Endurance Technologies Q4 FY20 Results Conference Call

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

Moderator: Ladies and gentlemen, good day and welcome to the Q4 FY20 Results Conference Call of Endurance Technologies Limited hosted by Axis Capital. 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. Thank you. And over to you, sir.

Nishit Jalan: Thank you so much. Good morning, everyone. Welcome to the Q4 FY20 Results Conference Call of Endurance Technologies Limited. 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 & 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, Mr. Anurang Jain.

Anurang Jain: Thank you very much. Good morning to everybody. I am Anurang Jain – Managing Director of Endurance. I would like to share details of how we have done in Q4 and the full financial year 2019-20. In India, in the year 2019-20, as per SIAM data, the two wheeler industry sales de-grew by 14.4% compared to the previous financial year. Scooters de-grew by 16.4% and motorcycles grew by 12.8%. The automotive industry in India had a de-growth of 14.8%. The two wheeler sector saw a de-growth for the first time since the global financial crisis in 2008. In Europe, in 2019-20, there was a decline of 5% in the European Union automotive sales. Our European sales had a de-growth of 2.7% in euro terms, partly also due to the fall in aluminum alloy prices.

On the financials, I will briefly talk to you about the fourth quarter of 2019-20 and then I will take you through the full financial year of 2019-20. During Q4 as compared to previous year same quarter, our consolidated total net income de-grew by 15.3% from Rs.19,060 million to Rs.16,142 million. Consolidated EBITDA de-grew by 22.7% from Rs.3,302 million to Rs.2,553 million. Consolidated EBITDA margin was at 15.8%. The profit after tax de-grew by 28.1% from the previous year and was at Rs.1,068 million at 6.6%.

During Q4, our standalone total income de-grew by 15.3% from Rs.13,449 million to Rs.11,390 million. Standalone EBITDA de-grew by 28.9% from Rs.2,120 million to Rs.1,509 million with an EBITDA margin of 13.2%. Standalone profit after tax de-grew by 34.8% and was Rs.719 million at 6.3%.

I will now brief you on the "Financials for the Financial Year 2019-20." During the financial year 2019-20, as compared to the previous financial year, our consolidated total income de-grew by 7.6% from Rs.75,375 million to Rs.69,653 million. Consolidated EBITDA grew by 2% from Rs.11,558 million to Rs.11,784 million. The consolidated EBITDA margin was at 16.9%. The profit after tax grew 14.2% and was Rs.5,655 million at 8.1% after considering the Maharashtra state incentive for mega project amount of Rs.874 million. The consolidated ROCE was at 21.7% and ROE at 20.3%. For the first time there was no consolidated net debt and the company had positive cash of Rs.361 million. The asset turnover was 1.98x.

During the financial year 2019-20 our standalone total income de-grew by 8.4% from Rs.54,337 million to Rs.49,748 million. Standalone EBITDA grew by 4% from Rs.7,482 million to Rs.7,785 million with an EBITDA margin of 15.6%. The profit after tax grew 19.5% and was Rs.4,277 million at 8.6% after considering Maharashtra state incentive for mega project amount of Rs.874 million. The standalone ROCE was at 24.3% and ROE at 19.5%. There was no net debt, as standalone operations had positive cash of Rs.100 million. The asset turnover was 2.09x.

We would like to mention that Endurance is focused in both its Indian and European operations for a profitable growth and 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 key points for the Financial Year 2019-20.

1. 71.4% of consolidated total income including other income came from Indian operations and the balance 28.6% came from our European operations.
2. In India, Rs.5,860 million of new business was won from OEMs which included HMSI, Royal Enfield, Hero MotoCorp, Hyundai, Kia and our new OEM client TVS. 50% of this business will start from Q2 of this financial year. I would like to mention that in addition we have Rs.12,770 million worth of requests for quotes from OEMs which are being discussed.
   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. 200 cc plus motorcycle brakes and clutch assemblies with help of our acquisition of Adler and Grimeca in Italy in the last three months.
   b. Paper based clutch assemblies replacing the cork based clutch assemblies for motorcycles.
   c. Continuous variable transmissions or the automatic clutch for scooters.
   d. Anti-lock Brake System or ABS for 150 cc plus motorcycles.

   e. Inverted front forks and adjustable rear mono shock absorbers for 200 cc plus motorcycles, front forks and shock absorbers for electric two and three wheelers. This is with the help of our collaboration partner KTM.
   f. Fully finished machined castings, as compared to semi-finished castings for two, three and four wheelers which we do right now.

