

Endurance Tech

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AURANGABAD Aug 13, 2018 (Thomson StreetEvents) -- Edited Transcript of Endurance Technologies Ltd (CN) earnings conference call or presentation Monday, August 13, 2018 at 4:30:00am GMT * Jinesh K. Gandhi

Good morning, ladies and gentlemen. Welcome to the Endurance Technologies Q1 FY '19 Results Conference Call hosted by Axis Capital Limited. (Operator Instructions) Please note that this conference is being recorded.

I now hand the conference over to Mr. Ashish Nigam from Axis Capital. Thank you, and over to you, sir.

Thank you. Good morning, everyone. Welcome to the Q1 FY '19 results conference call of Endurance Technologies. We have the entire senior management team with us, Mr. Anurag 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 just start with the opening remarks by Mr. Jain, post which we can have Q&A. Over to you, Anurag.

Thank you, Ashish. Good morning, everybody. I am Anurag 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 2018/19 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. 3-wheeler sales had a very high growth of 63%.

In our overseas operations, in quarter 1 of 2018/19, Endurance has posted a total income growth of 16.7% from INR 4,685 million to INR 5,468 million.

On the financials, I will briefly talk to you about the first quarter of 2018/19. During quarter 1, as compared to previous year same quarter, our consolidated total net income grew by 23.4% from INR 15,114 million to INR 18,645 million. Consolidated EBITDA grew by 25.5% from INR 2,196 million to INR 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 INR 1,246 million at 6.7% of net income. The profit after tax grew 29.1% over the previous year.

On the stand-alone total income in quarter 1, it grew by 26.4% from INR 10,429 million to INR 13,177 million. Stand-alone EBITDA grew by 28.8% from INR 1,404 million from INR 1,808 million with an EBITDA margin of 13.7% as compared to 13.5% in quarter 1 of previous year. The profit after tax was at INR 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 2018/19, 71% of our consolidated total income including other income came from Indian operations, and the balance 29% came from our European operations. Bajaj Auto's share of business on consolidated sales was at 36.5%. Endurance's growth was in line with the Bajaj growth.

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.

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.

Our aftermarket sales in India grew 20.2% from INR 442 million to INR 531 million. This included both the domestic and export sales. Our exports from India grew by 93.6% from INR 316 million to INR 612 million. Our exports mainly comprise of exports of aluminum castings, 2-wheeler front fork and shock absorbers and our aftermarket exports to 23 countries.

GETRAG transmission, who's a key supplier of transmission assemblies to Ford, is a 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 car assembly making for OEMs. This is opening up new machine to 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. Since April 2018, INR 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; GAMA India; Royal Enfield; and Tata Motors. This also includes a small value of electric 2- and 3-wheeler business with suspension and braking products.

The status of our new plants are as follows. Our 2-wheeler suspension plant at Halol, Gujarat will start supplies from September 2018 in this year. 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 INR 1,200 million per annum by January 2019.

Our Kolar, Karnataka plant for supplying front fork and shock absorbers to HMSI for Honda 2-wheelers would start supplies from January 2019. We would also like to mention that we have given a closure year notice at our Manesar, Gurgaon plant due to lack of sufficient business and cost constraints. We would like to mention that as a part of our operation strategy, we are consolidating the small Manesar plant business with our plant at Pantnagar, Uttarakhand.

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

The ABS brakes tie-up with BWI U.S.A. 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 also like to add that the ABS addition is leading to large rear disc brake assembly orders, which will reach 75,000 numbers on 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.

Our 29-acre test track is taking more time as we need to ensure the quality of track, and it'll be now ready by October 2018 in 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.

With large orders recently secured from HMSI; Hero; Hyundai; Kia; REML, which is Royal Enfield; and Bajaj, we would see a higher CapEx intensity this year and our India CapEx could be in the range of INR 400 crores to INR 450 crores or INR 4,000 million to INR 4,500 million in this financial year.

Our company has received an eligibility certificate for incentives under the Maharashtra Package Scheme of Incentives -2013. Based on investments and fixed assets, from April 2013 until September 2017, and the constant employment generation in the state, Endurance has got incentives totaling an amount of INR 2,831.16 million spread over 7 years. Further, there are still incentives -- are expected on account of investments in fixed assets made during the period October 2017 to March 2018.

