"Endurance Technologies Limited Q1 FY'23 Earnings Conference Call"

August 11, 2022

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

Moderator: Ladies and gentlemen, good day and welcome to Endurance Technologies Q1 FY'23 Results 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 phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Nishit Jalan from Axis Capital Limited. Thank you. And over to you, Sir.

Nishit Jalan: Thank you, Vivian. Good morning, everyone. Welcome to Q1 FY'23 Results Conference Call of Endurance Technologies.

From the management team, we have with us Mr. Anurang Jain -- Managing Director; Mr. Ramesh Gehaney -- Director and COO; Mr. Massimo Venuti -- Director and CEO, Endurance Overseas; Mr. Satrajit Ray -- Director and Group CFO and Mr. Raj Mundra -- Treasurer and Head, Investor Relations. I will now hand over the call to Mr. Jain for his opening remarks, post which we can get on to Q&A. Over to you, Mr. Jain.

Anurang Jain: Thank you very much, and good morning to everybody. I would like to share details of how we have done in the first quarter of the financial year '23.

In India in the first quarter of FY'23, as per the SIAM data, the two-wheeler industry sales grew by 37.24% compared to Q1 of the previous financial year. Scooters grew by 87.86% and motorcycles grew by 24.24%. The automotive industry in India had a growth of 37.7%.

The standalone income of Endurance grew by 39.9%. The two-wheeler business is approximately 82% of the total Endurance India's standalone business.

In our oversees operations in Q1 of this financial year, the EU and UK market saw a decrease of 16.4% in the volume of passenger cars sold while our European overseas sales degrew by 1.9% in Euro terms.

On the financials, I will briefly talk to you about the Q1 FY'23: In Q1 of this financial year as compared to previous year same quarter, our consolidated total net income grew by 24.2% from Rs.17,063.6 million to Rs.21,185.1 million. Consolidated EBITDA degrew by 4.9% from Rs.2,570 million to Rs.2,444 million. Consolidated EBITDA margin was at 11.5%. The profit after tax grew by 7.1% from the previous year and was Rs.1,033.85 million at 4.9%. This included the extraordinary expense of our B-20 plant at Pune for voluntary separation scheme of Rs.102.85 million and the income from the Maharashtra package incentive scheme of Rs.300.95 million. There was no consolidated net debt and the company had a positive cash of Rs.4,981 million.

During Q1, our standalone total income grew by 39.9% from Rs.11,578 million to Rs.16,201 million. Standalone EBITDA grew by 11.6% from Rs.1,596 million to Rs.1,782.2 million with an EBITDA margin of 11%. Standalone profit after tax grew by 42.5% and was Rs.809.26 million at 5% which included the extraordinary expense of our B-20 Chakan plant, Pune for Voluntary Separation Scheme of Rs.102.85 million and the income from the Maharashtra package incentive scheme of Rs.300.95 million. There was no net debt and there was a standalone positive cash available of Rs.3,420 million.

We would like to mention that Endurance is focused in both Indian and European operations for a profitable growth and higher than the industry growth. The detailed financials are available with the stock exchanges and on the Endurance website.

I would now like to share certain other key points for the Q1 FY23.

1. In Q1 FY23 76% of consolidated total income, including other income came from Indian operations and the balance 24% came from our European operations.
2. In India, in Q1 FY'23 Rs.4,040 million of new business was won from OEMs other than Bajaj, which included HMSI, Hero MotoCorp, Ather Energy, Hero Electric and Tata Motors. I would like to mention that we have Rs.16,320 million worth of request for quotes from OEMs which are in process.
3. The electric vehicles market continues to offer significant opportunity for growth for the auto component industry. It is estimated that the Indian EV market will touch US$150 billion by 2030, growing at a CAGR of 90% in the next decade.At Endurance, we have taken a major step forward to harness this opportunity by executing a Share Subscription and Purchase Agreement for acquiring 100% of equity share capital of Maxwell Energy Systems Private Limited in a phased manner. 51% equity stake has already been acquired by us in July. Maxwell is in the business of advanced embedded electronics, particularly in the Battery Management Systems (or the BMS) for automobile, EVs and battery packs. We plan to leverage Maxwell's deep technical expertise, and its BMS deployment experience both in India and Europe.

   We aim to offer our products to multiple new clients, including Indian and overseas automotive OEMs, and manufacturers of battery packs. At present, Maxwell supplies to over 70 automotive OEMs and battery pack makers spread across 15 countries, including India, France, Spain and USA. Since its inception, Maxwell has deployed over 65,000 Smart BMSs units in EVs and stationary storage systems and has active orders in the pipeline of over 400,000 BMS units from OEMs both in India and Europe. This also includes orders from one of the largest two-wheeler OEMs in India. This year, Maxwell has launched integrated IBP BMS and ancillary PDU for two and three wheelers. Maxwell is also engaged in new business for the soon to be launched, lower cost PCM Pro BMS.

