



Endurance Technologies Limited
Q4 FY2019 Earnings Conference Call

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Moderator: Ladies and gentlemen, good day and welcome to the Endurance Technologies Limited Q4 FY2019 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 phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ashish Nigam from Axis Capital Limited. Thank you and over to you Mr. Nigam!

Ashish Nigam: Thank you, and good morning, everyone. Welcome to the Q4 FY2019 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 have Q&A. Over to you, Anurang!

Anurang Jain: Thank you, Ashish. Good morning. I am Anurang Jain, Managing Director of Endurance. I would like to share details of how we have done in the Q4 of 2018-19.

But before that, I would first like to thank all our shareholders for their overwhelming response to our “offer for sale” for dilution of 7.5% of promoter shareholding. This offer was oversubscribed 2.78 times both in retail and non-retail. Now the promoter shareholding stands at 75%.

In India, in the Q4 of 2018-19, as per the SIAM data, the 2-wheeler industry sales degrew by 7.6% compared to the Q4 of the previous financial year. Scooters degrew by 14.7% and motorcycles degrew by 4.6%. 78.1% of our India sales are to 2-wheeler OEMs. Our largest customer, Bajaj Auto, grew by 17% in the fourth quarter.

In Europe in Q4, in spite of a decline of 3.3% in the European Union automotive sales, our European operations have posted a total income growth of 12.6% in Rupee terms and a growth of 11.4% in Euro terms.

On the financials, I will briefly talk to you about the fourth quarter of 2018-19 and then about the financial year of 2018-19.

During Q4, as compared to previous year's same quarter, our consolidated total net income grew by 9.4% from Rs.17,424 million to Rs.19,060 million. Consolidated EBITDA grew by 24.6% from Rs.2,650 million to Rs.3,302 million. Consolidated EBITDA margin percentage is 17.3%. The profit after tax grew 27.7% from the previous year and is Rs.1,486 million at 7.8%. The

profit after tax includes the Maharashtra state incentive for mega project amount of Rs.205 million.

During Q4, our standalone total income grew by 8.1% from Rs.12,442 million to Rs.13,449 million. This is against degrowth in 2-wheeler industry sales of 7.6% in Q4. Standalone EBITDA grew by 27.4% from Rs.1,665 million to Rs.2,120 million with an EBITDA margin percentage of 15.8%. Standalone profit after tax grew by 34.7% and is Rs.1,103 million at 8.2% after considering the Maharashtra state incentive for mega project amount of Rs.205 million.

I will now brief you on the financials for the year 2018-19. During the financial year 2018-19 as compared to the financial year 2017-18, our consolidated total income grew by 18.2% from Rs.63,748 million to Rs.75,375 million. Consolidated EBITDA grew by 21.5% from Rs.9,513 million to Rs.11,558 million. Consolidated EBITDA margin percentage is at 15.3% and the profit after tax grew 26.7% and is Rs.4,950 million at 6.6% after considering the Manesar plant closure legal dues and settlement cost payment of Rs.208 million to our workers and the Maharashtra state incentive for mega project PAT impact of Rs.205 million.

The consolidated ROCE is at 24.8% and the ROE at 20.9%. The consolidated net debt is at Rs.1,578 million and the net debt:equity ratio is at 0.06:1. The asset turnover is 2.4 times.

During the financial year 2018-19, our standalone total income grew by 20.5% from Rs.45,084 million to Rs.54,337 million. Standalone EBITDA grew by 22.9% from Rs.6,088 million to Rs.7,482 million with an EBITDA margin percentage of 13.8%. The profit after tax grew 31.8% and is Rs.3,579 million at 6.6% after considering the Manesar plant closure, legal dues and settlement cost payment of Rs. 208 million to our workers and the Maharashtra state incentive for mega project PAT impact of Rs.205 million.

The standalone ROCE is at 26.7% and the ROE at 18.5%. The standalone net debt is at Rs.1,517 million and the net debt:equity is at 0.07:1. The asset turnover is 2.53 times.

We would like to mention that Endurance is focused in both its Indian and European operations on growing higher than the industry growth.

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

I would also like to share certain other points on the financial year 2018-19.

1. HMSI or Honda 2-wheelers awarded Endurance with the prestigious award for New Product Development for 2018-19 at the vendor meet in March 2019.
2. Endurance was ranked at 166 by the National Stock Exchange in terms of market cap as on March 31, 2019.

3. The Business India magazine ranked Endurance at No.137 among India's most valuable companies.

4. In 2018-19, 72% of our consolidated total income including other income came from Indian operations and the balance 28% came from our European operations.

