



Endurance Technologies Limited
Q1 FY2019 Results Conference Call

August 13, 2018



ANALYST: MR. ASHISH NIGAM – AXIS CAPITAL LIMITED

MANAGEMENT: MR. ANURANG JAIN – MANAGING DIRECTOR –
ENDURANCE TECHNOLOGIES LIMITED
MR. SATRAJIT RAY – DIRECTOR & GROUP CHIEF
FINANCIAL OFFICER – ENDURANCE TECHNOLOGIES
LIMITED
MR. RAMESH GEHANEY – DIRECTOR & CHIEF OPERATING
OFFICER – INDIAN OPERATION - ENDURANCE
TECHNOLOGIES LIMITED
MR. MASSIMO VENUTI – DIRECTOR & CHIEF EXECUTIVE
OFFICER - ENDURANCE OVERSEAS
MR. RAJ MUNDRA – TREASURER AND HEAD - INVESTOR
RELATIONS - ENDURANCE TECHNOLOGIES LIMITED

Moderator: Good morning, ladies and gentlemen. Welcome to the Endurance Technologies Q1 FY2019 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 opening remarks conclude. Should you need assistance during the conference call please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ashish Nigam from Axis Capital Limited. Thank you and over to you Sir!

Ashish Nigam: Thank you. Good morning, everyone. Welcome to the Q1 FY '19 results conference call of Endurance Technologies. We have the Endurance senior management team with us, Mr. Anurang Jain, the 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.

Like always, we will start with the opening remarks by Mr. Jain, post which we can have Q&A. Over to you, Anurang!

Anurang Jain: Thank you, Ashish. Good morning, everybody. I am Anurang Jain, Managing Director of Endurance. I would like to share details of how we have done in the first quarter of 2018-19.

In India, the first quarter of 2018-2019 has been very good for the 2-wheeler industry. As per the SIAM data, the 2-wheeler industry sales grew by 17.5% as compared to the Quarter 1 of the previous financial year. Scooters grew by 12.2%, and motorcycles grew by 20.4%. The motorcycle growth has outpaced the scooter sales growth in this quarter. The motorcycle and scooter share of the total 2-wheeler sales in quarter 1 was 67.25% and 29.5%, respectively. Three wheeler sales had a very high growth of 63.6%.

In our overseas operations, in Quarter 1 of 2018-2019, Endurance has posted a total income growth of 16.7% from Rs. 4,685 million to Rs.5,468 million.

On the financials, I will briefly talk to you about the first quarter of 2018-2019. During Quarter 1, as compared to previous year same quarter, our consolidated total net income grew by 23.4% from Rs.15,114 million to Rs.18,645 million. Consolidated EBITDA grew by 25.5% from Rs.2,196 million to Rs.2,756 million. Consolidated EBITDA margin percentage was at 14.8% as compared to 14.5% in Quarter 1 of the previous year. The profit after tax was Rs.1,246 million at 6.7% of net income. The profit after tax grew 29.1% over the previous year.

The Standalone total income in Quarter 1 grew by 26.4% from Rs.10,429 million to Rs.13,177 million. Standalone EBITDA grew by 28.8% from Rs.1,404 million to Rs.1,808 million with an EBITDA margin of 13.7% as compared to 13.5% in Quarter 1 of the previous year. The profit after tax was at Rs.901 million at 6.8%. This is a 32.6% growth in profit after tax over Quarter 1 of the previous year. This profit after tax figure is with an increased effective tax rate of 33.7%

against the effective tax rate of 29.8% in Quarter 1 of the previous year. The detailed financials are available with the stock exchanges and on the Endurance website.

During the first quarter of 2018-2019:

- (a) 71% of our consolidated total income including other income came from Indian operations, and the balance 29% came from our European operations.
- (b) Bajaj Auto's share of business on consolidated sales was at 36.5%. Endurance's growth was in line with Bajaj Auto's growth.
- (c) In India, there was a sizable growth in business with Honda 2-wheelers, or HMSI by 28%, Royal Enfield by 23%, and Hero MotoCorp by 50%. Our India growth was 26.4% versus a 2-wheeler industry sales growth of 17.5%. I would like to mention that 2-wheeler products are almost 80% of our India sales. Our top 5 clients in India are Bajaj Auto, Honda 2W or HMSI, Royal Enfield, Yamaha India and Hero Motocorp.
- (d) In Europe, we grew 107% with Volkswagen Group including Porsche and Audi and 26% with Daimler. Our top 5 clients in Europe are Fiat Chrysler, Daimler, Volkswagen Group, BMW and Opel which has now been acquired by Peugeot.
- (e) Our aftermarket sales in India grew 20% from Rs.442 million to Rs.531 million. This included both the domestic and export sales.
- (f) Our exports from India grew by 93.6% from Rs.316 million to Rs.612 million. Our exports mainly comprise of exports of aluminum castings, front forks and shock absorbers and our aftermarket exports to 23 countries.

