

Endurance Technologies Limited
Q1 FY2018
Earnings Conference Call

August 09, 2017



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Moderator: Ladies and gentlemen, good day and welcome to the Endurance Technologies Limited Q1 FY2018 Earnings Conference Call hosted by Axis Capital Limited. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing “*” then “0” on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Ashish Nigam from Axis Capital Limited. Thank you and over to you Sir!

Ashish Nigam: Thank you Janice. Good morning everyone. This is Ashish Nigam from Axis Capital. Welcome to the Q1 FY2018 Results Conference call of Endurance Technologies. From the management team, we have with us Mr. Anurang Jain, Managing Director, Mr. Satrajit Ray, Director & Group CFO, Mr. Ramesh Gehaney, Director & COO, Mr. Massimo Venuti, Director & CEO, Endurance Overseas, and Mr. Raj Mundra, Treasurer & Head - IR. 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 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 2017-18.

The first quarter of 2017-18 has been encouraging for the two-wheeler industry. As per SIAM, the two-wheeler industry sales grew by 8.5% of which domestic sales grew by 7.8% and export sales had a growth of 14.75%. In two-wheelers, scooters grew by 19.5% and motorcycles grew by 5.3%.

As you have been observing for some time, two-wheeler growth in India is strongly driven by sale of scooters. In fact, in the first quarter of 2017-18, scooter sales as a percentage of total two-wheeler sales stood at 31% and motorcycle sales stood at 66%. Two-wheeler products comprised approximately 77.5% of Endurance sales in India, which was down from 80% and four-wheeler product sales in India grew from 6% to 9% in the first quarter of FY2017-18.

Overseas, in spite of a 1.1% growth in the automotive sales in Europe, European operations have posted a total income growth of 5.1% in Euro terms in Q1. Total net income from our subsidiaries in Europe stood at 30.6% of the consolidated net income of the group.

On the financials, I will briefly talk to you about the first quarter of 2017-18. During Q1, our consolidated total income grew by 7.4% from Rs.14490 million to Rs.15563 million. Consolidated EBITDA grew by 12.4% from Rs.1953 million to Rs.2196 million. Consolidated EBITDA margin percentage improved from 13.5% in the previous year to 14.1%. The profit after tax grew by 16.1% from Rs.831 million to Rs.965 million. The profit after tax percentage margin improved from 5.7% to 6.2%.

During Q1, our standalone total income grew by 11.8% from Rs.9666 million to Rs.10803 million. Standalone EBITDA grew by 14.8% from Rs.1223 million to Rs.1404 million with an

increased EBITDA margin percentage of 13%. Standalone profit after tax had a growth of 22% to Rs.679 million. The profit after tax percentage improved from 5.7% in the previous year to 6.3%.

The topline growth in Indian operation was partly due to hardening of aluminum alloy prices and the sale of tooling to one of our die casting clients.

The after-market sales improved from Rs.435 million to Rs.458 million. Q1 after-market sales was partly affected due to our preparation to implement GST. We expect to grow faster during the next three quarters. I would like to inform you that our after-market spare parts are exported to 23 countries.

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

I would like to also share certain other points with you on the Q1 of 2017-18. The Bajaj Auto share of business on consolidated sales came down to 33% in Q1 of 2017-18, compared to 37% in the previous year. In India, there was a sizeable growth in business with Honda two wheelers, which is HMSI, Royal Enfield, and Yamaha India. HMSI two-wheeler share of India business rose to 13% and Royal Enfield rose to 10.5% of our India business. In Europe, we grew 9.3% with Fiat Chrysler group, 20.3% with Daimler and 115% with BMW. Fiat Chrysler business is 16.9% of our consolidated sales and Daimler is 5% of our consolidated sales. On consolidated net sales, our top five clients are Bajaj Auto, Fiat Chrysler group, HMSI, Royal Enfield and Daimler.

In India, as you know, we are setting up a new plant at Halol in Gujarat for supply of suspension products to Hero MotoCorp. The Bhoomi Puja has been done on June 10, 2017 and the building construction will be starting by August 16, 2017. Our new plant is expected to start operations in early 2018. This plant will have a capacity to cater to Hero's 4000 vehicles a day, which would include both motorcycles and scooters. The Hero plant has already started at Halol and in this interim period Endurance is supplying suspension parts from its Aurangabad plant.

