# “Automotive Axles Limited Q4 FY2019 Post-Results Conference Call”

**May 27, 2019**

**ANALYST:** **MR. SHAILESH RAJA - BATLIVALA AND KARANI SECURITIES INDIA PRIVATE LIMITED**

**MANAGEMENT:** **MR. THIMMAIAH NAPANDA – MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER – MERITOR INDIA & VICE PRESIDENT MERITOR AUSTRALIA**

**DR. MUTHUKUMAR - PRESIDENT & WHOLE-TIME DIRECTOR – AUTOMOTIVE AXLES LIMITED**

**Moderator**: Good morning ladies and gentlemen. Welcome to the Automotive Axles Limited Q4 FY2019 Post-Results 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 the 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 Sir

**Shailesh Raja**: Thank you. Good morning and thanks to everyone for joining us. B&K Securities is pleased to host for Q4 Y2019 Conference Call for Automotive Axles. During this call we will be hearing from Mr. Thimmaiah, MD and CEO of Meritor India and Mr. Muthukumar, President and Whole-Time Director, Automotive Axles. I would now like to turn the call over to Mr. Thimmaiah for the opening remarks followed by Q&A. Sir, you may begin now.

**Thimmaiah Napanda**: Good morning to every body and welcome to the conference call. I will just go through presentation, which has been shared. I am on slide #2 just to give you an overall snapshot. Last year because of the Q4 and also the full year financial year ending, I will give you the overall situation. On the revenue side, we did Rs.1942 Crores and on EBITDA side, we did Rs.228 Crores at the rate of 11.7% for the full year and the PBIT we ended up at Rs.181 Crores at 9.3%. I will talk about the whole year growth in the coming slides by Mr. Muthu.

In terms of recapping some of the obvious ones, we have four manufacturing locations. One is in Mysore, Jamshedpur and Pantnagar. I am happy to announce that we added one small manufacturing location in Hosur mainly for the suspension assemblies for Ashok Leyland and overall if you see our equity shareholding pattern our Meritor Inc. holds 35.5%, Kalyani Group, Bharat Forge investments at 35.5% and the General Public holds around 29%. We have more than 2000 people across all the working sites and so, all major commercial vehicle specialty and defense OEMs and also in terms of product, Axles brakes and suspension systems are part of our product.

We are number one in Axle as an independent axle manufacturer and number 2 as a brakes manufacturing on India. I will just give you one incident happened in the last few weeks by Meritor because Meritor owns 35.5% in Automotive Axle. Meritor globally acquired a company called Axletech and they are going to integrate once we have the legal clearance in the global perspective. So I am sure that a lot of people would have customs, so I thought I will upfront give you some input on that. This used to be a parent company, used to be same and we hived off this many, many years back and now after a period of couple of decrescenting, Meritor bought it back globally.

In India also Axletech has got a presence. They have a manufacturing setup in Pune and they have an engineering center in Bengaluru. This is a Meritor acquisition. This is not an Automotive Axle acquisition. How are we going to integrate in India, we are still working out? Once we have more detail and also the legal clearance, antitrust clearance in the global perspective, we will start working on the integration process and we will keep you posted if there is any impact to Automotive Axles. With that I am handing over to Mr. Muthu.

**Muthukumar**: Good morning everyone and on this investor call, I am on slide #3, where I talk about the diverse end market what Automotive Axle has. We are present in the tucks, we are present in the trailer segment, we are in the buses and coaches, we are also getting into off highway, we started supplying for that. We are supplying to military the OEMs currently present and we also directly supply to military also. Of course, we have a good Meritor brand in the aftermarket and we have a warehouse in Pune and supplying the most of the OEMs and also the dealers from that network.

Our major customers include most of the commercial vehicles. I would say all the commercial vehicle manufacturers in India, we supply largely to Ashok Leyland, Tata, Mahindra, Daimler, Volvo, Eicher, SML, Isuzu and we also supply from her to Volvo both for the Indian plant and also for their Thailand facility and we supply Caterpillar and vehicle factory Jabalpur.

Moving onto the next slide just to tell you about what are our comprehensive axles and brakes offerings to the customers. Under one roof, we have supplying to light commercial, medium, heavy and extra heavy and the 10X, 11X, 12X are those products, which are taking care of the different vehicle segment right from four-tonne products to the maximum of our hub reduction axle, which is used for the mining vehicle. There are product gap that we found out like 13X and 360 brakes and 11X, which we have introduced in the market through which we are very, very confident that we are meeting every requirements of the end customer and we will be presenting across the entire segment. As you all know, the six-tonne product what we supply to Daimler, Ashok Leyland is one of the big hit and most of the mining application they use the Meritor plant hub reduction Axle.