5. Bajaj Auto share of business on consolidated sales was at 38.9% due to its high growth of 25.7% in motorcycles and 22.3% in 3-wheelers.

6. In India, there was a sizable growth in business with Bajaj by 29%; Hero MotoCorp by 53%; and Yamaha India by 19%. It is important to note that in 2018-19, in spite of Indian 2-wheeler industry growth of 6.3% and the total automotive industry growth at 6.4%, Endurance India standalone business grew much higher at 20.5%.

7. In Europe, though there was degrowth of 1.0% in car sales, our overseas business grew 5.1% in Euro terms and 12.7% in Rupee terms. We grew 68% with Volkswagen Group, including Porsche, and 27% with Daimler in euro terms.

Our top 6 clients comprising 75% of Endurance group business are Bajaj Auto, Fiat Chrysler, HMSI, Royal Enfield, Daimler and the Volkswagen Group (including Porsche and Audi).

In 2018-19, we have acquired EUR 59.5 million of new business in Europe mainly from Volkswagen, Porsche, Daimler and Fiat Chrysler.

As informed earlier, we have got our first order from TVS for disc brake assemblies which will start from Q3 of 2019-20. We are also in the process of finalizing business for suspension, castings and transmission products.

Hyundai and Kia Motors are emerging as large OEM clients for aluminum casting and machining business with a combined order of Rs.235 Crores starting from this financial year and reaching the peak in 2020-21. These orders will be supplied from our existing Chennai plant as well as from our new Chennai plant at Vallam.

Since April 2018, Rs.10,336 million value of business has been awarded to Endurance in India.

The new business is mainly from Kia Motors, HMSI, Hero MotoCorp, Yamaha India, Royal Enfield, Fiat India, Tata Motors and TVS. This also includes new product platforms and electric 2 and 3 wheeler business for suspension and braking products.

In the financial year 2018-19, our aftermarket sales in India grew by 13.6% to Rs.2,707 million. This includes both the domestic and export sales.

In the financial year 2018-19, our exports from India grew by 26.1% from Rs.2,198 million to Rs.2,773 million. Our exports mainly comprise of exports of aluminum castings to Getrag(now a part of the Magna Group), motorcycle inverted front forks and shock absorbers to KTM Austria and our aftermarket exports to 25 countries.

The status of our new plants is as follows.

Our 2-wheeler suspension plant at Halol, Gujarat for Hero MotoCorp started production in September 2018 and is now supplying 100% of the front fork and shock absorber requirement to them. We have reached around 2600 sets of front fork/shock absorbers per day. And we hope in the next quarter to reach approximately 4000 sets of front fork/shock absorbers per day.

Our Kolar, Karnataka plant for supplying front fork and shock absorbers to HMSI for the scooters will start supplies from the second half of this financial year. The building work is already complete.

In Chennai, we have purchased approximately 9 acres of land at Vallam for our second die-casting plant and machining plant. We target to start production in Q3 of 2019-20. The customers to start with will be Kia Motors, Hyundai and Royal Enfield.

In Aurangabad, we have purchased 10 acres of land in Waluj for our near-term expansion projects.

We have hired 20 key personnel in the last 12 months in India, which includes the President (Operations) and the Head of Strategy.

The ABS brakes tie-up with BWI, USA is also progressing well. There is close coordination between the teams at Endurance and BWI. We are at present in the process of testing our ABS with our first OEM client and hopeful to get clearance in this financial year. The plant capacity is planned at 400,000 ABS assemblies per annum. This plant setup will be ready by the end of Q3 of 2019-20.

On our 29-acre test track, the ABS tracks are completed and our ABS testing is on. Other test tracks including the gradient and durability tracks and the building with the control center and workshop are almost ready. We hope to complete this by this month end.

As I informed earlier, our company has received the certificate for incentives under the Maharashtra Package Scheme of Incentives-2013. Based on investments in fixed assets from April 2013 till March 2018, our company will get incentives totaling an amount of Rs.3,673 million spread over 7 years.

We are extremely excited about all the new business as there are large business opportunities coming our way in all our four product areas, including new products being motorcycle inverted 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 2, 3 and 4-wheelers. We are looking at new products to add to our existing four product area portfolio. We are actively engaged to explore and identify opportunities for acquisitions and technical tie-ups with different overseas companies.

We at Endurance, will also continue to focus on growing profitable business in all our four product areas with our existing and new clients while leveraging our strengths in R&D, our strong vendor base and our TPM approach of increasing operational efficiency. 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 like to invite questions from all of you. Thank you.