Getrag transmission, who's a key supplier of transmission assemblies to Ford, is our major export client for aluminum castings. Getrag transmission has now been acquired by Magna, which is one of the largest automobile component companies globally and are also involved in assembling cars for OEMs. This is opening up new machined aluminum casting export opportunities for us from the Magna Group as a whole.

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

- (1) Since April 2018, Rs.2,280 million value of business has been awarded to Endurance. The new business is mainly from Kia Motors, HMSI which is Honda 2-wheelers, Hero MotoCorp, Yamaha India, Royal Enfield and Tata Motors. This also includes a small value of electric 2 and 3 wheeler business for suspension and braking products.

(2) The status of our new plants are as follows:

- Our 2-wheeler suspension plant at Halol, Gujarat will start supplies from September 2018.
- Our Sanand, Gujarat plant expansion to supply aluminum castings to Hero MotorCorp's Halol plant requirement has started in April 2018 and will reach its full sales of Rs.1,200 million per annum by January 2019.
- Our Kolar, Karnataka plant for supplying front fork and shock absorbers to HMSI or Honda 2-wheelers will start supplies from January 2019.

(3) We would also like to mention that we have given a closure notice at our Manesar, Gurgaon plant due to lack of sufficient business and cost constraints. As a part of our operational strategy, we are consolidating our Manesar plant business with our plant at Pantnagar, Uttarakhand.

(4) The upside-down front fork and rear shock absorber export supplies for KTM/Husqvarna 401 cc to 790 cc motorcycles are going on smoothly. This business is increasing. And I would like to inform you that KTM is extremely happy with our quality. This is, like I mentioned earlier, a very important order for us and is now helping us get new inquiries for upside-down front forks from other OEMs also.

(5) The ABS brakes tie-up with BWI, USA is also progressing well. There is a close coordination between the teams at Endurance and BWI. We are on track to give final prototypes to our client by October 2018 this year. We are targeting March 2019 to be ready for supplies.

We would like to add that the ABS addition is leading to large rear disc brake assembly orders, which will reach 75,000 numbers of rear disc brake assemblies per month by March 2019. As you are aware, we were not supplying rear disc brake assemblies to OEMs in the previous year.

(6) Our 29-acre test track is taking more time as we need to ensure the quality of the track and it will now be ready by October this year. We would like to invite all of you to come and see this track as we are the first tier-1 company to have a test track like this in India.

(7) With large orders recently secured from HMSI, Hero, Hyundai, Kia, Royal Enfield and Bajaj, we would see a higher capex intensity this year and our India capex could be in the range of Rs.400 Crores to Rs.450 Crores (or Rs.4000 million to Rs.4500 million) in this financial year.

(8) Our company has received an eligibility certificate for incentives under the Maharashtra Package Scheme of Incentives-2013. Based on investments in fixed assets from April 2013 till September 2017, Endurance has got incentives totaling Rs.2,831.16 million spread over

7 years. Further, additional incentives are expected on account of investments in fixed assets made during the period October 2017 to March 2018.

- (9) We have also repaid the last installment of our long-term borrowing in July 2018, thus becoming long-term debt free in our Indian operations. During the quarter, ICRA upgraded our rating to AA+/Stable and CRISIL improved over rating outlook to AA/Positive. Our short-term loan rating from both these agencies is at the highest level of A1+.

We, at Endurance, are extremely excited about the new business because there are large opportunities coming our way in all 4 product areas. As mentioned earlier, it includes newer products such as 150cc&above motorcycle suspension front forks and shock absorbers, paper friction plate clutch assemblies, front and rear disc brake assemblies, scooter continuous variable transmissions and fully machined aluminum castings for 4-wheelers.