I will move on to the next slide, which talks about our financial for the quarter. When compared to quarter-on-quarter we have grown our sales by 2%. Most of you know that after the, I think during last call we talked about the financial crisis of the market and what is going to happen to this quarter even though January was little back, bit I think the market little recovered and we also penetrate into the market, we have 2% growth year-on-year sales on the Q4 and we grew our EBITDA by 6% to about 12.1% from 11.7% same Q4 of last year.

Sure that you would see a significant increase in our PBT from 9.1% to 10% in this on quarter-on-quarter, which has grown by 13%. In terms of the full-year performance, we ended up with our revenue with Rs.1942 Crores, which is 27% growth over the last year. You know commercial vehicle market has grown by about 18% and we have grown by 27%. Our EBITDA from 11.1% for the full year last year, we have moved to 11.7%, which is 35% growth and of course on our PBT, we moved from 8.2% last year to 9.3% with a whooping in 44% in compared to that last year FY2018 performance.

I am moving onto the slide #6, which talks about the 2019 outlook how it is and 2020 how it is going to look like. You know a lot of uncertainties were there with the stable government. I think we are looking at BS-VI migration with various inputs and we as a team feel that between FY2019 of 1942 will go to about from Rs.1900 to 2000 Crores. At this point then, we are projecting a flattish growth because of the various situations in the market and also mainly to the BS-VI migration that is going to happen; however, we work on continuing to make sure that our EBITDA will range between 11.7% to 12.2% that is the projection or estimated at this point of time for the year FY2020.

We see a slight dip in our PBT because of the capital inflow that they have put into the market and of maybe depreciation may get affected in the year so we see the PBTs will be around 8.7% to 9.2% for the FY2020. If you look at the highlights in terms of as I said even thought the market is going to be grown in the year 2019, as I said earlier we had a 27% growth year-on year and our revenue of 20% to 22% is estimated a flattish which is plus, minus 5% and as we all have committed all our capacity ramp up completion is getting over and it will be over by end of June, so that the plant will have a capacity that is committed earlier.

In terms of EBITDA, the commodity price changes is exerting huge pressure on EBITDA percentage. You know, last time as Mr. Thimmaiah told to all about the mission 18 strategic plant that we have taken and the mission 22 what we are going to do and that has helped us in terms of productivity improvement and cost improvement to EBITDA by 0.6% year-on-year. Of course, we are working on continuous monitoring and control of fixed cost to ensure that we grow up by EBITDA.

With the continuous focus on cost and productivity improvement EBITDA estimated for next year will be around 11.7% to 12.2% as I indicated earlier. While we continue to with no working capital borrowing in 2019, we have not had any working capital borrowing in 2019. In the year 2020, we see a little higher depreciation in interest cost because of the capital inflow that we have done, but your company will continue to focus and improve the cash flow in 2020 that is going to be our key target for the year 2020.

I am taking you to the slide #7, we just tell about how the income grew quarter-on-quarter, we have I think over a period of last three years if you see how we have improved our absolute EBITDA from about Rs.190 Crores to Rs.581 Crores with EBITDA and of course our PBT growth just as an indication of how the combined profitability of our company. With that slide, I am just handing over to Mr. Thimmaiah to talk about the strategic initiatives and our revenue growth. Over to Mr. Thimmaiah!

**Thimmaiah Napanda**: Thank you Muthu. I think we spoke about the capacity expansion last time also I am more or less our capacity expansion imitative and projects in the verge of closure. Now we have all the capacity required installed across all sites, then we will wait the market to turn upside and now with election results, we expect the market to be very positive. In terms of business wins, we continue to work with various customers to be there on their new platforms and we are very aggressively working on the BS-VI platforms of all the customers, we are very well positioned on those things and in terms of the new products we are constantly bringing in the new products, which we expect to be required for the market even before the OEMs are asking for us.

We also do a lot of market study to see that what the market would require in the coming five, seven years and we want to be ready with those products and go and talk to the OEM and even educate the OEM in terms of what the market requirement should translated into from the current product portfolio to the new product portfolio and footprint expansion I spoke about, we added a Hosur as a one small assembly factory for our suspension and we will continue to work and see what footprint makes sense for us and we will add and consolidate depending upon how the market behaves.

