



## “Endurance Technologies Limited Q2 FY2018 Earnings Conference Call”

November 10, 2017



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**Moderator:** Ladies and gentlemen, good day and welcome to the Endurance Technologies Q2 FY2018 Earnings Conference Call, hosted by Axis Capital Limited. As a reminder all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing “\*” then “0” on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ronak Sarda from Axis Capital Limited. Thank you and over to you!

**Ronak Sarda:** Good morning everyone and welcome to Q2 Earnings Conference Call of Endurance Technologies Limited. From the management side, we have Mr. Anurang Jain, Managing Director, Mr. Ramesh Gehaney, Director & COO, Mr. Massimo Venuti, Director & CEO, Endurance Overseas, Mr. Satrajit Ray, Director & Group CFO, and Mr. Raj Mundra, Treasurer and Head - Investor Relations. I now hand over the call to Mr. Anurang Jain for his opening remarks. Over to you Sir!

**Anurang Jain:** Thank you Ronak. Good morning everyone. I am Anurang Jain, Managing Director of Endurance Technologies. I would like to first share details of how we have done in the second quarter of 2017-2018.

The second quarter of 2017-18 has been encouraging for the two-wheeler industry. As per SIAM data, the two-wheeler industry sales grew by 12.7% of which domestic sales grew by 12.3% and export sales had a growth of 15.7% as compared to the Quarter 2 of the previous financial year.

In two-wheelers, scooters grew by 14.7% and motorcycles grew by 12.6%. It is interesting to note that this growth gap has narrowed compared to Q1 of 2017-18 where motorcycles had grown only 5.3% versus scooters growth of 19.5%. It is also interesting to see that in the first half of 2017-2018, motorcycles growth percentage was higher than the scooters growth percentage for HMSI, Hero and Yamaha India, who have a significant presence in both these segments.

In Europe, in Q2 in spite of 1.5% growth in the automotive sales, our European operations have posted total income growth of 14.0% in Q2.

On the financials, I will briefly talk to you about the second quarter of 2017-2018 and then about the first half of 2017-2018.

During Q2, as compared to previous years' same quarter, our consolidated total income grew by 12% from Rs.14525 million to Rs.16267 million. Consolidated EBITDA grew by 14.2% from Rs.2061 million to Rs.2354 million. Consolidated EBITDA margin percentage improved from 14.2% to 14.5%. Profit after tax grew by 11.6% from Rs.893 million to Rs.997 million. The profit after tax percentage was at 6.1%.

During Q2, our standalone total income grew by 10.6% from Rs.10669 million to Rs.11801 million. Standalone EBITDA grew by 13.1% from Rs.1369 million to Rs.1548 million with an increased EBITDA margin percentage of 13.1% as compared to 12.8% in Q2 of the previous year. The standalone profit after tax had a growth of 10.2% to Rs.731 million. The profit after tax percentage was at 6.2%.

I will now brief you on the financials for the first half of 2017-2018.

During the first half of 2017-2018 as compared to the first half of the previous year, our consolidated total income grew by 9.7% from Rs.29015 million to Rs.31830 million. Consolidated EBITDA grew by 13.3% from Rs.4015 million to Rs.4550 million. Consolidated EBITDA margin percentage improved from 13.8% to 14.3%. Profit after tax grew by 13.8% from Rs.1725 million to Rs.1962 million. The profit after tax margin percentage improved from 5.9% in the previous year to 6.2%.

During the first half of 2017-2018, our standalone total income grew by 11.2% from Rs.20334 million to Rs.22605 million. Standalone EBITDA grew by 13.9% to Rs.2592 million to Rs.2952 million with an increased EBITDA margin percentage of 13.1%. Standalone profit after tax had a growth of 15.7% to Rs.1410 million and the profit after tax percentage improved from 6% in the previous year to 6.2% in this financial year.

You will observe that the first half standalone profit after tax growth of 15.7% is in spite of the income tax rate at 32.2% this year, which increased from 27.8% in the first half of the previous year. The detailed financials are available with the stock exchanges and on the Endurance website.

I would also like to share certain other points related to the first half of 2017-2018:

71% of the consolidated total income including other income came from Indian operations and the balance 29% came from European operations. We saw a higher growth in Indian operations compared to the European operations in the first half of the year.