While EVs will be a big focus area for us in the coming years, we are also looking at scaling our growth in the conventional markets of India and Europe.

4. At Endurance we have acquired 100% stake in Velcoli Srl, Italy. This will help us expand our innovative solution offerings in the mobility sector in Europe. Velcoli enables fleet operators to increase route efficiencies, enhance safety, optimize maintenance activity, and lower the fuel cost. With this acquisition we seek to expand and focus on new organic and inorganic growth in both India and Europe by gaining access to new technology backed by continued product innovation.

5. As you are aware, we have added a high technology new product which is the Driveshaft at Waluj, Aurangabad. Driveshaft is a proprietary product and an EV-agnostic product in an automotive application. Driveshaft transforms the torque generated from an engine through its transmission to the wheels. The application is for three wheelers and four wheelers, including some LCVs. The launch of the Driveshaft has opened an additional revenue stream for Endurance and will lead to a significant business growth opportunity for Endurance in the future.

   We have also won orders from Mahindra and TVS and commercial supplies have started to Bajaj Auto from July '22 onwards.

6. We have acquired an Italian company, Frenotecnica in July '22, which is involved in the business of materials and components for braking systems, like brake pads for two-wheelers. In 2021, they had a sales turnover of €3.6 million with an EBITDA margin of €1 million. They have a very renowned brand name called "Brenta" in the aftermarket and replacement business.

7. With this acquisition, and acquisition of the two Italian companies, which are Gremica and Adler in 2020, we want to create a Center of Excellence in Italy and grow in the premium components in the two-wheeler segment. This acquisition gives growth opportunities to the Endurance Group in the aftermarket as well as provides access to the in-depth know-how for production technologies of friction materials, especially for brake applications.

8. I would also like to mention that Endurance is focusing on a more value add and profitable product mix in its future business, which includes:

   a. braking, suspension, advanced electronics, and casting supplies to two and three wheelers, EV OEMs and new startups

b. 200 cc plus motorcycles brakes and clutch assemblies with help of acquisition of Adler and Gremica in Italy in the year 2020. The 200 cc plus motorcycles brakes business has already started. And the 200 cc plus motorcycle clutch business is expected to start in FY24.

c. Paper-based clutch assemblies replacing cork-based clutch assemblies for motorcycles, continuous variable transmissions or the automatic clutch for scooters. As mentioned earlier with Hero MotoCorp, we are at an advanced stage of testing and we expect to start supplies from Q4 of FY 23.

d. Anti-Lock Brake Systems or ABS for 150 cc plus motorcycles with our collaboration with Beijing-West Industries. We have started supplies to Bajaj Auto and Royal Enfield.

e. We are also increasing our business of the 200 cc plus motorcycles inverted front forks and adjustable rear motor shock absorbers with collaboration partners KTM AG. We are working with KTM to increase supply of both on-road and also start with off-road motorcycle, high technology inverted front forks and rear shock absorbers. And we had made a three-year plan for it. We also started supplies to HMSI on the two-wheelers in India for inverted front forks and have also won orders for inverted front forks from Hero MotoCorp.f. Fully finished machined castings as compared to raw castings and semi-finished castings for two, three and four wheelers.

9. The brake assembly business is growing with addition of Bajaj, TVS, Royal Enfield, Yamaha, Hero MotoCorp and HMSI new business. We are increasing our plant capacity of these brake assemblies from 285,000 numbers a month to 570,000 numbers a month. And discs from 375,000 numbers a month to 675,000 numbers a month. Our second plant at Waluj, Aurangabad has been set up for this increase in volumes and has already started operations. By October '22, we should be supplying 470,000 disc brake assemblies per month from both our brake plants at Waluj, Aurangabad.

10. Supply of two-wheeler ABS assemblies to Bajaj started in the last week of September '21 and to Royal Enfield from February 2022 onwards. Our plan is to reach a run rate of 400,000 ABS assemblies per annum by September '22.

    As you may be aware, competition is mainly from Bosch, which controls the major market share in the Indian ABS motorcycle market, which requires approximately 3 million to 3.5 million ABS assemblies per annum.

    We are also right now in the process of clearing our dual channel ABS also by the end of this calendar year, and we're scaling up additional assembly lines for the same. This is a large business opportunity for Endurance.

We are also focused on supply of our products for EV two and three wheelers. We already started supplies of brake assemblies, suspension, and aluminum casting for electric scooters and three wheelers.

11. After the acquisition of Maxwell, we are also supplying BMS for two-wheeler EVs and battery pack makers. Our focus is to supply our EV products to two and three wheelers OEMs, both existing and new.

12. We have won Rs.4,840 million of new business in Q1 of this financial year. This business is all planned to start in this financial year and reach its peak in FY'24.

    Apart from this, Maxwell has won a two-year business of Rs.254 million mainly from Tork Motors in the Q1 of this financial year.

    Rs.4,840 million business which Endurance has won also includes Rs.1,108 million of new business wins for EVs in Q1 of this financial year including from Ather Energy, Hero Electric, Mahindra Electric and Bounce.