If you go into the next slide, which is slide #9, we continue to provide you this information on year-over-year performance of our company. Just how we are being improving on all the fronts in our financial parameters both in terms of revenue, EBITDA and PBIT, so we were little like Mr. Muthu said that we are little skeptical about this year's market economy and the market, so we have considered the market to be at around flat and we are conservative in terms of projecting that; however, we will continue to maintain or improve our profitability performance. With that I will hand it back to the B&K executives for the quarter and answer session.

**Moderator:** Thank you. Ladies and gentlemen, we will now begin the question and answer session. We will wait for a moment while the question queue assembles. The first question is from the line of Niteen Dharmawat from Aurum Capital Services. Please go ahead.

**Niteen Dharmawat**: Thank you for the opportunity. I have just one question about the market scenario, how do you see, during last 50 days are gone, more than 50 days are gone of the first quarter. So how is the situation now compared to what we had seen during the last quarter, has it improved for good, is the funds available, capital available, and customer interest has gone up, just wanted to understand that since the elections have happened, things may change further, but just wanted to see during last 50 to 55 days, what was the situation and how do you see the ground level now?

**Thimmaiah Napanda**: Thank you very much. This is Thimmaiah. I will take the question. If you see the market last year, our segment, which is medium and heavy commercial vehicle has grown around 25% plus, which is substantial growth and it is not that the market was down in the previous two years, even the previous two years, it was like flattish 7.5 tonne and above around 440000 to 450000 level and then it grew to 475000 level, at 25% growth, which is phenomenal and with that kind of a growth, we do not expect the similar growth is going to happen this year. Even if the market remains flat I think we should be and we will be happy looking into the BS-VI coming into to effect from April 1, 2020, and also as you know the ruling is all the vehicle, which is getting registered from April 1, 2020 has to be the BS-VI compliant, which means OEMs will start shifting the BS-IV vehicle production to BS-VI vehicle production sometime from December, January onwards and they will produce in January, February, March only the ones, which could be registered before the April 1, 2020, otherwise they will start producing the BS-VI and BS-IV to BS-VI it is substantial change in the vehicle configuration unlike BS-III to BS-IV. So our estimation is OEMs are going to little bit struggle, market is going to watch with skepticism in terms of how the vehicles are going to perform. So we expect that this year market to be at around flattish level. The peak could be next two quarters and then moderate in Q4 and then go down in Q1 and Q2 next year and then it comes back, but that is based on our current outlook what we have; however, with the new government coming in depending upon what schemes they are going to announce in terms of all the economy developmental activity, things could change and there could be a huge demand coming up.

**Niteen Dharmawat**: Got it Sir, Thank you.

**Moderator:** Thank you. The next question is from the line of Rahul Jain from Credence Wealth. Please go ahead.

**Rahul Jain**: Thanks for the opportunity. Just wanted to understand you spoke about capacity expansions, which are before by June, so if you could just share more details in terms of by June end what kind of total amount of capex would have been done in the Mission, it would have converted into and what could be the asset turnover for this capacity and secondly post this expansion, is there any further expansions we planned in the next further 12 to 15 months?

**Thimmaiah Napanda**: Muthu you want to answer that?

**Muthukumar**: Yes, Mr. Thimmaiah. Thank you for the question. I think whatever we have committed last time by end of June, we will be increasing our axles' capacity to about 20000 axles for particular product these numbers goes up, ups and downs depending on the which type of axle we make, but roughly we will be creating a capacity of 20000 axles and in terms of brakes, your company will increase the capacity from 83000 what we had to 120000 and of course tag axle from 3500 to 4500 this is our capacity expansion plan that we have communicated during the last meeting and all these capacities are already in the finishing stages and from June, we will have this capacity. If you look at the investment in the last year we spend about Rs.152 Crores of the investment and maybe up to April and then last three months, we are looking at property plant and equipment put together about Rs.220 Crores of investment in the year FY2020. Hope, that has answered your question.

**Rahul Jain**: Are you saying 220 will be over and above 152 already spent, is that you are saying or that 220 will include 152?

**Muthukumar**: No, it is on top of this because we also know that last time Mr. Thimmaiah touched upon the Greenfield one more plant they are coming in, which is our ambitious plan, but we are looking at the timing how the market is. This is our approved plan.

**Rahul Jain**: Sure, I wanted to understand as I mentioned about the next capex for 12 to 15 months, so this Rs.220 Crores will include the Greenfield of our new plant, am I right?

