



“Endurance Technologies Limited Q1 FY 2022
Earnings Conference Call”

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MODERATOR: MR. NISHIT JALAN – AXIS CAPITAL

Moderator: Good morning, ladies and gentlemen. And a very warm welcome to the Endurance Technologies Q1 FY 2022 Results Conference Call, hosted by Axis Capital. As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing ‘*’ then ‘0’ on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Nishit Jalan from Axis Capital. Thank you and over to you, sir.

Nishit Jalan: Thank you, Ali. Good morning, everyone. Welcome to Q1 FY 2022 Results Conference Call of Endurance Technologies. From the Management Team we have with us Mr. Anurang Jain – Managing Director, Mr. Ramesh Gehaney – Director and COO, Mr. Massimo Venuti – Director and CEO, Endurance Overseas, Mr. Satrajit Ray – Director and Group CFO, and Mr. Raj Mundra – Treasurer and Head of Investor Relations.

I will now hand over the call to Mr. Jain for his opening remarks, post which we can have Q&A. Over to you, Mr. Jain.

Anurang Jain: Thanks a lot. Good morning to everybody. I would like to share details of how we have done in the first quarter of the financial year 2021-2022. In India, in the first quarter of FY 2022, as per the SIAM data, the two-wheeler industries sales grew by 116.9% compared to Q1 of the previous financial year. Scooters grew by 93% and motorcycles grew by 127%. The automotive industry in India had a growth of 138%.

The two-wheeler business, as you all know, is approximately 80% of the Endurance standalone business. As per the SIAM report, the two-wheeler volumes for Q1 of FY 2022 were at 3.54 million numbers as compared to 5.46 million numbers in Q4 of FY 2021. This 35% decrease from Q4 of FY 2021 to Q1 of FY 2022, in two-wheeler sales volumes was mainly due to the lockdowns which took place in the first quarter of this financial year. Against this two-wheeler volumes drop of 35%, Endurance standalone India top line fell by 28%.

In our overseas operations, in Q1 of this financial year, the EU and UK market saw an increase of 66.7% in the volume of passenger cars sold, while our European sales top line grew by 104.8% in euro terms.

I will now brief you on the financials of the first quarter of FY 2022. During Q1 of this financial year, as compared to previous year same quarter, our consolidated total net income grew by 177.9% from Rs. 6,139.7 million to Rs. 17,063.6 million. Consolidated EBITDA grew by 379.8% from Rs. 535.8 million to Rs. 2,570 million. Consolidated EBITDA margin was at 15.1%.

The profit after tax grew by 487.3% from the previous year and was at Rs. 965.5 million at 5.7%. This included the extraordinary expense of Rs. 314.5 million for voluntary separation scheme at our Chakan Pune plant and the income of the Maharashtra PSI scheme incentive of Rs. 287.83 million. If we were not to consider the one-time voluntary separation scheme payment Rs. 314.5 million, then the profit after tax would be Rs. 1,200.90 million at 7%. With the implementation of

the voluntary separation scheme, our company will save Rs. 86 million per annum with a payback of slightly less than four years.

There was no consolidated net debt and the company had a positive net cash of Rs. 4,200 million. During Q1, our standalone total income grew by 221.3% from Rs. 3,603 million to Rs. 11,578 million. Standalone EBITDA grew by 2,270.3% from Rs. 67.35 million to Rs. 1,596.4 million, with an EBITDA margin of 13.8%.

Standalone profit after tax grew by 278.3% and was Rs. 568 million at 4.9%. This included the aforesaid extraordinary expense for the voluntary separation scheme of Rs. 314.5 million, and the income of the Maharashtra PSI scheme incentives of Rs. 287.83 million. If we were not to consider the one time voluntary separation scheme payment for Rs. 314.5 million, then the profit after tax would be Rs. 803.33 million at 6.9%.

We would like to mention that Endurance is focused in both its Indian and European operations for a profitable growth and on growing higher than the industry growth. The detailed financials are available with the stock exchanges and on the Endurance website. I would also like to share certain key points for Q1 of this financial year.