We have also repaid the last installment of our long-term borrowing in July 2018, thus becoming long-term debt free for our Indian operations. During the quarter, ICRA, or ICRA, upgraded our rating to AA+/Stable; and CRISIL improved or upgraded overrating 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 our product areas. And as mentioned earlier, it includes new products being 150 cc and 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 core product area portfolio. We are actively engaged to explore and identify opportunities for our merger and acquisition and technical tie-ups with different overseas companies.

We at Endurance would also continue to focus on growing business in all of our core 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.

Questions and Answers

Operator [1]

(Operator Instructions) The first question is from the line of Jinesh Gandhi from Motilal Oswal Securities.

Jinesh K. Gandhi, Motilal Oswal Securities Limited, Research Division - SVP of Equity Research [2]

My question first pertains to Europe. Can you indicate what was the euro term growth and what was the industry growth for European business?

Anurag Jain, Endurance Technologies Limited - MD & Director [3]

See, the growth in Europe in euro terms were about 4%. Because of the favorable exchange rate, the -- in Indian rupees, it was 16.7%. And in Europe, I would say the growth was similar to the growth which we had of 4%, 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, Endurance Technologies Limited - Director [4]

Yes, so we closed the first quarter 2018/19 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 aligned compared to the previous year, with an increase of 1%, 1.5%. And Italy -- in Italy, we lost 1.3% compared to the previous year. The only market very profitable was France with an increase of 6%, and Spain with an increase of 9%. But the total market growth more or less with 4%. So it means that at Endurance, we are aligned with the increased compared to the previous year at the market.

Jinesh K. Gandhi, Motilal Oswal Securities Limited, Research Division - SVP of Equity Research [5]

Right, right. And secondly, on the European business, we have seen a significant increase in staff cost on Y-o-Y basis, maybe this is also due to euro. There's about 19% increase in staff costs. So is there any one-off or it's largely euro-related, currency depreciation-related?

Massimo Venuti, Endurance Technologies Limited - Director [6]

No, this is -- this increase is due to the new business acquired with Volkswagen. Because as you know, we started with the new 2 plants completely dedicated to Daimler, and so we started all the activity in the production department with quality and maintenance completely dedicated to this business. It's only due to this.

Jinesh K. Gandhi, Motilal Oswal Securities Limited, Research Division - SVP of Equity Research [7]

Understood, understood. And second question pertains to India business. You indicated about these incentives for Maharashtra plant. So this has started accounting from 1Q FY '19 or had this been an ongoing feature?

Anurang Jain, Endurance Technologies Limited - MD & Director [8]

Yes -- no, no. We have not accounted this in quarter 1. This, I think, will be most probably accounted in the last quarter when we get the -- I think Mr. Ray will better answer this question, our Director and CFO.

Satrajit Ray, Endurance Technologies Limited - Group CFO & Executive Director [9]

Jinesh, our accounting, what we do is for each year, we are obliged to apply to state government after receiving certain tax audit reports. And the process runs like this, that after receiving our application for that year, government will give us permission for 85% of cash disbursement, which happens pretty quickly. So receiving that permission is the trigger, based on which the accounting happens. So as Mr. Jain correctly says, it is likely to be in third/fourth quarter depending on when we receive that permission every year.

Jinesh K. Gandhi, Motilal Oswal Securities Limited, Research Division - SVP of Equity Research [10]

Okay. So for example, for FY '17, it would have been accounted in FY '18 most likely.

Satrajit Ray, Endurance Technologies Limited - Group CFO & Executive Director [11]

Yes, because we have to apply after our tax audit is over. So that will happen in the last quarter of the calendar year. And based on when we receive the permission, we'll book it.

Jinesh K. Gandhi, Motilal Oswal Securities Limited, Research Division - SVP of Equity Research [12]

Right, right, right. So this quarter there will not be any material contribution from this?

Satrajit Ray, Endurance Technologies Limited - Group CFO & Executive Director [13]

No. In Q2, no. Definitely no.

