



“Automotive Axles Limited  
Q3 FY2019 Earnings Conference Call”  
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**Moderator:** Ladies and gentlemen, good day and welcome to the Automotive Axles Limited Q3 FY2019 Earnings Conference Call hosted by Batlivala and Karani Securities India Private 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. Shailesh Raja from Batlivala and Karani Securities India Private Limited. Thank you and over to you Mr. Raja!

**Shailesh Raja:** Thank you. Good morning and thanks to everyone for joining us. So B&K Securities is pleased to host the Q3 FY2019 conference call for Automotive Axles Limited. The management of Automotive Axles is represented by Mr. Thimmaiah, MD and CEO of Meritor India and Mr. Muthukumar, President and Whole-Time Director, Automotive Axles and Mr. Ranganathan, CFO of Automotive Axles. I would now like to turn the call over to Mr. Thimmaiah for the introductory remarks. Over to you Sir!

**Thimmaiah Napanda:** Good morning all of you and I am really happy and pleased to have you all in the second call we are hosting now and thank B&K for doing this for us. I will just take you through the quick snapshot on what has happened in the last quarter and also some key highlights for some of the new people who would have probably joined this time as first timers. Our YTD performance for Indian fiscal year stands at around Rs.1460 Crores and the current outlook what we see is around Rs.1900 to Rs.1950 Crores. We are seeing little bit of market softening in this quarter, January, February, March quarter, which otherwise should have been really a peak quarter for the commercial vehicle perspective. We do not see that happening from the market perspective, we can talk about later during the question and answer if you have anything there, so we have little bit downgraded our outlook to around Rs.2950 Crores for the full year. In terms of our EBITDA percentage, EBITDA we stood at around Rs.173 Crores YTD performance at 11.8 and we are holding onto around 11.5% to 11.7% in line with the performance we did last three quarters and similarly on the PBIT, the YTDs at 9.3% Rs.136 Crores and the current outlook is between 9% and 9.2%. This is the last quarter and outlook for the year in terms of the financial performance. In terms of our manufacturing locations, we have three locations, one is in Mysore, one is in Jamshedpur and one is in Pantnagar centered around the customer location to cater to the local customers.

Our shareholding pattern is Meritor Inc. holds 35.5%, Kalyani Group, Mr. Baba Kalyani's Bharat Forge Group holds around 35.5% and the remaining 29% is held by the public. We are having around more than 2000 employees across all the sides including the corporate office in Bengaluru. We serve all the major commercial vehicle speciality in defence OEMs in India as a major supplier of Axles and Brake Systems and also we have introduced the

suspension as a new product and it has gone into a SOP last month mainly for one of the major customers in India and in terms of market position, we are number one as an independent Axle Manufacturers in India and number two brake suppliers in India and now we are getting into the suspension products. With that introduction and a brief, I move onto the next slide, which is slide #3, I will hand over the session to Muthukumar.

**N Muthukumar:**

Thank you Thimmaiah, thanks B&K Securities for organising this call. As Thimmaiah explained about positions in the market, we continue to serve in the commercial segment for the truck trailers, bus and coaches. We are also getting into off highway business and military and we have a very good aftermarket network based in Pune serving the entire country. You all know our major customers include Ashok Leyland, Tata, Mahindra, Daimler, Volvo-Eicher Commercial Vehicles, SML Isuzu and we have also started exporting axles from India to Volvo Thailand for the emerging market business and we supply to Vehicle Factory Jabalpur for their military application. We also supply to off highway specifically for Caterpillar for their backhoe loaders vehicles. Meritor as the name stands, we have a full variety of the products that is available for the customers and our always an unique selling point is create a value proposition to the customers. We have axles right from the 4-tonne vehicle and we supply a good amount of quantity to the Nissan joint venture with Leyland, which is now currently owned by Leyland of a 4-tonne vehicle, which we call as 10 x axles. Apart from that the Meritor India makes exclusively for their Indian and global application, a special product called 11 x and 120 range of axle which is manufactured only in India and supplies to India customers and also for the global customers. We have a full range taking from the normal 4-tonne vehicle to even 49-tonne vehicles. Across the range, I think we are the one company which is making across all the segments, the axles available to the end customers. Most of our products that we give a value proposition both in axles and brakes a clear distinct advantage for Meritor to make sure that more than every new vehicle that is launched the Meritor is the first priority for the customers. With that introduction, I will hand it over to Mr. Ranga for financial performance and then I will get back again. Thank you.

**Ranganathan S:**

Very good morning to all of you and once again thanks to B&K for arranging the call. I am in slide #5. Left-hand side you have the quarterly performance and right-hand side you have the YTD performance. For the quarter we have done about Rs.486 Crores as compared to the same year, last year about Rs.409 Crores, as revenue we are up by 19% compared to the year-on-year growth. As far as EBITDA is concerned for this quarter the EBITDA stands at 11.6% as compared to 11.1% last year, so 0.5% improvement compared to last year. As far as the PBIT is concerned, we are at 9.2% almost last three quarters more or less 9.2% to 9.3% we are in the same level as compared to the last year at 8.3% close to 11% improvement compared to last year the PBIT, 0.09 percentile as improvement compared to the last year. As far as the YTD performance is concerned, we have done so far

Rs.1460 Crores as compared to Rs.1088 Crores last year, the revenue is up by 34% compared to year-on-year. As for EBITDA is concerned YTD performance last year was at 10.7 as compared to the current financial year YTD is 11.8 close to 1.1% better than the last year. As far as the profit before tax is concerned, we are 9.3 in the three quarter results as compared to 7.7% in the same period last year.