1. 67.8% of consolidated total income, including other income, came from Indian operations; and the balance 32.2% came from our European operations.
2. In India, in this year so far, Rs. 513.8 million of new business has been won from OEMs, which include Hyundai, Tata Motors, Hero Motocorp and Mahindra & Mahindra. I would also like to mention that, in addition, we have Rs. 16,581 million worth of requests for quotes from OEMs, which are being discussed. Our focus is to supply all our four product areas to all OEMs in next two years.
3. I would also like to mention that Endurance is focusing on a more value add and profitable product mix in its future business, which includes :
 - a. 200 cc plus motorcycle brakes and clutch assemblies, with help of acquisition of Adler and Grimeca in Italy in the year 2020.
 - b. Paper based clutch assemblies replacing the cork-based clutch assemblies for motorcycles for a better value add.
 - c. Continuous variable transmissions or automatic clutches for scooters,
 - d. Anti-lock brake systems, or ABS, for 150 cc plus motorcycles with our collaboration with Beijing West Industries.
 - e. 200 cc plus motorcycles, inverted front forks, and adjustable rear mono-shock absorbers, as well as front forks and shock absorbers for electric two-wheelers, with the help of our collaboration partners KTM AG.

We are working with KTM to increase supply of both on-road and also start with their off-road motorcycle higher technology inverted front forks and rear mono shock absorbers, and we have made a three-year plan for it.

- f. We are also focusing on fully finished machined castings as compared to raw castings and semi-finished castings for our two, three and four-wheeler business.
4. Disk brake assembly business is growing with addition of business from Bajaj, TVS, Royal Enfield, Yamaha, Hero Motocorp and HMSI. We are increasing the disk brake assembly capacity from the existing 285,000 brake assemblies per month, to 570,000 brake assemblies a month: and discs, from 375,000 numbers a month to 675,000 per month by the end of this month. A new plant at Waluj has been set up for this increase in volumes. This increase to 570,000 per month brake assemblies a month includes the 45,000 brake assemblies a month at our Pantnagar plant, where supplies have already started.
 5. On 2nd February 2021, we started operations at our new plant at Vallam, near Chennai, to supply machined aluminium castings for Hyundai, Kia, Royal Enfield. We are in the process of acquiring new business from existing and new OEMs.
 6. We are also setting up an aluminium cylinder head low pressure die casting plant at Pantnagar, Uttarakhand, for 720,000 numbers per annum, and operations will start in next month.
 7. We are also happy to inform you that the supply of two-wheeler ABS assemblies will start in the second half of next month, as we are in the final stages of testing and validation. As you may be aware, competition is mainly from Bosch, which controls 85% market share in the Indian ABS motorcycle market, which requires approximately 3.5 million ABS assemblies per annum. This is a large business opportunity for Endurance as there are very few suppliers, and all are foreign companies due to the high technology requirement.
 8. On 3rd May 2021, in our Chakan plant in Pune, we announced a voluntary separation scheme for on-roll workmen, with the aim of improving operational sustainability and plant operations. 177 conformed workmen opted for the scheme, leading to a one-time payout of Rs. 314.5 million. This will also lead to an annual savings of Rs. 86 million, and additional savings in canteen, insurance and other costs.
 9. We also focused on supply of products for EVs - two and three wheelers. We have already started supplies of brake assembly, suspension and aluminium castings for the electric scooters and three wheelers. As you may all know, in FY 2021, total 238,000 EVs were sold in India, including 144,000 two-wheeler EVs, 88,000 three wheeler EVs, and 5,900 four wheeler EVs. Our focus is to supply our EV products to all two and three-wheeler OEMs, both existing and new, including Ola Electric, Ampere, Ultraviolette, Ather and Hero Electric and new startups funded by these OEM's
 10. Due to increase orders from Bajaj and Yamaha, India, we are also increasing our capacity from 240,000 alloy wheels a month to 320,000 alloy wheels a month in our existing Chakan plant near Pune, and the production will start in October 2021.
 11. As far as Europe is concerned, in Q1 of FY 2022, we have won EUR 7.13 million business from Porsche, Daimler, Case New Holland and Stellantis. As mentioned in previous investor calls, I would especially like to point out, that in the last three years EUR 120 million of business has been won for electric and hybrid cars, which has already started in FY 2021, and will reach peak volumes in FY 2024. Therefore, 50% of

existing total Europe business value has already been won by us in the form of EV/hybrid. Out of this EUR 120 million value, EUR 30 million business won is for electric cars for Audi and Porsche, and EUR 90 million euro of business won is for hybrid cars for Volkswagen, Daimler, BMW, Fiat Chrysler, which is now Stellantis, and Maserati.