3. As far as Europe is concerned, in 2019-20 we have acquired €42.66 million of new business with Audi, BMW, Porsche, Volkswagen, Fiat Chrysler and Maserati, including for electric and hybrid cars.
   I would specifically like to point out that in the last two years, €110 million of business has been won for electric and hybrid cars which has started in this year and will reach peak volumes in 2023. Therefore, 48% of our existing total Europe business value has already been won by us. Out of this €110 million value, €30 million business won is for electric cars of Audi and Porsche and €80 million business won is for hybrid cars for Volkswagen, Daimler, BMW, Fiat Chrysler and Maserati.
   Also, further business is being discussed with Volkswagen for their electric and hybrid cars.
4. As mentioned earlier, our overseas company Endurance Overseas s.r.l. has in the last three months acquired 99% stake of the two wheeler clutch company Adler Spa and 100% stake of the two wheeler brake company, Grimeca. Both these acquisitions include all knowhow, patents, brand and trademarks, which will help us mainly in our Indian operations, but also our European operations will get new business for 200 cc plus motorcycle clutch assemblies and brakes.

I want to inform you that both Adler and Grimeca have been our technology partners in the past and an important part of our journey of growing our clutch and brakes business in India in the last 15 to 17 years.

I would also like to point out that Endurance will continue to focus on technology and new product oriented, organic and inorganic growth.

5. I would also like to mention that Endurance has also entered two backward integration product areas which are import substitutes also.
   a. First is the aluminum forging axle clamps required for inverted front forks. Endurance has entered into a technical collaboration with FGM in Italy and production will start at Aurangabad plant this October.
   b. The second product is wire braided hoses which are required for ABS brakes. We will start the production of these hoses this August.
      Both these above projects will help us in our future profitable growth.

6. Our Aftermarket business in India was almost 6% of our net sales in the financial year 2019-20. The Aftermarket sales grew by 10% from Rs.2,707 million in the previous financial year to Rs.2,977 million in 2019-20.
7. As you all know, the COVID-19 pandemic gave rise to a very challenging and difficult situation. Our plant operations in India and Europe were suspended, ranging from 30 to 50 days due to lockdowns. At Endurance, we took this also as an opportunity to become leaner and we focused to lower our monthly fixed cost amounts, variable cost percentage to sales in each of our plants, direct, indirect material cost and lowered also our capital expenditure. This cost containment is helping us as we are restarting and getting our operations back to the pre-COVID 19 normal sales.
8. Our company has a strong balance sheet with a consolidated net worth of Rs.30 billion and zero net debt as on 31st March 2020. I would like to inform you that on 29th May 2020, CRISIL has reaffirmed our credit rating of long term as "AA with Positive Outlook" and short term rating as "A1 Plus."
9. I also wanted to update you that:
   a. Our new Vallam plant near Chennai for supplying machined aluminum castings to Hyundai, Kia and Royal Enfield, will start operations this October.
   b. We are also targeting to supply our ABS Brake Systems in Q4 of this financial year.

With these opening remarks, I would like to invite questions from all of you. Thank you very much.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Ashutosh Tiwari from Equirus. Please go ahead.

Ashutosh Tiwari: Sir, Yours is among the few companies which have net cash and probably in a better position to gain market share in different segments. In which products do you plan to increase share? Please throw some light specifically on ABS and two wheeler alloy wheel segments.

Anurang Jain: As you know, fortunately, 78% of our India sales is for the two wheeler industry. And if you see even from Q3 to Q4 our share of business in front forks, clutch assemblies, brake systems has increased. In Honda scooters, front forks replaced shock absorbers. We had got an order of 2.76 million pieces, which had nearly reached its peak in February-March 2020, but with COVID-19 the peak volumes have got postponed. But starting in second half of this fiscal year, they will hopefully be close to normal volumes.

We have always focused on value added items - we are getting into more paper based clutch assemblies, 200 cc plus motorcycle brakes & clutches where we are largely not there right now.

Already, we are supplying inverted front forks and the volumes here are also going to grow. So these are increasing, not only with Bajaj or KTM, it is also increasing with Honda and with other OEMs in India. So we want to focus on the 200 cc plus market for brakes, for clutches, for front forks, shock absorbers, also go into fully machine castings for two and three wheelers and in transmissions, to move to more paper clutch assemblies.

And as we speak even in combined braking system, we are increasing our customer base by starting supplies to TVS and Honda in the next quarter. And for ABS, like I said our target is to start in Q4. So these are the strategies which we are taking forward.

We have already in the last three years almost spent Rs.10,000 million on CAPEX. We do not have to do much CAPEX in this year, the CAPEX will be not more than approximately Rs.1,500 million this year and 60% of that is for expansion because of the new projects that I told you about - the backward integration projects of wire braided hoses and forgings and some other projects like our new plant in Vallam which is coming up for Hyundai, Kia and Royal Enfield. So we are in a very strong position I would say. The product mix is going to see much more value add, higher profit margins. Even the backward integration products, which are import substitutes will help us to increase our profit margins.