It is also our goal to add more products to our existing '4 product area' portfolio. We are actively engaged to explore and identify opportunities for 'Merger and Acquisition' and technical tie-ups with different overseas companies.

We at Endurance will also continue to focus on growing business in all of our 4 product areas with our existing clients and new clients, which is a big growth driver for us. Also, we are focusing on increasing our aftermarket and export business in our Indian operations and looking at organic and inorganic opportunities in both India and Europe.

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

Moderator: Sure, thank you very much. We will now begin the question and answer session. The first question is from the line of Jinesh Gandhi from Motilal Oswal Securities. Please go ahead.

Jinesh Gandhi: My question pertains to Europe. Can you indicate what the growth was, in Euro terms, and what was the industry growth for Europe?

Anurang Jain: The growth in Endurance Europe in Euro terms was about 4%. Because of the favorable exchange rate, the growth when expressed in Indian rupees was 16.7%. In Europe, the growth was similar to the industry growth, which was in the ballpark of 4%-5% with some countries doing better and some countries doing worse in Europe. But I think Mr. Massimo Venuti can better answer this question.

Massimo Venuti: Yes, so we closed the first quarter 2018-2019 with an increase of turnover of 3.6% compared to an increase of the market of more or less 4%-5%. The first quarter was very strange if you consider the market because Germany was more or less in line with the previous year, with an increase of barely 1%-1.5%. And in Italy, new car registrations were lower by 1.3% compared to the previous year. The only markets which were buoyant were France with an increase of 6%,

and Spain with an increase of 9%. But the total market growth was more or less 4%-5% .So Endurance revenue growth was aligned with the increase in the market.

Jinesh Gandhi: In the European business, we have seen a significant increase in staff cost on Y-o-Y basis, maybe this is also due to Euro-INR exchange rate. There's about 19% increase in staff costs. So is there any one-off in the cost or it's largely currency depreciation-related?

Massimo Venuti: The increase in Euro terms is 5%, very much in line with our revenue growth. This increase is due to the new business acquired with Volkswagen and for production activity dedicated to Daimler, and so manpower costs were incurred in the production, quality and maintenance departments.

Jinesh Gandhi: My question pertains to India business. You indicated about the incentives for Maharashtra plant. So this has been accounted from 1Q FY '19 or was this an ongoing feature?

Anurang Jain: No, we have not accounted this in quarter 1. It will probably be accounted in the last quarter. Mr. Ray, our Director and CFO, will answer this question.

Satrajit Ray: Jinesh, while we have received the eligibility certificate, what we need to do each year, is to apply to the state government after receiving certain tax audit reports. After receiving our application for that year, the government will give us permission for 85% cash disbursement, which will happen pretty quickly. So receiving this permission is the trigger, based on which the accounting will happen. So, it is likely to be in third/fourth quarter of each year depending on when we receive that permission every year. The incentive has not been accounted for till now.

Jinesh Gandhi: Okay. So for example, for FY2017-18, would it be accounted for in FY2018-19?

Satrajit Ray: Yes, because we have to apply for the permission. That will happen in the last quarter of the calendar year. And based on when we receive the permission, we'll book it.

Jinesh Gandhi: So, in this quarter there will not be any material contribution to the profits from this incentive?

Satrajit Ray: No. In Q2, definitely no.

Jinesh Gandhi: And in 1Q?

Satrajit Ray: No, in quarter 1, there was no accounting of incentive.

Jinesh Gandhi: Okay, my last question pertains to the share of proprietary business in India.

Anurang Jain: The share of proprietary business is increasing. It is now 51% of our India revenues.

Jinesh Gandhi: And what was this, about 45% in Q1 last year?

