capital, because we have to protect shareholder value of our investors as well as the promoter family. So that is the background in which we took in-principle approval. But right now, we are still in the process of this evaluation and unless we are 100% sure, like I mentioned in the opening remarks, we will not be going ahead with this project. There is still some discussion in process with the customer and once we are clear, then only we will move ahead. So, first, we have to be totally convinced. If we feel that the financials and profit margins are not meeting our expectations, then, of course, we will not be doing it. We have no intention of destroying shareholder value by doing projects that do not make money.

**Ruchit Mehta:**

Would it be fair to say that it was premature for you to jump the gun and take Board approval if you were not 100% sure of what kind of return ratios it makes?

**Anurang Jain:**

The Board has approved purchase of land. For the tyre project, it was an enabling approval. We discussed the customer requirements, and the fact that all OEMs are looking at rationalizing their vendor base. Trust of the clients counts a lot in expanding business, whether existing lines of business or new business. We explained to the Board about it, and got an enabling approval. The Board has set very clear guidelines about the process to be followed for us to be 100% sure before going ahead and committing to the project.

**Ruchit Mehta:**

So how will it fit into your stated objective of going only into proprietary products? This is as commodity as it gets in the automotive industry.

**Anurang Jain:**

As far as we are concerned, we are looking at profitable growth. I have always said that money is not made by just pricing. It is also made by way of the strategies around operations, sourcing, technology. The tyre business also has requirement for process and product technologies. Today, there would be huge requirements coming for electric vehicles, where noise will be a very big factor. So the question is, whether you call it a commodity or a technology. Alloy wheels, which is a small business for us, is a product and, of course, a technology, We are looking at profitable

growth and once we see it, we normally go after it. As far as the tyre business is concerned, even if we were to go ahead with this project, it will be a project of reaching Rs.250 Crores revenues after 3 years of starting, with 18 months to start this project. That Rs.250 Crores would not be even 3% of my India business. Are we to ignore 97% of our India business, which is showing great financials and ROCE.

I do expect investors to have trust in Endurance, looking at the experience of last 3 years post-listing, that we have delivered return on capital employed. We have grown higher than the industry. We have grown profitably in tough times also. Right now, we are taking austerity measures, and we are growing. As a company, we have to be open to all ideas and be aware of what is happening around. If you look at competition for Endurance today, how much margin are they making compared to our margins? So it is not about just pricing and running a company, it is about your strategy, whether it is technology, value engineering through technology, pricing, operational, sourcing!

We have a very strong Endurance brand, with 200 very loyal vendors . We cannot close our eyes to any new project when the customer talks to us. I have to take it seriously. Business in B2B, especially auto components, is done on trust over a period of time. When strong relationships are forged, you get the support and that is why we are increasing our share of business on all existing product segments.

This tie-up we are having with KTM is a very strong tie up and the future will tell, what kind of technologies we will come out with in suspension products.

So, please keep some faith in us. Unless we are 100% sure, we are not going to do a project. I am very clear about that. Because we are not going to waste any resources, so you please rest assured on this.

**Moderator:** Thank you. We have our next question from the line of Nilang Mehta from HSBC Global Asset Management. Please go ahead.

**Nilang Mehta:** The question is on the similar line like the previous participant. While the point is taken from management's point of view, but I still fail to understand that if the business opportunity is just 3% of your overall top line, why would you like to diversify into something which is completely unrelated to your existing auto components business, especially when there are existing tyre companies well-established for decades are not doing so well. It seems like a distraction rather than building on ancillary opportunities. We have full faith in the management. But most of us investors would have signed up for continuing with our existing strategy rather than completely diversifying into something like tyres, which is highly capital intensive, low ROEs, for a lot of established players already present there. So I would request management to reconsider this. You have seen that in several other companies where managements have tried to diversify over a

period of time, sometimes it works, sometimes it does not work. But at least we would like you to reconsider this.