- Moderator:** Thank you very much. We will now begin the question and answer session. The first question is from the line of Chirag Shah from Edelweiss Capital. Please go ahead.
- Chirag Shah:** Sir, if we look at sales minus raw materials, we are at 45.1% in Q4 on consolidated basis. So, can you shed some light on such a sharp gross margin percentage improvement?
- Anurang Jain:** One of the reasons is the drop in commodity prices, mainly of steel and aluminum. We have been mentioning over the years that this has the impact on the EBITDA margin percentage. When the commodity prices go up, it has a negative impact on EBITDA percentage. When they go down, it has a positive impact. And also, we have been able to control our raw material prices quite well.
- Chirag Shah:** And even in standalone, your gross profit margin is historic high at 37.1%. Is it due to the same reason?
- Anurang Jain:** Yes. In addition to those two reasons there is also the mega project incentive which I have mentioned in my opening remarks. This incentive has contributed Rs. 31.5 Crores on top-line and Rs.20.8 Crores on profit after tax.
- Chirag Shah:** Ok. You mentioned that with Hero, ETL has seen around 50% growth this year. Is it largely because of Halol or is there anything else?
- Anurang Jain:** Yes, it is largely because of suspensions from Halol as well as the growth in the aluminum casting business, which we are supplying from our Sanand plant to Hero Halol plant.
- Chirag Shah:** Ok and how does the outlook stand over there?

Anurang Jain: It is very difficult to predict the future at this stage. There are a lot of factors for which are pretty volatile. We will have to also wait for the elections to get over. We of course, are not economists. But I can just say that if food prices go up, the rural incomes will look up; we're hoping for a good monsoon. We are only focusing on higher than industry growth. That is what we will continue to focus on by taking new business.

Chirag Shah: Yes. Is there any update in terms of penetration with Hero? Is there any further scope of entering into new plants or something like that?

Anurang Jain: Now, as you know, Hero is down on sales. We are looking at entering into other areas with them. Happy to tell you that we have got, the order for the disc (which is part of the disc brake) which will be starting from the next month. Also, clutch and CVT are under testing. It is taking some time. Our focus is to supply all the four products to all our OEMs, increase our share of business.

Chirag Shah: Thank you. All the best Sir

Moderator: The next question is from the line of Narottam Garg from Chanakya Investments. Please go ahead.

Narottam Garg: Congratulations on a great set of numbers, especially in this difficult environment in the industry. Sir, two questions. Firstly, the new order value that you stated of Rs.10,336 million- does this include renewal of any current business or these are entirely new orders that you have received this year?

Anurang Jain: See, for us, it is new business. It could also replace some of the existing models. So it is very difficult to say, which models will do well. I am hoping that this is totally new. But it could also be replacement of some of the existing models.

Narottam Garg: But would it be fair to say that a large portion of this will be entirely new business?

Anurang Jain: A large part is new. Honda and Kia, in total account for Rs.235 Crores, which is completely new. The Honda scooter front fork, which is replacing shock absorbers, is totally new. But there would be certain parts, which could replace existing business.

Narottam Garg: Understood. The second question is with regard to ABS. Is there any delay in terms of getting the final product tested and the final production to start? And also it appears that the capacity has come down from 500,000 to 400,000 that you were talking about.

Anurang Jain: Right in the beginning I might have said 500,000. But in last few investor calls, I have mentioned 400,000 because that is the economical capacity for us. That is why we closed it at 400,000. And there is a delay because testing in Indian road conditions is taking slightly longer time because of additional testing on gravel roads and country roads. So the Indian conditions are challenging. And here, the benchmark is Bosch, which is the world leader, and Continental also. So it is

taking us more time. But, it is better to satisfy the customer with complete testing. They should be totally convinced on performance. Once we cross that, we can go ahead.

Narottam Garg: And are the orders already there to have a good utilization on the 400,000 capacity that we are putting up?

Anurang Jain: We are engaged with a few customers. One client is already testing our product. I know the strengths of Endurance - whether it is performance, quality, cost and development. And there is always certain amount of risk in any business. This is a very high technology product. And like I said in the past, we have the trust of our clients. We have built a lot of trust over the years. So I am quite hopeful and confident that over a period of time, we will do our best to grow our volumes, looking at our strengths that we have today.

Narottam Garg: Understood Sir. Thank you so much and all the best.

Moderator: Thank you. The next question is from the line of Jeetu Panjabi from EM Capital Advisors. Please go ahead.

Jeetu Panjabi: I have got two questions. If you see the European auto data, the numbers are disastrous. And even the U.S. numbers are not that good. Chinese numbers have actually turning a little better. But my broader question is in the context of all these numbers. Your international business seems to have done pretty well. So can you explain relative to just looking at the auto numbers, what drove your numbers to do what they did? Then the second question: if you were to look at the guidance given by your customers for the next 12 months, what's the sense there? Is the pessimism continuing? Or do you see any signs that people are expecting things to get better?