The Bajaj Auto share of business in consolidated sales in the first half was at 35%, down from 37% in the first half of the previous year.

In India, there was a sizable growth in business with Honda two wheelers by 30%, Royal Enfield by 28%, Hero MotoCorp by 97% and Yamaha India by 27.5%.

In Europe, Volkswagen made us a single source for 950,000 numbers or 45 million Euro of business for their cam carrier aluminum casting by giving us an order for the second tranche of this business of 475000 numbers for 22.5 million Euro per annum for this casting. This is step forward of trust our clients in Europe have in Endurance.

In Europe, in Euro terms, during the first half of the year, we grew 7.6% with Fiat, 12.7% with Daimler and 123% with BMW. Out top five clients in Europe are Fiat Chrysler group, Daimler, the Volkswagen group including Porsche and Audi, BMW and General Motors.

For new business in Europe we are in talks with our clients for sizable business, including for hybrid vehicles apart from electric vehicles.

Aftermarket India business: Sales grew from Rs.970 million in the first half of 2016-17 to Rs.995 million in the first half of this year. We are targeting more than a 15% growth in 2017-2018.

In India Q2 has been good for getting new business as we have received new orders for scooter telescopic front forks, which have replaced shock absorbers. This for HMSI (Honda) two wheelers 125cc scooter.

We have received scooter 'continuous variable transmission' CVT orders, which is a new product business for us. This from Hero MotoCorp.

We have received larger disc brake assembly orders for 180cc plus motorcycles including the rear brake assembly, which we were not doing earlier. This is for Bajaj Auto and Kawasaki.

I am glad to inform you that we have received export orders for inverted front fork and mono-shocks for direct exports to KTM for their large bikes ranging from 400cc to 790cc.

We have received orders for higher value add paper friction plate base clutch assembly for 125cc motorcycles. This is for Bajaj Auto.

All these orders are a sign of the premiumization in our product segments and Endurance starting to cater to higher cc motorcycles.

In India, as informed earlier, we are setting up a new plant in Halol in Gujarat for supply of suspension products including front forks and shock absorbers to Hero MotoCorp. The construction is going as planned and we are targeting to start our operations by March 2018. This plant will have a capacity to cater to Hero's 4000 vehicles a day requirement for both motorcycles and scooters. As the Hero plant in Halol has started operations, Endurance is supplying suspension parts from its Aurangabad plant in the interim period.

Our 29-acres proving test track ground is progressing very well. As mentioned in the past, we will be able to evaluate our suspension, transmission and brake products on two wheelers, three wheelers and quadricycles. The objective is to test our products on the vehicles and transform ourselves to be a complete solution provider to our clients and give them 'first time right' products. The whole test track will be managed from a control tower and we will have certified

test riders trained by global experts in vehicle riding. This track is targeted to be totally operational by March 2018.

Our ABS brakes tie-up with BWI USA is also progressing well. Both Endurance and BWI teams are working jointly and we have set the following targets. We will send the complete ABS assembly including both the electronic and hydraulic control units to BWI USA for evaluation by March 2018. ABS equipment and production line installation is being targeted in the third quarter of 2018-2019. We plan to give the final prototype samples to our clients in October 2018 so that we are ready to start supplies in the quarter 1 of 2019-20.

We at Endurance will continue to focus on growing business in all our four product segments with our existing clients and also adding new clients. Also, we are focusing on increasing our aftermarket and export business from India and looking at organic and inorganic growth opportunities in both India and Europe.

Over the last few months I have met a number of foreign and Indian investors and auto analysts and I must say they were quite well informed about India, the auto component sector and our company Endurance. I really value the insights and the learning from these meetings. With these opening remarks, I would like to invite questions from all of you. Thank you.

**Moderator:** Thank you Sir. Ladies and gentlemen, we will now begin with the question and answer session. The first question is from Jinesh Gandhi from Motilal Oswal Securities. Please go ahead.

**Jinesh Gandhi:** Sir, couple of questions on the financials which we disclosed yesterday where the tax rate on India business has gone up quite substantially. Is there any one-off or are we expecting higher tax rate for this financial year?