And having said this, I would also like to add that things are looking much better than expected going forward. The two wheeler industry is doing much better than what we expected and we hope for a very good Q2 compared to what we had expected earlier, and I am saying this by looking at the schedules we are getting from all the OEMs. Of course, I cannot predict the future, but Q2 is looking much better than what we expected and with the new product mix I think I am quite optimistic.

Ashutosh Tiwari: So in June and July what kind of production level we are looking at?

Anurang Jain: In June we will be at about 50% to 55% in India. And of course in July we see a good increase. Do not ask me for a figure. I can only tell you it is much better than expected.

Moderator: Thank you. The next question is from the line of Ronak Sarda from Systematix. Please go ahead.

Ronak Sarda: In the financials, we have seen some reversal of government grant. Is it part of other income?

Satrajit Ray: We have booked Maharashtra state government mega project incentive over the last 4 quarters. During the current year, in the first three quarters, we had booked mega project incentive amounting to Rs. 94.4 crores but in Q4 we came to know that electricity duty benefit for our Aurangabad plants forms a part of this mega project incentive. So we were obliged to reverse this electricity duty benefit right from the start of the incentive till March 2020, that amount came to Rs. 70 million, or 7 Crore. So that is the reversal that you find in our Q4 financials. And this is contained in the Revenue from operations, not in Other Income.

Ronak Sarda: What cost rationalization measures we have taken and what kind of benefit we can see over the next 12-months as the revenues ramp up?

Anurang Jain: Firstly, we focused on fixed cost amounts, actually all our corporate expenses, be it professional fees, travel expenses, office expenses. We have also frozen the increments for this year. We have tried to lower our fixed cost amounts. As we are going back to normal volumes, these fixed costs will increase, but they will not go back to the levels of March 2020.

Secondly, on the variable costs percentage to sales, we focused on each and every head of expense. These are basically manufacturing costs. We have given all plants a target of reducing by 10 percent. Some have already achieved it when we restarted in May. And this is something which we want to sustain, because when things are going well you do not look so minutely at many of the expenses, as we do in a situation which we are experiencing. So, we are going into every detail.

Thirdly, we have renegotiated our material costs - indirect materials, consumables and spare parts for machines, by going to best cost vendors, doing clean-sheet costing, getting alternative vendors and so on. So a lot of work has gone in the 75-days of lockdown, when we were at home.

And also the CAPEX, we have reviewed and we have brought it down to ~Rs.1,500 million for FY21. A lot of work has gone in this period to become a leaner company. Of course, I am talking about India. Mr. Venuti will throw further light on the overseas operations. But the whole, the idea is that as we go back to normal, we do not lose some of the edge which the whole team in Endurance has achieved by planning and executing during and after this lockdown.

Ronak Sarda: Your projected CAPEX the lowest number in last three years. I congratulate you for having generated FCF for the last at least 11-years in a row. So what is our cash deployment strategy now? Are we looking for new products or will we increase our dividend payout?

Anurang Jain: It will depend on the sales which takes place. The offtake figures we are getting from July onwards are quite encouraging, but our focus is more on the back-end - on cost controls, CAPEX controls. However, at the same time we are definitely looking at new inorganic and organic growth opportunities. Even at a time like this, in our overseas operations, we acquired both Adler and Grimeca who have been our partners. Adler was our technology partner for clutch assemblies and CVTs for scooters. Grimeca was our partner from 2004 to 2009. We started the brakes business with their support. There were not many companies offering brake assembly technology. It is a great feeling to have these companies now in the Endurance fold. You may note that these deals were not at a very high value. We are being sensible and our focus is to safeguard cash, especially till we get back to normal market conditions. We are cautious, and do not want to lose the edge created in the last 10-years. So, we are going to spend in a sensible way whatever is required, we are going to save on cost, and on CAPEX and look at opportunities which make sense for us, which we feel can add value, and is worth spending right now. But just spending for the sake of spending to increase our sales, we are not going to do.

Ronak Sarda: On the Hyundai and Kia business, you mentioned the plant would start in October. Is there a delay in the start of the plant?

Anurang Jain: Yes, there is a delay from earlier target of July. It is going to be completed in October because of the lockdown, and the Koreans also have their standards. They have also gone through COVID-19, the second wave has come up there and our plan also got affected by the lockdown guidelines in India. Tamil Nadu had again announced lockdown on 19th June. Now they have taken back this order for the industrial estates. So Hyundai, Kia, Royal Enfield are back in production. Due to the COVID-19, there has been a postponement. But from what we know Hyundai, Kia, Royal Enfield are fully committed to do these volumes and gain their market share in India and so we are starting in October.

We are already supplying from our existing plant in Chennai. So the growth is going to come in the new plant which will start in October and not July. Ramp up to cater to newer orders is already happening in our existing plant. The ramp up actually started late last year.