Massimo Venuti: The market situation in Europe is not so good. But as I told in the past, our future growth in Endurance will depend on our ability to gain market share from our competitors. And this is something we have done in the last 2 years. We are starting execution of a lot of projects with Volkswagen Group. As Mr. Jain told you earlier, during 2018-2019, we increased our turnover by 5.1%. This was due to 68% growth with Volkswagen Group and also 27% with Daimler. The positive aspect for Endurance is the fact that in 2018-19, Endurance Overseas acquired EUR 60 million of new projects. This indicates increasing of our turnover for the future years. And another important aspect is that more or less 35% of this total business are for electrical and hybrid vehicles. We are following the new investments of our customers related to the change in technology. We acquired EUR 30 million with Volkswagen Group, and also EUR 26 million with FCA. FCA suffered a lot in 2018-19 and they are now changing completely the range of their products. And by 2020, they will have hybrid vehicles production at 50% of total vehicle production. And we took orders for 100% of the transmission components from them. The other big positive news is that we acquired 100% of the business in the PPE program of Porsche, the Premium Program Electric. We can have a further benefit in the future as the VW Group will use Porsche in order to enter on the EV market. But they will later introduce, for economies of scale, with the other less premium brands. For the first time, in the last quarter of 2018-2019,

Volkswagen Group became the first customer of Endurance Overseas with more or less 26% of our turnover. And so, for sure, the general market situation is not so good. But if we, as in the past, continue to take new business, I do not see a big problem.

Jeetu Panjabi: Okay. And a follow-up question, Anurang, I want to ask the same question for the India business in terms of outlook. Would you have a view on what you're seeing on the ground?

Anurang Jain: Right now, to be honest, nobody can say when the growth comes back. But as far as we are concerned in Endurance, we are going after diversifying our customer base. We are adding new products in all the 4 segments to our customers and increasing our share of business with existing clients. So we will continue to do that, so we can grow higher than industry. On the external environment, we have no control. It is very difficult to predict the future. We believe some customers will do well even in difficult times. And we are just hoping that after the elections, the sentiment should regain and that volumes come back. See, these tough times do come, but they go also. I have never seen tough times last for a long time, so I am optimistic. I have seen enough in 33 years, so I know what it is like. The trust of our clients, our financial strength and a strong and loyal vendor base is helping us to get through these tough times.

Jeetu Panjabi: Thank you Sir.

Moderator: Thank you. The next question is from the line of Niket Shah from Motilal Oswal AMC. Please go ahead.

Niket Shah: Recently Mahindra CIE has brought over Aurangabad Electricals, which is one of your competitors in castings. Obviously, there would be some competitive intensity increasing; do you think that there can be any loss of business going forward?

Anurang Jain: That is a good question. I can only tell you that we are very confident. That is all I can tell you.

Niket Shah: There has not been any loss of clients?

Anurang Jain: No, not at all.

Niket Shah: That is pretty good. Thanks so much.

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

Jinesh Gandhi: Congrats on good set of numbers. My first question on India business gross margin improvement, can you share is this also because of increasing share of proprietary business or mix has been fairly stable?

Anurang Jain: The proprietary business has increased over the casting business by I think 2% points on a total India sales. However, also on the casting front, in 2018-2019, we have done a lot of work to improve the margins and we will definitely see better margins going forward. Castings is a very important part of Endurance business; we started with castings. So, we are taking business in castings, wherever we get opportunities for profitable growth. We are focusing on all the segments: proprietary and casting, both. It is not that we are focusing more on proprietary and less on casting; for us both are important.

Jinesh Gandhi: So, proprietary would be what percentage now?

Anurang Jain: Now, OEM proprietary is 51% and casting has gone down from 45% to 43% and the rest is largely proprietary products sold in the aftermarket.

Jinesh Gandhi: Secondly, if you look at the European business as well, margin expansion has been pretty smart, so what has led to that?

Massimo Venuti: In the fourth quarter 2018/2019, despite a reduction of 3.3% of the market, we grew 11.4% in total income. And EBITDA grew by 17.3%, from EUR 12.5 million to EUR 14.6 million. EBITDA margin percentage improved from 19.9% in the previous year to 20.9%. Considering the total financial year, there was an increase in EBITDA of 10.6% from EUR 45.4 million to EUR 50.2 million. The EBITDA margin improved from 18.3% in the previous year to 19.3%. We saw 8.1% increase in PAT in the quarter - up from EUR 4.4 million to EUR 4.7 million. And for the full year, up by 6.5% from EUR 15.8 million to EUR 16.8 million.