**Anurang Jain:** Sure, so that is what I have said in my statement also, that definitely, we are not going ahead unless we are fully convinced. I think it is premature to think that we are going ahead. These kind of calls always help to exchange perspectives. New businesses takes time to grow. Based on our talk with an OEM, a very old OEM of ours with a lot of trust between us. According to us, based on the initial study we did, we found that this is an attractive business. Today, you can see our competition- why do not they make margins like us? Why the ROCE, ROEs are not like us? Ultimately, it is a question of focus, and it is a strategy like I say, whether it is operational, sourcing, technology, and one has to consider all these things. Just because 10 other peers are not successful does not mean that Endurance cannot do it. But having said this, I fully agree with your concern, and definitely we are not going ahead unless we are 100% sure. This is what I have said in my opening remarks.

**Nilang Mehta:** And the reason why only Endurance trades at such multiples, is exactly your profitability, your returns are much superior. The market appreciates that and it is reflected in the multiples. That is why the multiples at which tyre companies are trading are low. While OEM might have a requirement, we understand that and the relationships are important, but it does not fit the current return ratios or the returns of the current business, which Endurance is running.

**Anurang Jain:** No, of course, without looking at that, we are not going to go ahead, there is no project activity, which is started.

**Nilang Mehta:** In fact that the amount has been approved, it seems that you have gone ahead.

**Anurang Jain:** No, we had to give a project report to the Board, because without that, how can they give us approval for the land, and an enabling approval for the project. The figures which we projected based on actual raw material prices, based on the pricing we are getting from the customer, the initial study showed that this is a profitable business with high returns. That is why we wanted to go ahead and proceed with further evaluation. Unless we further evaluate and we are 100% sure, we are not going ahead. That much faith I expect investors to have in Endurance. Also, I would like to again highlight that, even in 2024, the business would be 3% of our India turnover. , Even going by existing tyre companies' low returns, how can a 3% business erode the overall return profile.

**Nilang Mehta:** I think it is not about the absolute amount or it is more about directionally how management is thinking and that is what I think it is not about the amount per se.

**Anurang Jain:** No, that part I fully agree with you, and I totally share your concern here. Unless we further evaluate and we are 100% sure, we are not going ahead.



- Nilang Mehta:** Thank you Sir. Thank you so much.
- Moderator:** Thank you. We have the next question from the line of Aditya Jhawar from Investec. Please go ahead.
- Aditya Jhawar:** Thanks for the opportunity. Anurang, based on your initial work that you would have done before going to the Board for the approval, what kind of ROCEs will this business make in comparison to our existing ROCEs?
- Anurang Jain:** Same, Trust me. . It clearly depends on how you do your capex and how you do outsourcing of the low end of the business.
- Aditya Jhawar:** Yes. But Anurang, our existing businesses, there is a lot of scope of backward integration, and hence, our profitability is much better than peers. Whereas in case of tyres, there is a relatively lower scope of backward integration so our profitability as well as ROCE matrix could not be materially different from the sector leaders.
- Anurang Jain:** We are a very attention-to-detail group and we just do not take calls in the air. More so because it is not only promoter family investment, it is all of you who are 25% of our shareholders. I have total, regard and have respect for that and I will not do anything which could affect the attractiveness of Endurance after so much of hard work over the last 33 years. So please rest assured on that. I just want to assure everybody on that.
- Aditya Jhawar:** Yes. Actually, what you said is quite comforting that you would reconsider the decision if your further study proves that the ROCE is not as attractive.
- Anurang Jain:** Definitely. 100%.
- Aditya Jhawar:** And just a ballpark split between OEM and replacement that you would have thought for this business?
- Anurang Jain:** See ultimately, it would have been 50/50.
- Moderator:** Thank you. We have the next question from the line of Jinesh Gandhi from Motilal Oswal. Please go ahead.
- Jinesh Gandhi:** Can you give us some more details about the aluminum forging business?
- Anurang Jain:** Our inverted front forks have two triple clamps and two axial clamps. These are aluminum forgings which we import from suppliers in Austria and in Italy. These are very high-value products for our own in-house requirements. Apart from Bajaj and KTM Austria, we also got an inverted front fork order from Honda, which is starting in June 2020. So we said, why do not we