Moderator: Thank you. The next question is from the line of Nitin Arora from Axis Mutual Fund. Please go ahead.

Nitin Arora: My first question is on the Europe margins. We saw a very strong performance and just to put it in context, on a QOQ basis, we also saw the decline in Gross margin and also reduction in the Employee cost and Other expenditure. Can you explain what is this strong performance pertaining to – Is it more of new product delivery getting you higher margins or is it more of led by insourcing versus outsourcing?

Massimo Venuti: In the last quarter 2019-20, we have had an increase of EBITDA compared to the previous year in terms of percentage from 21% of the previous year to 22%. And this is due to the fact that we are producing a different mix compared to the previous year. We are increasing in an important way, the business with Volkswagen and these new products have higher added value compared to the past.

In this quarter there was also the impact due to the lockdown, because starting from the third week of March we suspended operations in one plant in Bione (in Brescia) and in the last week of March also the activity of the other Italian plants was suspended. In reporting the cost of materials consumed, the reduction of stock in the quarter has also been included. So, the percentage of cost of material is higher in Q4 compared to the previous quarter due to the reduction of stock. The profitability is growing due to many factors. I told you about the improved mix with Volkswagen.

Also, we started the third machining line to cater to the new business with Volkswagen. In fact, also in the quarter there was an increase in depreciation of €1 million because we completed 100% of the investment for these specific parts. In the quarter, there was reduction in the labor cost compared to the previous year, because we have increased the level of outsourcing for small production batches of foundry activity. This is due to the fact that with a reduction of 60-70% of volume, it is more efficient to outsource the smaller batches. In some cases, our plants worked only one shift per day or two or three shifts per week.

Nitin Arora: China demand has normalized – we cannot be sure if it is pent up demand or actual demand. What is the sense you are getting from OEMs in Europe and UK? How is the production scheduling there?

Massimo Venuti: First of all, European car makers have had a significant reduction of export to the United States and to China due to the trade war situation of the previous year. In fact, our customers BMW and Daimler, lost a significant percentage of normal SUV component volumes exported to the United States, as there was reduction in SUVs exported from United States to China.

Today, after the lockdown, the situation is really tough because a lot of OEMs were trying to buy components from China considering that country reopened while we were in a lockdown at that time. So for the next 12 months, there will be a lot of pressure on price due to the fact that in the European market, there is a lot of unused production capacity and the level of utilisation is 40-50%. But from my point of view, this could be an opportunity for Endurance for many reasons.

First of all, because a lot of companies are facing financial problems. So, sooner or later some capacity will go away, because at this moment there is not enough volume in the market for everybody. Several German customers are interested in moving business from companies with financial problems to a strong company. This is an opportunity because for sure we can increase the volume but it is also an opportunity due to the fact that we can evaluate inorganic growth. It must be noted that at this moment, the governments are supporting companies to maintain the workforce, considering the Europe unemployment rate. In fact, all the governments in the European markets, also in Italy and also in Germany are preventing layoffs. You cannot fire people. In Italy and Germany, they are supporting the companies with incentives and contributions in order to pay the salary, but you cannot reduce people and this is damaging competition as companies with financial problems can survive getting business at any condition, therefore inorganic growth could be evaluated.

Nitin Arora: From a perspective of scheduling, you said that June is 50%. Do you see a scenario that by Q3 end, we would be at a pre-COVID level?

Anurang Jain: To be honest, I would not be surprised if it goes to the pre-COVID normal level in Q3, considering the way things are looking up. However, I am always very cautious, I do not know whether the June/July improvement is due to pent up demand or is it more structural. But I am expecting a good monsoon and the rural sector is almost two-thirds of the total two wheeler market. Today, financing is no problem especially for two wheelers. So I am very optimistic on two wheelers market recovery. So to answer your question, I would not be surprised if we are back to normal in Q3.

Moderator: Thank you. The next question is from the line of Vimal Gohil from Union Asset Management. Please go ahead.

Vimal Gohil: Sir, if you could just highlight how your key accounts have done. And by key accounts I mean Bajaj, RE, Honda, Yamaha and Hero. What is the growth that you have achieved in FY’20?

Anurang Jain: In FY’20 in the case of several customers, there has been a de-growth for us, because of the industry de-growth. As far as Bajaj is concerned, they have degrown 6.8% in motorcycles and almost 15% in three wheelers. HMSI has degrown 14.7%. TVS, of course, we have just started, so I will not count them. Yamaha has degrown 16%. We have degrown in India by 8.3%. We have always maintained that we do better than industry. So we have done better than industry when the two wheeler market was down 14.4%, we have been down 8% approximately.

Vimal Gohil: How much has ETL degrown in these accounts?