12. As mentioned earlier, in the year 2020, our overseas company Endurance Overseas SRL acquired 99% stake of the two-wheeler clutch company Adler SPA, and 100% stake of the two-wheeler brake company Grimeca. Both these acquisitions include all know-how, patents, brand and trademarks, which has helped Endurance to enter the 200 cc plus motorcycle clutch assemblies and brake assemblies' market. Where the production of brake assemblies is starting next month is September 2021, and the SOP of clutch assemblies will be more in March-April of 2022.
13. I would also like to point out that Endurance, both in India and Europe, is actively pursuing its focus on gaining access to new technology and focusing on new products, organic and inorganic growth.
14. I would also like to mention that Endurance has also entered two backward integration product areas which are import substitutes also.
 - a. First is our aluminum forging axle clamps required for a growing business of inverted front-forks. Endurance has entered into a technical collaboration with FGM Italy, and production will start at Aurangabad plant from next month onwards.
 - b. The second product is wire-braided hoses for ABS applications for mid and high-end bikes. Happy to inform you that supply has started in June 2021 from our Aurangabad plant.

Both of our projects will help us in our future profitable growth.

15. In the first quarter of this financial year, our aftermarket sales grew by 270% from Rs. 169.16 million in the previous year to Rs. 626.47 million. Aftermarket business was 5.4% of our net India standalone sales in this first quarter. And as I mentioned in the past, our focus is to reach 10% of India's standalone sales in the next two years. We are exporting our aftermarket parts to 30 countries, and we are adding 4 more countries in this year which will make it 34 countries. We also started trading in two and three wheeler tyres for both India and exports.
16. In Q1 FY 2022, the export sales for India standalone business increased by 141% from Rs. 150 million in Q1 FY 2021 to Rs. 361 million in Q1 FY 2022. Our target is to do approximately to Rs. 2,500 million of sales in this financial year, as far as exports are concerned.

Since middle of April 2021, we saw lockdowns in states, which has affected our sales in India. But our team has taken full measures on controlling fixed costs, variable cost and raw material cost with a full focus on a positive cash flow.

On the environment front, I would especially like to mention that Endurance is striving to being carbon neutral in its plants by effective use of solar power and wind power, creating carbon sinks by driving tree plantation and thereby creating dense forests, and driving use of natural gas and LPG in place of electric power and furnace oil. We are also focusing in lowering hazardous waste generation and to achieve zero waste to landfill.

At Endurance, it will be a continuous endeavor to grow through organic and inorganic means, with a focus on technology upgradation, quality improvement, cost and environment health & safety. We will do our best to fulfill all our stakeholder expectations by following our five values of Customer Centricity, Integrity, Transparency, Teamwork and Innovation.

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

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Ronak Sarda from Systematix. Please go ahead.

Ronak Sarda: Sir, the hoses business which you started in June - will this purely be for captive usage or are we also supplying directly to OEMs? Can you also explain how the ABS production will ramp up, over the next six to nine months?

Anurang Jain: Yes. So, as far as the wire-braided hoses are concerned, we started in June 2021, and our supplies are to the OEMs. Now, definitely these wire-braided hoses are being used even for other ABS suppliers like Bosch. So, our supplies are to Bajaj Auto, at present, and in future will be to other OEMs also. Our hoses can be used even for our competition's ABS, and we are fine with that.

For ABS brakes, of course, we will be starting next month with around maybe 2,000 and going slowly up to 20,000 a month by I think March-April of 2022. And as you know, we have a capacity of 400,000, which has been built. We would like to ramp up as fast as possible. But like I mentioned earlier, we have to focus on quality by way of better process controls in our plants. It is a completely new, very high-tech product. So, we would like to go step by step 2,000, 5,000, 10,000, 15,000 and then 20,000.

Ronak Sarda: When do you see us reaching full capacity of 400,000? I mean, will it be by the end of FY 2023?

Anurang Jain: Yes, our target is end of FY 2023.

Ronak Sarda: Sure. But we have visibility of the orders in hand?

Anurang Jain: Yes, we are in touch with a lot of people. The market is 3.5 million, the price is cheaper, the technology is matched with Bosch, so I don't see any issue there.

Ronak Sarda: The Europe business has outperformed industry growth in a fairly significant manner, so what has driven that? And should we expect this to continue for the entire financial year 2022 as well, especially in the scenario where semiconductor issues are now prevalent among Europe OEMs?