We have come to the slide #6, this is an outlook considering the Q4 visibility what we have, so as Thimmaiah mentioned in the beginning of the call, we are looking at close to Rs.1900 Crores, the climb upside is that we can go up to Rs.1950 Crores for this financial year. So last year the same period it is Rs.1550 Crores, the whole year last year is Rs.1558 Crores we closed, so between Rs.1900 Crores and Rs.1558 Crores will be up by 22% it can go up to 25% maximum as growth rate year-on-year. As far as EBITDA is concerned we close last year with 11%, this year we expect the minimum is 11.5%, it has got the potential can go up to 11.7% and PBIT is concerned we did last year 8.2, this year we will be ranging around 9% to 9.2%, again 0.8% to 1% we have enough potential, we have the growth compared to last year, so just some of the key points I just wanted to touch upon it, one is about key highlights as all of you know that we are ramping up our capacity though market is slightly slowdown we just want to complete the capacity ramp up, as we said in the last quarter we will be completing it most likely by April end and a few factors, which is really influencing us.

Our profitability as a percentage to sale is the frequent commodity price changes, though we have put a lot of pressures and initiatives around improving the EBITDA, but this commodity price changes are putting more strain unto us to work us more and our continuous strategic plans to improve the productivity and the cost, which probably we are able to manage the commodity price pressure and we are able to do better than that and also our management continues to focus on the fixed cost is one of the key drivers to ensure that we get the right EBITDA and as far as the PBT and cash is concerned one of the main drivers we continue to go with working capital borrowings and we are trying to focus to improve the cash as far as Q4 is concerned.

With this introduction and slide number seven broadly gives you outlook right from last several years how the performance both in terms of total income, EBITDA and PBT and quarter-on-quarter you can able to see it from where to where we have moved it from 2013 to the 2019 and how the forecast is. So you can see the growth rate is phenomenal in the last four to five years and if there are any specific questions probably we can take it up during the quarter and answer. With this probably I will give the slides to Muthu for the slide number eight the key strategically initiatives update.

**N. Muthukumar:**

Thank you Ranga. As you know Ranga explained about our financials and the focus areas for us. Thimmaiah talked about how the market is growing and also he touched upon the point of the market is getting softened. Whatever said and done, I think market external environment will go up and down, but we continue to focus on our strategy to make sure that always Meritor keeps the performance improving and our customers value us as the strategic partners. With that in mind whatever the capacity expansion that we took it up last year to take our capacity of axles to 20000 axles and also our breakthrough 120000 brakes per month is on the final stages. By April to May of this year, the project will get completed and your company will be ready to deliver the axles and brakes to the customers. While we work on the capacity expansion also last time during the call Mr. Thimmaiah presented about the new segment that we are entering into the business, which is suspension. I am happy to announce to you during the month of November and December, we started supplying the products and it is on the ramp up stage.

As far as the new plant is concerned still we are working on the location that we have communicated to your earlier and the Pithampur plant, which we will be updating you later. The new business wins are as we indicated we started supplying to Volvo from November of last year and we now supply the axles and brakes from India to the Volvo Thailand facility and we have other wins with Ashok Leyland on their new generation vehicles the BS-VI with MBP programme as well as to the other customers like Tatas and Mahindras. As far as the product is concerned the company continues to innovate the new products. We launched the 11 x product last time. We continue to grow on 13 x, which is going to be an ICV segment, which is growing in the business and we are also coming out with a newer product in association with the OEM called MPB programme, modular programme where your company is getting ready to deliver the products on time for the BS-VI migration. I touched upon the footprint expansion. Currently, the company is operating in the plants like Jamshedpur where we make brakes and trailer axles for supplying to Tata and also to the Ashok Leyland from there. We have Pantnagar where we have a brake assembly facility supplying to Ashok Leyland from there and we are also looking at a Greenfield project at Pithampur, which we will get under initial work and likely in September of 2020 we will have the operations up and running there.

The next slide shows you about the revenue growth of the company just a snapshot on how we have progressed between 2013-2014 to 2019, the initiatives that has been indicated by Thimmaiah earlier. The strategy is told by Ranga. Look at how we have grown from Rs.683 Crores way back in 2013-2014 to an estimated of Rs.1900 Crores in the year 2018-19 and also enlarging the EBITDA from 9.2% to 11.7%. With that I hold it and hand over back to Mr. Thimmaiah for summing up.

**Thimmaiah Napanda:** That is what we have in terms of the presentation for the quarter and now we can open up for question and answers.

**Moderator:** Thank you very much. We will now begin the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Abhishek Shah from Valcore Capital Advisors. Please go ahead.