**Muthukumar**: You are right.

**Rahul Jain**: And that would create what kind of capacity?

**Thimmaiah Napanda**: Just to add to that out of 226, substantial portion is for the new plant, which is even though we have clubbed this number, we will take that actually decision of spending depending upon how the overall market behaves, so in terms of capacity, the capacity would go up by another 10% to 15%.

**Rahul Jain**: Sure, the next question with regards the aggressive capex plans, which we have done in last one and a half year plus the plant capacity in the next 12 to 15 months and also you have mentioned sometime back in terms of getting an order from Volvo in Thailand and you have mentioned the opportunity also. At the same time the CV industry had did well for the last two to three years, I just wanted to sense this aggressive capex plans, which have been implemented and which are at the stage of further implementation, are you sensing a big export opportunity because of which you have gone through this or is it that you feel that there will be more penetration in Tata Motors, which you have spoken about in last two conference calls, just need to sense this aggressive capex plans ultimately leads to where or kind of opportunity we have sensed in the next two to three year for this capex plan?

**Thimmaiah Napanda**: I will take question in two steps. Number one is last year when the market went up, we actually struggled to deliver because we did not have capacity to deliver. So we used to work for seven days a week and the capacity utilization was at the peak, we do not want to be in that kind of situation all the time and that is why we invested or investing into the capacity expansion that is to take care of the existing market itself, we wanted to infuse some capacity. The second thing is in terms of the new opportunity in customer, we continue to work with all the OEMs, India and few outside of India to keep winning the business and we have confidence that opportunities will keep coming and we will win and we want to keep some of the capacity ready because our capacity infusion in our industry is 12 to 18 months, we cannot win a business and then go and put a capacity. So we need to have some kind of a spare capacity so that we can confidently go and pitch into the customer. So I cannot give you the exact OEM by our export Thailand by plans, but we are very aggressively pursuing with all the OEMs both in India and few outside.

**Rahul Jain**: Is the parents giving you more kind of leeway to enter some of the export market, can I assume that?

**Thimmaiah Napanda**: No. There is no I would say benefit. We will continue to work with the parent company to see that globally how we can be more beneficial for them and for us and we keep working with them, I would say yes and no, there are some opportunities on the way, there are some OEMs we have worked in with for some of the opportunities outside India through our parent company. It is all about what makes sense to end customer in the different geographies and where we can serve that end customer whether it is better to serve from our parent company outside of India or we support from India, so I think at this point of time that much I can tell, I cannot give you more detail about what those opportunities are.

**Rahul Jain**: Could you share more details on Mission 22, Sir?

**Thimmaiah Napanda**: Mission 22, this is again our next strategic period every three years or four years we work on what we should be doing for the next four years and we continue to work on what Mission 18 initiative we had taken mainly grow the revenue to, this has got six pillars as I explained last time, grow the revenue, which has got verticals as work streams like increasing penetration, getting into the new verticals, continue to work on enhancing the profitability, continue to transform the manufacturing set up like capacity, footprint and two other new things we have taken in digital manufacturing and improve the manufacturing processes, the fourth vertical is customer satisfaction, you know how can we continue to work with the customer to be more flexible and respond to you, fifth one is the product strategy, again as I said that every year we keep working on new product development initiatives what is required for the OEMs as well as for the market and the sixth one is how can we continue to engage our people and motivate them. So it has got six pillars and each one of them has got its own initiatives and we work on these six pillars about the next six years' period. We have put in definitive numbers and on each one of these again I cannot disclose at this point of time, but we will continue constantly and continuously work on enhancing the overall outlook of our company.

**Rahul Jain**: Sir, my last question, do you share some details on the opportunity on the defense side and also specifically after the new government has come in, so how do you see the opportunity on that side?

**Thimmaiah Napanda**: Opportunities are very high, you know the government is working very aggressively on indigenizing the defense equipment and Indian defense equipment needs a lot of upgradation, lot of programs are working on, lot of our OEMs are working with those program, but as you all know it has got a very long gestation period and we are continuously working with the OEMs to provide what we can provide on the defense vehicle mainly the axle, brakes and also the suspension to some extent, so we will continue to be engaged with the OEMs so that they can offer a better product to the Ministry of Defense and we believe a lot of opportunities are going to come out because one is defense modernization and also on the localization or indigenization of the defense equipments initiatives taken by the central government.

**Rahul Jain**: Thank you so much.

**Moderator:** Thank you. The next question is from the line of Viraj Kacharia from Securities Investment Management. Please go ahead.