Jinesh Gandhi: So Massimo, what could be the driver of margins of fourth quarter? There was margin improvement of 200 basis points on quarter on quarter basis, or 130 basis points on Y-o-Y basis. Is it just a reflection of operating leverage or is there something more to that?

Massimo Venuti: There is also the impact of extraordinary item in the form of tooling sales to our customer. As you know, in this year, we invested more or less EUR 36 million, of which EUR 21.6 million was for Volkswagen Group. And we had the start of production of the second production line of the cylinder cam carrier for the 1.5 liter engine. In Q4 of this financial year, more or less EUR 3.5 million of tooling sales took place with a good profit margin. But we have had the same impact also in Q4 of 2017-2018. In fact, if you analyze our profitability in the fourth quarter of the previous year and also in this financial year, we grew compared to the preceding quarter. And also as Mr. Jain told you earlier, there is also the impact of the reduction of aluminum cost on our margins.

Jinesh Gandhi: Great. Okay. And second is on the European business prospective, what's the feedback you are getting from your customers on WLTP 2 norms which are due from September 2019?

Massimo Venuti: Frankly speaking, at this moment, I am not able to predict the future. But I can tell you that I hope that within September, the situation will change. Because in my opinion, the reduction that

we have had in the market is due to the WLTP process. The reduction of new registrations of premium brands such as Porsche in the fourth quarter 2019 is absolutely unbelievable and cannot be due to the financial situation of the market, and is instead related to some WLTP constraints. They are reducing the stock from the dealers because there are a lot of stock with car dealers. And starting from September, I hope that the situation will improve.

Jinesh Gandhi: Okay. And what is the total order booked for Europe? You indicated about EUR 60 million order?

Massimo Venuti: Considering this EUR 60 million, we can maintain probably EUR 280 million to EUR 290 million of turnover. I know that last year, I told you EUR 300 million and now we acquired further EUR 60 million. But you have to consider also the weaker general market in terms of volumes, which are different compared to 1 year ago.

Jinesh Gandhi: And the peak would be by FY2021?

Massimo Venuti: Yes.

Jinesh Gandhi: Thanks and all the best.

Moderator: The next question is from the line of Aditya Jhavar from Investec Capital Services. Please go ahead.

Aditya Jhavar: Thanks for the opportunity and congratulations on great numbers. For Europe business, in this quarter, we integrated the entity that we acquired in January. Please help us understand the contribution on revenue and EBITDA of this entity and what is impact on EBITDA margin of Endurance overseas business?

Massimo Venuti: Sure. So the Endurance Castings turnover of manufactured products, post the acquisition is more or less EUR 7 million of which 50% was intercompany with Endurance SPA, with an EBITDA of EUR 0.7 million, around 10% of EBITDA margin. Despite this EUR 7 million turnover with only 10% of EBITDA, our overall EBITDA saw an improvement. Our target is to increase EBITDA in Endurance Castings from 10% to 12% in 2019-2020, with savings and economy of scale, with exchange of technology and by reducing the outsourcing of the machining process. In the machining process, due to the reduction of volume with certain customers, we have some free capacity.

Aditya Jhavar: That was quite helpful Massimo. One question Anurag, if you can please repeat the new order wins for the India business in Q4 FY2019.?

Anurag Jain: See, I do not have the breakup of Q4, but I have the total year figure of Rs. 10336 million.

Aditya Jhavar: That is it from my side and all the best.

- Moderator:** Thank you. The next question is from the line of Ronak Sarda from Systematix Shares. Please go ahead.
- Ronak Sarda:** Thanks for the opportunity. Anurang, a couple of questions. One was on the HMSI Activa front forks, how the transition did happen from shock absorbers to front fork. You highlighted that the plant would be operational in second half?
- Anurang Jain:** Yes, the plant at Kolar, Karnataka will be operational from October 2019 and that is how the ramp up will happen and I think the peak will be reached in 2020-2021. This 2.76 million front fork order will be catered to from Sanand, Gujarat and Kolar, Karnataka.
- Ronak Sarda:** Okay, both Sanand and Kolar plants will be manufacturing the 2.76 million front forks? On what base is this? Scooter volumes have taken a big knock and especially for HMSI?
- Anurang Jain:** This 2.76 million was on the base of last year of around 6 million, which has now come down to 5.78 million, but we are hoping it will go back to 6 million by 2020-2021.
- Ronak Sarda:** So it is on the entire 6 million, not just the Activa? The 2.76 million consists of front forks only for Activa, or for other models as well?
- Anurang Jain:** Our order for 2.76 million front forks was only for scooters, primarily the Activa. HMSI manufactured about 3.9 million scooters in 2018-19. We will see how they do in the future. Ups and downs will happen. Having said that, our order is for a very high SOB.
- Ronak Sarda:** And the second question is on the ABS. I mean you highlighted that Bosch is the benchmark for you. But what I wanted to understand is irrespective of the trial runs happening at customer level, we have now entire industry shifting to ABS mostly. So how does our product compare to with the performance of the ABS launched on the bikes today? Have we done any analysis? And how do we stand there?
- Anurang Jain:** Testing is on. The performance has to be achieved on very difficult special tracks for rural and other normal tracks of India, We are benchmarking with the competition, for sure. Our strength lies in our QCDDM, and the trust of our customers. So we will do our best to get the business. But first the performance has to be met. That's very important.
- Ronak Sarda:** So it is mainly performance on the different road conditions, which is the key right now? How close we are in terms of results.
- Anurang Jain:** I can only say we're getting closer and closer.
- Ronak Sarda:** Okay. Just a housekeeping question, on the India sales, if you can just break it up between how much was casting, suspension, brakes, transmission percentage, if you have it, for the full year?