In order to have an edge over our peers, we are also setting up a proving test track ground in Aurangabad, which will help enhance performance and durability of our products by testing them on different gradient tracks. This proving ground is on a 29-acre plot of land and is expected to be operational by early 2018. The aim is to help the company strengthen its target of giving first time right products to its clients. This project is on track.

As mentioned earlier, in the two-wheeler segment in India the share of business of scooters has increased from 26.5% in 2014-15 to 31% in 2016-17. This trend is expected to continue. At Endurance, we see two very large opportunities on which we have been working for the last three years. These two opportunities for scooters are the high value-added products, i.e. the suspension front forks and automatic clutch, which we call continuous variable transmission or CVT. The continuous variable transmission is already being used in all scooters and we believe that by

2019-20 the suspension front forks, which are high value add will replace the lower price shock absorbers in all the scooters in India. I am also happy to inform you that we expect to start the supply of scooter front forks in this financial year and the continuous variable transmissions in early 2018.

As we have already informed you, we have signed a licence and technical agreement with BWI USA for antilock brake system products for two-wheeler applications. We have kept the target to be ready with ABS product by early 2019. This will be a high technology product by Endurance with a very huge business potential, as all existing models of two wheelers above 125 cc will have to have the ABS braking system from 2019-20 onwards. I am happy to inform you that this project is going as planned and is on track.

At our Pune plant, the consolidation activities are progressing well and the second voluntary separation scheme has been implemented. This will help us to get better economies of scale and better profit margins in our Pune plants.

The Goods and Services Tax, as you know, was launched on July 1, 2017. This is a landmark tax reform in the history of India. I am happy to inform you that till date the implementation of GST at Endurance has been quite smooth. We are already seeing some impact by way of faster truck movement due to removal of octroi check posts. Also certain OEMs have lowered vehicle prices to pass on the extra gain from GST, which in turn should have a positive impact by way of increased two wheeler volumes.

I am also happy to inform you that in May 2017, Endurance Technologies was included in the MSCI India Domestic Small Cap Index.

During this quarter, CRISIL upgraded our rating for long-term loans from AA minus with positive outlook, to AA with stable outlook. We also have an ICRA rating, which is a bit higher at AA with positive outlook for long-term loans. For short-term loans, both agencies have rated us as A1 plus, which is the highest possible rating.

We have hosted our first AGM post the IPO at Aurangabad where the shareholders have approved the dividend payout and the appointment of auditors. The new auditor is SRBC who are a part of Ernst & Young and who have already done a limited review of our financials.

To conclude, Endurance will continue to focus on growing business in all four product segments with existing clients and also adding new clients. Also, we are focusing on increasing after-market and export business in India and are looking at organic and inorganic opportunities in both India and Europe. With these opening remarks, I would like to invite questions from everyone. Thank you.

Moderator:

Thank you. Ladies and gentlemen we will now begin with the question and answer session. We take the first question from the line of Rakesh Jain from Asit C Mehta. Please go ahead.

Rakesh Jain: Congratulations on the amazing numbers, which you have posted. Sir, I just missed out on the scooter sales growth number, which you have told vis-à-vis last quarter. I wanted to know what is the scooter sales volume growth this year for Endurance.

Anurang Jain: Our share of sales for scooters has increased. We were at about 6% in the previous year for supply to scooters as a percentage of India sale, and in the first quarter we were at 7.5%. The major growth, I would say, is going to come when we launch the scooter front forks and the CVT for scooters.

Rakesh Jain: My second question is on FCA in Europe. FCA and Daimler both have registered good quality new vehicle registration numbers and although in Euro terms we had 4.5% of sales growth, but we are seeing somewhat flat growth in the European business in Indian rupees, so is it due to the currency impact?

Anurang Jain: Yes, it is the impact of currency. I think the Euro rate considered in Q1 was Rs.70.8 and today it is around Rs.75 and last year it was Rs.75.5; so I think it is a lot of currency impact. But our Europe topline growth was 5.1% as compared to 1.1% growth in automotive sales in Europe. It has been our focus is to get business from competition. That is also another way to grow, apart from just growth in industry and Endurance is always striving to take business from competition both for existing as well as new business.