- Massimo Venuti:** Yes, if we have to compare the figures of the first quarter compared to Q1 FY2021, it is not so useful because in that quarter, we saw lockdowns. If we compare the first quarter of FY 2022 with Q1 FY 2020, before the COVID situation, the industry lost more or less 21% of volumes. French car makers like Renault had a very large reduction compared to the German competitors.
- But from the market perspective, the problem is that in July 2021, we are seeing a reduction of volume not only compared to 2019, but also compared to 2020. And this is due to the semiconductor situation. COVID continues to be a problem in a lot of countries in Europe, but our expectation is to reach more or less a stable situation starting from October. In the last six months, there was an important reduction of dealer stocks, and now, OEMs have to increase the stocks with the dealers, and thus increase the production. If you analyze the production of the German manufacturers, in the last three months, there has been 200,000 cars lower production compared to the exit quarter, while new car registrations saw QOQ growth.
- Ronak Sarda:** Sure. So, if we compare our top line growth to, let's say, how the production has been, have we still outperformed the industry for the first quarter?
- Massimo Venuti:** Absolutely yes, more or less by 15%, but this is an estimation. Because we have no information on production volumes from OEMs in the UK and France. We have only the information regarding production of Germany, where there was a reduction of 200,000 cars.
- Ronak Sarda:** What will drive growth in exports from India?
- Anurang Jain:** Our exports includes supplies of castings to Getrag, front forks and shock absorbers to KTM, and to the aftermarket.
- Moderator:** Thank you. The next question is from the line of Ashutosh Tiwari from Equirus Securities. Please go ahead.
- Ashutosh Tiwari:** On the aftermarket, we did Rs. 63 crores in this quarter versus Rs. 119 crores in the exit quarter - lower because of COVID impact. , but from July are we reaching those levels of fourth quarter?
- Anurang Jain:** We are very confident that we would soon reach the level of fourth quarter. We are quite confident about all our markets barring a few states like Kerala where still there are rising cases. But I don't think our sale is too significant in Kerala. But things are definitely improving and our target is to quickly reach the Q4 sales levels in the aftermarket. But it must be noted that the month of March always sees a very high sale. So, of course, to answer your question, the target is to reach Q4 levels soon. We have to make up for the weak Q1 in the next three quarters.
- Ashutosh Tiwari:** On this ABS side, what would be realizations?
- Anurang Jain:** I cannot tell you because then you will know the price but it's a high value.
- Ashutosh Tiwari:** In Europe, the Other Expenses jumped quite sharply on a quarter-on-quarter basis. It was around Rs. 127 crores in the previous quarter, and is Rs. 155 crores in Q1.

- Massimo Venuti:** It is only a question of mix leading to changes in Raw Material Costs and Other Expenses. Our topline saw a QOQ increase of 1.3%. If you analyze the cost of material, there is a reduction compared to the previous quarter. And, you see an increase in the line Other Expenses. This change is mainly due only to the different mix of production.
- Ashutosh Tiwari:** What was the change in realization on a quarter-on-quarter, because of the aluminum price increase?
- Massimo Venuti:** Yes, if I consider Q1 FY 2022 against Q4 FY 2021, there was EUR 0.25 increase in aluminium cost per kg. If I consider the Q1 FY 2022 compared to the Q1 FY 2021, the difference is EUR 0.54 per kg. At last year's aluminium price, the EBIDTA margin for Q1 FY 2022 would have been 19% instead of 18.2%, So that's higher margin % compared to the previous financial year where we closed with 18.5%.
- Management:** Thank you. The next question is from the line of Vimal Gohil from Union Mutual Fund. Please go ahead.
- Vimal Gohil:** You spoke about some new orders from new age electric two-wheeler OEMs in India. Please elaborate. Also, what is the degrowth in the European car production numbers for Q1 FY 2022? And what is the outlook for overall FY 2022 in terms of car production for Europe?
- Anurang Jain:** So, as far as the EVs are concerned, as you know, we have already started with Bajaj Auto, and for TVS for the three wheeler EV brake systems. And we are engaged with all the names which I took, Ola, Ather, Ampere, Ultraviolette, Hero Electric. And I had also said we have we have also got a business from Aptiv which makes battery packs for Tata Motors and other vehicles. So, we are very, very actively involved for the suspension and brakes and castings, with all the players. And of course, as you know, the traditional OEMs are also working, I don't think they want to lose the market share, they will do their best to see they don't lose market to the new startups. So, we are engaged with the OEMs as well as the new companies.
- Vimal Gohil:** Please state what portion of your products would be completely ICE dependent and how much would be engine agnostic.
- Anurang Jain:** The only product which is ICE dependent is the clutch. CVT for scooters has not started yet, but we will start as we are working with both Hero Motocorp and HMSI. So, the product which will be totally dependent on IC engine would be the clutch for motorcycles and three wheelers. Our clutch business which is approximately 5% of our consolidated business or 7% of our India business, is 80% approximately for motorcycles and 20% for three wheelers. So, unless these motorcycles and three wheelers become 100% electric we won't lose the whole 5% business. I don't see motorcycles electrification happening that fast because of the higher speed levels, higher performance criteria. But scooters and three wheelers will move to EV faster.
- Vimal Gohil:** Sir, what about castings? Would they be very relevant in EV, especially EV scooters, etc?