Jinesh K. Gandhi, Motilal Oswal Securities Limited, Research Division - SVP of Equity Research [14]

And in 1Q?

Satrajit Ray, Endurance Technologies Limited - Group CFO & Executive Director [15]

No, in quarter 1, there's nothing like this.

Jinesh K. Gandhi, Motilal Oswal Securities Limited, Research Division - SVP of Equity Research [16]

There's nothing like this. Okay, okay, great. And last question pertains to -- can you share the share of proprietary business in India now?

Anurang Jain, Endurance Technologies Limited - MD & Director [17]

The share of proprietary business is increasing only right. But I can tell you what is the total percentage of proprietary business, it is 51%.

Jinesh K. Gandhi, Motilal Oswal Securities Limited, Research Division - SVP of Equity Research [18]

And this was, what, about 45% in 1Q last year?

Anurang Jain, Endurance Technologies Limited - MD & Director [19]

This was 49%.

Operator [20]

The next question is from the line of Aditya Jhavar from Investec.

Aditya Jhavar, Investec Bank plc, Research Division - Analyst [21]

I'm wondering if you can talk a little bit on the breaking order wins. So what we understand is Royal Enfield, as well as Bajaj, has seen a strong demand for rear disc brake. And they had indicated that some of the suppliers are seeing a capacity constraint. So in terms of where are we, what product range we were supplying, specifically in the braking dividend historically, and what are the new order wins?

Anurang Jain, Endurance Technologies Limited - MD & Director [22]

You see, actually, we were mainly supplying the front disc brake assemblies for the motorcycles and scooters. And we were supplying for 3-wheelers the brake panel assemblies with a tandem master cylinder. Now as far as the capacities are concerned, at present, we are okay with supplying the front and rear disc brake assemblies to the tune of 200,000 a month. But now we have done recent investments because the ABS system really didn't expect such a large order coming for the rear disc brake assemblies. So you are right -- and Royal Enfield and Bajaj has a huge growth on the rear disc brake assemblies and as well as on the front also. So now we have placed the orders for these machines. So the line of sight is -- I mean, it's fantastic if you ask me because -- because of the ABS, the front and rear disc brakes -- and not only that, there's a new client, a big new client is going to be added. I can't talk about it right now. But Bajaj and REML remains, I would say, the large disc brake assembly, both front and rear clients for us right now. But this business is booming. It's blooming. The -- and then ABS will -- in fact, this business opportunity could be even bigger than ABS, and I'll be honest about that, because volumes will be huge. And we are really very well settled in the disc brake system with Brembo, Brembo being the leader. So this is a very good opportunity which has come all of a sudden not expected last year.

Aditya Jhavar, Investec Bank plc, Research Division - Analyst [23]

Okay. So if you can quantify a little bit specifically on RE, what would be the volumes that you're looking for the next couple of quarters, the next couple of years, and what would be the incremental ASP of the product that we are supplying to?

Anurang Jain, Endurance Technologies Limited - MD & Director [24]

You see these are very specific questions, Aditya, which I cannot answer. I'll try my best to satisfy you on your question. There certain things I'm not supposed to speak as per the OEMs.

Aditya Jhavar, Investec Bank plc, Research Division - Analyst [25]

No problem. No problem. And specifically on -- in Europe, so if you can highlight new order wins in the last couple of quarters and their ramp-up plans specifically for VW and Daimler.

Anurang Jain, Endurance Technologies Limited - MD & Director [26]

So I think Massimo Venuti will be the right person to answer this question.

Massimo Venuti, Endurance Technologies Limited - Director [27]

Yes, so first of all, the positive news is due to the fact that we have been awarded by 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. In this moment, we are evaluating the increase of our production capacity. So it means that the total volume for this 1.5-liter gasoline engine will be, for Endurance, more or less, 1.4 million of parts. And if you consider that this is one of the most efficient engine in terms of consumption and emission, for sure this will give to us a positive effect in our sales in the next year. And in the first quarter 2018/'19, we acquired also other 6 million deal with the Fiat Chrysler group for a new exhaust manifold for the 1.6-liter diesel, 200,000 part per year. And another 2 components for Fiat Chrysler, 1 manifold and 1 cylinder head cast for the new GSE T4. This is in the new engine that Fiat Chrysler are assembling in the new Jeep Renegade and in the new Fiat Cinquecento.