**Viraj Kacharia**: Thanks for the opportunity and congratulations for a good set of numbers in such a challenging environment. I just had a couple of questions, first, I just wanted to understand if I look at last three to four years for us, you know if you look at our own growth profile and if you compare to industry, we had consistently outperformed in industry. So if we just only talk about our existing segments primarily axles and brakes, what will be the current wallet share on market share with key customers would be, so that is one and second, you talked about Mission 22. So if I do look at next three to four years I understand next one year, we see a lot of challenges and the overall market being weak, if I look at the next three to four years what kind of opportunities do we have in terms of further improving on the existing wallet share we have with key customers, so that is one and second is only margin side. If I look at overall margin profile, as you pointed out we are consistently improving on the overall operating margins, but if we look at an overall improvement bulk of an improvement is coming from gross margin expansion and we are not seeing much of the benefit in terms of operating cost, savings or the kind of productivity gains we talked about, so if you can just throw some light, why is that and when we talk about further margin improvement where we seeing the avenues from?

**Thimmaiah Napanda**: On the first question, we do not disclose our OEM-wise market share publicly, so we work, only thing I can tell is we work very aggressively with all OEMs and continue to penetrate more and more with our very good product lineup and product portfolios we have and also we have a very good R&D setup and engineering center. With those, our focus is always to go and penetrate more with each one of the customers. Coming back to the market dynamics, yes, this market is going to be extremely challenging and as we all know India needs a lot of infrastructure development activity to be happening in the next 5 to 10 years just to uplift our standard of living as a country, so purely based on the domestic consumption, personally I do not see a problem there, so market continues to grow and we will grow along with the market.

Coming back to your second question on profitability improvement, you know it is very, very difficult from the financials to finger point and say that the profit enhancement has happened because of the gross margin improvement or on the cost side because the lot of mix issues will play around here so it is very difficult to point out that, but as an organization I can tell you majority of the margin expansion is coming from the cost reduction initiative and productivity improvement activity we have been doing, so as you know no customers in India, the automotive customers in India and also the world will not give you any price increase year-over-year, so it is not about we are going and asking the price from the customer, we have never done that and very discreetly may be in a small way, but no OEMs give you the price increase over a period of time. They even refuse to compensate the cost increases other than the commodity etc. So, most of our expansion of margin happened over a period of time is from the productivity improvement, from the design side, from the sourcing side, from the supply chain site and mainly the cost reduction initiative we are working on, which is our second pillar in our, it was in Mission 18 and also it is in Mission 22.

**Viraj Kacharia**: Just coming back to margin front, I understand you do not want share further in details, but in one word to understand because at the end of the day we kind of cater to an industry, which is if you look at long period of time by and large very cyclical in nature, and the kind of programs, which you talked about some productivity or cost reduction, in one word to just understand from a breakeven point of view, how would have that moved say three years back or four years back versus where it is now, at what realization or breakeven that have come down to versus the previous cycle that is one. Second in terms of wallet share or market share, so in axles what I understand, ex-Tata we cater to most of the customers, so you can provide some colour, would we in the market leader in the wallet share both for axle and brakes, ex-Tata motors?

**Thimmaiah Napanda**: Yes, you are saying with Tata Motors or out of Tata Motors?

**Viraj Kacharia**: What I understand is we just started catering to them, we are just seeing an increasing traction, but the bulk is still from other?

**Thimmaiah Napanda**: Even with Tata Motors, we have won few businesses, we are increasing our share in brakes and also some of axle programs we have won. We will continue to work with them and see that what value addition we can provide them and the other OEMs obviously we are working, if we want to continue to grow we have to work on penetration increase with existing customers and also acquired new customers, that is why our Mission 22 is the one pillar is about growth, so growth is going to come from these avenues, again as I said that I cannot exactly tell you how much is going to from which OEMs, etc., but as an organization it is our focus to continue to work with these OEMs to increase our wallet share.

**Viraj Kacharia**: Sir, we will be the market leader right?

**Thimmaiah Napanda**: Yes, we are the market leader and we will be the market leader, I do not see any doubt in that.

**Viraj Kacharia**: And on breakeven part, if you can just provide some colour how that has moved for us?

**Thimmaiah Napanda**: Again, I cannot give you the exact numbers, but one thing is the market has moved up significantly and also our capacity has moved up along with that, which means that breakeven I do not want to say that our breakeven has come down, probably the breakeven has also gone up, but not as percentage wise may not be as a market and also as the capacity. So it has come down percentage terms, but obviously it has increased also, because the market has almost doubled if you see the market in last five, six years the market would have probably doubled.