do it in-house? We can offer competitive prices to our customers, at the same time, we get higher value add, higher profit margins on the inverted front fork. So we located a company in Italy, called FGM, and we have already signed a technical collaboration agreement with them. The technology is in the tooling and the process. So basically, we are going to start with all our internal requirements. Last year, we did about 130,000 inverted front forks. This requirement is going up to almost 175,000 and the number is going to be double in the next 18 months. New orders are expected from KTM, based on a strong partnership that we have established. Apart from these requirements, we also want to do forgings for petrol, diesel, and electric vehicles, whether it is two-wheeler, three-wheeler or four-wheelers. That is a new business which we will target. So it is not only for in-house requirement, we will be servicing aluminum forgings for other requirements. For example, in a two-wheeler electric vehicle, the training arm, motor housing, the battery pack, the cover, suspension links, these are all aluminum forgings. If I cover four-wheelers, electric or a suspension arm, battery pack support, aluminum control with steering knuckle joint - these are all aluminum forgings so there is a huge requirement here also. But our first priority is to cater to our own in-house requirement. This is a very good project and it is technology intensive. That is why we signed a collaboration agreement with the Italian company.

**Jinesh Gandhi:** Okay. I did not catch the name, its FG?

**Anurang Jain:** It is called FGM.. FGM, Italy.

**Jinesh Gandhi:** Can you also throw a bit more light on this KTM tie-up for latest tech suspension?

**Anurang Jain:** For the last 11 years, we have had a very strong partnership with KTM Components, which was earlier called WP Suspension. In July, the owner of KTM, Mr. Stefan Pierer, met with me. He has a lot of confidence in Endurance. In connection with our supplies to KTM products in India and Austria, he appreciates our ability to deliver good pricing, technology and quality. He was keen to further strengthen our partnership so in that context, we plan to do some investment in the KTM industries, a rather small investment. It would be around €4 million over 2 years which will go a long way in strengthening our partnership. Endurance and KTM will see greater cooperation in terms of transfer of the latest technologies of front forks and shock absorbers, including the semi-active electronic suspensions used on KTM bikes above 790cc. It will also include cooperation for supplying suspension for electric e-bikes and electric two-wheelers which are going to come, including scooters and motorcycles. The cooperation will help us increase exports to both KTM Austria and their JV in China. It is a very good partnership, which we have because these are very high-technology parts.

For the Indian KTM Bajaj, we are the single source. In future, we intend to supply for electric scooters and motorcycles, whether it is e-bicycles for European market, which is a huge business, and very high-value front fork business. All these opportunities will open up for us with this tie-up, which we have done.

**Jinesh K. Gandhi:** Understood. And can you also give data for European business in terms of what was constant currency growth and growth for key customers?

**Massimo Venuti:** In the first quarter, ending June of the fiscal year 2019-20, sales of new passenger vehicle in the European market fell by 3% compared to the same period of the previous year. With the exception of Germany with plus 0.9%, all the other markets moved down - France by -3%; U.K. by -5%; Italy by -0.5%; and Spain by -5%. In this period, the Endurance European operation posted a total income growth of 3.1% and considering the same price of aluminium, we grew 6%. The price reduction of the aluminium leads to a pass through to the customer. EBITDA grew YOY by 7% from Euro 11.9 million to Euro 12.7 million. EBITDA margin percentage improved from 17.3% for the previous year to 18% and also the profit after tax grew by 8.2% from Rs. 4.3 million to Rs.4.7 million. The percentage of net result was 6.6% compared to 6.3% of the previous year. The better result achieved compared to the general market in terms of total income was driven by the significant increase in sales with Volkswagen Group, which was able to offset the reduction with FCA, where we saw reduction of the 34.7%. We had also a positive contribution coming from the consolidation of Endurance Castings SPA, the company that we acquired in January 2019.