**Abhishek Shah:** Good morning gentleman. Sir I just had a few questions. Some more focused on our long-term strategy so just like can you explain to us we have talked about suspensions and about our focus on the new products and maybe try to explain to us the vision and let us say in three years how do you see these new products shaping up and perhaps what percentage of revenue can we expect from them? The second question in relation to this one was I was actually having a look at Meritor investor presentation and it was very interesting to see how Meritor's new content per vehicle potential would be significantly rather exponentially higher than the traditional products, so in terms of automotive axles in its context what would be the potential for us compared to our traditional products? Would you expect realizations also to be much, much higher and content per square to be much, much higher compared to where we are currently?

**Thimmaiah Napanda:** Let me take the question. The first one is about new products. We have launched this suspension as a new business vertical in our system. Our portfolio in terms of our axles and brakes already exists and we want to get into adjacencies where our core strength is, which is under the chassis items. Suspension is one of them and we believe the new suspension what we have launched, which is a sleeper type suspension already a few hundred's are on the road and we are getting very encouraging feedback both in terms of the tyre life and the fuel economy. So we think that this could be really a game-changer product and we expect a lot of revenue is going to come from this product line. I cannot tell you exact how much it would be. Potentially this could add up to around see anywhere if the product is really successful or the worst it will fail right, so from anywhere from 0% to 7%-8% of our future revenue should come from this product. Maybe it can go up 15%. That is on the suspension. On other new products, we continue to evaluate what market needs. There is an axle load rating change happened. There is the BS-VI, which is going to be introduced from April 2020, so lot of legislation changes keep happening. We keep a very close watch on what is happening in the market place, what is happening into the end customers and the OEMs and we continue to develop and introduce new product. Both we develop in India and also try to bring what is available in our Meritor portfolio. We do not have an exact figure in terms of the revenue from new product. We only track back dated, but we continue to focus and introduce new products, which is required to the market.

**Abhishek Shah:** I understood. That is helpful Sir.

**Thimmaiah Napanda:** The second question you referred to the Meritor's investor presentation the content per vehicle. I think if you would have seen that in detail that content what they are talking about 4 x growth is mainly coming from the electrification, which is going to be the future mainly in the US and Europe, etc. They are much, much ahead of us compared to India. There we are providing lot of solutions for the electrical vehicle. I think to get to that level of content per vehicle in India we would take some more time. The reason is India is around five to seven years behind the developed countries in terms of the vehicle technology, so when the electrification happens then we are developing a product called E-axle, which will complement the electrical vehicle and provide the drive train solutions for the electrical vehicle. We will launch that in India. We have showcased this product to the customers already. It is in the prototype stage and within few months, we are going to fit on a vehicle and we are going to start the trials in India, but again as I said that the volume potential for electrical vehicle is little short. It will take some more time for India to mature and become electrified in the medium duty and heavy duty and bus segment, but once that happens our content will also increase over a period of time, but if you see the suspension is an addition to our content. We are putting more and more heavier axles. That is also the content the increasing, but it is incremental. I do not see like 3 x and 4 x kind of a content going up in the near future, which is three to five years because the market is still not there.

**Abhishek Shah:** I understood. Just have one short rather it is on the BSVI norms, so how do you see once by FY2021 once we start supplying BSVI products how do you see realizations shaping up and the margins going ahead?

**Thimmaiah Napanda:** Axle wise there is not much change in terms of axle requirement. In our technical term we call the gear ratios are getting changed and may be one notch higher axles will be required because of the load rating change, etc., but we have the capability to cater to the customers in terms of whatever the ratio they want to optimize their vehicle, we have the capability to turn it around and give it to the OEMs. I do not see a significant departure both in terms of revenue as well as in terms of profitability going to change for the similar volume levels, so it more or less will be in line with the existing product portfolios, but of course our continuous growth in both top line and bottom line will continue irrespective of BS-VI, but BS-VI per se in not going to contribute a significant departure.

**Abhishek Shah:** Understood. Sir I have a few more questions. I will come back in the queue. Thank you so much.

**Moderator:** Thank you. The next question is from the line of Udit Bokaria from Catamaran Ventures. Please go ahead.

**Udit Bokaria:** Thank you for taking my questions. Sir. I wanted to understand in the new product category, which you are entering suspension, just wanted to understand who are the major players in this category and what would be the total market size and the second question relating to this is on the like since most of the orders are done on a two-year or three-year contract, so depending on the new order trajectory, like what market share do you think this product can have?

**Thimmaiah Napanda:** I want to tell you your suspension we have come up with some unique suspension which is called a slipper-type suspension, not all OEMs have started using this at this point of time – currently the suspension system – in technical terms it is called bogie suspension and bell crank suspension and we have come with a skipper type suspension which is not exactly new, the Daimler uses it and now already they are using it and other OEMs are not using it at this point of time. So we are introducing this with Ashok Leyland, the slipper type suspension and that is going to be big. We are not going to play in the traditional suspension business, which is what I said the bell crank or bogie suspension because it is too commoditized and we do not want to play. So for us even though the market size is bigger in those suspensions, we will refrain to play in that sub-segment and we will try to bring in only the new concept and new technologies which are required to the market, slipper type is being the first and we want to watch it how it performs for some time before we venture into the additional new suspension products.

**Udit Bokaria:** And you mentioned that this helps in improving our tyre life and fuel efficiency, like what are the advantages of this slipper type suspension?