**Viraj Kacharia**: I have a few more questions; I will come back in the queue. Thank you.

**Moderator:** Thank you. We will move onto the next question that is from the line of Sunil Kothari from Unique Investment. Please go ahead.

**Sunil Kothari**: Thank you very much Sir and congratulations for a really good performance during this very difficult time. Sir, my question is related to lot of things are moving away from China that is what we hear from a lot of reports and this trade talks and everything. So do you see any big opportunity due to some sourcing or some of your global clients or your parent's clients shifting from China to in terms of manufacturing our product, so could you throw some lights on this opportunity, if there are any?

**Thimmaiah Napanda**: Again, this is my personal view, we have not done any analysis in terms of this phenomenon what we are seeing, but if you see our business I would say 95% or maybe more almost close to 100% of the commercial vehicle are being produced and sold in India for the Indian market. It is not being imported from China or from any other developed countries they are routing it through China, etc., so in that perspective, we do not see a major shift acne, also in terms of the components being used on these OEMs on these vehicles these are also not much are coming from China or the developed countries they used to produce this in China and ship it to India. So in that way my personal view from our segment perspective unlike say for example, cell phone if Apple is making a cell phone in China and shipping it to India, so the American company produced in China, consumed in India, there could be opportunity for such kind of an items, but in our case most of the requirements for the market is being produced in India, by the Indian OEMs or the global OEMs in India and also the supply basis is also in India, so we do not see, overall economic development would happen because of this phenomenon because of that the commercial vehicle requirements will go up then we will see the impact of that as a growth for our segment that is how it will impact.

**Sunil Kothari**: Sir, my question more is related to global market, so global MNCs, and non-Chinese, European, Americans, they must be sourcing from China, can that become opportunity for Indian Automotive Axle unit and Meritor Unit to supply to somebody who is currently sourcing from China and now want to create second source or may be because of manufacturing cost going up in China and they want to shift that sourcing, in that sense do you see any opportunity?

**Thimmaiah Napanda**: Definitely, that opportunity would come, but we are not seeing that is getting converted into an opportunity at this point of time people are talking about it and it is all depending upon how the trade relationship between those two countries. So yes, if it intensifies, we could see that opportunity of global sourcing kind of an activity getting shifted from there to here.

**Sunil Kothari**: Sir, you clarified that we have done Rs.152 Crores capex last year. By June what will be that additional number of capex and after completion of this expansion, which is going to be completed by June 2019, what will be our revenue generating capability?

**Thimmaiah Napanda**: As I explained earlier, revenue generation capability is directly linked into the market and we have to be having more capacity than the requirement so that we can go and win more businesses, I do not think capacity enhancement is going to give us any substantial increase in revenue generation unless there is a market that goes up, you want to be very clear on that.

**Sunil Kothari**: Provided there is market in there is demand, so with this capacity, which is going to happen by June 2019, what type of even though we can generate whenever there is market in demand?

**Thimmaiah Napanda**: Yes, in terms of revenue generation opportunity I think we can go up to may be 30% more when there is a market.

**Sunil Kothari**: And what is the capex number from April to June to complete this expansion?

**Thimmaiah Napanda**: That is what we said Rs.220 Crores is what we have plugged as an outlook, but again we will not just go and spend everything. It will all be depending upon how the market, we will be very cautious in actual spending and it also includes one Greenfield manufacturing setup that we will take a decision as we go forward.

**Sunil Kothari**: Thank you very much. Thanks a lot.

**Moderator:** Thank you. The next question is from the line of Dhaval Shah from Girik Capital. Please go ahead.

**Dhaval Shah**: Sir, couple of questions, first one, Meritor does it have the entire commercial interest of Meritor in India is through this company or there are some other operations as well?

**Thimmaiah Napanda**: Only through this.

**Dhaval Shah**: So, anything getting sold to your client, the billing also happens in Automotive Axle's name, nothing happens in Meritor's name, right?

**Thimmaiah Napanda**: No, we have one more joint venture in India, which is between Meritor and again Mr. Baba Kalyani' s Bharat Forge Investments, Automotive Axle is predominately a supply contract for the Meritor and the end customer sales most of the sales happens through this other joint venture.

**Dhaval Shah**: The reason I am asking, if you see the margin profile, no other Automotive Axle as such consistent margins, so the only point was that is there certain sort of complete pass through remained and the up down in margin is captured in the other company?