Rakesh Jain: Just one last question if I could add. How has been our growth with Hero with respect to the supplies which we are doing? We have been quite active with them since last two or three quarters. What is our call on the initiation of combined braking systems, which we were planning to start by Q2?

Anurang Jain: As far as the CBS is concerned, we have already been cleared by Bajaj Auto, which I had mentioned, for two of their vehicles, which I cannot mention here on the call. We have already been cleared- So all disc brake assemblies for these two vehicles, which we supply, will have a CBS activation system on them. As far as CBS for other clients are concerned, we are talking to them. We are in very close touch because as you know this will be used for existing vehicles only from 2019-20. For the new vehicles, it will be from 2018-2019. So, we are very much in close touch. I cannot disclose more than this, but we are in close touch with all the clients on the CBS.

As far as coming to your Hero question is concerned, as you know we started with them with Aluminium Casting and suspension products for their plants in North India including the plants in Gurgaon, Neemrana as well as in Haridwar. As you know we have got 100% share of business for their plant in Halol, which is for initial capacity of 4000 vehicles a day including motorcycles and scooters. They have already started production, so Endurance's Aurangabad plant is supplying. We will be ready at Halol by the fourth quarter of this financial year and we are going to start supplies from Halol plant to Hero. So that is a big order. Our clutch and CVT is almost cleared and we hope to start both these products in early 2018. It is almost on the verge of

clearance, so already the transmission segment, which is CVT for scooters and clutch for motorcycles is almost through. Brakes is the segment where we are talking to them and in suspension, we have this large order in Halol. And castings - already we are increasing our supplies. We have got some casting orders for Halol, which we will supply from Sanand plant. These are some things that have happened very recently so I can talk to you about it.

Rakesh Jain: Could you just tell me what is the number or quantity of suspension we are supplying to their Halol branch right now?

Anurang Jain: Right now it is about 1100 to 1200 vehicles a day, that what they have started with. They will reach around 4000 vehicles a day by next year I think Diwali is what is the indication.

Rakesh Jain: Thank you so much Sir! I will get back.

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

Jinesh Gandhi: My question pertains to opportunity, which we talked about. One is the aftermarket opportunity in India. What is the size of opportunity, which you are looking at and what are the challenges we foresee in ramping up this business? My second question pertains to the M&A opportunities, which you are looking out for, both in India and abroad. Which areas would you be targeting and any areas of 'no go' given our past experience?

Anurang Jain: As far as the after-market opportunities are concerned, last year we grew by about 15%. Our target is to grow higher than this. All the efforts are on to grow higher than this. The first quarter was a bit subdued because we had to stop supplies one week earlier to July 1, 2017 because of the GST implementation - because we had to clear all the stocks. So that was a bit of a challenge. So like I mentioned also in my initial remarks, the next three quarters will see a very good growth, so just to let you know that our target is to do more than what we did last year, which is a growth of 15%, so that is as far as the aftermarket business is concerned and your second question was related to...

Jinesh Gandhi: M&A opportunities, which you indicated, which are the areas we are looking for and any certain areas where would not be, for sure, going?

Anurang Jain: We are looking at areas where we are already right now present and of course, because we understand these core product segments very well. So, definitely we are looking at these areas even if they are for the passenger cars. If there is a good acquisition opportunity, we will definitely be looking at that. Of course our focus will be on technology and profitable growth, which is very, very important for us going forward. At the same time, we are looking at products, which have good technology in-built because ultimately it is the technology products, which will command higher price and which can sustain themselves in the era of electric vehicles whenever they come. We do not know if it is 5 years from now, 10 years from now, or 15 years from now.

So this is our thought process going forward. So we are looking at these opportunities, we have not finalized anything so far.

Jinesh Gandhi: Last question pertains to the European business where the growth is 4.5% in this quarter. Do we expect similar rate of growth or we should see some increase based on the tooling sale or anything else, which might not have happened in this quarter?

Anurang Jain: So I will ask Mr. Massimo Venuti who is with me to answer this question because we have grown 5.6% (under local GAAP) in spite of a 1.1% automotive growth in Europe. Of course, a lot depends also on the growth of the industry, but like I said, we do not only depend on the industry growth. We take market share from the competition - new business or existing business. But to answer this question, I think Mr. Venuti is best placed to answer.