But it is true that the month of June was very tough compared to the previous two months because the market closed with -7.8% and all the markets in Germany, France and Italy were down in a significant way.

In the month of July, based on initial numbers, that we are seeing from the market, the market was more or less stable in Italy. In France, there was a reduction of 1.8%. In Germany, there was an increase of 4.7% and our major customers there performed very well. In U.K., there was a reduction of 4.1%, in Spain 11.1%. We are confident to maintain the same level of turnover also in the next months due to the fact that, as you know, we are starting with a lot of new projects, and we have increased our share of market compared to our competitors.

**Jinesh K. Gandhi:** Sure. Just to clarify, you said constant currency growth is 3.1% and 6% including aluminium price pass through?

**Massimo Venuti:** There was a reduction in the aluminium prices compared to the previous year. If I consider the same level of aluminium compared to the previous year, we grew 6% that means that there was a 2.9% of reduction in total turnover due to the reduction of price of aluminium.

**Jinesh K. Gandhi:** Got it. Thanks. I will come back in queue.

**Moderator:** Thank you. We have our next question from the line of Nitin Vora from BNP Paribas. Please go ahead.

- Nitin Vora:** Thanks for the clarification. Just one last question on the tyre project, is there any time line by which we will come to know whether you are going ahead with the project or not? Any time line by when the company may come out with a final decision?
- Anurang Jain:** Yes, I think we would like to do it within the next two weeks, because we are gathering some other information soon.
- Nitin Vora:** Thanks a lot Sir. Thanks for the clarification.
- Moderator:** Thank you. We have our next question from the line of Jamshed Dadabhoy from Citigroup. Please go ahead.
- Jamshed Dadabhoy:** So could you talk a bit on your capex? What you are going to do in India and how much are you spending on the tech collaboration with KTM? And any other technical tie-ups, etc?
- Anurang Jain:** It is Euro 4 million over two years. It is this year and next year. So that is an investment into KTM Industries. It is a public-listed company and in turn, we get cooperation in technologies, all improvements, electronic suspensions, and in higher export orders to Austria and China. So it was a very strong tie-up, when it is come, the initiative has come from Mr. Stefan Pierer himself, who is the large shareholder of KTM.
- Jamshed Dadabhoy:** And what is your capex in India and in the Europe, please?
- Anurang Jain:** Well, in India, we are going to have a capex not exceeding Rs.300 Crores. But as we speak, we are continuously trying to decrease the capex looking at the near-term market. So we have regular meetings to re-evaluate. In fact, we have done already a lot of capex cuts last week and we are going to sweat our assets, plus inventory controls, fixed cost cutting. A lot of the initiatives are going on in Endurance because we have focus on our business operations. External factors are not in our control here. So we are focusing on our business.
- Jamshed Dadabhoy:** How much is the European capex?
- Anurang Jain:** European capex is Euro 30 million.
- Jamshed Dadabhoy:** Okay. And this tyre opportunity, what share of the OEs will you be when you hit that Rs.250 Crores of revenue?
- Anurang Jain:** At Rs.250 Crores, it will be around 2.5 million tyres.
- Jamshed Dadabhoy:** Okay, got it. I will come back for more questions. Thanks a lot.