**Anurang Jain:** I will request Mr. Ray to answer this question.

**Satrajit Ray:** We are at the maximum marginal tax now due to three reasons compared to last year. You would recall that Investment Allowance has been phased out completely. Our tax holiday at Pantnagar is now over and profits there are now fully taxable. The weighted deduction on R&D has come down from 200% to 150%. In Q1, we benefited from a Rs. 4.7 Crores tax refund that we got relating to earlier years, which was disclosed in the stock exchange publication. So you are going to see higher tax rate, going forward.

**Jinesh Gandhi:** Sir, about 34% is what one should look at?

**Satrajit Ray:** Yes, little more than that. 34.5%.

**Jinesh Gandhi:** Right, secondly when I look at our European business there has been a significant drop in Raw Material (RM) cost. Is it any mix related impact or there has been some savings because of that?

- Anurang Jain:** I will request Mr. Massimo Venuti to answer this.
- Massimo Venuti:** So the incidence of raw materials on sale is really dependent on the mix of sales (different products with a very different material cost) and make or buy decisions. Furthermore, the selling prices are linked to a majority of the raw material prices with only a difference for the timing of the adjustment.
- Jinesh Gandhi:** So, it is largely mix related in this quarter. And lastly, on the India business our ongoing plant consolidated at Pune - Is that nearing completion or will take time?
- Anurang Jain:** Yes, it is on. I am happy to inform you that under voluntary separation scheme our target was to get more than 150 applications from the workers, which is going to happen. I think we are on the right track and we are targeting completing this activity hopefully by the end of next month.
- Jinesh Gandhi:** This quarter, staff cost includes any VRS provisioning or it will happen from next quarter onwards?
- Anurang Jain:** In fact it will happen from this quarter onwards. In the first half we had provided for Rs. 2 Crores, but the much larger cost will come in this month and the next month.
- Jinesh Gandhi:** Understood, great. I will come back in queue. Thanks.
- Moderator:** Thank you. Next question is from Narottam Garg from Chanakya Wealth. Please go ahead.
- As there is no response from the line of Narottam Garg we will move to the next question from the line Bharat Gianani from BNP Sharekhan. Please go ahead.
- Bharat Gianani:** Good morning Sir. Thank you for the opportunity. Sir, I just wanted to understand - we have received lot of new business both in the Indian and the overseas market as you highlighted in your opening remarks. So just wanted to get a sense of what is your outlook for the topline growth going next two years down the line. We are currently outpacing the industry in growth that is evident from the numbers. But I just wanted to understand given whatever products and the new items that you highlighted, will growth further accelerate from these levels?
- Anurang Jain:** All depends on how our customers are doing and what kind of opportunities are coming. For growth of Endurance consolidated, we have always guided at 8% to 10%, which was also stated earlier to the IPO. In this year's first half, our India business has grown by 11%, consolidated business has grown by 9.7%, which is almost 10%. So our guidance would remain 8% to 10% and in case opportunities are better we will of course do higher. There will be no stop to any growth because we are quite aggressive in taking new business based on our technology, our quality, our pricing. These factors will remain, plus our focus on moving up the value chain – products for much higher cc bikes. However, I would not give figures higher than 8% to 10% as guidance for next two years.