- Anurang Jain:** There is no issue on the content of the vehicle when it comes to the aluminium content in kg. The type of castings are changing. So, if we had for IC engine, cylinder head, cylinder blocks, crankcases and covers, now there will be battery housings, both upper and lower, case transmission left and right, various types of plates. So, there are many types of castings which are there, which are not used today for an ICE. So, basically, the shape, sizes, the type of castings are changing, but the content is not changing. Also, like I mentioned in the past, castings businesses has so many opportunities, and there are very few players with capabilities.
- Vimal Gohil:** You will be able to engage with these new age startups as well, as well as existing OEMs for their electric vehicle ambitions?
- Anurang Jain:** Yes. Absolutely.
- Vimal Gohil:** Most of them will be looking for aluminium casting because of light-weighting, etc., so you think you are well prepared for that?
- Anurang Jain:** Absolutely. We are we are indeed well prepared. In fact, we are getting into structural aluminium castings for two-wheelers also, so these are new parts we were not doing so far.
- Vimal Gohil:** What is the outlook for car production for FY 2022, in Europe?
- Massimo Venuti:** It's very difficult to predict the future, but we did an exercise where we took the actual January-June 2021 car sales data and projected the data for July-December 2021 at the same level as July-December 2020. With these assumptions, the market was expected to grow 11.8% compared to the previous financial year. That is the best estimate, and let me say this is an optimistic view. If we consider that in July, we have a reduction of about 24% compared to the previous year in volumes, and this is the trend of new car registrations in most EU countries: Italy was minus 19%, Germany was minus 25%, France was minus 35%, Spain minus 29%. However, we believe that there will be an increase in the total volume for this financial year by 10%,-11% compared to the previous financial year.
- Moderator:** Thank you. The next question is from the line of Sonal Gupta from L&T Mutual Fund. Please go ahead.
- Sonal Gupta:** Sir, just continuing with the question on castings... you said you are supplying cylinder head, cylinder block, etc, which might be fully machined castings. So, these are very high precision castings and the content therefore and the value add is fairly high. Versus that if you were to get into EV structural castings, won't the value add be much lower, I am just trying to understand.
- Anurang Jain:** I don't believe so. EV castings are as complicated. We will have similar machines, machining centers with only fixtures requiring to be changed. In fact, as per my understanding, battery cases and transmission are more complicated than the existing parts.

Sonal Gupta: You spoke about Aptiv on the battery pack housing side – is that order for your castings business?

Anurang Jain: Yes.

Sonal Gupta: The government is clearly showing its intention to accelerate the EV transition. If the industry volumes, say, on the ICE side don't really grow beyond FY 2023, then do you still see growth for yourself?

Anurang Jain: Yes, we see the growth coming for us due to a few factors: One - we are not supplying all our four products to all the OEMs, we are only supplying all 4 in a major way today to Bajaj, REML. Also, we plan to increase our share of business also in some OEMs.

Thirdly, we are working on value-add and better product mix which I mentioned in my opening remarks. The fastest growth I see is in brake segments. Brakes is going to see CBS supplies to all OEMs. We have got good orders and we are setting up a second plant in Aurangabad, which will be starting by September. Then we have the ABS; we have the inverted front forks where we have got new order from HMSI apart from Bajaj and KTM business increasing; we have more clutches being with paper based clutch plates; also we will be adding CVT for scooter where we are not present today. We are going into fully machined castings, and are adding a lot of new four-wheeler business like Hyundai and Kia - we have received Rs. 250 crores of business mainly fully machined and this business is growing. We are adding business for non-automotive applications. Here, we are in advanced talks which will be mainly done in our plant in Chennai. So, we are looking at a lot of new possibilities which are going to definitely take place for our existing four products.

The only concern in clutch business, but there also 80% is for motorcycles, and I do not believe EV will come into motorcycles in a big way soon, because of the high performance criteria and the cost. Some day it may happen, but nobody can predict the future. I do not see any kind of risk for our business whether it is with existing OEMs or it is with the new startups with which we are fully engaged and they fully recognize our strengths on technology, on pricing, on quality and our ability to introduce the products first time right.

So, they know we are a leader in our product verticals in the Indian auto component industry. That is why they are all engaging with us though we were a bit late. Earlier we only wanted to deal with OEMs, but now we are fully engaged with well-funded startups as well.