- Anurang Jain:** This was 49%.
- Moderator:** Thank you. The next question is from the line of Aditya Jhawar from Investec. Please go ahead.
- Aditya Jhawar:** I am wondering if you can talk a little bit on the braking order wins. So what we understand is Royal Enfield, as well as Bajaj, have seen a strong demand for rear disc brakes. And they had indicated that some of the suppliers are seeing a capacity constraint. So please let us know where we are, what product range we were supplying, specifically in the braking division historically, and what are the new order wins?
- Anurang Jain:** We were mainly supplying the front disc brake assemblies for motorcycles and scooters. And we were supplying for 3-wheelers the brake panel assemblies with a tandem master cylinder. Based on current capacity, we can supply front and rear disc brake assemblies to the tune of 200,000 a month. But now we have done additional investments to take care of orders for new rear disc brake assemblies. We did not expect such large orders coming for the rear disc brake assemblies. So, you are correct. Royal Enfield and Bajaj have a huge growth in requirement for rear disc brake assemblies and for the front also. We have placed the orders for these machines. The line of sight is fantastic. Because of ABS, the front and rear disc brakes enquiries have shot up. Further, there's a new client, a big new client that is going to be added. I can't talk about it right now. But Bajaj and REML remain our largest disc brake assembly clients. But this business is booming. This business opportunity could be even bigger than ABS, because volumes will be huge. And we are really very well placed in the disc brake system, though Brembo is the leader. So this is a very good opportunity which has come all of a sudden, as we had not expected this in the last year.
- Aditya Jhawar:** Okay. So if you can quantify the volumes that you're looking at for Royal Enfield, for the next couple of quarters, the next couple of years, and what would be the incremental average selling price (ASP) of the product that we are supplying to?
- Anurang Jain:** These are very specific questions, Aditya, which I cannot answer. I will try my best to satisfy you on your question. There are certain things I am not supposed to speak, as per the OEM's terms and conditions.
- Aditya Jhawar:** No problem. Moving on to Europe, please highlight the new order wins in the last couple of quarters and the ramp-up plans specifically for VW and Daimler.
- Massimo Venuti:** We have received a further request for capacity increase after the VW volumes request of last year for the 1.5-liter gasoline of Volkswagen- another 400,000 parts that we have to produce as soon as possible. So it means that the total volume for this 1.5-liter gasoline engine for Endurance would be up to 1.4 million parts. We are evaluating increase in our production capacity for these additional volumes. The volumes are expected to be robust, as this is one of the most efficient engines in terms of fuel consumption and emission. This will give a positive effect in our sales in the next year. And in the first quarter 2018-2019, we acquired another Euro 6

million order from Fiat Chrysler group for a new exhaust manifold for the 1.6-liter diesel. This is for 200,000 parts per year. Further, we won another 2 components from Fiat Chrysler - 1 manifold and 1 cylinder head cup for the new GSE T4. This is for the new engine that Fiat Chrysler is assembling for the new Jeep Renegade and the new Fiat Cinquecento.

Aditya Jhavar: Historically, we have been supplying die-casting component to engine and transmission. Has there been any incremental traction on supplying components to EV manufacturers for electric vehicles?

Massimo Venuti: We are talking regarding several new business opportunities with German customers - Volkswagen and Daimler, on the EV side. We are quoting more or less EUR 75 million in new transmission parts. In September 2018, Volkswagen Group is expected to finalise a new business scenario. They may decide to extend use of the component that Endurance is developing for Porsche for the new Mission E, on to all the other brands of Volkswagen Group - Audi, Volkswagen, Skoda and Seat.

I hope within the next quarter, we should be able to give you positive feedback about these quotations that are in different stages of submission.

Moderator: Thank you. The next question is from the line of Hiral Kenia from Indsec Securities. Please go ahead.

Hiral Kenia: How sustainable are your current operating margins? This is the best operating margin that you have done in the last 9 quarters.

Anurang Jain: Of course, we hope to sustain these margins. Because like I mentioned in the previous investor concalls, operating margins are not only a factor of price, but also a factor of operation strategy.

Hiral Kenia: Right, sir.

Anurang Jain: We are totally committed to sustain and try to improve these margins as we go forward.

Hiral Keniya: And sir, if you can highlight a couple of strategies -What are you doing to keep these margins going.

Anurang Jain: I would have already mentioned on a broader level we take a number of steps -whether it is outsourcing of parts to our Endurance vendor base, whether it's consolidation of plants. As you know, we have consolidated 2 plants last year, and 1 plant is in process. At the same time, we are adding new plants, but only when we get large business volume like we got in Halol, Gujarat or in Karnataka in Kolar region. This is also a part of our operation strategy. We operate TPM methodologies to focus on improving operational efficiencies, reducing rejections and improving quality. So these are some of the operational strategies which has helped us to be where we are in the last 10 years.

Hiral Kenia: Okay, that was helpful. And sir, my last question is about the tax rate. The effective tax rate is now 33.6%. So what can we expect for FY '19?