- Bharat Gianani:** Just one clarification 8% to 10% when you say that is the volume growth you are pointing out at or is that the revenue?
- Anurang Jain:** I am talking about the sales value growth.
- Bharat Gianani:** Value growth, fine. That is all from my side, thank you very much Sir.
- Moderator:** Thank you. Next question is from Jamshed Dadabhoy from Citigroup. Please go ahead.
- Jamshed Dadabhoy:** Good morning. Sir, just touching back upon on Jinesh's question on the material cost to sales in the European business. Even last year in the second quarter, there was a sharp decline quarter-on-quarter and then it has spiked up again, so is there some seasonality element in this as well or is it just mix related?
- Anurang Jain:** I will ask Mr. Venuti to answer.
- Massimo Venuti:** As you know, we don't produce only aluminum components, but also iron and steel components and plastic components. Included in the material cost, there is also the third parties' manufacturing cost when we buy from external suppliers. So the make or buy decision is very important and can lead to change in raw material cost.
- Jamshed Dadabhoy:** I get that Massimo, but question is even last year we saw this major decline in material cost to sales in the second quarter and then it moved up sharply in the third quarter and fourth quarter. We are seeing a similar sort of trend playing out this year, so I am just trying to understand is there some sort of seasonality element to the numbers also that we should be taking into consideration?
- Massimo Venuti:** The change is not linked to the seasonality. I had mentioned that it is linked to "make or buy" and to mix. The proportion of tooling sales in the mix also has an impact. As you know, we invoice the tooling to the customer at the time of introduction of new parts. In fact, if you analyze the second quarter of 2017-2018, in terms of sales, there was an increase of 14% in the European market, of which 4.7% was attributable to sale of parts and 9.3% to sale of toolings. You have the impact of this tooling, not only in the revenues, but also in the material cost.
- Jamshed Dadabhoy:** Got it, and on the domestic business - In the first quarter you had mentioned the opportunities on the scooter side for suspension for front forks and for CVT. You have said that you will start supplying front forks for the 125cc scooter to HMSI and the CVTs to Hero. Please give us a ballpark how much this would translate into either revenues or volumes?
- Anurang Jain:** For HMSI, we only started one model of the 125cc from our Sanand plant in Gujarat for their fourth plant; we have already got the order for the second model of the 125cc. The large numbers are going to come from the 110cc which is in the pipeline. So that business in a very large business. This business can go up to Rs. 400 Crores to Rs. 500 Crores if I look at the entire

scooter market, so we will have to see what share of business we get. It is still in the pipeline, so it will be too early to comment, but that is a huge opportunity for us for sure.

- Jamshed Dadabhoy:** Sorry Anurang, when will the 110cc come online for you?
- Anurang Jain:** We are hoping that we should get the orders to go forward in this financial year. Change to front forks in 110 cc scooters will ultimately happen over the next 2 years (by 2020), but it will start soon.
- Jamshed Dadabhoy:** And on the CVT side?
- Anurang Jain:** As for the CVT, we have got the LOI from Hero. We are working with other clients also on the CVT. CVT for Hero will start hopefully in the first quarter or the first half of the next financial year. It is still under testing. But this will surely start early next year.
- Jamshed Dadabhoy:** How big would this business opportunity be in the revenue terms?
- Anurang Jain:** It depends upon how many scooters they sell, but of course this is a high value component. I would not like to put a figure right now.
- Jamshed Dadabhoy:** Fair enough. On the suspension side you said Rs. 500 Crores topline. This is for the entire scooter market - I assume?
- Anurang Jain:** Yes, that is a rough figure. It could be higher also depending upon how the scooters grow as compared to the bikes. So it will depend on that, but that is a very good opportunity.
- Jamshed Dadabhoy:** The margins in this would be significantly better than the margins we get right now for suspension business or just comparable?
- Anurang Jain:** It is comparable. But as I have said in the past, margins need to be earned by us based on what strategy we adopt both in operations and our purchases, so of course in general the pricing is yet to be finalized for the 110cc, but we will see how it comes. We as a company are highly focused on margins, so we will try and get the highest. Margin is not only a factor of price that we will get, but also how we can earn more by containing costs.
- Jamshed Dadabhoy:** Sir, on this EV order, which you had announced last time, which you said is a 20 year contract versus typically five to seven years for engines. Is it because the initial volume is low or is it just that the OEMs are thinking that the life cycle will be 20 years?
- Massimo Venuti:** With electrical vehicles, the lifetime of the engine and transmission will be very long and the visibility that we are receiving today from Porsche for the business acquired is approximately 20 years and also now are quoting new business for BMW and Volkswagen for hybrid vehicles and electrical vehicles with term life or more or less 15 to 22 years. This is the average life.