Massimo Venuti: The expectation is at the same level as in the first quarter. This is due to the fact that we started with new projects for BMW, and for Daimler, and for this reason we think that we can have an increase of 3% to 4% compared to the previous year, also for the next three quarters. It is due to the fact that we started new projects for the new segment of hybrid vehicle for Volkswagen, for BMW and for Daimler. In the last two months there was a quarter on quarter reduction in Germany, but as you know for Endurance Overseas the first market is the Italian market and the French market and they are performing very well - they close off for July with 5.9% of increase compared to the previous year.

Jinesh Gandhi: How is the new German plant ramping up?

Massimo Venuti: We started with Daimler and Porsche in this plant, in the last six months we increased our production. We bagged a project with the customer Porsche for their new project called Mission E for the electrical vehicle component. We acquired orders for one main housing and another housing cover for more or less five million Euros of turnover starting from 2022. In the next 18 months, we will start with installation of the new machine for this new project and we are very optimistic because the life of this project for Porsche is more or less 20 years compared to the previous experience of Endurance in the engine component of more or less five- seven years. So, this is a very important acquisition for us. As you know all the carmakers in the European market at this moment are investing a lot of money in the electrification process and this is the first important step for us after the acquisition in 2016-17 with Daimler for more or less 450000 parts for the new hybrid vehicle. This is the first acquisition of Endurance in the electrical vehicles component. Now we are quoting a lot for new business with other customers because the target for them is to start as soon as possible and be ready from January 2020 with the new electrical vehicle in order to avoid penalty from the European community and so we are optimistic that we can ramp up the new plant in Germany very soon.

Jinesh Gandhi: Thanks and all the best.

Moderator: Thank you. We take the next question from the line of Ketan Chaphalkar from Zephyr Financial. Please go ahead.

Ketan Chaphalkar: My question is regarding EVs. Since there is a lot of talk about electric vehicles going to take over and I do not know in how many years may be 5 years, 10 years or may be 15 years, but in the short-term do you see any business impact on the engine and transmission components specifically in the European business?

Massimo Venuti: So from my point of view it is not a problem for the next two - three years. In the first quarter of 2017-18, there was an increase of 100% compared to the previous year, but we are speaking about a small base level of 40000 cars. If you consider the total market for cars we are speaking about 1%. But for sure, all the carmakers are investing in an important way and for these reasons the strategy of the last seven years of Endurance, from my point of view, was correct because we are reducing the percentage of components in the engine department and we are increasing in the transmission because the transmission will be the same in EVs. And the positive aspect, I repeat, is that we continue to change and to do a lot of investment in order to reduce the weight of the vehicles and to change the performance of the engine. With electrical vehicles, the platform will be used for minimum 20 years, this is very positive because it means that the payback of the investment will be better compared to the past. At this moment, all the carmakers have started with projects for the electrical vehicles. Frankly speaking, they do not have a clear idea about the impact on the market due to the government policies- the European Governments have to invest a lot of money. If they do not change the policy, probably the car makers are not going to be able to develop these new technologies on the engine side. But I can tell you that in the European community they are approaching all the governments in order to take a position and to define a date when it will not be possible to sell an engine with the erstwhile technology. In England they decided to start from 2040, in Finland and Belgium from 2035 and so for sure in the next five years we will see an important revolution in this field, but from our side we are ready. Let me say it could be an opportunity due to the fact that the new vehicles will have a normal engine and also an electrical engine, so for us there will be an increase of content of Aluminium components for sure- this is an opportunity for us.

Anurang Jain: So here, there are two benefits for us in our Aluminium castings - one is that the life of the platform is longer, it is about 20 years compared to 7 years or 10 years; and secondly the content, per electric vehicle, of aluminium parts has increased because of light weighting. So, there are two advantages, and we are fully ready and like Mr. Venuti said they have already got the first order for the Porsche electric vehicle, which will have a life of 20 years.

Ketan Chaphalkar: Thank you.

Moderator: Thank you. Next question is from the line of Bharat Gianani from BNP Sharekhan. Please go ahead.