    Our focus is on e-bicycle business, especially for suspension, BMS and brakes. We already have received confirmed orders for this business. This is both for our Indian OEMs and exports.

13. Due to increased orders from Bajaj, Yamaha India, TVS and Hero Electric, we have added a new plant at Chakan to help increase our supplies from 240,000 alloy wheels in a month to 320,000 alloy wheels in a month. This plant has already started operations in July '22. We have also started supplies to TVS for alloy wheels in July 2022.

14. In Europe, in Q1 of this financial year, we have won €14.32 million of business from Daimler, Magna Lighting, Bosch, and Stellantis. . As you all know, we won €71 million new business in the last financial year in Europe.

15. I would also like to point out that Endurance both in India and Europe is actively pursuing access to new technology and focusing on new product organic and inorganic growth.

16. I would also like to mention that, Endurance has also entered into two backward integration product areas which are import substitutes also. Firstly, aluminum forging axle clamps required for our inverted front forks for which we have a technical collaboration with a company called FGM in Italy. We have already started supplies from our, Aurangabad plant from April ’22 for Bajaj front forks and direct exports to KTM. But there has also been a lot of interest from OEMs for supply of aluminum forgings other than axle clamps, because opportunities are there not only for axle clamps in inverted front forks, but also for other applications.

The second product is the steel braided hoses for ABS applications for mid and high-end bikes. This supply has already started last year. Both these products will help us in our future profitable growth.

17. In Q1 of this financial year, aftermarket sales grew by 53.75% from Rs.626.47 million in Q1 of the previous year to Rs.963.19 million. We are exporting aftermarket parts to 31 countries and we are adding four more countries in this financial year. The aftermarket sales growth is a very large focus area for us at Endurance.

    Also, in Q1 of this financial year, the export sales for India standalone business increased by 11.88% from Rs.361.8 million in Q1 FY'22 to Rs.404.8 million in Q1 of this financial year.

We are happy to announce that Endurance has been chosen as one of the 'Factories of the Future' by the Economic Times for Promising Plant Initiative 2022, which is for the mid-scale and large plants across India. The evaluating criteria was Leadership, Innovation, Make in India and Atmanirbhar Bharat-focus, Strong EHS Culture and Women Empowerment.

On the environment front, I would especially like to mention that Endurance is striving to be in carbon-neutral in its plants by effective use of solar power and wind power, which is increasing every quarter, creating carbon sinks by driving tree plantations, and thereby creating dense forests and driving use of natural gas and LPG in place of electricity and furnace oil. We're also focusing on lowering hazardous waste generation and to achieve zero waste to landfills.

At Endurance, it will be a continuous endeavor to grow through organic and inorganic growth, with a focus on technology upgradation, quality improvement, cost reduction, and environment, health and safety. We will do our best to fulfill all our stakeholder expectations by following our five values of Customer Centricity, Integrity, Transparency, Teamwork and Innovation.

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

With these opening remarks, I would like to invite questions from everybody. I would like to inform you that our Maxwell founders, Mr. Akhil Aryan and Mr. Alex Collet will also take your questions on Maxwell. Thank you.

Moderator: Ladies and gentlemen, we will now begin the question-and answer-session. The first question is from the line of Jinesh Gandhi from Motilal Oswal Financial Services. Kindly proceed.

Jinesh Gandhi: Can you share some numbers on mix related changes and its impact on the India business?

I'm referring to the first quarter where there was lower production of premium motorcycles and which has also impacted our revenue growth.

Anurang Jain: Yes, our mix improve when there is increase in ABS supplies, increase in inverted front forks and rear mono shock supply for both KTM and Bajaj India, doing more machined castings. And also, more supplies of our backward integration products like aluminum forgings and wire steel braided hoses. Also, our Vallam plant for Hyundai and Kia, have contributed to business increase and also a better product mix. Our second brakes plant at Waluj has also helped us to do more brakes business, which is of a better value add. Since Q1 of last year the share of brakes business is continuously increasing for the Indian market. In Q1, our brake systems were about 31% of the total market size. There will be a ramp up for all the new orders we have got from various OEMs which surely shall increase the share of business.

Jinesh Gandhi: For the India business, the 40% revenue growth, which we have seen, any indication of what was the benefit of RM cost in that growth number?