- Moderator:** Thank you. We have our next question from the line of Srivardhan Kejriwal from Samara Investments. Please go ahead.
- Srivardhan Kejriwal:** Thanks for the opportunity. I wanted to know about this Maharashtra incentive scheme, the Rs.702 million. Why is it part of the topline and not Other Income?
- Satrajit Ray:** This is the way it is treated as a part of our Operating Income as per the prevalent Accounting Standards.
- Moderator:** Thank you. We have our next question from the line of Hitesh Goel from Kotak Securities. Please go ahead.
- Hitesh Goel:** Sorry to harp on this question again on the tyre side. But just wanted to get a sense, why has the OEM actually approached Endurance for this business when there are established players who are already working with the OEMs. These players are guiding to a pretty decent growth in business and there is also a new player called Maxis who aims to set up capacity of 7 million tyres for two-wheelers for Honda. So very surprised to see that the OEM approached Endurance. Is there some player who is going bankrupt or you are giving them better pricing?
- Anurang Jain:** There are reasons which I cannot talk about. That would not be right. I can only say that.
- Hitesh Goel:** Can you give us India revenue growth for Bajaj or Yamaha?
- Anurang Jain:** I will tell you. Bajaj, we grew 6%; Yamaha, 6%; and Hero MotoCorp was 35% in India and in Europe we grew 53% Volkswagen Group including Porsche and 43% with Case New Holland CNH as they are called.
- Hitesh Goel:** Sir but the topline, if I look at in India, excluding the additional incentive that you got, it is almost flattish so where we have seen the decline?
- Anurang Jain:** Yes, it is. But the industry is degrowing by 9.74% and three-wheeler by 10%. Now these two industries are 88% of our business in India. But I am still flat. I think that is pretty decent, no? I have always promised higher than industry growth to the investors.
- Hitesh Goel:** I understand, Sir and complement you for that performance. I was just trying to understand, where has been the decline because your sales to Bajaj Auto has grown, Yamaha has grown, and Hero MotoCorp has grown. So is it Honda and RE where you have seen degrowth?
- Anurang Jain:** Everybody has declined except Bajaj in motorcycles. In three-wheelers even they declined. We take more business, increasing SOB, taking new products and value added products - whether it is technology upgradation, paper base clutch assemblies, rear brakes, CBS; two-three and four-wheeler machined castings, where Hyundai and Kia are large business. It is growing very fast. So

all this has helped us to be flattish in spite of de-growth of 10% in three-wheelers and 9.74% in two-wheelers.

**Hitesh Goel:** Okay. And my final question, can you give the total new business revenues, which may come in next three years. You have given for this quarter, but can you update us on the total order book for the next two years?

**Anurang Jain:** No, what I said is that we have got Rs.10330 million worth of orders last year and another Rs. 1880 million this year. These are from customers including Kia and TVS, Hero MotoCorp, HMSI. These orders will reach their peak by 2021.

**Hitesh Goel:** Okay Sir. All the best. Thank you.

**Moderator:** Thank you. We have the next question from the line of Siddhartha Bera from Nomura. Please go ahead.

**Siddhartha Bera:** Thanks for the opportunity. Sir, again I would like to ask some questions on the tyre segment. From when do we plan to start this if we go ahead with the tyre plant and the return ratios we are targeting two years after that?

**Anurang Jain:** We are going to ensure that we are same or better than the existing return ratios. Otherwise, we are not going to do this project. That is for sure. And margins, for which we had an initial study, looked pretty good, not lower margins than what we do right now.

We are still in the evaluation stage, like I said, let us wait for two weeks. It will be clear whether we are doing it or not doing it.

**Siddhartha Bera:** Okay. But some understanding if you can give us about the long-term vision because Rs.250 Crores revenue from a single product in a few years is really a small scale. And so any thoughts you have that where do you want to take it, say, after a few years?

**Anurang Jain:** No. Right now I will not be able to comment on that. Of course, we believe in profitable growth. But it will be a bit premature to talk about that.

If the NITI Aayog policy goes through in a big way, the three-wheelers are to stop IC engines by 2023 and everything below 150 CC by 2025. They are going to stop IC engines. Then definitely, it is a very interesting business to think about. So that is the reason we are looking at everything and we in Endurance are open. We will never close our minds. We do our own detailed study which is ongoing. Once we complete it, then we will tell you. Unless we are 100% sure, we are not going ahead. That is for sure.