Satrajit Ray: We are at maximum rates now, which is 34.99%, and this may vary a little bit on the lower side based on the kind of R&D spend that we do. But we are at the maximum rate right now.

Moderator: Thank you. The next question is from the line of Nilesh Shah from Envision Capital. Please go ahead.

Nilesh Shah: My question is more around the 2-wheelers, especially the motorcycle industry dynamics. In the last quarter or so, we have seen some really healthy growth. Bajaj Auto seemed to up the gear and really focus on the entry-level segment. So I just want to understand from you, as somebody who's really been a long-term vendor to these players, how do you see this volume pickup? Do you think you're positioned to cater to the increased volume? And given that the entry-level segment would see lower pricing and lower margins, what does it imply in terms of your margins going forward?

Anurang Jain: Yes. The motorcycle volume growth has been largely on the 100 cc segment, which is mainly because of various reasons: like farmer loan waivers in certain areas of India; higher price support of the crops, and better roads. Also, 100 cc bikes are cheaper than scooters. Motorcycles are also more fuel-efficient. So these are the reasons why the 100cc-plus segment is doing very well.

As far as we are concerned, we have a clear product costing which was discussed with Bajaj several quarters ago. Over the years, we have given very, very competitive rates to our customers. The pricing strategy for low-end bikes is the strategy of the OEMs. So they have to decide which products will make a lot of money for them and which products will make less money. But as far as we are concerned, we don't foresee their cost pressures hitting us. Because we have supported all the customers when the volumes were down in the last 6 years and we have taken all the pain related to higher capacity and lower sales. So in that way, we had supported them. So definitely we expect the same support from them in a high-volume scenario going forward.

As far as we are concerned, we are putting up capacities based on volume levels that we think can happen. We are a very conservative cautious company. But we will ensure that our customers don't suffer at all as they prepare for higher volumes.

Moderator: Thank you. The next question is from the line of Rakesh Jain from ACM Investments. Please go ahead.

Rakesh Jain: My first question is with regard to the European business. You have been growing despite the growth or degrowth scenario in Europe. Going forward, would your growth be directly correlated with the European new car registrations growth in the regions where you are present in Europe?

Massimo Venuti: After the car volumes dropped during the 2008 financial crisis, we reached 15 million of cars sold in 2017. For sure, in our business, it is normal that sooner or later there will be a slowdown or even a reduction in new-car-registrations. But at this moment, we are seeing a significant increase in registration of SUVs and in the hybrid solution cars. In some countries, the proportion of old cars is very high, for example Spain, and for this reason, Spain is growing around 10%-per year for the last few years. It's the same in France and it was the same also in Italy.

The situation is very difficult to forecast due to the fact that, starting from September, there will be the new law related to testing procedures. And many carmakers are working in this direction. They announced the possible slowdown or even temporary stoppage in their car assembly lines in September, owing to the delay in the accomplishment of the desired testing process for the different vehicle versions. And for sure, these factors will influence our growth of the next months. But at this moment, the forecast for 2018 is to increase, compared to the previous year, more or less 2.5%.

We also have to analyze the impact of imports. Because at this moment, we are seeing increase in the registration of new cars sold in the market, but there is also an increase of the import particularly from Korea, and also from Japan. But at this moment, our forecast is more or less 2-2.5% growth compared to the previous year.

Rakesh Jain: I was trying to understand if we have any sort of implications coming from any sort of tariff, which will be or is in the process of being introduced on the EU car manufacturers?

Massimo Venuti: At this moment, we don't see any kind of problem. The only problem can arise from the fact that our main German customers, BMW and Daimler, assemble cars in the United States and they export these cars to China. At this moment, we don't see a problem with the relationship between United States and the European Union, and also for the exports directly to China. But for sure, we can have an impact for the export from United States to China by German car-makers. Because from the European market, we don't deliver directly to United States and China, but we produce engines and transmission parts that are assembled into cars in the United States and then exported to China.

Rakesh Jain: Right. Sir, can I get the number for the new business, which you added this year?