Aditya Jhavar, Investec Bank plc, Research Division - Analyst [28]

Okay, okay. And my final question is that on Europe, Massimo, have you -- what has been the traction in catering to EV suppliers? Have we picked up something on supplying to EV or to specifically EVs?

Massimo Venuti, Endurance Technologies Limited - Director [29]

Sorry, can you repeat the question, please?

Aditya Jhavar, Investec Bank plc, Research Division - Analyst [30]

Yes, so historically, we have been supplying die-casting component to engine and transmission. Has there been any incremental traction on supplying EV -- components to EV manufacturers, electric vehicles?

Massimo Venuti, Endurance Technologies Limited - Director [31]

So yes, in this moment -- yes, in this moment we are talking to several new business with German customer, Volkswagen and Daimler, in the electrification process. In this moment, we are quoting more or less EUR 75 million in new transmission because starting from September 2018, Volkswagen Group will present a new business scenario for -- in order to use the component that we are developing as Endurance, with Porsche for the new Mission E, for all the other brand of Volkswagen Group, so we are speaking about Audi, Volkswagen, SKODA and Fiat. And for this reason, we are quoting several part. I hope within the further quarter 2018/'19 to will give you positive feedback about these quotation that we are doing.

Operator [32]

(Operator Instructions) The next question is from the line of Hiral Keniya from Indsec Securities.

Hiral Keniya, Indsec Securities & Finance Ltd., Research Division - Research Analyst [33]

Sir, just wanted to know whether this -- the margin that we are doing, operating margin, how sustainable are they? Because like this is the best operating margin that we are doing in the last 9 months -- sorry, 9 quarters. So that was my first question.

Anurang Jain, Endurance Technologies Limited - MD & Director [34]

No, of course, we hope to sustain these margins, of course. Because like I mentioned in the previous con calls, I mean, operating margins are not only a factor of price, because the price is a factor of operation strategy.

Hiral Keniya, Indsec Securities & Finance Ltd., Research Division - Research Analyst [35]

Right, sir.

Anurang Jain, Endurance Technologies Limited - MD & Director [36]

So as far as we are concerned, we are totally committed to sustain and try to improve these margins as we go forward.

Hiral Keniya, Indsec Securities & Finance Ltd., Research Division - Research Analyst [37]

And sir, if you can just highlight a couple of like -- or strategies, like what we are following to keep this margins going.

Anurang Jain, Endurance Technologies Limited - MD & Director [38]

See, I'd already mentioned on a broader level, I'll tell you whether it is outsourcing of parts to our Endurance [window] base, whether it's consolidation of plants. As you know, we have consulted 2 plants last year, 1 plant is in process. At the same time, adding new plants only when we get large business like in Halol or Karnataka in Kolar region. So we are very -- this is also a part of our operation strategy. We operate TPM on how to keep improving operational efficiencies, how to improve quality. So these are some of the operational strategies which has helped us to be where we are in the last 10 years.

Hiral Keniya, Indsec Securities & Finance Ltd., Research Division - Research Analyst [39]

Okay, that was helpful. And sir, just my last question is about the tax rate. Like the effective tax rate is now like -- stands at like 33.6%. So like...

Anurang Jain, Endurance Technologies Limited - MD & Director [40]

33.7%, yes.

Hiral Keniya, Indsec Securities & Finance Ltd., Research Division - Research Analyst [41]

Yes, so would it -- like what can we expect for the -- like, the current FY '19?

Anurang Jain, Endurance Technologies Limited - MD & Director [42]

I would request Mr. Ray to answer.

Satrajit Ray, Endurance Technologies Limited - Group CFO & Executive Director [43]

We are at maximum rates now, which is 34.99%, and this will maybe vary a little bit on the lower side based on the kind of R&D spend that I do. But we are at the maximum right now, to answer your question.

Operator [44]

The next question is from the line of Nilesh Shah from Envision Capital.