**Thimmaiah Napanda:** The slipper type suspension is – as it called slipper, it ends our free floating, so which means that it has got a very good alignment and also the uniqueness of the suspension is you can do a tyre alignment in the behind which is otherwise very, very difficult. So because of that we are seeing a significant improvement in the tyre life. In terms of maintenance, the normal suspensions there are around 28 lubricating points, which need to be lubricated very frequently and in our suspension there are only two lubricating points, so it is very easy for the operator or the driver to lubricate into the creasing just two points and very easily accessible. And in terms of weight, this is around 100 to 150 kg lower in weight compared to the traditional suspension. All these are the uniqueness of this product and also this is very easy to maintain, easy to operate.

**Udit Bokaria:** Okay and what would be the price differential between this type of suspension and what traditionally we use, like roughly how like what is the premium that this product commands?

**Thimmaiah Napanda:** I do not think I have that very handy because most of the suspension the OEMs produce themselves and some they buy, some they up buy, up produce, so we do not have a very



clear understanding of that probably we have but I do not think it is accurate because it is very very different between customer to customer.

**Udit Bokaria:** And Sir is there any product category which Meritor is planning to completely produce it in India and export in the world like you said some thought process going around that or like this entity will be primarily catering to India customers?

**Thimmaiah Napanda:** No. We will cater primarily to the Indian customers. Of course, we are already doing export. We are doing lot of export of the sub-systems. We do not do the full axle because of the logistic issues and the weight and the volume. But we are doing like say for example there is one range of product, we called it as a 11 x and 10x, which is the lower end of M&HCV segment catered to the 7.5 tonner to 10 tonner range, we have developed this product in India end to end and we are the COE for this product. So Brazil wants this product. Whoever wants this across the world within the Meritor system, India is going to the single manufacturing location. The volumes are not very high, but this is the direction, we have taken for this range. We supply the carriers, we supply housings, we supply gear sets to across the world. But as I said that it is primarily we are going to cater to the domestic market and export is probably 15% at this point of time and we have focused to grow the export market as well.

**Udit Bokaria:** Okay Sir and Sir any thoughts on what could be the volume for commercial vehicle industry next year and do you see any mix change is happening because recently the trailers demand has suddenly fallen off. So I just wanted to get your views on the same?

**Thimmaiah Napanda:** No. I think my personal view is there could be a mix change because once the roads are getting better and also when the BS-VI gets implemented. Next year there could be lot of pre-buy is going to happen because of the BS-VI. Our estimation is the cost of the vehicle will go up significantly once the BS-VI comes up, which means the end customers will look for high productive vehicle also which means that they need a better vehicle, which can run more kilometers per day, etc., so I think the overall market profile is going to change significantly once the BS-VI gets introduced and as the road conditions are becoming better, the hub and spoke model is going to continue to improve the tractor trailer will penetrate more compared to the rigid trucks. But again in India it is little unique – the rigid truck market is very very high in India and that will continue because of the load rating, you can load up to 49 tonne now. So that will also continue to grow. Next year the volumes are going to be very high compared to based on our assessment because of the prebuy and then 2020-21, there could be a dip because of the pre-buy and also the BS-VI introduction and the price of the vehicle going up.

**Udit Bokaria:** Okay. Thanks a lot Sir. I will get back in the queue.

- Moderator:** Thank you. The next question is from the line of Viraj Mehta from Equirus Portfolio Management services. Please go ahead.
- Viraj Mehta:** Thanks Sir. My questions have been answered.
- Moderator:** Thank you. The next question is from the line of Sanjay Shah from KSA Shares & Securities. Please go ahead.
- Sanjay Shah:** Good morning gentlemen. Continuing the previous question, previous to previous question was regarding, can you tell us what is the value content per vehicle for our company?
- Thimmaiah Napanda:** The value content – this is different for different customers because depending upon the actual content on that particular axle. Some of the customers we provide the entire wheel-end solutions. Some of the customers, we do not provide the wheel-end solutions. It is very difficult for me to figure point and tell that this is what the value and also some of the trucks are fully built with the all the cabins and the body, some are only the cowl. So it is very difficult to tell that what is the exact value content. It is very very varied and customer wise and also the vehicle wise.
- Sanjay Shah:** Okay. But is there any average ballpark what you can give where usually if we supply all the three that is axle, suspension, and brakes, what that comes to around for a vehicle?
- Thimmaiah Napanda:** I do not know maybe around 8 to 9% range probably.
- Sanjay Shah:** Okay. Fine. Sir can you highlight on the capex program of the company that is including a new plant at Pithampur, anyone without that, what will be the capex requirement for the company?
- Thimmaiah Napanda:** Muthu, you want to answer that.
- Ranganathan S:** Muthukumar, you are there. I think he dropped out Thimmaiah.
- Thimmaiah Napanda:** I think he is on the road. So in terms of the capex, you are saying the outlook. We are investing significantly in terms of our capacity and this year our overall investment is around Rs.200 Crores is what we are investing. This Rs.200 Crores what we have signed up, will spillover some into the next quarter as well but this is what the current outlook on capital is.
- Sanjay Shah:** So that includes Pithampur or Pithampur is a separate investment?