Massimo Venuti: In this year, we expect Endurance Overseas to grow compared to the previous year, at more or less 2-2.5% compared to 2017-18. Also, there is a different mix compared to the previous year based new business acquired with Volkswagen for gasoline version which will replace the reduction that we are having in the diesel version. Please note that the diesel version saw a reduction of 17% in the first 6 months of 2018 compared to the previous year. But we are balancing this reduction, as we had budgeted increase of production for Daimler and Volkswagen in their / gasoline version.

- Rakesh Jain:** Okay. My next question is for the domestic business. Sir, could you give me the number for the new business, which you added this year?
- Anurang Jain:** Yes, new business was Rs.2,218 million.
- Rakesh Jain:** Okay. And sir, what kind of savings you expect from the consolidation of the Manesar plants, and when do you see this getting accounted into the books?
- Anurang Jain:** See, definitely, there will be a saving in the consolidation. But what it will be, I cannot say right now. It is still in process. So I would not like to speak much about this.
- Rakesh Jain:** Okay. So would it be in the FY '19 or FY '20?
- Anurang Jain:** Hopefully it will be in FY '19 itself.
- Rakesh Jain:** Okay. And with the incentives, which you have got, how will it be spread out in the 2017 to 2024 time period?
- Anurang Jain:** Suppose I apply for Rs.100, the government procedure is to permit me Rs.85 now and for the remaining Rs. 15, I would have to wait for the GST assessment to be over, which can take 1 or 2 years. So every year, it will follow this pattern for the next 7-odd years.
- Moderator:** Thank you. The next question is from the line of Ashish Nigam from Axis Capital. Please go ahead.
- Ashish Nigam:** I have 3 questions, one for Massimo, one for Satrajit and one for Anurang. So I will start with Massimo. Massimo, I think for the last quarter we were at EUR 310 million in terms of order book. Where does it stand at currently?
- Massimo Venuti:** More or less, the total product portfolio is EUR 300 million to EUR 315 million. It will depend, Ashish, upon the situation with the diesel technology. In the last quarter, we acquired another 200,000 parts of the new exhaust manifold for the 1.6 liter diesel version. And so the situation is very strange, because we continue to get business for diesel cars, and though car-makers are launching diesel versions, they are uncertain about future production of the diesel versions. In my opinion, in the next few months, we will have a clear idea about this situation. And this can have an effect on our product portfolio for the future. We are quoting a lot of new business for the new EV models for several car-makers. The content of aluminum continues to grow in a significant way and more significantly in the transmission area compared to the engine area. And this could be an opportunity for us because the life time of this component is completely different – it could be past 10 or even 15 years. This is a positive for the profitability of the company.
- Ashish Nigam:** Yes. And how is the split right now, this EUR 315-odd million in terms of OEM orders? I would imagine it's much larger toward Volkswagen and Daimler.

- Massimo Venuti:** Yes, in the first quarter 2018-2019, we have had a reduction with Fiat Chrysler, but it was already planned. In this quarter, the Volkswagen Group reached 16% of our revenue, with an increase of 85% compared to the previous year. Daimler, 18%, with an increase of 12.5% compared to the previous year. And BMW is more or less 4%, with an increase of about 6% compared to the previous year. So the strategy to focus our attention on the German customers is reflecting in the revenue mix.
- Ashish Nigam:** Okay, that's helpful. What is the break-up of transmission versus engines?
- Massimo Venuti:** At the end of this year, it will be 50% and 50%. That implies a reduction of 8-10% in the engines and an increase in the transmissions.
- Ashish Nigam:** Okay. This used to be, I believe, 70%-30%. I mean, 30% transmission, which has now come up to 50%.
- Massimo Venuti:** Yes. It was 70-30 some quarters ago.
- Ashish Nigam:** Okay. That's good to hear. Second question for Satrajit. There was a restatement in the previous year's numbers. While the absolute EBITDA was the same, the revenue and expense adjustment is around Rs.30-35 Crores. Now was this due to IndAS 115 or some GST-related matter?
- Satrajit Ray:** No, this is entirely due to IndAS-115, Ashish, where the commercial substance of a transaction comes into play. So we are obliged to knock off certain transactions both from sales and purchases. So there is no increase on EBITDA, but the sales and purchases came down. We are obliged to restate the numbers of last year also. Ind AS 115 kicked in from 1st April this year.
- Ashish Nigam:** Yes. And what was the amount of adjustment this quarter, just to get a sense of how that run rate would have been without Ind AS 115?
- Satrajit Ray:** See, the revenue adjustment was about Rs. 31 Crores, similar adjustment from COGS also.
- Ashish Nigam:** Okay. So then this is the sort of base you can work with now, because the EBITDA % margin has sort of gone up because of the Ind AS 115. So you can work with this as a base now?
- Satrajit Ray:** Absolutely. So the same impact has been built in for last year also. So last year it was 13.5%, and this year it's 13.7% on a like-to-like basis.
- Anurang Jain:** I would like to add 1 more point here. If you see the percentage of EBITDA in quarter 1, we have had an impact of negative 0.6% because of the huge increase in steel and aluminum prices. If they had remained at the same level as quarter 1 of 2017-2018, our EBITDA margin would've been 14.3%. So this needs to be kept in mind because higher raw material prices have a mathematical effect on the % margin, despite absolute margin not getting impacted.