Nilesh Shah, [45]

My question is more around the 2-wheeler, especially the motorcycle industry dynamics. In the last quarter or so, we have seen some really healthy growth. But clearly, players like Bajaj Auto, of course, seemed to now basically upped the gear and really focused more 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 focus of these players is going to be on the entry-level segment, which would mean lower pricing and lower margins, what does it mean or imply in terms of your margins as well going forward, especially from the motorcycle 2-wheeler segment?

Anurang Jain, Endurance Technologies Limited - MD & Director [46]

Yes. So in fact, the -- if you see the motorcycle growth, the thrust has been largely on the 100 cc segment, which is mainly because of various reasons like loan givers] in certain areas of India; the price support of the crops, [farmer helpers]; and maybe better infrastructure, including better roads. So if you see -- and 100 cc bikes are cheaper than scooters also. So this is what is our view that these are the reasons where the 100cc-plus segment is doing very well. How long it will sustain? Already, there are clients who are lowering prices. As far as we are concerned, we have a clear product costing which is there. Over the years, we have given very, very competitive rates to our customers. So this is a pricing strategy which is of the OEMs. So they have to decide which products will make a lot of money and which products they want to not make money. But as far as we are concerned, I don't foresee anything of further cost crunch hitting us. Because we have supported all these customers when the volumes were really down in the last 6 years and we have taken all those -- and the kind of losses we have faced because of higher capacity and the lower sales. So that is support to them. So definitely we expect the same support from them going forward. So I don't know of anything like this which will happen, to be honest. As far as we are concerned, we are putting up capacities based on what we think practically can happen. And we have been doing it for the last 8 years after the global financial crisis. So we are a very conservative cautious company. But we will ensure that our customers don't suffer at all as they are increasing their capacities. That we will ensure.

Operator [47]

The next question is from the line of Rakesh Jain from ACM Investments.

Rakesh Jain, [48]

My first question is with regards to the European business. So we have been growing despite the growth -- or degrowth scenario in Europe. Where do you see in -- that this could be directly correlated with the European new car registrations growth in the divisions or the regions wherever we are in Europe?

Anurang Jain, Endurance Technologies Limited - MD & Director [49]

Okay, sure. I'll request Mr. Venuti to answer the question.

Massimo Venuti, Endurance Technologies Limited - Director [50]

Yes, so as you can imagine, in the European market we are growing an important way. After their industrial crisis, we reached 16.5 million, 16.7 million of cars sold in 2017. And so for sure, in our business, it's normal that sooner or later that will be a slowdown, a reduction. But in this moment, we are seeing an important increase of registration in SUV and in the hybrid solution. In this moment, the parts of the cars is very old in some country, for example Spain, and for this reason, Spain is growing 10%, 12% per year starting from 2012, 2013. It's the same in France and it's the same also in Italy. For sure, in this moment, the situation is very difficult due to the fact that, as you know, starting from September, there will be the new law, the new worldwide like test procedure. And many carmakers are working in this direction. They announced the possible slowdown or even temporary stop in the car assembly in September for the delay in the accomplishment of the homologation process for the different vehicle version. And for sure, these will influence also the growth of the next months. But in this moment, the provision for 2018 is to increase, compared to the previous year, more or less 2.5%. We have to analyze the impact of the import. Because in this moment, we are increasing the registration of new cars sold in the market, but there is also an important increase of the import from Japan, from Korea, and this can affect also the production capacity in the European market. But in this moment, the provision is more or less 2% compared to the previous year.

Rakesh Jain, [51]

Right. So I was just trying to understand that do we have any sort of implications coming from any sort of tariff which will be -- or are in the process of being laid on the EU car manufacturers?

Massimo Venuti, Endurance Technologies Limited - Director [52]

No, no. In this moment, we are not -- we don't see any kind of problem. The only problem can arrive is from this trade war in the duty as you know, because unfortunately -- or fortunately, let me say, it depends, our main customer are BMW and Daimler. And as you know, they produce -- they assemble car in the United States and they export this car in China. And so we don't see problem with the relationship with between United States and the European Union, and also for the imports from -- directly from China. But for sure, we can have an impact for the export between United States and China. Because from Italy, from the European market, we don't deliver directly to United States and China, but we produce for them engine and they are boxed -- assembled in the United States and exported in China.