- Thimmaiah Napanda:** Pithampur is a separate investment. We have not accounted that in this Rs.200 Crores I spoke about that is going to be new factory. We will start in the next financial year actually.
- Sanjay Shah:** But if we plan, what will be the capex requirement for that?
- Thimmaiah Napanda:** I think to start with probably, we are talking about in a phased investment, the total phase one in Pithampur could be around Rs.60 Crores to Rs.70 Crores as a startup.
- Sanjay Shah:** Okay and overall after all the phases?
- Thimmaiah Napanda:** That we are not – we want to – we are just going module by module depending upon how the market will look like at that point of time, the customers, etc. Every year we will take a decision what exactly need to be done. We only bought a big site there. We have around 40 acres of land and we have a long-term perspective, but we just do not want to go and invest without really having the business expansion to cater to.
- Moderator:** Sir I am sorry to interrupt. This is the operator. Sir we have Mr. Muthukumar reconnected back to the line.
- Sanjay Shah:** Should I continue?
- Thimmaiah Napanda:** No. I think I answered I guess.
- Sanjay Shah:** Yes. Okay. Fine. So we have really grown very well in this Q3 and we have grown above the industrial growth, what would you like to attribute to, have we increased the wallet share, market share and can you elaborate on that?
- Thimmaiah Napanda:** No. I think we continue to grow with new customers, our share is increasing with other customers as I said that the suspension is one of the product which is getting launched in last quarter. And also our overall shares with the customers are growing. And our product line as I said last call is increasing, we are now, we have product from, for the entire range both in axles and brakes which was not the case a year or two back. So this is multiple reasons. Our ability to deliver to the customers requirement is also very high and our flexibility, right. When the market goes up, we are able to convert it much, much more efficiently than our competition. So that is how the customers like us and we get more shares.
- Sanjay Shah:** So in the Tata we have a wallet share of 8%, correct me if I am wrong, and what is our target ahead Sir?

- Moderator:** Sir I am sorry to interrupt. Mr. Shah, we would request you to please come back to the queue because there are other participants also waiting in the queue.
- Sanjay Shah:** Okay. Fine.
- Moderator:** Thank you Sir. The next question is from the line of Prateek Poddar from Reliance Nippon Life Asset Management. Please go ahead.
- Prateek Poddar:** Sir two questions from my side. One is what is outsourcing opportunity by the OEMs, what are you getting in terms that from the OEMs in your engagement when you speak to the OEMs that is question number one and second is over the last three to four years, if I look at your EBITDA margins that have expanded materially, part of it would be because of operating leverage and the part of it could be because I am just second guessing could be because of structural changes on the cost structure. After BS-VI basically most of the OEMs are guiding for a flat industry growth, in that scenario how do you look to circumvent that issue and not have a material impact on our profitability. Those are the two questions from my side, Thank you.
- Thimmaiah Napanda:** Muthu, you want to answer that?
- N Muthukumar:** Yes Sir. We continue to improve our efficiency that is what we have indicated on an operating performance. Also on the top of the operating performance we have also know that we continued to do innovation in our product thereby brining it down our material cost. Today the market situation is that we cannot go for every increases to the customer and even though our performance is good at the end of the day we also have to make our OEMs competitive. So we continue to work on our supply chain side. We continue to work on our engineering to make sure that the product cost is always down and thereby we are able to give a value proposition to the customer. Maybe our price may not be less, but we give a value proposition to the customer.
- For your second question on BS-VI migration here, BS-VI migration going to be there and the market is projecting a flattish growth. Thimmaiah, talked about very minimal changes in BS-VI, our axles. Our axles are already capable of taking care of BS-VI applications also and even when the market is going to be flat, we continue to improve our performance like agility to make sure that we reached customer must faster and I am sure that we will help OEMs during the BS-VI migration challenges thereby an active and supportive partner to the OEMs. So we are confident and we will just continue to do the good work, so the customer always keeps coming to the Meritor.
- Prateek Poddar:** And Sir what about our outsourcing opportunity by the OEMs in terms of Axles?

**N Muthukumar:** Thimmaiah, should I go ahead?

**Thimmaiah Napanda:** I will take this Muthu, Outsourcing – this is what we expect them to do because we want to supply axles to the all the OEMs 100% that is our goal of course. But it all depends, again if I go back to my personal view, with so much happening in the market place, the BS-VI coming up which is a significant developmental work for the OEMs and also with the electrification is going to come up, which will again totally change the landscape of the OEMs setup. We believe that some point of time, OEMs will not be able to concentrate and spend engineering resource into doing some of the items, which could be easily available in the market like say axle. So we continue to believe that. We have been believing this since many years. We believe that is to happen. But it is all depending upon the strategy of core and non-core and buy versus make decision of the OEMs, which we do not have any control over. We can only say conceptually outsourcing of axle is the right thing to do for the OEMs. But they have their own complications, the people, labor force etc., so we need to see that how those things will pan out over next few years.

**Prateek Poddar:** And Sir just one small – sorry go ahead Sir.

**Thimmaiah Napanda:** And also I just want to let all of you know that we had just closed our strategic initiative called Mission 18 last year in September. We now relaunched a Mission 22 strategic initiative. The Mission 22 strategic initiative has got our goals and objective setup for FY2020-22, and that also incorporates some of the probable downside coming up after the BS-VI introduction and we will continue to work on our cost side and see what best we need to do to expand our margin, or if the market goes down significantly then how do we at least maintain the margin. This is our continuous focus.