Anurang Jain: I do not normally share such data for each customer, but overall you can see a de-growth. We have degrown with key customers, less than what they have degrown in production or sales. But we have also degrown and that is why you see the overall degrowth.

We did grow by almost 9% with Hero; we grew more than 40% with Hyundai. Our SOB in HMSI has increased quite substantially compared to the previous year. And this is largely because of the scooter front fork replaced the shock absorbers.

As far as RE and Yamaha are concerned, they have slightly gone down as a percentage of the overall business. In RE, we started brakes in a big way and that business will increase with them. And as far as HMCL is concerned, with their Halol plant production increasing, business will increase and we hope to supply clutch and CVT in future to them which are at advanced stage of testing. We started disc for them already.

In HMSI, the scooter front forks which replaced the shock absorbers, almost 2.76 million per year, have led to this higher value add and growth. Of course, they started only in Q4. And also we started the disc business with them.

We have degrown with all but with Hero and Hyundai we have grown. And with HMSI the share of business has gone up as a percentage of total.

Vimal Gohil: Sir, you highlighted the CAPEX for India business of around Rs.150 crores. What would be the same for your Europe business, how much is the CAPEX expected there?

Massimo Venuti: We closed the previous financial year with more or less €35 million of investment in the last 12-months which €22 million for Volkswagen group and €1.5 million for FCA and €0.4 million for Daimler. Basically, the main investment was for Volkswagen. Regarding FY21, we are planning to reduce the investments and we will do only the ongoing activity plus some investment for the new business acquired during the previous financial year.

As Mr. Jain told you in the last 12-months we acquired more or less €42 million of new business. This business will start in 2022 and will be ramped up in 2023 and for this reason we have to install the production capacity mainly for Audi. We acquired with them a new project for electrical vehicle with 860,000 per year more or less €15 million. We have to install the production capacity within September 2021. So it means that will be some capex in this financial year as well, but our target is to reduce the fixed cost and save our cash. At the end of March 2020, for the first time we reached net cash of €3 million and we have a negative net debt and we want to try to make cash profit also in this financial year, despite the market. We wish to reduce investment and for this reason we are evaluating outsourcing compared to producing inside our plant.

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

Niket Shah: Typically, what is the conversion rate that one should really think about, against your quotes submitted for Rs. 1277 Crore of new business? I am just trying to understand that a time like COVID does it get impacted?

Anurang Jain: One can take half of that as conversion into orders.

Niket Shah: If I take half of that, total turnover is still higher than last year, as that essentially fills the gap for the de-growth in the existing business, assuming you normalize from the third quarter?

Anurang Jain: Yes, of course. I mean that is our target to have a growth over last year looking at how things go. So definitely we want to grow higher than last year from Q3 for sure. But the business which we are going to win this year will only start most probably in the next financial year.

Niket Shah: Given the disruption in supply chain that you have seen across the board, any opportunity for getting inroads into the four-wheeler category with the market leaders?

Anurang Jain: I think the business opportunity in terms of aluminum machined castings is with Hyundai and Kia. With Tata Motors, we are taking a lot of business but they are not doing too well. Hyundai and Kia - Rs. 2,790 million of business we have already won last year. Also, in the 4-wheeler space, this is opportunity on the exports. With GETRAG which is a transmission maker for Ford, those volumes we are expecting increasing from next month onwards and as we speak, we are looking at other OEMs for exports of machine castings. So as far as passenger car goes which is today only 6% of our India business, while overseas you know is all passenger cars and commercial vehicles. But this growth will depend on the opportunities we have on the machined casting space.

Moderator: Thank you. The next question is from the line of Priya Ranjan from Antique Limited. Please go ahead.

Priya Ranjan: Can you just reaffirm what is your share of business in Bajaj and RE and Hero?

Anurang Jain: See, as far as Bajaj is concerned, if it is at about 38% of our consolidated sales. As far as RE is concerned, it is at 6%. Hero is about 3%.

Priya Ranjan: In Europe, I mean similarly around half of the business earlier used to be say Fiat Chrysler. How is it now?

Anurang Jain: Volkswagen group including Porsche and Audi has become our largest customer in Europe. When we acquired the company, Fiat was more than 70% of our business. Now Volkswagen with Porsche and Audi is the highest. Then it is Fiat Chrysler and then it is Daimler**.** Volkswagen group is about 28%, Fiat Chrysler is 27 and Daimler is at about 16% and then New Holland at 7. And PSA and others are each below 4%. But the way we are getting orders from Volkswagen group and Porsche, they will go much higher in future.

Priya Ranjan: And on European operation, given the way the German government has started giving incentive to electric vehicles. So do you see some risk of your old orders of say VW?

Massimo Venuti: Industry has positive expectations that many governments, not only the German government but also France and Italy would give incentives.