- Bharat Gianani:** Thanks for the opportunity Sir! Congrats for a great set of numbers. I just wanted to ask what is our capex plan for the next two years and in which segment are you increasing the capacity. We are reading some media articles that you are planning to increase the casting capacity, so if you can throw some light on what currently is the capex again, by how much you plan to increase the capacity?
- Anurang Jain:** What we have is a ballpark figure for annual capex in the Company, which we mentioned earlier. It is Rs.275 Crores of capex in India and 15 million Euro capex in Europe. Of course, they will depend on the opportunities. But definitely, wherever we find stability with a good market potential, we are investing in the casting business also. For example, for exports to Getrag, investments are happening or for say customers like Royal Enfield or even for Hyundai in south India, we are expanding our facilities in a plant in Chennai for these customers as far as castings are concerned. So basically we are looking at opportunities whether it is casting or proprietary. In proprietary, there is the Halol project going on, so we are increasing the capacity there by building a new plant. Now, HMSI has put in capacity for 600,000 new scooters in the third plant in Karnataka where we have a large share of business, so because of that we have increased the capacity. So, looking at the opportunities, we are going after profitable business and basically after business - how to make margins is up to the company with its efficiency and better purchasing policy, so wherever opportunities are there for growth our idea is to grow more than the industry. That is our target, so that is how we are going about it, but to answer your question Rs.275 Crores capex in India and 15 million Europe capex overseas.
- Bharat Gianani:** But Sir my question was on the tonnage if you could quantify how much tonnage is your casting capacity, and in terms of ballpark, over the next two years what is the plan to increase?
- Anurang Jain:** I will not be able to answer that question, I can only tell you that based on the report, which we have from the Die Casting Association of India, which is called Alucast, Endurance is the largest die caster with a capacity of about I think it was at that time 80,000 odd tonnes a year. Of course this will go to 100,000 tonnes is what we have in the line of sight; beyond that it will depend on the opportunities. It is very difficult to answer what business we will take. In Endurance, where the opportunities come for profitable growth, we will take those opportunities. So there is no plan that we will increase so much quantity in casting capacity, sitting here because things change. There are so many uncertainties in this business. We do not know which customer is going to do very well or not, so I can only tell you we will take all those opportunities, which we feel have the potential for us to make money and increase our profit margin.
- Bharat Gianani:** Thanks and all the best.
- Moderator:** Thank you. We take the next question from the line of Achala Kanitkar from Birla Sunlife Mutual Fund. Please go ahead.
- Achala Kanitkar:** Just wanted to know a little bit on our plans to supply HMSI for their Asian markets - I suppose we were in talks with them on that.

Anurang Jain: Yes, we are in talks with them, we are still in talks with them and of course we are quite optimistic that something should click, but I will not talk anything beyond that. Being a large vendor of Honda in India enables us to get this opportunity because firstly you have to be strong in India, once you are strong in India then the customer has confidence to give you opportunities worldwide. So we are very optimistic to start something there.

Achala Kanitkar: So then have the supplies for the Indian plant started for them on the transmission front?

Anurang Jain: Yes it started in March, we have supplied clutch assemblies, we have already reached 14000 clutch assemblies a month and now we will increase the share of business, but they always watch the quality for six months to a year. If your quality is good in terms of warranty or customer complaints then they increase the share of business, but we have already started the clutch with them and just happy to tell you that also for the disc brakes we have got LOI from them. We have got LOI for the brake. Just got it two weeks ago.

Achala Kanitkar: Excellent Sir! Thank you. That is it from my side.

Moderator: Thank you. We take the next question from the line of Narottam Garg from CWC Advisors. Please go ahead.

Narottam Garg: My question is with regard to Europe. Congratulations on the Porsche project. I just wanted to know that as we move forward towards an electric vehicle era, does the content per vehicle that we supply increase or does it stay stable, so if you can provide some cues from the new project you have got with Porsche?

Massimo Venuti: The content per vehicle will grow due to the fact that, as you know, now all the carmakers are using more parts in aluminum high-pressured castings. because in the past they used aluminium only for energy component for transmission, now all the components have a bracket and suspension are used for the body of the vehicle. So the content will grow considering the total weight of the vehicle. 17% growth only for the change of material from steel component to aluminum and as Endurance we are investing in these directions. In fact, in the last three years we have taken a lot of business- we are the first supplier of Maserati premium brand of the FCA group for this component. We are producing for them more or less 35000 vehicles per year and we are the first supplier covering this vehicle. Fiat Chrysler, also Daimler, and BMW are investing in this direction. The new generation of cars from 2020 will have the body 100% in aluminium so it means as Endurance we have to install the production capacity with pressure die casting machine in order to serve these kind of products.