**Prateek Poddar:** And just one small clarification, how much time will it take if an OE decides to outsource its axles manufacturing to Automotive Axle, how much time does it take for you guys to ramp up and what is the lead time, I mean does he need to inform you two years ago or a year go, or will it be the platform change?

**Thimmaiah Napanda:** No, our guess is between 18, I would say plus, minus 18 months. More than the platform change, we have the product readily available. The product is not an issue. In terms of the enhancing the capacity, lead time for machine procurement, etc., is what we are talking about. So my guess is slowly we can ramp up from four months, we can start the work with the initial some volumes and between 12 to 18 months we can ramp up.

**Prateek Poddar:** So as you look 18 months forward as you said it takes for 18 months for the OE to give you some indication, are there any indications where outsourcing is increasing or they are increasing the outsourcing to us?

- Thimmaiah Napanda:** I would say yes. They are not talking about strategically shutting down their in-house manufacturing and giving it to us. That discussion is not happening. But we are seeing slowly they are outsourcing one product line by the other product line. So you do not see a significant change but we continues to win a product, which could give us 1000 axle more like that it is coming. Like that it is happening and the new products when they were launching, they are reevaluating than external supplier and that is happening and it will happen at very slow pace. It is not going to probably happen at one shot. So one by one, one by one product they could look for outsourcing.
- Prateek Poddar:** But Sir then – I mean just one question, if I were to think about that our growth would be a function of industry growth plus outsourcing plus content, right. That is the way to think about it and new products, four pillars to our growth?
- Thimmaiah Napanda:** Also we are working on, we have a separate vertical, we are working on the industrial, which is off highway and military, that is one area which we are going to concentrate going forward to expand our product portfolio in the off highway and military segment.
- Prateek Poddar:** Understand and what are steps or what are we doing over there in the off highway and military side?
- Thimmaiah Napanda:** It is about developing the product and talking to the customer. It is mainly the product development work to start with.
- Prateek Poddar:** And since Meritor is our partner, are the discussions are in advanced stages in the sense or these are just preliminary?
- Thimmaiah Napanda:** No it is an ongoing process. It is an ongoing process to see that what product line we have to bring in, what segments we want to come in, because we just do not for the sake of revenue, we do not want to grow our business. We have to maintain our profitability as well. So it is fine mix between what exactly we want to do and what we are able to do.
- Prateek Poddar:** And what about exports and how do we plan to increase that and we talked briefly about that but just to understand is there a material where our exports can grow or because of Meritor being a JV it would be bit difficult for us when it comes to exports in terms of supplying the full system, all the subsystems?
- Thimmaiah Napanda:** It is all about – I think I answer this question, but it is all about full system – the capacity availability across the world and also economics, right. It has to make sense economically for them to import etc. So we evaluate everything as a case by case and if it makes sense, it comes to us.

- Prateek Poddar:** In the Pithampur plant, which OE is being set up for or what is the rationale for setting up the Pithampur plant especially when it is coming in CY2020 when the industry is expected to be flat, so is that backed up by orders or you have some visibility?
- Thimmaiah Napanda:** So it is not really... we want all our majorities concentrated in Mysore, so we want to expand it to a new location and then that is Pithampur we thought is a good central location, we can cater to all OEMs from there that is the rationale and it is not really linked to any big customer order at this point of time. That is the reason I said earlier, we will go modular expansion, we are not going to do a big one, one-time investment, we are not going to. We will do it step by step depending upon how the market and how the volume is.
- Prateek Poddar:** Thank you so much Sir and all the best.
- Moderate:** Thank you. The next question is from the line of Alpesh Thakker from Motilal Oswal. Please go ahead.
- Alpesh Thakker:** Thank you. First of all congratulations for a very good set of numbers at this time Sir. My first question is very general. I want to understand that how is Automotive Axles different from GNA Axles. I want to know this because Automotive Axle is also in the customer list of GNA as a Tier 1 supplier, asking just to how the overlapping between the two companies is and in terms of opportunities that you guys have. Also if I see fixed asset turn ratio for Automotive Axles is almost 4 x that of GNA, so can you please throw some light on this?
- Thimmaiah Napanda:** Muthu, you want to answer that.
- N Muthukumar:** Yes. Thank you for the question first of all, let me clarify GNA Axles and Automotive Axles are not in the same product range that we are doing. They are waiting one of the components for us. GNA Axle predominantly make axle shaft and the component supply whereas we are in a system supplier of axles, brakes, and suspension, okay. They are our suppliers. We buy some components from them and we sell it to the customers. They are also in the commercial vehicle business and passenger car business. We do not – maybe I do not know how you, GNA Axles are Automotive Axle, it is not even part of the same group. Did you have that doubts, I am not sure because you asked that...
- Alpesh Thakker:** No. Not just about the group, in terms of opportunity and I mean type of business that you are guys into, that is what I want...
- N Muthukumar:** They are in a component business like axle shaft supplies and other components. But we are into the axles manufacturing. Okay, so the asset turnover ratios and all it purely depends on value additions we do on their business.