Rakesh Jain, [53]

Right. Sir, can I get the number for the new business which you added this year, which was...

Massimo Venuti, Endurance Technologies Limited - Director [54]

In this year, we -- the expectation for Endurance Overseas is to grow compared to the previous year, or more or less 3% compared 2017, 2018 due to a mix -- a different mix compared to the previous year based on the fact that this new business acquired with Volkswagen will replace the reduction that we are having in -- and we are seeing in the last months in the diesel version. Please consider that the diesel version, there was a reduction of 17% in the first quarter -- in the first 6 months 2018 compared to the previous year. But we are balancing this reduction, and this was already planned in our business plan with the increase of production with Daimler and Volkswagen because for them we are producing basically petrol gasoline version.

Rakesh Jain, [55]

Okay. My next question is for the domestic business. Sir, could you just give me the number for the new business which you added this year?

Anurang Jain, Endurance Technologies Limited - MD & Director [56]

Yes, the number which I have given was INR 2,218 million.

Rakesh Jain, [57]

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, Endurance Technologies Limited - MD & Director [58]

See, definitely, there will be a saving in the consolidation. But what it will be, I cannot say right now. Right now, it's still in process. So I would not like to speak about -- speak much about this plant yet. It's still in process.

Rakesh Jain, [59]

Okay. So would it be in the FY '19 or FY '20?

Anurang Jain, Endurance Technologies Limited - MD & Director [60]

No -- yes, hopefully it will be in FY '19 itself.

Rakesh Jain, [61]

Okay. And with the tax savings incentives which you have got, how will it be spread out in the 2017 to 2024 time period?

Anurang Jain, Endurance Technologies Limited - MD & Director [62]

No, typically what will happen is that every year, we'll -- suppose I apply for INR 100, the government procedure is to permit me INR 85 now and wait for the GST assessment to be over, which can take 1 or 2 years. The balance 15% will come then. So every year, it will follow this pattern for the next 7-odd years or so.

Operator [63]

(Operator Instructions) The next question is from the line of Ashish Nigam from Axis Capital.

Ashish Nigam, Axis Capital Limited, Research Division - SVP of Automobiles [64]

Yes. So, okay, I have 3 questions, one for Massimo, one for Satrajit and one for Anurang. So I'll 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, Endurance Technologies Limited - Director [65]

So more or less, the total product portfolio is, as usual, EUR 300 million, EUR 315 million. It will depend, Ashish, from the situation with the diesel technology. Because in this moment, as I told you before, in the last quarter, we acquired another 200,000 part of the new exhaust manifold for the 1.6 version diesel. And so the situation is very strange, because we continue to take business and all the carmakers continues to say that sooner or later, they will stop the production of the diesel. In my opinion, in the next months, we will have a clear idea about this situation. And this can affect also our product portfolio for the future. But as I told you, in this moment, we are quoting a lot of new business for the new -- for the electrification process for everybody. And so in my opinion, the content of aluminum continues to grow in an important way and, let me say, with an important increase in the transmission area compared to the engine area. And this could be an opportunity for us because, as you know, the lag time of this component is completely different compared to the past 10, 15 years. And so it means that this is positive for the profitability of the company.

Ashish Nigam, Axis Capital Limited, Research Division - SVP of Automobiles [66]

Yes. And how is the split right now, this EUR 315-odd million in terms of OEMs? I would imagine it's much larger toward Volkswagen and Daimler.

Massimo Venuti, Endurance Technologies Limited - Director [67]

Yes, yes. In this moment, in the first quarter 2018/19, we have had a reduction with Fiat Chrysler, but it was already planned. At this moment, in the first quarter, the Volkswagen Group reached 16% of our customer base, 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 over 6% compared to the previous year. So the strategy to focus our attention with -- in the German customer field today was positive.

Ashish Nigam, Axis Capital Limited, Research Division - SVP of Automobiles [68]

Okay, that's helpful. And in terms of the transmission versus engine breakup, that also -- if you can just share the -- at least on the order book, what is the break-up of transmission versions engine?