- Anurang Jain:** No, no, I have got a listing but we don't disclose product-wise. Like I said, it is 43% castings, and it is 51% proprietary, which is a combination of suspension, transmission and braking. We have 5% aftermarket.
- Ronak Sarda:** Thank you and all the best.
- Moderator:** Thank you. The next question is from the line of Priya Ranjan from Antique Stock Broking. Please go ahead.
- Priya Ranjan:** Bajaj has grown by around 15%,if I look at the production numbers. But if I have to translate that, then your growth should be roughly around 7% to 7.5% even if I assume there is a degrowth for the other players. So how should we look at it as your domestic growth is just around 3%?
- Anurang Jain:** No. Our domestic growth is 8.1% in Q4.
- Priya Ranjan:** No, no. If I remove the incentive ...
- Anurang Jain:** There is 5.6% growth without the incentive.
- Priya Ranjan:** Do you consider the Other Income as well in that?
- Anurang Jain:** Yes. What you are doing is you are looking at the volume versus income, right? There is also product mix there, okay? It would be a wrong comparison to compare volume versus income. The sales value is impacted by raw material prices.
- Priya Ranjan:** Yes. And this quarter was also the tailwind for say the disc brake because most of the companies had moved to the disc brake assembly. So typically, the growth should be much higher than what it looks like?
- Anurang Jain:** I would say whether it is the disc brakes, whether it is the paper clutch assemblies, getting into more and more machine castings; we are into value addition, which is a strategy. We are focusing on profitable growth.
- Priya Ranjan:** The aluminum spot prices fell by around 7%, 8% in this quarter. So how much we are confident of retaining all this because, typically, customers ask for the price reduction in the next quarter, particularly related with the commodity price.
- Anurang Jain:** There is a very good quarterly understanding with all the customers on aluminum, which is passed on, whether it is an increase or decrease. And there is no problem at all on this. In fact, lower aluminium prices will help EBITDA margin percentage, like I said earlier due to mathematical reasons.
- Priya Ranjan:** Because your customers are also under pressure in terms of their own margins?

- Anurang Jain:** We may all be under pressure, but there is an understanding on the pass-through of aluminum and steel, which is happening regularly. That is the industry practice. So if price goes down by 8%, 9%, then it goes down and we will pass it. If it goes up, then they will give it - that is the rule of the game. And we as, auto component suppliers have to manage both legs, with customers and with vendors as well. We have a very strong and loyal vendor base.
- Priya Ranjan:** On the EUR 60 million new orders from the VW group, what kind of run rate we have achieved this year and what can we expect next year because you said probably the peak will be in FY2021 or FY2022?
- Massimo Venuti:** Yes. We will start production of the parts more or less 50% in 2019-20 and much of the other 50% in 2020-21. We expect to reach the maximum within October 2021.
- Priya Ranjan:** And another point is on M&A. If I exclude the 7 million revenue from the acquisition, what will be the organic growth in euro?
- Massimo Venuti:** No, you have to consider only 50% of Euro 7 million, as Endurance Casting also did captive sales and on behalf of Endurance. Only 50% of this total turnover is completely external.
- Moderator:** Thank you. The next question is from the line of Hitesh Goel of Kotak Securities. Please go ahead.
- Hitesh Goel:** Thank you for taking my question. Sir, this is on the European business. Why has Other Expenses gone up by 41% on a Y-on-Y basis in the fourth quarter? And depreciation has also increased. So have you in-sourced some of the business, which has led to improvement in EBITDA margins? Because if I look at EBIT margin, the EBIT margin on a y-o-y basis is actually down, so just wanted some clarity on that.
- Massimo Venuti:** Yes, the impact in the Other Expenses is mainly due to the change in consolidated entities, post acquisition of Endurance Casting. As I told you before, the company outsources the machining process. I hope to reduce this impact in the next year, as we are trying to in-source this activity in our Endurance plants. Regarding depreciation, there was an increase on account of Endurance Casting, and also because we have accelerated the depreciation for certain machinery, linked to the diesel models.
- Hitesh Goel:** You have talked about EUR 3.5 million tooling income in fourth quarter FY 2019 from Volkswagen. Was there some tooling income booked in fourth quarter FY2018 also? Just wanted to do a like-for-like comparison.
- Massimo Venuti:** In 2017-2018, the income for tooling and refunds was EUR 4 million. It depends on the timing when you start production of a new product. It is not necessary that it will come in the last quarter of every year.