Participant: EV would not have to go to regenerative braking. Is your current brake type valid for EV?

Anurag Jain: The brake types are similar. This one EV customer has even been evaluating an ABS option. I have not heard of any major change in brake types so far, from any of our two or three-wheeler OEMs.

Participant: But are we looking at that building a capability on that side?

Anurag Jain: Once that opportunity comes and there is customer requirement, we will get the technology - that is for sure. We would have to watch whether the Indian consumer is willing to spend that kind of money on a two-wheeler with already so many new things being added up to the cost of a two-wheeler.

Participant: I mean like because longer term I would think that I mean because that is a range is the ultimate issue in the size of the basket?

Anurag Jain: We are very closely engaged with our OEMs. So, today whatever product upgradations are happening they are happening with a line of sight which they give us and they are the best people to judge the market requirement. We are working on many other new product upgradations which I cannot talk about. So, we are always ahead by knowing OEMs thought process for the coming two years, three years, four years, and accordingly we get ready for the same.

Participant: Industry is clearly going through a disruptive phase and the existing OEMs could fall behind in terms of their technology roadmap or their speed of inflection and you could have new players coming in, so just relying on the existing OEMs may not really work.

Anurag Jain: We are engaged with all the new EV players who matter in two and three-wheeler space. Four-wheeler EV yet has not really picked up - we only see the Tata Nexon and the MG Motors - otherwise there are hardly any sales of EVs for four-wheelers, but we are totally engaged to be present and meet customer requirements, for instance we recently took an order for four-wheeler battery packs. We are engaged with each and every new player who matters and like I said they recognize our strengths in our product verticals. So, I am very confident that we will get new business from them also.

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

Nitin Arora: New EV OEMs have selected different players for their aluminum casting requirements - Ultraviolet, Revolt would have selected vendors. What is the reason that breakthrough has been done in any of the players? Would a new startup or an OEM change existing suppliers and buy from Endurance?

Anurag Jain: The technology and price always gets you into a business and quality sustains it – through low customer complaints and warranties. Quality gets the highest vendor rating from all customers, and that is our strength. Also, one of our biggest strengths is our cost structure because of our purchasing power, and the partnering with vendors under the umbrella of Endurance Vendor Association. Price will be a very key factor to get business. Being cost competitive and having the technology will be a big factor to get in new business even with the new players and I am very confident of being able to get this new business.

Moderator: Thank you. The next question is from the line of Pramod Amthe from InCred Capital. Please go ahead.

Pramod Amthe: This is with regard to your aluminum casting business expanding into non-auto and tractors - what is going to drive this? Are there any regulatory changes which are happening or are these import substitutions?

Anurag Jain: These are, what we call, adjacencies which are non-automotive applications. So, these are new requirements that the Make in India drive is helping. Many of the foreign players are coming into India and their products have aluminum castings, fortunately. Make in India focus which our Prime Minister has brought in is leading to certain plants which are coming up and we are really engaging with them for large orders. So, in castings the adjacency business will be quite attractive for us in future.

Tractors is not adjacencies. It is just a new business for us - we were not into tractors. With Mahindra and Mahindra we have won this very good business, we are very closely interacting with them also for their other automotive business,

Pramod Amthe: And with regard to the ABS where there is monopoly of one player. They have the technology offering, and you have the technology tie up. What is the extent of the attraction you offer on the price over the leader and how do you achieve those cost levels to reach the price difference between you and the leader?

Anurag Jain: To be able to expand business, the new player has to be cheaper. In a 3.5 million market, we are only setting up a capacity of 400,000 and thus we have a long way to go.

Our price offering is because of our cost structure in the plants. We do outsourcing of non-critical operations. We have a very strong Endurance Vendor Association where we have back-to-back pricing adjustments with 90% of the suppliers. Our purchasing strengths and understanding with our suppliers, our cost structure in the plants, many of which are multi product make us more efficient and helps us to bring down the breakeven point. We have done lot of consolidation of plants. So, cost wise I would say a lot of initiatives have been taken on outsourcing, on better purchasing, on consolidating plants on achieving lower fixed costs through voluntary separation schemes that we did for long term better margins. So, I think we have continuously worked especially I would say in the last 10 to 11 years to make our cost structure very lean so that we can offer better prices to our customers because price will be a major driving factor along with technology.

Pramod Amthe: Specifically, for ABS what is the price difference you will start with and will it merge gradually?