Anurang Jain: The RMC percentage of sales went up from 64.9% in first quarter of last financial year to 68.8%, which is almost a 3.9% increase. It is difficult to identify how much of this increase is attributable to aluminum cost going up. Apart from buying aluminum alloys, we also purchase sub-components which have an aluminum content. These sub-components include bottom cases for front forks, castings required for clutches, brake master cylinders and caliper castings. As you know, aluminum is roughly 50% of our purchases. For the aluminum which we buy, the price has gone up from Rs.162/ Kg in Q1 of last year to Rs.228/ Kg in Q1 of this financial year; it's a 41% jump. Steel is more than 30% of our purchase. Together, aluminum and steel are more than 80% of our purchases. Steel, which is more than 30% has gone up by 20%. We buy steels like bar steels, forging steels, stainless steels and spring steels. And this has been the major cause of this 3.9% increase in the RMC cost. We bear higher costs on account of higher aluminum prices, both for direct and indirect alloy purchases. The higher price of aluminum paid by us for direct alloy purchases is Rs. 150-160 Crores. We recover such higher cost of aluminum from OEM customers both for direct and indirect impact. The aggregate indirect impact is difficult to compute. 3.9%, of our revenue is about Rs.460 crores. . Of this, we can compute the direct impact which is about Rs.150-160 crores, but it will be much more when we compute the indirect aluminum and steel purchases from our suppliers for sub-components. In terms of revenue, we have grown more than 130% with a customer where there is a quarter lag in getting the increases.. And even for certain areas like the AC2B for bottom case, it's a two-quarter lag which we're trying to correct. So, that also has its own impact. I would like to mention, though the volumes have gone up in certain outstation plants in Sanand and in Kolar, Karnataka, these volumes are not enough. HMSI two-wheelers have done quite well in Q1. But looking at our capacities that we have in outstation plants, this increase is not enough and hence, we are taking new orders from other customers in both these plants to get better economies of scale, to have better profitable growth and to lower our breakeven points. So, multi-product and multi-OEM is a focus on both of these outstation plants, like we have done in our Pantnagar plant.. . I don't have a total figure, but I know that 80% is aluminum and steel; 50% plus more than 30%. But there is a decline in metal price from August. We're seeing a decline on aluminum prices of almost Rs.20/a Kg and steel by about Rs.6/a Kg from August, which is a very good sign. It helps us in lowering RMC per cent to sales..

Jinesh Gandhi: How should we look at margins from Q1 level,, how do you look at margins for India business particularly?

Anurang Jain: We feel we lost at least 3% in RMC in the first quarter due to high metal prices.. The moment the metal prices go down and as RMC percentage to sales go down, the EBITDA margin goes up. And this is what we are expecting from August onwards. And let's hope this trend continues.. But definitely, we are seeing softening of aluminum and steel prices, which are more than 80% of our purchases directly or indirectly from vendors.

Jinesh Gandhi: So, we should go back to that 13%, 14% margin?

Anurang Jain: That is our focus, it'll depends on softening of aluminum and steel prices.. So, I think it all depends on RMC per cent to sales, depending on how much the steel and aluminum prices go down in the next couple of months.

Moderator: The next question is from the line of Pramod Amte from InCred Capital. Kindly proceed.

Pramod Amte: So, this is with regard to electric vehicle order wins. Even though in terms of order inflow side, it looks like almost 20% order inflows are coming from EVs. Wanted to know strategically, what confidence or what ratios we will look at two, three years down the line as your sales mix goes up for EV segment to form as a proportion of sales mix? Secondly, can you give some color in terms of the profitability of EV ?

Anurang Jain: Well, I can say that due to lower volumes, the pricing in general is better. But having said that in future as the volumes of EVs really go up, the prices could be lower. But definitely it's not going to be lower than the existing prices for IC engine. Because ultimately, like I mentioned in the past, whether it's a brake product or a suspension product, they are very similar to the ICE product, suspension could be a bit different as damping values can differ. Brakes are quite similar to what we see in ICE. Definitely, more EV in scooter where we are getting a larger market share, is very good for us because we have lower presence in ICE scooter, so this is an additional business. Today, as you know scooters is only 9% of our standalone India business. And most of these orders we are getting in EV is actually for scooters. Pricing today is better, but in the next few years could be similar. The competition is what dictates the price. At the same time, we are engaged, with every OEM and every new startup which matters, and we are not going to lose any business. This business of Rs.484 crores also includes a very large brakes business for Ather Energy, which is starting in October '22, and where the volumes are supposed to go up to 300,000 per annum. It is a very good business because we regard Ather as a very good company similar to OEMs. With Hero Electric, in the first quarter, we have won volume of 300,000 front alloy wheel for their vehicles which are coming up. So, there are some very interesting businesses we are getting, which is our strength of course. Most of these businesses will start in this financial year, and peak by FY'24. This of course also includes the Bajaj EV wins we have won for two and three wheelers, which itself is about Rs.124 crores. And Bajaj is going very aggressive and have encouraged us to put up capacity of 10,000 a month immediately which we have done. We are not going to lose any business of EVs. We are going all out to acquire new orders based on our competitiveness, our technology, our financial strength and we are investing in these products..

Pramod Amte: Second question is with regard to the aluminum prices. Wanted to know the LME prices have been correcting for some time. How to look at your casting versus LME trend? Why does it take such a lag for you, one, to get realized on the ground? Second, is there a way to hedge yourself considering your aluminum is a large proportion through the LME and have a much transparent pricing in aluminum as compared to steel?