Narottam Garg: Got it and just one more question please correct me if I am wrong - it appears that the gross margins in Europe business have come down slightly by around 150 basis points, so could you just provide some understanding on why that has happened and whether this is going to be the new base for growth margin?

- Massimo Venuti:** We closed the previous quarter with an increased turnover of 5.6% (under local GAAP) in Europe compared to the previous year. In terms of EBITDA we have had an increase of 12.9% (under local GAAP), and in terms of net result 9.8% (under local GAAP) compared to previous year. I am speaking about Europe.
- Anurang Jain:** Euro terms of Q1 of 2016-17 versus Q1 2017-18 is what Mr. Massimo Venuti is talking about.
- Massimo Venuti:** 12.9%% EBITDA, 9.8% net result.
- Anurang Jain:** You talked about margin percentage is it?
- Narottam Garg:** No, I am talking about gross profit margin. Sequentially it appears to have declined from around 56% to 54.5% so just wanted to understand that.
- Massimo Venuti:** I do not know. Frankly speaking in EBITDA, there was an increase compared to the previous year of 12.9% .
- Anurang Jain:** You are talking about percentage; he is talking about EBITDA percentage.
- Narottam Garg:** No, I am talking about gross profit margin percentage.
- Massimo Venuti:** This financial year we closed with 16.5% of EBITDA compared to 15.3% of the previous year there was an increase of 12.9% in absolute EBIDTA in Euros.
- Narottam Garg:** Q1 to Q1?
- Massimo Venuti:** Q1 to Q1.
- Narottam Garg:** Sequentially?
- Massimo Venuti:** Net result 6% of this financial year compared to 5.7% of the previous financial year also in terms of net result there was 9.8% of increase compared to the previous year quarter-to-quarter.
- Narottam Garg:** Got it. Thank you.
- Moderator:** Thank you. We take the next question from the line of Rakesh Roy from Asit C Mehta. Please go ahead.
- Rakesh Roy:** Sir, my question on the European business - if I am right, your EBITDA margin from last year Q1 FY2017 is 14.3 or this year is coming from my point of view 16.4, is it increased by 230 basis points, you said this margin was sustainable on remaining three quarter Sir?
- Anurang Jain:** If you are taking about the margin done in Q1, yes it will be sustainable.

- Rakesh Roy:** Any outlook for your margin for next FY2018 or FY2019?
- Anurang Jain:** No, we will not talk about that.
- Rakesh Roy:** When aluminum prices are increasing... any impact on this margin?
- Anurang Jain:** See, normally when aluminum alloy prices increase it does unfavourably affect the EBITDA margin downwards because that is a mathematical impact and when the alloy prices go down, EBITDA margin increases.
- Rakesh Roy:** Sir, my next question is on standalone basis- on standalone basis on Indian business your gross margin has decreased by 100 basis points if I am right, how much impact for raw material in near future and also this will continue.... raw material impact Sir?
- Anurang Jain:** See, for the raw material impact it is very difficult to talk about the future, but definitely alloy prices do have a small effect on EBITDA margin. But if you see EBITDA margin percentage compared to Q1 of previous year it has gone up from 12.7% now it is 13%.
- Rakesh Roy:** No, this will increase Sir. 12.3 to 12.6 Sir of EBITDA margin. I am asking about the gross margin. Last year gross margin 35.9, this year is 34.9.
- Anurang Jain:** That is because of the metal cost increase that is alloy price increase.
- Rakesh Roy:** Sir my next question is regarding your ABS technology. You have tie-up with one US Company, can you give me the outlook for this?
- Anurang Jain:** We will request Mr. Ramesh Gehaney, Director & COO to explain this and he is fully involved in this business.
- Ramesh Gehaney:** Our arrangement with BWI is a technical collaboration in which they will help us out in not only design and design building of the configuration of the ABS system, but also into testing facilities and setting up the manufacturing facilities in India.
- Rakesh Roy:** What was the royalty agreement? how much you are going to pay them?
- Ramesh Gehaney:** This is the royalty based agreement, but I cannot tell you how much of royalties we will be paying.
- Rakesh Roy:** Thank you so much Sir!
- Moderator:** Thank you. Next question is from the line of Rakesh Jain from Asit C Mehta. Please go ahead.