Anurag Jain: I cannot give the price difference. I can only tell you we will be cheaper. We have the technology and are cheaper. Our major focus now will be on quality. So, better process control, inspection system in our plant so that we can offer better and more consistent quality so we have no customer complaints and warranties from the customers. I would say if you ask me our focus will be more there. I am not worried about the business. The clearances has taken us three years and it has been a tough journey as it is not easy to match Bosch's standards. Now that we have achieved the clearance, our focus would be more on quality.

- Moderator:** Thank you. The next question is from the line of Arvind Sharma from Citi. Please go ahead.
- Arvind Sharma:** Sir first question on the domestic business - how much was the operating deleverage impact on first quarter - just trying to understand steady state run rate for your domestic business. I understand there is near term uncertainty because of COVID, but still how much you think specifically in the first quarter FY22 would have been the impact of production dislocation?
- Anurag Jain:** We lost 28% of top line sales compared to QIV.
- Arvind Sharma:** The 28% quarter-on-quarter impact – was it because of COVID?
- Anurag Jain:** We have 18 plants and if any of the plants for example is for a customer A and if this customer has been worse hit, then that plant suffers. As you know Bajaj and TVS numbers were shored up because of export volumes, which did better. So, what happens is when we have a plant which is specific to those customers which are depending on domestic and are not manufacturing because the dealers was closed, it becomes a challenge. So when you talk about a 28% hit we have to look at it from the perspective of each of the 18 plants - how they have been hit. That is why our focus is to make our plants multiproduct. Of course we are doing everything possible to improve efficiencies and also doing outsourcing to our vendors - so the risks are less, the CAPEX is less. So, this has been a continuous effort and focus in the last 10 years. I think that is the only way forward.
- Arvind Sharma:** When things will get to normal? The quarter run rate should be eventually 20% to 30% more than what we saw in first quarter - is that the right understanding?
- Anurag Jain:** Even sitting now I am very optimistic about September and the second half of this financial year because in a COVID time one can have a pent-up demand. I agree FY20 was not a good year for the automotive industry I mean I am a firm believer that this market is for annual 24 million, 25 million in two-wheelers and even in a COVID year last year I think we closed at 18.2 million two-wheelers in India with the first quarter practically lost last year. So, I am sure the demand will come back - it is a question of time, it is a sentiment issue when COVID hits you the way the COVID hit us; COVID 2 had four times the impact of COVID 1. So, of course this does affect people and I would say the rural sector was more hit in COVID 2. So, I think once the sentiments improves, I am sure demand will come back.
- Arvind Sharma:** In Europe, how much of your business would be engine agnostic and how much would be engine-dependent in Europe?
- Anurag Jain:** Today our parts are 40% for engine in overseas, 50% is in transmission which is of course EV agnostic and even body parts and others which is also EV agnostic.
- Massimo Venuti:** At this moment, the percentage of engine is around 45%, but please consider that a lot of these parts are for engine for hybrid application. So, the problem for the future is mainly to understand the velocity of transition to EV. In the first quarter FY 2022, electric vehicles comprised 7.5% of new car sales. 42% continues to be gasoline, 20% diesel and 27% in hybrid technology. So,

in this moment our main production is dedicated to the hybrid vehicles because if you consider the most important product that we are producing is going into engine with hybrid technology. In the European market, preference for hybrid is a reality, because the sentiment of the people is completely in this direction. I do not believe that we can have problem to maintain this component in the next five or six years, compared to transmission or component for the electrical vehicles. The level of incentives from governments for electrification will also be a factor.

Arvind Sharma: Request you to state European revenues, EBITDA and PAT in Euro terms for this quarter?

Massimo Venuti: In this quarter 18.2% EBITDA was achieved, and if I offset the increase of raw material costs, EBITDA should have been 19%. In my opinion, we can continue to maintain this level of EBITDA because our target is to compensate reduction of volume with efficiency in order to maintain the profitability.

In the quarter, we did 62.3 million euros of revenue, with Euro 11.3 million EBITDA and Euro 4.7 million net profit - 18.2% of EBITDA and 7.6% of net result.

Moderator: Thank you. The next question is from the line of Priya Ranjan from HDFC Mutual Fund. Please go ahead.

Priya Ranjan: I just wanted to understand little bit on the order book - can you split your order book in say motorcycle and scooter terms - if scooter is going to be flat or declining due to electrification, then how much impact we might have in your existing order book?

Anurag Jain: The Rs. 513.8 million order we have won this year has largely been for castings and these are largely machined casting to Hyundai and Tata Motors and Mahindra. On the proprietary front, there were some brakes orders. Basically, it was all new business - there was no replacement business in this quarter.