Anurang Jain: Firstly, is this quarter, the lag is only for one customer, which is HMSI. We are trying to talk to them but they have a practice with all their vendors as per their global purchasing policy.However, as the tide is turning towards lower metal prices and with the lag, definitely I expect some gain from Q3 or Q4 of this financial year, because we have been losing in the last eight quarters, we are going to start gaining as the tide is turning now. . Our largest buying is secondary alloy which we use for all our aluminum die casting business, whether it's two wheelers, three wheelers or four wheelers. This is not fully correlated with aluminum traded on LME. The secondary alloy market depends on the scrap pricing. It could be imported or local scrap. Fortunately secondary alloy pricing is back-to-back and we get the increase with most of the customers in the same quarter. Scrap pricing of Indian secondary alloy suppliers, is a function of scrap availability and exchange rates.. So, that's the way the secondary aluminum alloy pricing works for us. which is the largest part of our buying. . Primary alloy is mainly for alloy wheel business.

Moderator: The next question is from the line of Aditya Jhawar from Investec. Kindly proceed.

Aditya Jhawar: How is the outlook for customers in the premium bikes specifically Royal Enfield and Bajaj Auto? You mentioned that ABS semiconductor issue that we were facing, is gradually getting sorted. So, have you seen any business uptick for other products verticals, like suspension, die casting etc.. Has the momentum already picked up in the month of July and for ABS is it expected to pick up in the next couple of months?

Anurang Jain: See th major issue still remains the availability of semiconductor chips. It has improved, definitely from Quarter 1, but still not back to normal. Fortunately, for our ABS, we have got a good response from our chips supplier Mando Hella.. And that's how we have been increasing our ABS volumes, we are almost doing 25,000 a month, and we want to reach a desired run rate of 33,000 by September 2022.

Also, our dual-channel ABS is under clearance, which will open up new volumes for us. So, our current capacity is 400,000 and we are further increasing it with the dual channel. Fortunately, for ABS, the chip shortages will not affect our supplies, but definitely on the overall two-wheeler volumes we are still skeptical. I know there has been some supplier de-risking by Indian OEM's. I would say the situation improved in Quarter 1, but still not back to normal. I think, Q1 they did about 4.8 million vehicles, which is not bad. But I think the time has come to go back to a level of 6 million a quarter or 24 million every year.

So, that is what we are hoping for, so let's hope that happens. But to answer your question, semiconductor chip shortages are still going on. And that's why you see people like Bajaj have only gained 1.1% in motorcycles, in Q1, because they don't have semiconductor chips to make more vehicles.

Aditya Jhawar: In the standalone business, there has been a sequential uptick in the OPEX as well as the employee cost. Anything you want to call out in these two items, specifically for this quarter?

Satrajit Ray: So, firstly, quarter-to-quarter has its own peculiarities. I will use a few pointers. Quarter 1 to Quarter 1, the employment cost increase has been about Rs. 5.2 crores, that's entirely driven by increments paid to our management staff and agreement benefits paid to unionized staff. When you come to Other expenses, you must remember that last year, out of the three months, there was one month when the results were extremely depressed. And we were partially locking down our plants, drawing down our inventory, trying to see that in those low volume situation, what the best way to operate was. So, it's not a fair comparison, because at least for 30 to 40- 45 days, the operations were extremely depressed. So, all the manufacturing overheads were quite low at that point in time with plants practically coming to a standstill so many of the overheads are now at a fairly normal rate. .

The other problem which we faced very significantly is huge increase in fuel costs. All our energy costs have gone up significantly. For example, PNG between Quarter 1 to Quarter 1, increased by 63%, LPG 49%, furnace oil 48%, light diesel oil 73%. So, that's the kind of increase. Now this has a cascading increase in other items like freight. So, we had a bit of a problem with regard to these types of costs increases during Quarter 1 of this year. Now coming to Quarter 4 to Quarter 1, the increases in employment costs were because in Quarter 4 certain leave as per our rules lapse, so we got a gain in our actuarial valuation. So, that had an abnormal dip.

The main increases are happening from employee increments and agreement benefits for workmen. Let's take one item just to give you an example, our corporate social responsibility expenses, we had pretty much spent the years quota by December 2021. So, there was hardly any CSR expenditure in Quarter 4. But in Quarter 1, we would be spending in a normal way. So, there's a pretty large gap there, but these are all sequencing issues.

On fuel, gas and oil costs, even between Quarter 4 and Quarter 1, we have seen increases ranging between 12% and 25%. So, that is our concern.

Anurang Jain: I would also like to add to that, these fuel costs increases affecting operational cost and freight costs. Now, we have taken up with the customers. One customer has given increases on conversion cost from 1st July. But other customers have not. As commodity prices are softening, we are going a bit assertively to try and get these conversion cost increases, because these are very high. These are unprecedented as the energy and fuel costs are sharply increasing. So, we are quite hopeful that this will be handled partly or fully.