- Rakesh Jain:** Thank you for giving the opportunity again. Sir you mentioned that we have started supplies to Karnataka plant of HMSI, this is one of the largest plant of scooters for them, so what percentage of their requirement would you be fulfilling?
- Anurang Jain:** We started supplies for the third plant in Karnataka almost three years ago. We have a 100% share of business in suspension products for motorcycles, a sizeable business share in shock absorbers, which are mainly for the scooters and we have very large share of business - above 50% actually now it has gone up to 60-65% almost - for scooter castings. We enjoy a very large share of business for the third plant of HMSI in Karnataka and their fourth plant in Gujarat. In Gujarat, we have 80% share of business for suspension and about 60%-65% for casting.
- Rakesh Jain:** Thanks. That is it from my side.
- Moderator:** Thank you. We take the next question from the line of Neeta Jain from NJ Limited. Please go ahead.
- Neeta Jain:** I just have one question. So basically I want to know which are the products, which we are currently manufacturing for electric vehicles and in future in which products can we enter?
- Anurang Jain:** See in India we are not manufacturing anything for the electric vehicles. Even in Europe we are not as of now. We have an order first order from Porsche for cars, which will be starting and this will start in 2019 and like Mr. Massimo Venuti said the content per vehicle of aluminum will be higher in electric vehicles with a longer life. So as of now we are not doing anything for electric vehicles.
- Neeta Jain:** Sir in future also which products will be making for the electric vehicles like starting 2019?
- Anurang Jain:** We would like to in fact supply all our products except of course the clutch because in an electric vehicle you do not need a clutch, so otherwise all our products will go into the electric vehicle.
- Neeta Jain:** So right now, for the contract which we have got from Porsche – will we be supplying all products except clutch?
- Anurang Jain:** In overseas, we are not doing proprietary parts we are only doing aluminum castings as you know.
- Neeta Jain:** As of now?
- Anurang Jain:** Yes as of now.
- Neeta Jain:** Sir I heard Mr. Massimo Venuti telling that we are eating into the market share of other European companies and we are beating the industry growth - so any highlight on the market share where does it currently stand and how much are we getting from it?

- Anurang Jain:** I do not think we can really find out what is the market share.
- Neeta Jain:** Just if you have?
- Anurang Jain:** Europe is a huge market and I do not know. Here we have an association called Alucast, so we know what is the die casting size and capacity and they keep track. I am not sure whether we have the information for Europe because there are so many countries in Europe, so I do not know how it works.
- Neeta Jain:** Can you please provide us any update on your suspension business and your outlook on the same?
- Anurang Jain:** We are very positive. In fact, suspension business has grown the fastest over the years if I see the last four to five years. We have entered almost every client now. I would say casting and suspension are always the first businesses we enter and then you have the transmission and the brake business after that, so our focus is to increase the share of business for the existing parts as well as new business from competition. That is the focus going ahead.
- Neeta Jain:** Going forward, what is the percentage growth that you are looking at?
- Anurang Jain:** I have always maintained 8% to 10% growth from the pre IPO days. We will grow at 8% to 10%, which is what I stand by. There are too many uncertainties we face, so I would not like to go beyond that figure of 8% to 10%.
- Neeta Jain:** In both castings and suspensions?
- Anurang Jain:** Overall as Endurance.
- Neeta Jain:** Thank you.
- Moderator:** Thank you. We take the next question from the line of Ashish Nigam. Please go ahead.
- Ashish Nigam:** Some questions on the ABS tie-up, so what is the validation process with OEMs? There may be a very cumbersome process in terms of getting OEM validation. And do we need to set up a new plant for this?
- Ramesh Gehaney:** The extra effort will be from our side, because there is a lot of benchmarking that we will have to do across the other products, which the OEMs are already using. Once that is done, we can get it third party certified also. Our configuration of the ABS system, which we would have validated, will then have the support of a third party certification also.
- Ashish Nigam:** And no new plant needed for this - you can just be with the existing plants?
- Ramesh Gehaney:** We do not need any new plant unless and until...It depends on the volumes that we will get.