Massimo Venuti, Endurance Technologies Limited - Director [69]

Today, transmission, we can reach, in my opinion, at the end of this year, 50% and 50% other. And so it means that there was a reduction of 8% in the engine and an increase of 10% in the transmission.

Ashish Nigam, Axis Capital Limited, Research Division - SVP of Automobiles [70]

Okay. This used to be, I believe, 70%-30%. I mean, 30% transmission, which has now come up to 50%.

Massimo Venuti, Endurance Technologies Limited - Director [71]

Yes.

Ashish Nigam, Axis Capital Limited, Research Division - SVP of Automobiles [72]

Okay. That's good to hear, okay. Second question for Satrajit. There was this -- I believe there's some restatement in the previous year's numbers. While the absolute EBITDA was the same, the revenue and expense adjustment is around INR 30 crores, INR 35 crores. Now was this due to Ind AS 115 or some GST-related thing?

Satrajit Ray, Endurance Technologies Limited - Group CFO & Executive Director [73]

No, this is entirely due to Ind AS 115, Ashish, you are absolutely correct, where the commercial substance of a transaction comes into play. So I'm obliged to knock it off both from sales and purchase. So there, you're absolutely correct, no increase on EBITDA, but the sales and purchase came down for both. So I'm obliged to restate the numbers of last year also. Ind AS 115, I do know kicked in from 1st April this year.

Ashish Nigam, Axis Capital Limited, Research Division - SVP of Automobiles [74]

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, Endurance Technologies Limited - Group CFO & Executive Director [75]

See, typically, the revenue adjustment was about INR 31 crores, similar adjustment from COGS also.

Ashish Nigam, Axis Capital Limited, Research Division - SVP of Automobiles [76]

Got it, got it. Okay. So then this is the sort of base you can work with now, because the EBITDA also -- I mean, the margin has sort of gone up because of the Ind AS 115, this adjustment. So you can work with us as a base now?

Satrajit Ray, Endurance Technologies Limited - Group CFO & Executive Director [77]

Absolutely. So the same impact was same last year also. So last year it was 13.5%, and this year it's 13.7%. So we are in a like-to-like basis.

Anurang Jain, Endurance Technologies Limited - MD & Director [78]

I'd like to add 1 more point here. See, if you see the percentage of EBITDA in quarter 1, we have had an impact of negative 0.6% because of the raw material huge increase in steel and aluminum prices. So if they remain at the same level of quarter 1 of '17/'18, our EBITDA margin would've been 14.3%. So this needs to be kept in mind because this has a mathematical effect, as you know.

Ashish Nigam, Axis Capital Limited, Research Division - SVP of Automobiles [79]

Yes, yes, yes. So -- I mean, this quarter, what was the pass-through that happened with the OEMs in terms of raw material? Is there something that's coming as a lag next quarter?

Anurang Jain, Endurance Technologies Limited - MD & Director [80]

No. In fact, like I'd mentioned last call, there was a delay in the pass-on because the increase was so huge, but we have got all increases from the customers. All. We've received all. Only there was a delay, so we may have lost some small amount of interest cost, that's about it.

Ashish Nigam, Axis Capital Limited, Research Division - SVP of Automobiles [81]

Got it. Also, on -- so Mr. Jain, just trying to understand now, so the India revenue growth was around 26%, 27%. Now Bajaj saw a production growth of around 36%. Now I understand this is obviously of a lower-end range increasing in the mix. So how is the Bajaj revenue growth for us, if you can just start with that?

Anurang Jain, Endurance Technologies Limited - MD & Director [82]

Yes, we also grew on similar lines with Bajaj because our share of business is constant. We also -- and this is in spite of the fact that the 3-wheeler -- because 3-wheeler has many other products which are not there in the 2-wheeler. So if you see it as a percentage of our product supply for the 3-wheeler, the percentage is lower. For example, we may be between 13% to 17% to 18% of the expected price of a motorcycle in terms of 2-wheelers for Bajaj. But in 3-wheeler, depending on the 3-wheelers, we could be at maximum 10%. So that also makes a difference also in the mix. But in spite of this, our growth was in line with the Bajaj growth of around 35% (inaudible) percent. But what you have to see is that the other customers -- see Bajaj is 36.5% of my sales. If you see other customers, HMSI, they grew 11.9%, we grew 28.5% with them. Royal Enfield, they grew 21.6%, we grew 23.3%. Hero MotoCorp, they grew 11.9%, we grew 15.4%. Yamaha India, they were negative 7.8%, we grew 13.2%. So you have to see -- but there was no other 2-wheeler which grew like Bajaj. So you have to look at all these factors. When we come up to a group level still with 26.4% (inaudible), you have to see it in line with that.