- Hitesh Goel:** And Anurang, why the other expenses have gone up so much?
- Massimo Venuti:** Endurance Casting is a foundry, but they buy from the market the machining process. We acquired the company, and have begun to consolidate it in January 2019. In the last quarter, there is an increase of Other Expenses for this reason.
- Hitesh Goel:** Thank you very much and all the best.
- Moderator:** Thank you. The next question is from the line of Vijay Sarthy from Anand Rathi Securities. Please go ahead.
- Vijay Sarthy:** Thank you for the opportunity. Sir, could you please quantify the disc brake order that we will get from Hero from next month?
- Anurang Jain:** It is the disc for the brake. I do not have the value off-hand.
- Vijay Sarthy:** I understand that you have an approach towards increasing your share of business with customers. And I believe that all of this will peak out in FY2021. So is it fair to assume that your India business will normalize towards FY2021, assuming that you would have served all four products to Hero and HMSI, just like you serve to Bajaj and RE.
- Anurang Jain:** There is a long way to go. Today, we have the 4 product areas. Only to two, Bajaj and Royal Enfield, we supply all the 4. We have a long way to go towards adding the remaining 1 or 2 product areas for the others. Like HMSI is on 3 products with disc brake assemblies. We are planning to increase share of business, including through setting up of new plants. Sanand has to reach full potential with Honda. Hero has to reach full potential, 6,200 a day at Halol also. So we are also increasing our share of business. And we are diversifying our customer base. We have not started supplying to TVS. We have a brake order for Rs. 40 Crores. As we are talking, we are taking other businesses also. We are looking at aftermarket growth. We are looking at exports growth. We are looking at a lot of things. So the question is I do not see any kind of saturation in growth for Endurance; we will endeavor to grow our business higher than industry.
- Vijay Sarthy:** Sir, with respect to domestic OEM, beyond FY2021, would you not have reached high capacity utilization for all these segments that you talked about with these customers?
- Anurang Jain:** I also believe the 2 wheeler industry will grow in India. These kinds of downturns will happen, but they will go. Like I mentioned earlier also, there are 1.7 Crores bicycles which are sold in India. These guys will graduate to a 2 wheeler sometime in the future. So I am very optimistic on the 2 wheeler industry. They have done a volume of about 24.5 million in 2018-2019. Definitely we will see a growth in the future for this industry.
- Vijay Sarthy:** And any new portfolio products that you are planning apart from these 4 segments, anything you can talk?

- Anurang Jain:** Yes. We are actively working on this. So whenever we are ready, we will tell you.
- Vijay Sarthy:** Finally, in India business, why has the staff costs fallen sequentially?
- Anurang Jain:** I think we are trying in Endurance to create a lean organization. We are focused more and more on performance, which is very important. So I think our focus is to pay people well and get more and more value add from our people. So I think this focus has already helped. And secondly, you see the growth. In the employee costs, percentage to sales went down.
- Vijay Sarthy:** But there has been some cost rationalization, is it on staffing?
- Anurang Jain:** In Manesar, we have saved owing to the plant closure. This happened in December. We had 167 workers, and another 20 people in staff had separated. That definitely helped lower the manpower strength as well as the costs.
- Vijay Sarthy:** And any market share gains abroad?
- Massimo Venuti:** The market was down 1%, and considering also the increase of the import in European market are more or less 10% compared to the previous year, we nonetheless grew 5%. And so for sure, we are gaining market share compared to our competitors.
- Vijay Sarthy:** Any customers where you've gained market share if you can highlight?
- Massimo Venuti:** Volkswagen Group is the best example. Volkswagen Group became the first customer in the fourth quarter 2018-2019 of Endurance Overseas.
- Vijay Sarthy:** Thank you.
- Moderator:** Thank you. The next question is from the line of Bharat Gianani from BNP Sharekhan. Please go ahead.
- Bharat Gianani:** Thank you for the opportunity. I just had one query on the incentives that you stated in your comments. So what is the incentives amount that you have received I think you pointed out to a period of 7 to 8 years. So what is the total amount that you will get?
- Anurang Jain:** It was Rs.367 Crores, I will request Mr. Ray to discuss it more in detail.
- Satrajit Ray:** Yes, it is to be received over 8 years because our incentives, operating period starts from August 2017 and ends in July 2024. The amount receivable is Rs.367 Crores.
- Bharat Gianani:** Okay. So roughly, I think, about Rs.40 Crores to Rs.45 Crores of amount would be recognized in the next 5 to 7 years. Is that right?