- Jamshed Dadabhoy:** But Massimo why is it so long? Why is the order cycle so long?
- Massimo Venuti:** Because OEMs are improving from a technological point of view in other fields such as battery and infotainment, and so on. Not in powertrain, not in transmissions and engines. From my point of view, this is very positive. Because in the past, the continuous changes were linked to the rules from the authorities. As you know every three years in the European market, there were changes from Euro-1, Euro-2, Euro-3, and Euro-4 versions. Now with the electrical vehicles, pollution levels are likely to be within the long term goals set by the EU. So the powertrain will remain the same in terms of transmission and in terms of engine.
- Jamshed Dadabhoy:** Thank you. I will come back for more questions.
- Moderator:** Thank you. The next question is from Achala Kanitkar from Birla Sunlife Mutual Fund. Please go ahead.
- Achala Kanitkar:** Good morning everyone. I just have one question Sir. I just wanted to know if the Activa the 110 cc has started using front forks. Have they shifted?
- Anurang Jain:** No, they have not.
- Achala Kanitkar:** Any timeline as to when they would?
- Anurang Jain:** No. I will not be able to comment. Like I said earlier those should happen in a phased manner by 2020 as per indications that we have.
- Achala Kanitkar:** Thank you.
- Moderator:** Thank you. The next question is from Narottam Garg from Chanakya Wealth. Please go ahead.
- Narottam Garg:** Good morning Sir. Congratulations on a great set of numbers. Sir, I understand that you are now setting up your ABS capacity, which will be on from March 2019, so what is the capacity if you could explain to us in terms of numbers – to how many motorcycles would we be able to sell?
- Anurang Jain:** I will request Mr. Gehaney, our Director and COO to answer this.
- Ramesh Gehaney:** As far as the production capacities are concerned, in a phased manner, we look at a peak capacity of 500K in a year.
- Narottam Garg:** 500K?
- Ramesh Gehaney:** Half a million in a year.
- Narottam Garg:** Half a million brakes in a year. That is initial capacity and any plans to scale it up over time?

- Ramesh Gehaney:** It depends on the orders that we receive from our customers.
- Narottam Garg:** Sir second question. I understand that we got an order for Classic 350 with Royal Enfield for the disc brake. I am just curious to understand that currently they source from Brembo, so what leads an OEM to come to us and try to change the sourcing from one of their established partners to a new partner?
- Anurang Jain:** I would say one of the major reasons is de-risking from just having one source. When a company is growing, they need to have two sources. That is the main reason.
- Narottam Garg:** Understood and what percentage of the Classic 350 cc will be serving eventually?
- Ramesh Gehaney:** Eventually, we are targeting to be at 30%.
- Narottam Garg:** Thank you so much Sir.
- Moderator:** Thank you. The next question is from Amin Pirani from Deutsche Bank. Please go ahead.
- Amin Pirani:** Good morning Sir. Thanks for the opportunity. Just going back to Jamshed's question, so if you are mentioning that with the EVs, the contract cycle or the visibility could be longer (for 20 years), does this also mean that unlike previously when it was three to four years, there could be change in the supplier, which means that everybody has a chance to win new business at the same time lose some business. Does it mean that suppliers will become much more entrenched and hence if you are there in the initial stages, there is very little risk of you getting out for the next 10 to 20 years - Is that a correct understanding or am I getting something wrong?
- Massimo Venuti:** It is correct. First of all, I would like to explain that in the past with the internal combustion engine technology, the transmission life was more or less 10 to 12 years and for engine component, the life in the past was 3 to 4 years. Now with hybrid technology, with two parallel engines - internal combustion engine plus electric engine, the life could be more or less 8 to 10 years. I guess the platform of the transmission will be the same for 20 years. This is an opportunity from my point of view in order to better sweat, in the best way, our assets. We are having almost binding contracts with our customers. In the European market when you start with this kind of investments, you will receive from the customer a lot of grants and contributions, so there is no sense for the customer to change suppliers during the life of the vehicles.
- Amin Pirani:** Sure that was helpful. Thanks for the opportunity.
- Moderator:** Thank you. The next question is from Rakesh Jain from Asit C Mehta. Please go ahead.
- Rakesh Jain:** Good morning Sir. Congratulations on a maiden numbers. Sir my question is regarding the two-wheeler domestic market. Last quarter, we mentioned that Honda HMSI and Royal Enfield

business has increased substantially. In this quarter, is there any material change with respect to as a percentage of our sales with them or are we still at the same levels?

**Anurang Jain:** In fact, under Hero Moto Corp and Royal Enfield, the percentage of sales is going up. From a lower base, for Hero.