- Alpesh Thakker:** Exactly. Okay now got it. And Sir second thing is...
- Moderate:** Sir I am sorry to interrupt, we also have other participants in the queue and hence I would request you to keep your questions to two per participant.
- Alpesh Thakker:** Okay sure.
- Moderate:** Thank you Sir.
- Alpesh Thakker:** Second question is you are talking about outsourcing versus in-house of axle, so what would be the industry level percentage between two like outsourcing versus in-house like for any of major customers that we have?
- Thimmaiah Napanda:** This is different right. If you really see different for different OEM, there is no such percentage thing. It is all – there are lots of considerations in outsourcing versus in-source. Say for example, Europe, most of the OEMs make their own axle. Same OEM if I say Daimler, in Europe, they make their axle, in the US, they outsourced the axle to us, Volvo they make the outsourced axle towards in Europe and in the US also they outsource. So it is very, very different MAN for example, they make their own axle in Europe, but they buy the axles from us in Brazil. In India, if you see the – some of the customers like Ashok Leyland for example, 100% they outsource, Tata for example, 90% they in-source. So it is very very different. It is very very specific to the customer and geography.
- Alpesh Thakker:** Okay. Thank you Sir. All other questions were answered. Thank you.
- Moderate:** Thank you. The next question is from the line of Ashwani Kumar from Reliance Mutual Fund. Please go ahead.
- Ashwani Kumar:** Good morning Sir. Just wanted to understand, see if the product is really so technology sensitive, why is it that customers are not willing to give you the margin, which is better than this margin, where is the gap, the product is critically provides advantage to the customer, and the user. Why is that OEMs are not willing to give you a better pricing for this superior products.
- Thimmaiah Napanda:** Ashwani Kumar Ji, Hi, how are you?
- Ashwani Kumar:** Yes. I am fine Sir. Thank you.
- Thimmaiah Napanda:** Okay. I think I do not know how to answer this question because there are so many parameters into the pricing. It is also competition like in-house versus outsourcing. So I will take an example of Tata Motors for example, right. They make their own axle. When they



make their own Axle, they do not see – they will just see the cost. And when they buy an axle, they will see the cost plus the profit, the price. That is one significant difference the way the OEMs look into. There is also a competition. If somebody else is if they are giving cheaper then they will come back and beat us up and say that if they can give, why cannot you give. I would say globally if you look the profitability of the axle manufacturer, we are much much better than anybody else I can say that – all these informations available in the public. So I think this is good profit and we have been grown from over a period of time. I do not know what is the right profitability for our product, but if you really see we are in the top league I guess you know better but my view is we are in the top league in terms of the profitability in the tier 1 industry.

**Ashwani Kumar:**

Yes and Sir what is coming in the way of really scaling up the operations in this company, I mean you have such a good setup for a long time and part of the question which you answered earlier also, is that you supplied the gear parts other than the complete part, now on a relative basis, what is the competitiveness of the Mysore plant when you compare it with the similar plants outside or similar scale plants in the Meritor family, and does it offer in the next few years potential to scale up exports from here and also part of the design work or something which goes in along with the engineering design works which goes with the plant, which must be relatively cheaper to do here in India as compared to the global outfits or the global locations, if you could...?

**Thimmaiah Napanda:**

I will answer in two portions. I will take the second one first. In India Meritor has got an engineering center in Bangalore, which is the large engineering center outside of US and we do end to end lot of engineering work, it is not just a back office or a drawing etc., we do an end to end development work on axles and brakes and we support all over the world the Meritor entities and Meritor product development work. So most of the product we develop in the world, there are lot of input is going, development activity happens in India already, but that is on the Meritor perspective. Coming that to Automotive Axle perspective, I think export over a period of time, we are increasing our exports, say for example, the Volvo Thailand business what we are now won, and we started supplying, that is a significant export we are doing, whatever we used to do that is like with the Volvo Thailand business brakes and axles, it is almost doubled. So if you see in that sense, we are probably doubled our export revenue over last four to five years that is number one. Number two, our product is very proliferation centric, what I mean proliferation is customer changes the final product requirements on a daily basis to cater. So the long lead time from India is a challenge to cater to the daily proliferation of the customer that is one big challenge. The second one is the product wise I think the Europe and US, a little bit they moved into a laser welding technology in the mainly crown wheel pinion. We do not do the laser welding technology at this point of time in India because India market not matured to that level. And we do not have that capability, if required we could add that capability. And also as I said that we have

factories very, very near to the customers across the world and that makes it very easy to supply and support the customers, so we will continue to focus on subsystem and also the logistic cost is going to be very, very high if we do the full axle because it is a very heavy and volumetric business. That said, we have a goal to continue to increase our export business. We are talking to all over the world, the Meritor entities and there are a lot of opportunities, we are working on, that where you get turned into a positive revenue earner over a period of time.

**Ashwani Kumar:** Sure Sir. Thank you very much for this.

**Moderate:** Thank you. The next question is from the line of Jayesh Chandra Gupta from JM Financial. Please go ahead.

**Jayesh Chandra Gupta:** Good afternoon Sir. Congratulations on good set of results. Sir first question, we have seen a decline in the share of tractor trailers recently. So just wanted to know, how the sales of tandem axles have been this quarter and what percentage of revenue would be coming from tandem axle?