And in any case, we don't see a problem in our product mix because, as we already mentioned before, if you consider our current annual turnover of Euro 250 million, we have already acquired orders of Euro 110 million linked to the electrical and hybrid solutions.

One of the major problems that we have in Europe is that the dealers have unsold cars, and not many of these cars are with hybrid and electrical solution. Thus, we believe that the government will expand these incentives also to these kind of vehicles, otherwise the dealers have no possibility to order new cars.

Priya Ranjan: Any development on ABS…?

Anurang Jain: In ABS, there was a delay of 4 months on the testing, but right now we are working very closely to get this clearance and that is why I said Q4 is what we are targeting to start the SOP for the ABS. We are very closely working with the partner, despite the challenges on the travel. You know, the overseas experts from USA are not able to travel to India because of flight cancellations, but we are doing a lot of work through video conferencing and doing the collaboration testing based on their feedback on our test track in Aurangabad. So there have been challenges. So that is why we are targeting Q4 of this year to start the ABS.

Moderator: Thank you. The next question is from the line of Kashyap Jhaveri from Emkay Investment Managers. Please go ahead.

Kashyap Jhaveri: What is usually the maintenance CAPEX for you on yearly basis?

Anurang Jain: See, generally if you see the last 2 years, the CAPEX for expansion is around 70%, dies is about 11% to 12%. Then quality, process, efficiencies related capex is around 5%. And routine CAPEX is 4% and R%D expenditure and EHS capex is another about 4% to 5% each.

Moderator: Thank you. The next question is from the line of Pravin Yeolekar from CGS-CIMB. Please go ahead.

Pravin Yeolekar: Sir, how this new acquisitions of Adler and Grimeca will benefit our Endurance Indian operation and what was the rationale for this acquisition?

Anurang Jain: See, what is happening is that, both these companies have been our collaboration partners, Adler since 2001, Grimeca was there from 2004 to 2009 and again from 2015 to 2020.

These are very good brands. They are very well known in Europe, even in India. They have very good technology, mainly on the 200 cc plus motorcycles. This is an area where we have not been present in a very large way since we started, we have been more up to the 150-180 cc bracket. So the technology which they bring in the clutch assemblies in terms of lever comfort or driving comfort or better takeoff or more stability of the vehicle, the technology will come in handy. Earlier, for specific technologies, I was paying technical knowhow fees. Now with this acquisition, things become much easier. So there is very good technology, they have good patents which they have acquired over the years, both the companies. If I talk about Grimeca, they have been supplying their range for motorcycles from 50 cc to 1,000 cc. And if I take scooters, from 50 cc to 500 cc scooters.

As they were collaboration partners, we understood what they have. Apart from the brand and trademarks, we knew what technology they had. And that was the reason why we have gone ahead, and it makes it much easier for us to get into the larger bike business for clutch and brakes. So that is the rationale of acquiring the company, to grow our India business at the same time we are of course for the clutch assemblies taking new business also with the clients in Europe. And brakes also, we want to sell in Europe in future.

Pravin Yeolekar: So, when do we expect this new product to start?

Anurang Jain: It will start in 2021-2022 in India, not with just one customer, At least three clients will be giving the orders.

Moderator: Thank you. The next question is from the line of Bhagyesh K from HDFC. Please go ahead.

Bhagyesh K: What is the opportunity that we can displace the Chinese import content in India or in Europe?

Anurang Jain: As far as India is concerned, we are seeing a clear opportunity on the brake systems, which is an import substitute from a Chinese supplier. A large opportunity for us to supply to an OEM had come to us because they want to de-risk from the Chinese supplier. And this business will be starting from next month involving supply of complete brake assembly, with the disk, the master cylinder and caliper. And this business will grow. So one opportunity we are seeing is in the combined braking system space.

Second opportunity is in the aluminum alloy wheels. I am very sure that there would be a lot of de-risking happening going forward on the aluminum alloy wheels, and I think most OEMs will completely switch to Indian supplies. Now it could be from Chinese suppliers also who are producing in India. They will buy from local companies in India instead of the imports from China. So as far as we are concerned, the two immediate opportunities which we are seeing are on brakes and aluminum alloy wheels.

Massimo Venuti: Regarding Europe, we are evaluating possible acquisitions for inorganic growth, but also looking at strategic opportunities for organic growth. As I told you before, if production capacity in the market reduces due to competitor closing down, we can invest in our plant.

But, if there is some company with potential and a strong product and customer portfolio, we would evaluate the possibility. Our target is to understand the dynamic situation in in this financial year, because some experts are projecting minus 25%, minus 30% change in European market size compared to the previous financial year. So, the aim for us now is to guarantee the profitability, generating cash profit, managing the cash flows. But we are completely open to opportunities Last year, we have done an important foundry acquisition to be able to catch some opportunity on the market.