**Thimmaiah Napanda**: No, nobody would allow that, it is all about how the individual company is performing and on the transfer pricing basis.

**Dhaval Shah**: Understood. Now second question, so like we spoke I think a year back at that time we were expecting the entire street were expecting a good amount of prebuying coming in FY2020 and all that and now we are expecting the flat growth, so A is the entire CV cycle, which is down, so you do not expect any sort of prebuying happening now, why only this flat growth projection is what you are giving?

**Thimmaiah Napanda**: No, two reasons, number one as I said earlier last year, we had a phenomenal growth the market had seen 25% plus and if you see that because this quarter is not going to be significantly higher because April and May is over, the elections and all those uncertainties this quarter is over, then last quarter I explained you that there may not be a very high sales because of the transition from BS-IV to BS-VI, it leaves only two quarter for prebuy, that is the reason, we are saying it may not be like quarter over quarter you may not see the same reflection like last year. Last year the market was almost flat across all four quarters, this year Q1 lower, Q2-Q3 very high, Q4 is again lower and overall the market would remain flat, that is what we are assuming, but you know nobody can predict the market.

**Dhaval Shah**: It change in a quarter, yes agreed. Understood and Sir, do you give revenue product wise, your revenue shares of brakes, suspension, axles in the total topline?

**Thimmaiah Napanda**: No, we do not provide the breakup.

**Dhaval Shah**: So, can you give some indication that the suspension, have we started supplying the suspensions, what we have taken to planning to get it through?

**Thimmaiah Napanda**: Yes, we started supplying from past three months.

**Dhaval Shah**: So, Q1 we will capture that?

**Thimmaiah Napanda**: Yes, Q1 we will have.

**Dhaval Shah**: Got it. Okay, great Sir. Thank you.

**Moderator:** Thank you. The next question is from the line of Prateek Choudhary from Samarth Capital. Please go ahead.

**Prateek Choudhary**: Sir, what is the out of the total axles that we sell, what is the total percentage contribution from the 25 tonne and above category, revenue contribution?

**Thimmaiah Napanda**: Again, we do not disclose that. We do not disclose the segment wise, revenue recognition and our product wise revenue recognition, we do not disclose that.

**Prateek Choudhary**: My question basically stems from the fact that since we are the leaders and one of our major customers and presuming we have a very high or a single source sort of share of business at present in the 25-tonne category for axles in that particular customers and the other two competitors that we have American Axle and Dana, so this question basically is wanting to assess the risk of us having a reduced share of business in this particular category and how do you see that panning out over the next one to two years or maybe three years?

**Thimmaiah Napanda**: No, competition is always going to be aggressive and they will always be going to do bit more and more like the way we are doing, that risk is always there, so it is all about how well we are positioned with the customers, with the product, which is what we focus on and work towards to see that can we be two steps side of the competition and we work towards that.

**Prateek Choudhary**: Any thoughts or probable action plan on how we might see a difference in terms of the current structure of us supplying to Meritor HVS?

**Thimmaiah Napanda**: No.

**Prateek Choudhary**: And what would be the expected percentage revenue contribution from suspension systems going forward?

**Thimmaiah Napanda**: Again I said we do not disclose the vertical revenue recognition.

**Prateek Choudhary**: Sir one last question, what is the average per unit realization of an axle maybe 30-tonne or 40-tonne Axle?

**Thimmaiah Napanda**: I do not think we can tell that because it is so different because every axle is so different in terms of the requirement from the OEM, even in terms of the scope, so it is very, very different.

**Prateek Choudhary**: Thank you. I will get back in the queue.

**Moderator:** Thank you. The next question is from the line of Viraj Kacharia from Securities Investment Management. Please go ahead.

**Viraj Kacharia**: I just had a couple of question, just coming with previous participant's question on, if you look at just axles alone, we have further two competitors who also have a strong product offerings and they have a technology as well, support from the parent as well, so when we say we have a leadership or we have a headroom to increase our contention what gives us the confidence, based on what parameters we think it is helping us to further increase our wallet share in the future?

**Thimmaiah Napanda**: I do not how to answer that, only think I would say is you please look at our past performance and you should have the confidence that we could perform similar, I know it is extremely difficult task because our competition is also very good and also they have the capability, you know this was there since many years and this will continue to be there in the future.

**Viraj Kacharia**: Second question was if you look at our outlook for FY2020, we are expecting some of it doing flat to minus 5% growth, this is despite as ramping up of suspension business to one customer, now if I look it at the key commentaries of CV OE they are expecting some of it between 8% to 10% growth in FY2020, so where your diversions I mean where are we seeing pressure or so you can just provide some colour on that?