Satrajit Ray: One additional point, though, it is not a part of your question. Between Quarter 4 and Quarter 1, there was a significant reduction in aftermarket sales. In Quarter 4, we did very well. In Quarter 1, the figure was considerably lower. And that's also partially driven by the fact that exports in Quarter 1 aftermarket were lower due to lower sales in geographies like Sri Lanka, Bangladesh, and Egypt for very well-known reasons. So, we expect the situation to improve from Quarter 3 and by Quarter 4, you will see very good numbers in aftermarket but that's again, something which has got to do with the way the situation in these geographies is getting phased out, but when you compare quarter-to-quarter that comes out as a point of comparison.

Anurang Jain: So, Quarter 1 to Quarter 1, we have grown more than 53% in aftermarket sales..

Moderator: Thank you. The next question is from the line of Chetan Gindodia from AlfAccurate. Kindly proceed.

Chetan Gindodia: With respect to our standalone revenue, if we see our sequential growth is around 4%, compared to the industry which on a sequential basis grew by 7.5%, even if we nullify the effect of Bajaj Auto motorcycle lower volumes and with no new order wins, how would one see Endurance outperforming two-wheeler industry this year?

Anurang Jain: On a Quarter 1 to Quarter 1 basis, we have grown 39.9% versus 37.7% growth of the auto industry. We are performing better than auto industry as well as two-wheeler segment on comparison of Quarter 1 of last year to Quarter 1 of this year. The semiconductor shortages have definitely affected the growth at Bajaj Auto which is our largest customer in India and that also affects us.

Also, at our Vallam plant, we are increasing orders with Hyundai and Kia, our ABS supplies have gone up, our inverted front forks volumes are increasing both in India as well as Europe. Machined casting business is also increasing. These are all orders which are of the last one and a half- two years. So, definitely it has played a part for larger growth.. The two-wheeler industry still on Quarter 1 is at 4.8 million which is better than last financial year.

But going forward, like I said, whether it's EV or any new business wins we have done last two years will yield fructification by end of this financial year r. And maybe partly, of course, the orders will go to the next financial year too. So, there is a lag because customers do give us orders, one and a half to two years earlier.

Chetan Gindodia: With respect to our shock absorber business, which is a major business for us, our revenue growth in standalone business for shock absorber for FY'22 was 15%, whereas, for our major competitor, it was upwards of 35%. Have we lost any market share in the shock absorber business? And what is our market share trend in this segment?

Anurang Jain: I don't know from where you have the 15% figure. As far as we are concerned, our shock absorbers market share is close to 36% and for front forks is close to 42%, not very different from previous years. And in fact 36%, would have been much higher if our largest customer would also post growth similar to industry. They are sure of regaining their market share..

Also we are very happy to tell you that in July 2022, , we have got 100% of Suzuki front fork order for value of Rs. 140 crores which is starting in 2024. It's a huge leap forward for us as you may be aware that Suzuki is doing very well in scooters.. We are gaining a lot of new business from existing and new OEM's.

Chetan Gindodia: Can you update on European power cost situation, as I can see margin improvement on sequential basis in the European business? And also, could you share the customer wise revenue mix for current quarter or for FY'22?

Anurang Jain: Well, I will not tell you the revenue mix. I will only tell you that Bajaj Auto share of business has gone down. That has gone down without losing a single business of Bajaj, obviously, because they have only grown 1.1% and HMSI posted very good growth. .

Massimo Venuti: In the 1st Quarter of this financial year, we witnessed about €2 million net impact for higher energy cost. Average price of gas has increased from €17 of the previous year to €100 per megawatt/hr, which is 500% increase in price. Regarding electricity, it has increased from €70 per megawatt/hr to €250 per megawatt ,which is more or less 260% increase in price. And here, we are speaking about the 1st Quarter. Now, in the months of July and August, the situation has worsened and there was a further increase of more or less 100% compared to the 1st quarter. So, the situation is very difficult. In our Profit & Loss statement for the 1st Quarter, the net negative impact was around €2 million.

Moderator: Thank you. The next question is from the line of Pujan Shah from Congruence Advisors. Kindly proceed.

Pujan Shah: Can you elaborate on the mechanisms related to raw materials contracts which are on a three or six month basis?. And how we are passing these costs further considering the price volatility?

Anurang Jain: As far as aluminum alloy is concerned, it is always based on either two or three monthly prices for all customers, except for HMSI, which is a quarter lag. The rates are fixed based on quotes from secondary Alloy Ingot suppliers, and this applies for all the customers. In some cases we are directly buying from our own sources and in few cases from customer directed suppliers. Normally these prices are settled for that quarter between us and the customer based on the alloy ingot quotes that we get from a few suppliers.

It is based on a quarterly average basis. Sometimes you have customers like Bajaj who may just do for two months, if the trend is very volatile. So, then we will fix up those prices with Bajaj, in agreement with them for two months or three months, depending on the situation . And then, we accordingly finalize rates with our suppliers for the specific two or three months. So, it's a back-to-back with the supplier. Only for one customer it's a quarter lag.. So, when the prices are increasing you lose and when the prices are decreasing you gain with respect to this customer.