Ashish Nigam: Yes, and what was the pass-through that happened with the OEMs in terms of raw material during the quarter? Is there something that's coming as a lag next quarter?

Anurang Jain: No. In fact, like I had mentioned in the last concall, there was a delay in the pass-on because the increase was huge, but we have got all increases from the customers. Only due to the delay, we have lost a small amount of interest cost, that's about it.

Ashish Nigam: Got it. The India revenue growth was around 26%- 27%. Bajaj saw a production volume growth of around 36%. Now I understand this is obviously more on the lower-end range in their mix. How is the Bajaj revenue growth for us?

Anurang Jain: We also grew on similar lines with Bajaj because our share of business is constant. This is in spite of the fact that the 3-wheeler has many other components which are not there in the 2-wheeler. The percentage of our product supply for the 3-wheelers is lower than for 2-wheelers. For example, we may be between 13%-18% of the ex-factory price of a motorcycle for Bajaj. But in 3-wheeler, we could be at maximum 10%. So that also makes a difference. But in spite of this, our growth was in line with the Bajaj growth of around 35%. You must also see our sales to the other customers. Bajaj is 36.5% of my consolidated sales. If you see other customers: HMSI volumes grew 11.9%, we grew 28.5% with them. Royal Enfield volumes grew 21.6%, we grew 23.3%. Hero MotoCorp volumes grew 11.9%, we grew 50.3%. Yamaha India volumes were down by 7.8%, we grew 13.2%. Of course, there was no other 2-wheeler OEM, which grew like Bajaj. So considering all these factors and considering our growth with individual OEMs as I just mentioned, our overall increase was 26.4%.

Obviously, Bajaj has, in the last 10 years, implemented a lifetime source/supplier way of working. They have a very strong Bajaj Auto Vendors Association. And the share of business to these lifetime source vendors are generally fixed unless your quality is bad. And they have been working to ensure that their lifetime source vendors live up to their quality standards. So, model wise, things have not changed. One model can go up and the vendors' share of business is not similar in all models. And like I said earlier, our share of the value on 3-wheelers will be lower compared to bikes.

Ashish Nigam: Got it. Bajaj publicly stated that in a particular model like the CT100, they're consciously making a loss. How are their contracts structured with the suppliers?

Anurang Jain: Our contracts are very clear. Our pricing is not linked to their pricing. We have a very clear zero-based costing with them. It is their business strategy to make good money in some products and not make money in other products. I don't have the details. You are telling me that they are making a loss in CT100. I am not aware of that, to be honest. Overall, they still made 18% EBITDA margin in the first quarter. And maybe expectations were higher, but that is essentially their strategy. As far as we are concerned, our prices were worked on a clear zero-based costing. When the volumes were lower in the last 6 years, we didn't get any price increase because the volumes were lower. We had built a lot of capacities, which were partly idle in the low-volume

scenario.. So, to answer your question: We have to live with our strategy, and they have to live with their distinct strategy.

Based on such zero-based costing, I think the prices have really matured over the last 10 years. A lot of maturity has come in prices, and we are very competitive, I would say.

Ashish Nigam: Okay. that's very helpful. I don't think we have any further questions in the queue, so we can conclude the call. Thank you so much, team, for letting us host this call.

Anurang Jain: Thank you, Ashish.

Ashish Nigam: Thank you, everyone. Have a good day, and thank you for joining the call.

Anurang Jain: Thank you very much, everyone.

Satrajit Ray: Thanks, everyone.

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