- Siddhartha Bera:** Okay. So obviously, we will come with more update after this, Rs.2.5 billion, how much, will we scale up?
- Anurang Jain:** Yes. Once we go ahead, and then we then, of course, we will have the figures.
- Siddhartha Bera:** Thanks a lot.
- Moderator:** Thank you. We have the next question from the line of Priya Ranjan from Antique Stock Broking.
- Priya Ranjan:** Thanks for taking my question. Coming back on the tyres investment, so what kind of assumption you have made? You said it will be similar ROCE to the existing business. So what kind of assumptions you have made in terms of volume, in terms of profitability, margin, etc, what is the investment behind that?
- Anurang Jain:** Basically in three years, we should be reaching at least 10000 a day. There are seven types of key materials in a tyre. You have a Rubber Board. So we knew the RMC prices and the fact that there are quarterly amendments by the OEMs towards change in prices. In the Aftermarket, you get a much higher pricing. We are in aftermarket for 19 years. We have a very good brand name in the aftermarket. I know this is a bit different. But the two-wheeler industry aftermarket is becoming a one-stop shop. A buyer of shock absorber or front fork parts or clutch parts will also like the tyres to be there. So things are changing in this country. So we definitely have a lot of information. But we have to be sure of the financials completely. And that is why I said unless we are 100% sure, we are not going to proceed. But these are some of the key assumptions we used.
- Priya Ranjan:** So any thoughts on margin or kind of investment you will be requiring?
- Anurang Jain:** According to us, if our strategy is good between outsourcing and in-house, the capex is not very high. In fact, sometimes even I do not understand why such huge capex is done by the two and three-wheeler tyre industry because what we have got so far, the capex is not very high. The initial is high because of the land and building. That is maybe 75-80 out of the 175 crore we have put up there. But then, the capex is not very high to increase capacity. So we have done our homework but that is yet to be finalized; we have not finalized. Like I said, this is an enabling approval we have taken, we have told the Board, once we are clear only they are going ahead. The Board has guided us on specific aspects to be reviewed. We are not going ahead without that.
- Priya Ranjan:** This thought process was also because of the NITI Aayog thing that some of your business might be obsolete in the next three, four years?

**Anurang Jain:** For us, the major one to be affected by electrification is the clutch which is about 4.5% of our consolidated business. It is not that big. But definitely, that goes out. Definitely, that is the consideration that we have to look at for the future. Ultimately, I have to look at the future of the business. I am not a short-term player. As the promoter, I have to look at longer term - what happens in five years. So after a great deal of thought we are planning the projects. You must appreciate that as a 75% shareholder I have to be very careful on this. And I am not going to hamper 25% shareholders' value. I am going to make sure that there is a full commitment to the 25% shareholders. I am not going to take any stupid chances like that. So that is why I said earlier also, have a little faith in us.

**Priya Ranjan:** Yes. But, say your ROE, or your return on investment is very, very different from what any new investor had in mind when he has entered at the OFS. So their return expectation will be very, very different than what you have invested at a very, very early stage. So that also needs to be considered, right?

**Anurang Jain:** Yes. Sure. We are not here to destroy shareholders value at all.

**Priya Ranjan:** And just coming back on in terms of the outlook, for the domestic as well as the export, what kind of outlook you are getting from the OEM side?

**Anurang Jain:** According to me, I think, we have to wait till the festive season of Dusherra and Diwali, what kind of sales will happen because there are stocks, as you know, in the pipeline. Let us see how the credit squeeze has taken care of for ease of financing to the auto dealers or to other stakeholders. The credit squeeze is also hampering demand. But I am a firm believer that as good times do not last forever, even bad times do not last forever. Something will happen for sure.