- Satrajit Ray:** If we divide Rs. 367 crore by 7 years, it comes to Rs.52.4 Crores. There will be 2 broken years, so the numbers there would be different. But otherwise, it's around Rs.52 Crores per year.
- But this accounting and the triggers are under discussion with the experts. It may be noted that the company will initially get 90% of each year's entitlement and the balance 10% will come with a lag after GST assessment for that year is over.
- Bharat Gianani:** Okay. One last question again on this front. So in FY2019, what is the amount that you recognized for the whole year under this incentive?
- Satrajit Ray:** INR 315 million, pre-tax.
- Bharat Gianani:** Thank you.
- Moderator:** Thank you. The next question is from the line of Mahesh Bendre from Karvy Institutional Equity. Please go ahead.
- Mahesh Bendre:** Thank you for the opportunity. Sir, I just wanted to understand contribution of revenue from various customers in domestic business?
- Anurang Jain:** I do not give these breakups. But I can tell you that our top 5 customers in India are Bajaj Auto, HMSI, Royal Enfield, Yamaha and Hero MotoCorp. These are the top 5. They constitute more than 80% of our business.
- Mahesh Bendre:** And Sir, Europe business, what proportion of our business is for PV and CV? Any growth, passenger vehicle and commercial vehicle?
- Massimo Venuti:** The passenger vehicle is more or less 90% versus commercial vehicles.
- Mahesh Bendre:** And Sir, what is the capex plan for domestic entity and international entity in FY2019-FY2020?
- Anurang Jain:** FY 2020, I think it will not be more than Rs.300 Crores in India, which is in fact, it could be less than that. And EUR 20-25 million of net capex in Europe .
- Mahesh Bendre:** Sir, last question on operating margin side. We have improved our margins considerably over the last 2, 3 years. So do we think we will be able to sustain these kinds of margins going forward?
- Anurang Jain:** Yes. Our full effort will be to do that definitely. We are working on many fronts of cost controls. In fact, this consolidation of plant, closing of Manesar was one such initiative also. Going for more and more outsourcing, enriched product mix and control on employee costs or raw material costs is critical for us. RM cost form 65% of our sales in India. So there is a lot of work for different teams, which is going on at Endurance. We have a high focus on cost control.

- Mahesh Bendre:** Sir, last question, there is a lot of talk about electric vehicles that are going to come up. So will this benefit us as an aluminum casting company? Will content per vehicle for us go up?
- Anurang Jain:** I think only time will tell. I believe aluminum castings will remain but in different forms and sizes. We will have to see what kind of opportunities come; I believe they will start with 3-wheelers and scooters first. We have to see about motorcycles in the future, but there the cost of electrification will be higher. Given the government support in subsidies as well as the infrastructure, I think electric vehicle is here to stay. It is surely going to come. Time, we cannot say. But to answer your question, aluminum casting will come in different forms and sizes, battery housing is one of the structural parts, which are coming into aluminum. So the form and sizes will differ, but casting will remain. Whether it will be less or more, only time will tell.
- Mahesh Bendre:** Sure. Sir, what was the proportion of export from India?
- Anurang Jain:** The total figure which I had mentioned today was Rs. 277 Crores. This is 26% growth YOY.
- Mahesh Bendre:** Do you think this growth will remain in double digit?
- Anurang Jain:** Yes, that is our endeavor.
- Mahesh Bendre:** Thank you Sir.
- Moderator:** Thank you. Ladies and gentlemen, due to time constraint, that was the last question for today. I would like to hand the conference over to Mr. Ashish Nigam for closing comments.
- Ashish Nigam:** On behalf of Axis Capital, thank you to the management team and all the participants for joining the call today. Have a good day, everyone.
- Anurang Jain:** Thank you, Ashish. Thank you, everybody.
- Moderator:** Thank you. On behalf of Axis Capital Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.