Moderator: Thank you. The next question is from the line of Arvind Sharma from Citi. Kindly proceed.

Arvind Sharma: If you could share the revenue, EBIT and PAT in Euro terms for the European operations.

Massimo Venuti: In the 1st Quarter 2022/23, we closed with the €61.1 million of turnover compared to €62.3 million of the previous financial year with a reduction of 1.9%. In terms of EBITDA, we closed with €8.4 million. EBIDTA% was 13.7% compared to 18.2% of the previous financial year. In terms of net result, we closed with €2.9 million, as compared to €4.7 million of the previous financial year. PAT% stood at 4.8%. We have had an impact of the increase of aluminum prices of around 0.8%. So, the EBITDA% without considering the effect of aluminum should have been 14.5%. The impact of energy cost was about €2 million in the previous quarter, and EBIDTA margin without energy and without aluminum impact should have been at 17.5% for Q1 FY-23,more or less in line with the previous financial year.

Arvind Sharma: Your views on premiumization in the Indian motorcycle business and the impact on Endurance?

Anurang Jain: The premiumization will increase with the mandatory use of ABS, usage of front forks and paper based clutch assembly. In collaboration with Adler, we are introducing APTC clutch assembly from the next financial year. These will definitely add to our margins. Coupled with the fact that we have gone for backward integration of high-end products like steel braided hoses for ABS , and aluminum forgings for axle clamps, used in inverted front forks, it will improve our profit margins further .

So, our margins will definitely increase. More OEMs are going for high-end vehicles. But today, I think the leader is Bajaj KTM, TVS with BMW and these OEM's are catching up with their indigenous products also. To what extent the premiumization will happen will depend on the appetite of the Indian market to purchase these high-end vehicles.

Moderator: Thank you. The next question is from the line of Ashutosh Tiwari from Equirus Securities. Kindly proceed.

Ashutosh Tiwari: Firstly, if I look at your aftermarket while it has grown 53% YoY, but if you look at last three quarters run rate was around Rs. 120 crores per quarter on average. So, there is a big drop over there in this quarter so any reason behind that?

Anurang Jain: Based on track record, Quarter 4 is always the best quarter in terms of profitability and growth and Quarter 1 is always the lowest. The run rate improves for every quarter in the financial year. So, always the second half of the financial year, accounts for almost two-thirds of the aftermarket revenue or even higher. . So, the way we track is YoY, which is a 53% growth.

Ashutosh Tiwari: We are confident about delivering high double-digit kind of growth in this vertical?

Anurang Jain: For sure.

Ashutosh Tiwari: And secondly, in this brake assembly business, you mentioned you had 31% market share in this quarter, right?

Anurang Jain: Yes.

Ashutosh Tiwari: If I recall correctly, maybe one and a half years back in FY21 investor calls, you had mentioned that our market share was around 29%. And we were aspiring to go towards 50% plus because of the prospective orders.

Anurang Jain: Yes.

Ashutosh Tiwari: So, is there some delay over there because we were supposed to reach that number by FY22 end.

Anurang Jain: We already have the capacities installed in our new plant All the new orders including HMCL, incremental volumes of Yamaha for scooter disc brakes , premium segment order from Bajaj for 250 cc Pulsars will add to the market share. For Bajaj the premium segment volumes are currently at 3000 to 5000 per month that has to go to at least 15,000 to 20,000 sets per month.c. Also, TVS has to go to that high level to reach the peak of Rs. 125 crores order which we have got. Our focus of course is to reach 50% market share, but it will go up only when demand forvehicles will go up including Bajaj which has very high share of business for brakes. So, I would say as the new OEMs really ramp up the volumes and as Bajaj improves, definitely our target is 50% for sure.

Ashutosh Tiwari: And what was the market share last year in this brake assembly?

Anurang Jain: In the brake assemblies it was I think about 30%.

Ashutosh Tiwari: So, now that the things are normalizing on this semiconductor, premium segment has also increased so in this year, can we see at least going towards 40% is that a possible number?

Anurang Jain: Well, let's really hope so because we have got the capacities and from October 2022 onwards we are planning 470,000 brake assemblies. .

Moderator: Thank you. The next question is from the line of Akshay from Anand Rathi, kindly proceed.

Akshay: Can you tell us about the outlook for the European business after the recent geo-political tensions? And in last quarter, you had won an order of €14 million from Stellantis for mild and full hybrid applications. Any more color on that?