As far as we are in Endurance is concerned, we are focusing on our business. We are looking at capex reductions, inventory reductions, fixed cost reductions, so whether the business goes up or down, and our biggest strength today is that we do not have long-term debt. So we are focusing completely to make sure that we sustain our margins and we grow higher than industry.

But external conditions are very difficult to predict. Luckily the monsoon seems to be good. So I am optimistic that this will lead to some better sales this festive season. Last two monsoons have not been good. So let us wait and watch what really happens.

**Priya Ranjan:** Just lastly on the domestic business. So if I have to segregate, how much is your business is going to engine component for two-wheelers including the die-casting business?

**Anurang Jain:** Like I told you, 4.5% of our consolidated sales, or 6.5% of our India sales is for clutches. Of that, 75% is below for 150cc. So in view of the Niti Aayog plan, this part is affected. In



castings, of course, there are new types of castings coming in for EVs- motor housings, battery housings, covers. So there are a lot of new castings coming in. Also, some structural castings are coming. There, we have to wait and watch But what is sure is, there will be no clutch in EVs. That is for sure.

**Moderator:** Thank you. The next question from the line of Ronak Sarda from Systematix. Please go ahead.

**Ronak Sarda:** I have a couple of questions. First, on the TVS side you highlighted that you have won new orders on the scooter front shock and three-wheeler brakes as well. Did I hear it right?

**Anurang Jain:** The new TVS orders are for the small motorcycle front forks and three-wheeler brakes. Both should start by end of the third quarter or the beginning of fourth quarter. While the two-wheeler disc brake assemblies will start from the next quarter.

**Ronak Sarda:** And how large are these businesses either volumes or values you can highlight?

**Anurang Jain:** Okay. Offhand I do not know, but they are pretty good because these are high-value products, I know the initial 2W brakes order was Rs.40 Crores.

**Ronak Sarda:** As this you said will be supplied from the new Karnataka facility, which will be shared for the HMSI.

**Anurang Jain:** So the TVS, also, we will cater the suspensions requirement from Kolar plant. The scooter front forks - 2.76 million pieces per annum, will start in September, but peak will be in 2021. We have reached 3500 front fork/ shocks a day from January onwards.

**Ronak Sarda:** And Sir similarly, you said Hyundai and Kia business, which was Rs.170 Crores earlier is now Rs.280 Crores. Is that right?

**Anurang Jain:** So right now we are doing about Rs.100 Crores of business, but 2021, we will go 3x to Rs.300 Crores for sure.

**Ronak Sarda:** Last question on tyres again. You said there are some things which has to be worked out or decided.

**Anurang Jain:** It is a financial evaluation to be completed.

So we are going into greater depth. We have a lot of information, which we have shared, but we have to be 100% sure, only then we will do it. If we find any risk, we are not doing it.

**Ronak Sarda:** Just as an input, most of the two-wheeler manufacturers today have a contract manufacturing kind of models for two-wheeler and three-wheeler tyres. So when you say outsourcing as a business model for yourself as well, how much would be in-house and how much percentage are you - thinking of bring it in-house?

**Anurang Jain:** That is what the model which we are making will show up. Definitely for the aftermarket, I would like to outsource.

**Ronak Sarda:** All right. Sir, can you highlight which OEM are you thinking of - is it Bajaj or TVS...

**Anurang Jain:** No. I cannot tell you that. It is confidential.

**Ronak Sarda:** Okay, thank you sir and all the best.

**Moderator:** Thank you. We have our next question from the line of Mahesh Bendre from Karvy Stock Broking. Please go ahead.

**Mahesh Bendre:** Thank you for the opportunity. During the quarter, we have received Rs.70 Crores of incentives from the Maharashtra government. What was the number for corresponding quarter last year?

**Satrajit Ray:** This is something that you will get in the annual report, but we are talking about the Project Scheme of Incentive under the Mega Project Incentive for which Mr. Jain had said that we are eligible to receive Rs.367 Crores over a period of seven years.