Bhagesh K: Sir, this question is regarding the aftermarket business of the company. What are the growth opportunities there?

Anurang Jain: One area which is a huge opportunity is the shock absorbers. We did more than Rs. 100 crores of shock absorber sales in the domestic market last year. And if I talk about FY21, we are planning to do a very good business of shock absorbers for mainly Honda two-wheeler models, in South America and in countries like Indonesia, Southeast Asia. There is a business which we have already got for exports. And I think this is where the Chinese were present. We may be at higher price but still people are willing to pay that extra price. Just as Bajaj prices are higher in Africa, compared to the Chinese, but customers are willing to pay more for Bajaj than for the Chinese product. The Chinese spare parts, some say in those markets, don't last more than one year. So, our strategy is to be slightly higher on price than the Chinese but give very good quality. On quality I cannot compromise.

Moderator: Thank you. Members of the management, we have three questions in queue, would you like us to take all those, should we proceed for the Q&A session?

Anurang Jain: Yes, I can take any amount of questions, no problem.

Moderator: All right. Thank you. The next question is from the line of Ashutosh Tiwari from Equirus. Please go ahead.

Ashutosh Tiwari: Sir, you talked about your SOB growing in HMSI. But the scooter front fork business was started only in Q2…

Anurang Jain: Reached peak in Quarter four.

Ashutosh Tiwari: So the share of business from HMSI will grow substantially in this year?

Anurang Jain: We have also started our brake disk business with them; the clutch business has also increased. Plus, the shock absorber business SOB was increasing from Q2 onwards. So, though the scooter front fork shocker peaked in Q4, our business with HMSI in spite of their de-growth last year was already increasing. But the growth was substantial in Q4, because the scooter front fork is almost three times the cost of a shock absorber. We had almost reached peak in February. Then in March, this COVID-19 hit us. But we are hoping that now looking at the second half, this hopefully should go back to normal, on the same levels of February.

Ashutosh Tiwari: Okay. And like you said that Bajaj is 38% of consolidated revenue, what it would be for HMSI?

Anurang Jain: HMSI is I think slightly more than 8%. Now don't ask me any more of these SOB figures, I don't give it normally. Bajaj and HMSI are our largest customers in India.

Ashutosh Tiwari: Okay. And lastly on two wheeler alloy wheel, what in your capacity right now? And in terms of enquiries from different OEMs, is it increasing right now?

Anurang Jain: Yes, enquiries are increasing. In fact, I have to take a call whether to invest more. Our capacity is 1.2 million sets, which is 2.4 million wheels. I can stretch it slightly more, say 10% more, by de-bottlenecking. But our investment decision will depend upon the policy for OEMs vis-à-vis China supplies. I am not immediately thinking of expansion, though, the opportunity is there.

Ashutosh Tiwari: In terms of margin profile, is there any improvement - it used to be low margin?

Anurang Jain: No, no. I would say margins are quite good.

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

Jinesh Gandhi: Sir, my question pertains to firstly on the European operations. You talked about increasing orders from EVs and hybrids. So, can you throw some more light?

Massimo Venuti: The car makers are trying to reduce the number of platform in order to make synergy and economy of scale. So, for new business the volumes are really high. This is an opportunity for us, because we are specializing in high level of automation. Also, we have a good cash situation and we are able to invest. There will be only one transmission for several different cars. And this is completely different compared to the past.

In this moment, for around 80% of our product portfolio, we are the sole supplier. In future, probably this will not be possible. European car makers are investing in hybrid and electrical solution for worldwide consumption. So it means that they will produce the same transmission and the same engine around the world, in United States in Europe, in Asia and so on. From the technical point of view, and also from the type of machines that produce these parts, there are no changes compared to the past.

Jinesh Gandhi: Okay. So if I have understood correctly, even with the loss of engine and transmission, content is similar in EVs and hybrid versus ICEs?

Massimo Venuti: If you speak about the number of pieces, the electrical car solution has a reduction.

Jinesh Gandhi: No, I am talking from value perspective, value per car.

Massimo Venuti: No, in terms of aluminum there will be a growth compared to the past. The content of aluminum in the car will be higher compared to the past.

Jinesh Gandhi: Mr. Jain, you talked about value added business which we have been focusing upon. Can you throw some light on what it is currently as a percentage of our India revenues, and what is your focus and target to take it through over next three to five years, given that so many value added products we are focusing upon right now?

Anurang Jain: The exact figures for each product segment, I normally don't give. But, on a 200 cc motorcycles, you usually like to have inverted front fork, high end rear shock absorbers. We are doing these products for Bajaj, KTM, a bit for Hero, and HMSI will be starting now. For Harley, we are doing for ages now. We have our collaboration with KTM Technologies (earlier called WP) since 2008. So the 200 cc + journey has already started. And this segment is really growing. This business is really growing.