**Rakesh Jain :** Sorry.

**Anurang Jain:** For Hero Moto Corp, as the base was low , the growth has been 97%.

**Rakesh Jain :** Sir if you can just repeat the growth numbers, which you gave for European players FCA, Volkswagen, and Daimler?

**Anurang Jain:** For Fiat, growth was 7.6%. It was 12.7% for Daimler, and 123% for BMW, because BMW base was also very low.

**Rakesh Jain :** So you have been receiving new orders from Europe as well besides the two-wheeler domestic market. What are these new orders if you can just give me extra color on that?

**Anurang Jain:** One is the Volkswagen order, which I explained to you, which is about €45 million a year and 950000 numbers a year, which is for one single casting a cam carrier casting of Volkswagen, which is used in all their vehicles whether it is Skoda, whether it is Volkswagen, Audi, and Seat. So it is derisking because it is going into various brands and it is for smaller cars. This is for small engine and we are a single source. So that is what I mentioned in the opening remarks that this order was significant just for one casting. It will be used across the whole Volkswagen brand of vehicles . On the other point, I will ask Mr. Massimo Venuti to add.

**Massimo Venuti:** With Volkswagen, as Mr. Jain told you, these were important agreements because for 100% of the business, we are the only supplier. We took this business three years ago for 50% share or less than 500000 cars per year. Two months ago we received a letter of intent for the second 50%. The total volume will be 950000 parts. The ramp-up of these parts will be till 2021 and we are seeing about more or less €40 million of net investment in our pressure die casting and machining plants. This part goes into 1.5 l gasoline engines. Volkswagen will use these engines also with hybrid technology. It is the most important acquisition of Endurance in Europe with Volkswagen in our history because with this acquisition we will reach a share with Volkswagen of more or less 25% of our turnover within 2021.

**Rakesh Jain :** Sir just one more question on the two wheelers growth market . You said that the growth numbers between the motorcycle and scooter has narrowed from Q1. Motorcycle was better than the scooters in the second half and in the second quarter, so what could be the likely trend? Motorcycles will be continuing this growth rate now?

- Anurang Jain:** No I do not have the answer for this question. But in the second quarter also, scooters growth was higher, but the gap has narrowed. The scooter growth was still higher in Quarter II also. I only mentioned that with HMSI, Hero MotoCorp, and Yamaha (these three are in both the segments)- their growth of motorcycles was higher than scooters in the first half, but the scooter growth overall was higher than the motorcycle growth in Quarter II as well as the first half.
- Rakesh Jain :** Thank you so much and all the best for the next quarter.
- Moderator:** Thank you. The next question is from the line of Aditya Jhavar from Investec Capital. Please go ahead.
- Aditya Jhavar:** Good morning all. Thanks for the opportunity. My question is specifically for braking and transmission. There were couple of products under development with Honda as well as Hero in braking and transmission. You mentioned about commissioning the supplies to Hero; any luck with Honda? Have we started supplies in these two verticals?
- Anurang Jain:** In fact, I mentioned we already have the LOI for the disc brake and it is going as per plan. We hope to start in Quarter IV of this financial year with Honda.
- Aditya Jhavar:** Fair enough and Mr. Ray you mentioned that there was Rs.2 Crores VRS that we paid in the first half . Was it included in this quarter's numbers?
- Satrajit Ray:** In this quarter, we had about Rs.3.5 million. Most of it was in Quarter I.
- Aditya Jhavar:** A significant chunk will come in the following quarters, you mentioned. Right?
- Anurang Jain:** That is right absolutely. It will come in the next two months.
- Aditya Jhavar:** Fair enough and Sir, the cost saving based on the consolidation of the die casting facility, which starts flowing through by the end of this year or the beginning of next year. Can you please quantify?
- Anurang Jain:** Absolutely. It will start flowing through by then.
- Aditya Jhavar:** Sir if you could please quantify the impact on margins because of this consolidation of die casting unit?
- Anurang Jain:** I would not like to do it right now because then you will catch me afterwards! But as you know we are very financially focused company, so we will do our best.
- Aditya Jhavar:** Perfect. That is it from my side. Thanks a lot.
- Moderator:** Thank you. The next question is a followup from the line of Jamshed Dadabhoy from Citigroup. Please go ahead.