**Anurang Jain:** So, in Q1 of last fiscal, we did not consider anything. We only considered in Q4 of last year, Rs. 31.5 crore pre-tax, which in profit after tax level was Rs.20-odd Crores. So it is a small figure last year. But this year, the figure has increased because in Q1 this year, we had to consider incentive resulting from sales in FY19 and Q1 of this fiscal.

**Mahesh Bendre:** Thank you so much.

**Moderator:** Thank you. We have the next question from the line of Jamshed Dadabhoy from Citigroup. Please go ahead.

**Jamshed Dadabhoy:** Anurang, I just wanted to come back on this tyre project ROCE. You seem to be reasonably confident that it will be in line with what you are current year numbers.

**Anurang Jain:** Yes, absolutely.

**Jamshed Dadabhoy:** The question is that at that kind of ROCE has OEM already agreed to the pricing? Will that pricing be something which will sustain for a longer period of time?

**Anurang Jain:** Yes. So actually, we definitely had a line of sight from the customer with a line of sight of the raw material costs, and that is the reason we are seriously looking at this project. So we have done our homework, but it is not completed. We have mentioned that this is a proposal for which Board has given in-principle approval.

**Jamshed Dadabhoy:** Okay. I think someone asked on this, that if you already have clarity on so many aspects, what else are you sort of looking to get assurance as clarity?

**Anurang Jain:** In line with Board guidelines for further detailing, I am going to get assurances on the aftermarket including the pricing and also, we are just tying up on the actual further investments. we are clear of the initial investments, but we had made some assumptions, so we have to fine tune it with some industry experts, so we just want to be 100% sure, but we are not at 100% right now. We are not concluding on that yet.

**Jamshed Dadabhoy:** Okay and is the aftermarket assumption realistic?

**Anurang Jain:** So that is the main thing which we are looking at, to be honest.

**Jamshed Dadabhoy:** And then what profitability of the project hinges crucially on the aftermarket?

**Anurang Jain:** The OEM is also important, but definitely aftermarket is as important, for sure.

**Jamshed Dadabhoy:** I understand. Suppose what you assume that you will have no aftermarket revenues for the first three years. Does that change the complexion of the ROCEs profile?

**Anurang Jain:** Yes, it does and that is the reason I need this extra time.

**Jamshed Dadabhoy:** Thanks a lot Sir.

**Moderator:** Thank you. We have the next question from the line of Nilang Mehta from HSBC Global Asset Management. Please go ahead.

**Nilang Mehta:** Thank you for taking my question again. If you could give us the framework how to look at future investments in related areas, where there will be - are there any no-go areas which you have and what kind of return ratios you would evaluate for new businesses? It could help investors have clarity that there will be certain areas where company can explore and there will be certain which will be completely no go. So while we are doing this review, you could come

out with a framework. Where future investments can go, this will help a lot in having clarity for future.

**Anurang Jain:** Sure, unless we are sure of the EBITDA margins and profit after tax margins, looking at our business as a whole and the return on capital, both ROE, ROCE. Without that and like I have said in the previous calls also, outer limit for payback is five years and we are a very financially focused company and so that is very clear. We are not going to take any type of crazy risks.

**Moderator:** Thank you Sir. Thank you. Ladies and gentlemen, that was our last question. I now hand the floor back to the management for closing comments.

**Ashish Nigam:** Thank you. On behalf of Axis Capital, thank you to the Endurance management and all the participants for joining the call today. Mr. Jain, if you have any closing remarks or you would like to just conclude?

**Anurang Jain:** Yes, I would only like to say one thing, that as far as Endurance is concerned, we have the highest focus on shareholder value and at the same time, any project we undertake, unless we are 100% sure of our analysis, we do not do it and that is why our financials over the years have been better than competition, we have grown higher than the industry and have had profitable growth, so I would just request investors to keep that in mind.

**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.