**Thimmaiah Napanda**: No, I think what we are saying is the market is going to be flat as per our assumption or our estimation, if the OEMs, we know that OEMs are talking about 8% to 10% growth, if that comes obviously we will convert that, so this is based on our market assumption of flattish growth and we are saying that we will also probably flattish or little small growth. If the market grows by 10% obviously we will also grow.

**Viraj Kacharia**: And this 30% extra revenue, which you mentioned from a new capacity is basically from this Rs.150 Crores capex, which we will be commissioning, right?

**Thimmaiah Napanda**: Yes, and also some of the Rs.220 Crores what is flowing into this year.

**Viraj Kacharia**: Understood, so if the growth is as per what OEs are expecting for FY2020 then the opportunity for margin expansion is even higher, am I right to take in that way?

**Thimmaiah Napanda**: If the topline grows, yes, the expansion would be that much, yes.

**Viraj Kacharia**: Okay. Fine. Thank you.

**Moderator:** Thank you. The next question is from the line of Ankit Gupta from Bamboo Capital Partners. Please go ahead.

**Ankit Gupta**: Thank you so much for the opportunity. FY2020 we are expecting flat growth, so given in FY2021 because of BS-VI the cost for the CVs are expected to go up, so do we think that FY2021 will also see some de-growth in this for us?

**Thimmaiah Napanda**: Our estimation is market is going to de-grow in FY2021, which means here also direct correlation we have with the market, I think we will have a de-growth, again how much it is one's guess at this point of time because of there are so many uncertainties we are working on, one good thing is we have a continuity of the government, they might bring back the scraping policy, so if that comes some of them will get upset, all these things will get answered over I think next six months, yes, if the market goes down, we will have the impact of that for us as well.

**Ankit Gupta**: Sure, a little bit on how the market is looking like for the next year also and the cost of BS-VI implementation also will be there on both the CVs as well as us, so do you think there can be margin pressure by CV, there can be pressure for them to reduce our sales cost or sales value which can impact our margins post BS-VI implementation?

**Thimmaiah Napanda**: I think so, because this is all again depending upon how the market is going to behave on these increase in cost, there is margin problem is always there for OEMs, if you really see the discounting structure of the OEMs into the market. There has always been their due discount and they struggle. It is there always and it could be there in future as well, yes, they will come back and keep asking what is the price reduction, we need to continue to work on our productivity and cost reduction and help OEMs to be successful.

**Ankit Gupta**: One broad range level question on the how the EVs might impact commercial vehicle industry, let us say for EVs what can be the impact on the axles in the first place?

**Thimmaiah Napanda**: You are saying on the electrical vehicle?

**Ankit Gupta**: Yes, Sir.

**Thimmaiah Napanda**: I think may be in next call we will give you little more colour on that, but you know globally we are working on a concept called E-Axle, which is as an electric motor is integrated in mounted on to the axle itself, and that is one of concept and OEMs are very excited about that concept, Meritor is running around 22 various programs in the US with this concept with OEMs. We are expecting to put another 132 more vehicles in the US market to qualify and validate. If that is the one everybody adopts into then there is the content per vehicle would go up significant for us, axle would convert into E-Axle, which we will have the product, we will bring those products to India and service the customer and at this point of time, I think electrical vehicle penetration is going to be predominately on bus and maybe come in light commercial vehicle and then move into lower side of the medium commercial vehicle. So I think it is a very long shot, but we are very well prepared, we have also invested Meritor, I am saying we in the sense Meritor also invested in a company called Transpower in the US, they are into turnkey electric vehicle solution providers. We own part of the company and through that we are trying to penetrate into their electrical vehicle markets with our product and our interest is only up to axle and the E-Axle which is integrated motor cum axle.

**Ankit Gupta**: Thank you so much. That is very helpful.

**Moderator**: Ladies and gentlemen that was the last question. I now had the conference over to Mr. Sailesh Raja for closing comments.

**Sailesh Raja:** I really would 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. Mr. Thimmaiah would you like to make any closing comments?

**Thimmaiah Napanda**: Thank you very much for showing continued interest in our company and we will try to be as accurate and as transparent as possible as always. Thank you very much. I appreciate.

**Moderator**: Thank you. Ladies and gentlemen, on behalf of Batlivala & Karani Securities that concludes today's conference. Thank you for joining us. You may now disconnect your lines.