Massimo Venuti: Yes, in the previous quarter we clocked more or less €14.5 million of new business with our customers - basically €8 million related Daimler and the rest share between Magna and Stellantis. All these projects are mainly in electrical solutions. The average SOP for this business will be in 2024/25. And these order wins reinforce our excellent order-booking performance of the previous financial year. We had clocked €71 million of business acquisition - the best year for new order booking in our history. Regarding the current market scenario, new car registrations show that the market is very weak. Registrations are down by 35% as compared to the pre-covid period (2019). All the OEMs are putting in their efforts towards new projects for electrical vehicles. You may be aware that the European Parliment has recently confirmed last year's proposal by European Commission that from year 2035, there will be zero production of the internal combustion engine. So, we need to consider to switch to a new segment, which will be 100% electric, and we are well positioned to do that.

Akshay: So, what are your views on companies in Europe that are developing Euro 7 diesel engines?

Massimo Venuti: They are developing engine for exports market and for sales in EU till 2035. From 2036, for sure, you cannot register a new car without the electrical technology in Europe Today the German market, exports more or less 1.2 million cars per year. So, they will continue to produce the internal combustion engine technology for other countries.

Akshay: What will be the execution period for Rs. 140 crore Suzuki front fork order , just to clarify that the share of business is 100% right And any possibility to get orders for Suzuki export market as well in the future?

Anurang Jain: Yes, there is 100% SOB. In July, we are just starting and will reach peak around April 2024. I could be wrong slightly here as I don't have LOI in front of me. But I am sure that they would have the same scooter for domestic and exports.

The Suzuki scooter would also be exported. So our front fork is also for exports and we are also anyway doing front forks for other model which are being exported, but it's via Suzuki, we supply to Suzuki and they export it.

Moderator: Thank you. The last question is from the line of Jay Shah from Capital PMS, kindly proceed.

Jay Shah: I just wanted to ask the management that as you said that premiumization is happening and we have a heavy dependency on one of the OEMs. Do we have any plans to derisk the dependency?

Anurang Jain: See, fortunately, when you talk about premiumization, when it comes to inverted front forks, there is only one more player. . For ABS there is only Bosch and Continental. If you talk about machined castings of high-end motorcycles, we are the first choice normally, unless there are some strategic reasons for going to a multinational competitor, which has been the case in the past. But we are always in consideration because of our experience on Indian road conditions and our competitiveness.

We are focused on all our premium products, because we have the longest experience, we are competitive, we have the technology, both in product and process. And we are really hungry for this business and we don't want to leave any stones unturned in this process.

Jay Shah: Can I just ask one more question is the Maxwell management please?

Anurang Jain: Sure. So, you have both the founders Akhil Aryan and Alex Collet.

Jay Shah: I just wanted to ask the way the technology is evolving when it comes to the EV batteries, what is our preparedness? How much time does it take for us to get in tune with the new technology that's coming up, like for example , lithium is probably ruling the roost but you never know the way it’s changing, then how do we change our systems according to that?

Akhil Aryan: So, typically, at the end of the day the battery will always be a battery, there will be a cathode and anode separator and there will be ions moving between those two terminals. And batteries will require Battery Management Systems. So, at a fundamental level, batteries require active management to perform, to ensure long life, to be safe and reliable. And also, to be able to predict the state of health, state of charge, range estimation, so on and so forth. So, at a core level, battery management systems are a very fundamental element of being able to deliver anything that is actually powered, whether it's your phone, laptop, or electric vehicles. .

Now, your question is really about how adaptive our BMS is. This is one of our core USP. What we have done as a company, when we started building the technology is instead of taking a product approach where you design a specific product, for a specific chemistry or a specific application, like a two-wheeler or three-wheeler, what we have done is we have designed the technology as a platform. So, our approach has taken a bit more effort and has required a lot more investment on the software, which is the embedded software side of things. But we have taken a platform approach, which is a longer journey, which allows us to now very quickly configure the battery management system for various different technologies, applications as well as chemistry.

So, there's LFP, NMC, LTO, LCO so there are different variants of lithium ion, as you might be aware. So, we can work across chemistry and across application, which means that the same hardware can be reconfigured very easily in a matter of minutes, to work with different chemistries as well as different applications. So, a scooter and E-rickshaw, a motorcycle, a telecom tower, a forklift, all of them can use the same product with using our platform approach by configuring the embedded software that goes inside of it.

So, by taking a platform approach, we really invested early on, in order to be extremely agile and ready for the future. When it comes to actually designing new battery management, for different chemistries beyond lithium, I think that's also something we have a keen eye on the market and seeing what kind of technologies are getting adopted. But eventually, even if there is a better technology product compared to lithium, from a commercialization standpoint, these batteries are really expensive and so for them to reach mass market, it's not just the technology, but also the commercialization that needs to ramped up.

So, we are looking at technologies that both have technical depth as well as scalability. And now you know using BMS for that is a function of recalibrating some of our algorithms, but the core platform can be reused.

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

Anurang Jain: Well, the only thing that I would, again repeat, is that we at Endurance have a very positive outlook based on our new large business wins in the last two years, including for electric vehicles, both in India and Europe. And we will do everything possible to grow in a higher than industry, profitable way in the future. All the best. Thanks.

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