**Thimmaiah Napanda:** We do not segmentize that way and report into the external world. Sorry to say that we do not segmentize the particular axle model revenue, but overall tractor trailer I think the load rating change, the axle load rating change has changed little bit of landscape and it is still understanding, analyzing stage to see that whether the rigid truck will continue to grow and the shift from rigid to tractor trailer is going to happen or not. But according to me, this is like a little shorter period perspective, but in the long run if you look into China and other developed world, they are all moved into tractor trailer and that is going to happen in India also, but it will take time, two reasons. Number one is the road condition, roads has to be really good for tractor trailer to be very efficient and this hub and spoke model should work every efficiently, which means that for the long haul, you use the tractor trailer and go into an outskirts in to the godown, warehouse and from there it will move into the smaller trucks and go into the cities. That is the way the industry would move, and it is happening. If you really see the tractor trailer penetration, it is increasing and that will continue to increase and it is all linked into the as I said that infrastructure development, the road and also into – currently we also have a problem of driver availability because our roads are narrow and small, it is not easy to maneuver the tractor trailer. So that is one of the constraints we have, which will probably get addressed to over a period of time.

**Jayesh Chandra Gupta:** Sir my second question is you mentioned about a new business coming from Ashok Leyland regarding BS-VI product, so what kind of product are we looking at here? Any particular variation?

- Thimmaiah Napanda:** It is all the variation into existing product. The product family is going to be same, but it is going to be a new requirement from the OEM perspective, the gear ratios changed, battery changed product into the BS-VI requirements.
- Jayesh Chandra Gupta:** Thank you sir. And your outlook on the CV industry, you mentioned that you will see strong sales in FY2020, if you can quantify that sales number on the basis of order book visibility that we have?
- Thimmaiah Napanda:** In India the order book visibility is very volatile for commercial vehicle segments. Every month it changes and even though the order book is provided, it is very volatile like the Indian market and the commercial vehicle segment is very very volatile. But at least our assessment, we believe the market to grow anywhere between 5% to 10% in the next financial year that is our assessment and also its linked into the prebuy etc. It should be around 5% to 10%.
- Jayesh Chandra Gupta:** And Sir will it be okay to say that the vehicle prices will increase close to 10% because of this BS-VI transition?
- Thimmaiah Napanda:** In our estimates, which maybe not correct. It would be more than 10%. It will be little more than 10%, 15% to 20% I guess.
- Jayesh Chandra Gupta:** Okay. 15% to 20%. Thank you Sir. Thank you for your time.
- Moderate:** Thank you. The next question is from the line of Jinesh Gandhi from Motilal Oswal Financial Services. Please go ahead.
- Jinesh Gandhi:** Hi sir. My question pertains to first is the E-axles product which we talked about, so is it part of the listed entity or it is part of the Meritor India entity?
- Thimmaiah Napanda:** Which one?
- Jinesh Gandhi:** E-axles.
- Thimmaiah Napanda:** E-axles?
- Jinesh Gandhi:** Yes.
- Thimmaiah Napanda:** Yes. We will continue to do the way we are doing it. It will be part of the Automotive Axle manufacturing.

- Jinesh Gandhi:** Okay. And second question pertains to the MBP programme, which you talked about the modularity, can you throw some more light on that about what are we doing there and what are the benefits which you foresee?
- Thimmaiah Napanda:** No. I think Ashok Leyland would be the better people to talk about it but only think I can say is we are a significant partner in their MBP programme. We have been listed as a preferred vendor for all the subsystems we produce and we have been nominated for their MBP programme very, very significantly.
- Jinesh Gandhi:** Okay. No problem. Okay Sir. Thanks and all the best.
- Thimmaiah Napanda:** Bharat, we will take last question.
- Moderate:** Right Sir. Okay. Mr. Harshil Shah, are you still connected on the line.
- Harshil Shah:** Yes.
- Moderate:** Right sir. Please go ahead with your questions.
- Harshil Shah:** Hello sir. Sir can you throw some light on your Mission 22 and Sir one more thing, any new RFQs from Tata Motors?
- Thimmaiah Napanda:** No, RFQs are ongoing process. I do not want to say the RFQ level that we have anything, we do not disclose those information. But RFQ is an ongoing process. We continue to get. We continue to answer, we win some, we lose some. In terms of Mission 22, this is the strategic initiative we have taken, this has got six pillars, one is how do we grow our revenue, the second is how do we enhance our profitability, the third is how do we get into the manufacturing excellence, the fourth one is people engagement and the product development and these are six pillars we have in our Mission 22 plan. And the sixth one is like customer satisfaction. These are the six pillars we have for our mission 22 and we have very specific initiatives, running under each one of these pillar and very clear deliverables and people working towards that. This is like overall our strategic plan for next four years.
- Harshil Shah:** Correct Sir. Have any target Sir like?
- Thimmaiah Napanda:** We are not at in a position to disclose that at this point of time, maybe whenever we are okay to disclose, we will come back to state.
- Harshil Shah:** Sure Sir. Okay.



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**Moderate:** Thank you. Ladies and gentlemen that was the last question for today. I would like to hand the conference over to Mr. Sailesh Raja for closing comments.

**Sailesh Raja:** I really like to thank the management for taking time out for this call. Thanks everyone in the call as well and thank you. Have a nice day.

**Thimmaiah Napanda:** Thank you.

**Moderator:** Thank you. On behalf of Batlivala & Karani Securities India Private Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.