- Anurang Jain:** No, it will be new equipments for ABS- new testing and manufacturing equipment, but we will house it in the same building, same brake building, where the brakes are manufactured.
- Ashish Nigam:** How is our comparative positioning considering the fact that we are the leading players in disc brake? Does that give us a significant comparative advantage with ABS?
- Anurang Jain:** Yes, because we understand brakes very well. We have been there from 2004 in this business. The issue is of ABS, which is a technology by itself because it has the electronics involved in it. That is why we have gone to BWI. Definitely we have an advantage. Our focus is to meet the benchmarks on performance of the leading players at an economical price because we believe the price will play a very important role going forward. It already does. You can imagine, with all the fuel injection and the ABSs and all the other things, which are coming on a two-wheeler, price will play a very important role and I think Endurance is very well equipped to give a good price.
- Ashish Nigam:** There has been some noise that going into CBS, the disc brake penetration might increase. What is your thought on disc brake penetration for the under 125 cc bikes?
- Ramesh Gehaney:** See for the under 125 cc there will be three types of CBS systems, *one* is through a hydraulic disc front, hydraulic disc rear, or *two*- it could be a hydraulic disc front and a mechanical drum brake rear or *three* - it will be a mechanical drum front and mechanical drum brake rear. I feel the 125 cc bikes will have the front hydraulic option and the rear mechanical drum brake option. Otherwise below the 100 cc will be mechanical and mechanical, which is hardly any value add . This is not where Endurance wants to be. We want to be in the 125 cc. We will be supplying the disc brake assemblies and on that we have a CBS activation system, and the opportunity is more on 125 cc, unless the mechanical - mechanical combination does not work out on 100 cc, which is still in testing with most of the clients. Then we get an opportunity for the 100 cc also.
- Ashish Nigam:** Sir, there are some OEMs who are supplying CBS right now - Honda and few others. Is that current bike meeting the CBS norms that are required or will they have to modify those?
- Anurang Jain:** Right now, it is mainly for scooters. It is a complete mechanical CBS - a low cost CBS. This is an actuating mechanism which activates both the brakes through a CBS. Being mechanical, there are no hydraulics involved in it. Endurance wants to be in CBS, which involves hydraulics, That is where the value add comes from. The final configuration will depend on the customer, as the CBS with a mechanical front and rear must qualify the regulatory norms. So if a mechanical, mechanical is okay for 100 cc then they may go for that because OEM customers will obviously try and save money. So it is not clear right now whether 100 cc would have a front hydraulic or not, whether it will have a hydraulic CBS or a mechanical, 125 cc will definitely have a hydraulic actuating system.
- Ashish Nigam:** Secondly on the Europe business what is the current order book right now and what time will these orders be executed?

- Massimo Venuti:** At this moment there are orders for 2020/2021 of more or less €280 million considering the situation of volume projected by the customers. €280 million and the position for this financial year is more or less €250 million, compared to €236 million of the previous financial year.
- Ashish Nigam:** Also on Europe margin I think there was a question asked earlier, which was not probably framed correctly, but while the margins are quite strong even now at 16.5% we saw 18% plus last quarter, so is there any change in terms of mix that could have led to it being lower this quarter I am talking of Q4 versus Q1?
- Massimo Venuti:** First of all you have to consider seasonality of our business because 18% is an extraordinary performance of the last quarter of 2016-17 due also to the impact of the tooling. When we started with a new project we entered in production, we did the invoice for tooling- so this could advance our profitability. From my point of view, it is possible to maintain our margin that is more or less 16% to 17%. This is the target that I have in mind.
- Anurang Jain:** Moderator do we have any more questions?
- Moderator:** Well there are no further questions from the participants.
- Ashish Nigam:** So I guess we can end the call. Thank you Endurance team. On behalf of Axial Capital, thank you all for joining the call today and thank you Endurance team for giving us the opportunity to host the call again. Have a good day everyone.
- Moderator:** Thank you. Ladies and gentlemen, on behalf of Axis Capital Limited that concludes this conference call. Thank you for joining us. You may now disconnect your lines.