- Jamshed Dadabhoy:** Thanks again. So just touching again on the ABS opportunity did I hear you correctly you said that you would have a peak capacity for 500000 sets?
- Anurang Jain:** Yes absolutely.
- Jamshed Dadabhoy:** Is it not a slightly low number when you think of the overall market size and penetration?
- Anurang Jain:** You are right. Initially, what we were expecting to start with was 3 million. But we are a bit conservative and we would like to start with a smaller capacity. Let the customer see us alongside the big guys. (Bosch and Continental). So we have taken a lower capacity to start with, but we can easily increase it as we go along, but we have taken the capacity on a realistic basis to start with, but looking at our quality, and of course in terms of pricing, we are quite confident that we are going on a right way with BWI. So we will see how it pans out, but initially it is good to be a bit cautious and do a lower capacity to start with and if the customer is happy with our quality and pricing. I am sure they will be happy. In the future we can always add because Endurance has always entered in a smaller way and then increased the share of business based on quality. Like I always say, a good technology and price gets you in and then it is your management, your quality - and primarily your quality - which will get you the higher share of business. So that is our strategy for ABS.
- Jamshed Dadabhoy:** What will the capex be for this facility?
- Anurang Jain:** We are planning about Rs.60 Crores of capex on this.
- Jamshed Dadabhoy:** Rs.60 Crores for the first 500000?
- Anurang Jain:** Rs.60 Crores. Some may be common facilities with higher capacities, but we have to buy those equipments. They are not only for 500,000. They could be for a million also, but we have to invest it to start with.
- Jamshed Dadabhoy:** You will be localizing everything including the ECU chip and including the electronics?
- Anurang Jain:** Electronics will be bought out. Assemblies will be in house.
- Jamshed Dadabhoy:** Got it, so there will be a fair degree of import component in this?
- Anurang Jain:** Yes. I would say outsourcing. Initially imports, but there are many, many other things happening on this front.
- Jamshed Dadabhoy:** Got it. Thank you very much.
- Moderator:** Thank you. The next question is from Mahesh Bendre from Karvy Institutional Equity. Please go ahead.

- Mahesh Bendre:** Thank you for the opportunity. Sir what is the current utilization in our manufacturing facility in India?
- Anurang Jain:** I would say the second quarter capacity utilisation is at least 75% to 80%. We have 18 plants in India, where it will be around 75% to 80%. Overseas would be more towards 80%.
- Mahesh Bendre:** Practically up to what utilization we can operate? Can you operate at 100% - Is it feasible?
- Anurang Jain:** No, you cannot do at 100% because there will be some rejections and breakdowns. You cannot work at 100%. If it is a machine shop, may be you can go up to 90%. If it is aluminum die-casting, it could be around 75%. Proprietary business could be 80%; so it depends on what kind of plant we are talking about.
- Mahesh Bendre:** So in a sense when we talk about the 10% growth number, which seems to be conservative, but still we need to enhance our manufacturing facility. So what are the capital expenditure plans for next two to three years?
- Anurang Jain:** First we would like to sweat our assets. We do not go in for new capex unless we are sure this is the best we can do from the existing. So we will definitely sweat it out and when I say sweating, it is not only using your machinery to the maximum capacity, but also a factor of outsourcing. So we are also outsourcing to our suppliers in Endurance Vendor Association. As far as capex is concerned, in India we have a capex plan of Rs.275 Crores or Rs.2750 million and overseas about €15 million to €17 million.
- Mahesh Bendre:** Sir Rs.275 Crores is for FY2018?
- Anurang Jain:** FY2018 yes.
- Mahesh Bendre:** Sir what could be your possible FY2019?
- Anurang Jain:** No I cannot tell you now. That budget will be made in Quarter IV of this year. We have said that normally it is around Rs.275 Crores a year. It could be plus or minus 5% to 10%, but generally does not exceed this level unless there are big acquisition opportunities or there is a new plant to be set up. So it also depends on that in the future.
- Mahesh Bendre:** Sir out of this Rs.275 Crores what will be the maintenance capex and what will be the capex entirely for a new capacity?
- Anurang Jain:** Normally, the maintenance capital is about 10%, which are mainly things like environment, health, safety or some replacement of old machines. 55% generally is for expansion, 15% for dies & toolings, 15% R&D, and about 5% is for quality improvement projects, which we do. That is 100% breakup.