When it comes to brakes and clutches, these two acquisitions – Adler and Grimeca - are very important from technology and brand perspective. So in the 200 cc plus space, we were not really present in a big way. But now, considering these acquisitions, we were already in touch with our major customers for brakes and clutches. And the good news is, we have got orders which will start in 2021-2022. The 200 cc plus market, which I think is at least 15% to 18% of the two wheeler market in India, is an important space for us to be in.. And in the clutches, we are already making significant move from cork to paper, so higher value add.

Next is the ABS which we are targeting in Q4, CBS already has come. More models are using rear disk brakes, which led to additional business for us, Then we are moving to fully machined castings. Today we are doing semi-finished largely in two wheelers, three wheelers, four wheelers. But with Hyundai Kia we started fully machine castings. Some of the two wheeler companies have already started fully finished in certain areas, but we want to go 100% by 2021-2022 only doing fully machines. That is a target area for more value add. And then these castings directly go on the assembly line of the OEM. There is no need for finished machining at their end. So these are the kind of value adds which we are looking at.

Plus, getting into continuous variable transmission for scooters is something we want to start. So these are the plans which we have right now on the two wheeler space for value added products.

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

Aditya Jhavar: My question is for European business. If you see Other Expenses line item, there is a reduction on Q-o-Q basis of almost 15 percentage points, despite revenue being slightly lower. So, what actually happened in the OPEX number for the European business and what will be the run rate on a quarterly basis?

Massimo Venuti: It is due to the implementation of the new line for VW, which led to set up costs in Q3 of this financial year. In the last quarter of 2019-2020, we had full depreciation of the third line and we have had higher depreciation due to the investment that started in January and February 2020. Also, reduction of inventory in the fourth quarter had an impact for lower manufacturing activity, compared to sales, and thus lower manufacturing costs and higher material costs.

Aditya Jhavar: Okay. So I will take this question offline. Moving on to the India business, Anurang, you mentioned that the outlook provided by OEMs is very encouraging. You mentioned that it's about 50%,-55% as compared to the pre COVID levels. But is it that in the next couple of months, you are expecting it to go back to about 80%- 90%?

Anurang Jain: No, I don't think in Q2 we will go to the pre COVID levels, but I am quite optimistic about Q3 to go back to the pre COVID levels. I am optimistic regarding this.

Aditya Jhavar: With the lockdown extension in Tamil Nadu, is there some disruption in the supply to Royal Enfield?

Anurang Jain: The next lockdown was announced from 19 June, but then three days ago there was a meeting between all the OEMs there and government authorities, and they have all started production, three days ago. So now the volumes will be going up. They have standard operations and they will be slowly going back to their targets figures that they had planned.

Moderator: Thank you. We will take one last question which is from the line of Rachit Rajoria from Angel Broking. Please go ahead.

Rachit Rajoria: Sir, congratulations for the good set of numbers in such challenging times. Sir, my question is regarding market share in our key products? Who are the major players in those segments? And how much market share do Chinese players have in our key major products?

Anurang Jain: The Chinese, except in alloy wheels, do not have a major share with OEMs for our products. Even in alloy wheels, I think by the end of this year imports from China should be zero. I know there are a lot of electronic items being bought from China, but that does not fall in our product range. So, I cannot comment. So in our products, except alloy wheels, the share of Chinese is practically nil. Our products are very technology oriented and these are assemblies for brakes, clutches, suspensions, many are safety products.

Like I said earlier also, Q4 saw a good share of business increase. We are between 35% and 40% for our suspension products. For transmission, we are at slightly more than 16% of the market, and brakes we are at about 25% of the brake systems used on disk brake vehicles, because every vehicle will not have a hydraulic disk brake. For example, scooters have only some mechanical brakes. So, in this market we want to grow further. So I mentioned 200 cc plus clutch and brakes, will help us increase presence; also suspensions; scooter front forks for HMSI will increase our front fork share of business for sure. And getting into HMSI for the new CBS we are starting within Q3. From TVS we got a large brake systems order. So all these things will help us going forward to increase our SOB.

Moderator: Thank you. Ladies and gentlemen, due to time constraints that was the last question. I now hand the conference to Mr. Nishit Jalan for closing comments.

Nishit Jalan: Thank you. On behalf of Axis Capital, I would like to thank Endurance management and all the participants for joining the call today. Mr. Jain, if you have any closing remarks, or we should just conclude the call?

Anurang Jain: I think, we had a good discussion. Thank you very much, everybody.

Moderator: Thank you. On behalf of Axis Capital, that concludes this conference. Thank you for joining us. And you may not disconnect your lines.