Ashish Nigam, Axis Capital Limited, Research Division - SVP of Automobiles [83]

Got it. And the fact that in Bajaj growth itself -- our Bajaj growth itself was 35% despite the mix being weakest shows the content increase there. So I just -- sorry, go ahead.

Anurang Jain, Endurance Technologies Limited - MD & Director [84]

Obviously, Bajaj has, in the last 10 years, a lifetime source/supplier way of working. They have a very strong Bajaj Auto vendor association. And the businesses are generally fixed -- unless your quality is bad, only then your business normally changes. And they have been sustaining it. So no, product wise, things have not changed. One product can go up -- their share of business is not similar product to product. So you will never find that difference. But like I said, on 3-wheeler, our share of the expected price will be lower compared to a bank, the 3-wheeler and many other items which are not there in the 2-wheeler.

Ashish Nigam, Axis Capital Limited, Research Division - SVP of Automobiles [85]

Got it. And just want to get a sense of what's happening right now in the industry. So Bajaj publicly stating that in a particular model like the CT100, they're making a loss, and they are consciously making that loss. So how are these contracts with the supplier structured when -- I mean, is it that they say, "You know what, we are doing 10,000 otherwise. But if I'm reducing the price, it can be 30, 40 or maybe higher." So how is that contract structured with, let's say, the supply chain?

Anurang Jain, Endurance Technologies Limited - MD & Director [86]

No, our contracts are very clearer. It is based on open purchase orders. It depends on the volumes. Like I mentioned, see, our -- their pricing is not linked to our pricing. We have a very clear 0-based costing with them, whether based on RMC pass-through, raw material pass-through every quarter. So now it is their business strategy to make good money in some products and not make money in some products. No, I don't have the details. But you are telling me they are making a loss, I'm aware of that, to be honest. Let me be clear on that, okay? Overall, they still made 18% EBITDA margin in the first quarter. And maybe expectations were higher, but see, that is their strategy. As far as we are concerned, we have a clear 0-based costing. When the volumes were lower last 6 years, we didn't get any price increase because the volumes were lower. We have a lot of idle capacities also. So question is we have to live with our strategy, they have to live with their distinct strategy. You know what I'm saying?

Ashish Nigam, Axis Capital Limited, Research Division - SVP of Automobiles [87]

Yes.

Anurang Jain, Endurance Technologies Limited - MD & Director [88]

And I think the prices have really matured over the last -- I would say especially in the last 10 years. A lot of maturity has come in prices, a lot of -- so I mean, we are very -- we are quite competitive, I would say. I mean, that's all I can say right now.

Ashish Nigam, Axis Capital Limited, Research Division - SVP of Automobiles [89]

Okay. No, that's very helpful.

I don't think we have any further questions, so maybe you can just conclude the call. Thank you so much, team, for letting us host this call.

Anurang Jain, Endurance Technologies Limited - MD & Director [90]

Thank you, Ashish.

Ashish Nigam, Axis Capital Limited, Research Division - SVP of Automobiles [91]

And thanks, everyone. Thank you, everyone. Have a good day, and thank you for joining the call.

Anurang Jain, Endurance Technologies Limited - MD & Director [92]

Thank you very much, everyone.

Satrajit Ray, Endurance Technologies Limited - Group CFO & Executive Director [93]

Thanks, everyone.

Anurang Jain, Endurance Technologies Limited - MD & Director [94]

Thank you. Thank you. Bye.

Ashish Nigam, Axis Capital Limited, Research Division - SVP of Automobiles [95]

Thanks. Bye-bye.

Operator [96]

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.