- Mahesh Bendre:** Thank you so much Sir. It was really helpful. Thank you.
- Moderator:** Thank you. The next question is from the line of Pulkit Singhal from Motilal Oswal Asset Management. Please go ahead.
- Pulkit Singhal:** Congrats on a good set of numbers and thanks for taking my question. The KTM order - for how many bikes is it?
- Anurang Jain:** It is for about 22,000 to 25,000 bikes, ranging from 400 to 790 CC. Already the supplies have started for this. We got this order just two months ago and they were very fast. So this shows the confidence. As you know, WP (White Power) is a KTM company. Since 2007, WP and Endurance have a tie-up. And we have moved up the value-add chain. We have learned a lot from Bajaj KTM production in Chakan. And now they have given us the opportunity for much higher CC bikes. So this is a very good start, and we hope this keeps increasing.
- Pulkit Singhal:** 22000 to 25000 annually?
- Anurang Jain:** No, we have the immediate orders for 20,000 to 25,000 and we hope that this will increase. These are very high-value orders. Inverted front fork costs Rs.8000 to Rs.12000 apiece.
- Pulkit Singhal:** Any other conversations with the global bike makers Triumph and Harley?
- Anurang Jain:** As you know, Bajaj has had a tie up with Triumph and we are hoping for a very good opportunity there. But it is too early to say.. So in future quarters, if we learn something about it, we will tell you.
- Ramesh Gehaney:** And we are already servicing Harley-Davidson for their suspension products.
- Anurang Jain:** Harley-Davidson - we are supplying the inverted front forks and gas filled rear shock absorbers to them and casting also for the 750 cc Street, which they make in India.
- Pulkit Singhal:** So how long has that been going on?
- Anurang Jain:** It has been going on for the last three years I think, if not more.
- Pulkit Singhal:** You must be in conversation for the global requirements as well?
- Anurang Jain:** Yes that is our target, but it is a step-by-step approach, so we will see.
- Pulkit Singhal:** Great thank you.
- Moderator:** Thank you. The next question is from Rakesh Roy from Asit C Mehta. Please go ahead.

- Rakesh Roy:** Good morning Sir. This is Rakesh here. Sir my first question is regarding your EBITDA margins. This quarter your EBITDA margin is about 14.5%. Will it be sustained over the next year or any changes on margin front?
- Satrajit Ray:** Our focus is always to do better. H1 Consolidated over last year was up from 13.8% to 14.3%. In Standalone, we have improved from 12.7% to 13.1%. And we are always focusing on improvements, based on efficient operations, purchases, projects and R&D.
- Anurang Jain:** So we are always trying our best to increase margins. Because we are focused towards profitable growth, which is, like I said, not only a factor of pricing you get from your customers, but also what you do after that.
- Rakesh Roy:** Sir my next question is regarding ABS. How much would be the ABS margin? Also, any impact in overall EBIDTA margin after ABS in FY2020 or FY2021?
- Anurang Jain:** It is too early to say. I can only tell you that this is a high-value add product, and this is a scarcely available technology. It has got electronics and hydraulics. Definitely, margins have to be better. But how much that would be, I cannot say right now.
- Rakesh Roy:** Sir just now I went through an ABS article somewhere. It is written that it is a Rs.6000 Crores market in ABS. How much of that is market share for Endurance?
- Anurang Jain:** We are only saying, we are going to set up a capacity of 500000 into whatever price is established,
- Rakesh Roy:** Okay, you have the tie up with U.S. Company. How much of revenue are you sharing by way of royalty? How much are you paying to them?
- Anurang Jain:** See, that is something internal. I cannot share that. It is confidential.
- Rakesh Roy:** Thank you Sir.
- Moderator:** Thank you. As there are no further questions, I now hand the conference over to the management for closing comments. Over to you!
- Anurang Jain:** I would just like to thank all the investors for taking their time out and coming for this call. We, at Endurance, will continue to do our best. Thank you.
- Moderator:** Thank you. Ladies and gentlemen, on behalf of Axis Capital that concludes today's conference call. Thank you all for joining us. You may now disconnect your lines.