Coming to breakup of our sales between motorcycles and scooters, scooter will be much smaller. Our scooter parts are mainly for HMSI. The major business we won was for the scooter front fork and shocker with the highest share of business to our Sanand and Kolar plants. Apart from that, major orders that we have won in recent years, have largely been for motorcycles and for the four-wheeler fully machined casting space.

Priya Ranjan: Can you throw some light on the price realization gain in the quarter and how much is under recovery in terms of aluminum price hikes?

Anurag Jain: In this quarter if I do not take the PSI incentives the RMC increase was about 0.6% of sales. This was basically due to increase in prices of aluminum alloy and various types of steels also. So, aluminum alloy saw an increase of almost 13% and even steel prices went up by more than 8% and this trend is continuing. So, definitely you will see that the RMC % to sales is going up so that also mathematically is affecting our EBITDA margin percentage.

Most of the cost increase realizations have happened there could a one quarter lag normally. So, apart from that lag it is a continuous price adjustment process. For some customers, if there is an increase in the first quarter we will get it from effective next quarter. Some customers give you in that quarter itself, like Bajaj. So, one thing which is good which has happened from this quarter onwards is there are no spot increases which I had mentioned in Quarter 3/ Quarter 4 results of last year. Those increases took us by complete surprise and the suppliers were just dictating terms to us. So, that is a positive part, but the negative part is if the increases are continuing to happen in the alloy and steel so the RMC % to sales will continue to grow till some kind of normalization takes place.

Priya Ranjan: But that will benefit you in the top line also, so I mean absolute EBITDA should not change much?

Anurag Jain: Well, if you all do not mind seeing a slightly lower EBITDA margin percentage, I am fine with it.

Priya Ranjan: Any under recovery you can talk about?

Anurag Jain: No, I cannot think of any under recovery because there were no spot increases in Q1.

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

Aditya Jhawar: We have been talking about adding couple of product lines - it would be great if you can share some timelines on that?

Anurag Jain: We are engaged with at least four projects and I cannot tell you what they are, but our aim this financial year is to do at least one. The targets are selected based on market size and growth potential and technology products with barriers to entry, profitability, ROCE, less number of players and EV agnostic. I might tell you more in the next call.

Aditya Jhawar: Sir if you can help us understand that what would be the aggregate value of casting components supply to Bajaj, Chetak versus that supply to Honda Activa?

Anurag Jain: We do not have the figures now, but it will be quite similar - the casting, suspension and brakes will be quite similar. Of course, there would not be a CVT in there for sure.

I think overall the value will be higher to Chetak, because we are not supplying scooter brakes to HMSI.

Aditya Jhawar: We are supplying products like suspension braking casting for Bajaj Chetak. What about products that we can target for TVS specifically and other players in EV?

Anurag Jain: See we are engaged with all these guys and when we win the orders we will tell you.

- Moderator:** Thank you. The next question is from the line of Harsha from Marcellus. Please go ahead.
- Harsha:** Sir in FY21 the amount of debtors have gone up as compared to FY20 and it is mainly because of standalone entity so two questions so why the increase and where do we stand now?
- Satrajit Ray:** Your question pertains to March 2021. It does not pertain to this quarter - right?
- Harsha:** In June 2021, where would the number stand?
- Satrajit Ray:** For June, we do not disclose balance sheet, so you have to wait till September. Now as far as March is concerned there was extremely high sales in March 21 as compared to March 20. Our debtors in days calculated on sales grossed up for taxes and duties reflect our credit period – which is on an average between 40 days to 45 days. It is the skewness of sales compared to previous year which is probably leading to distortion in your ratio calculation.
- Harsha:** You have mentioned few value-added products at the beginning of the call - what would be the revenue contribution from these 7-8 products and the difference in margins in those products over others?
- Anurang Jain:** That is a very difficult question to answer because some we have started, some we will be starting. Sales of these products is growing. For example, paper clutch assemblies is finding traction in 125 CC upwards; front forks business is growing. We are doubling disc brake assembly business. Semi-finished castings as % of total is already at 75%, but in fully finished we may be at about 30%, but by next year our target is to reach at least 35% fully machined - all new orders we are taking for fully machined castings. But I cannot put a figure right now. It may be a good idea to keep track in the future.
- Harsha:** And difference in margin in the value-added products?
- Anurang Jain:** The margins are better but you do have CAPEX when product mix is changing with more value-add.
- Moderator:** Thank you. We move to the next question which is the last in queue from Aditya Makharia from HDFC. Please go ahead.
- Aditya Makharia:** Just on the inorganic opportunity, I did not get what you said about looking to buy something which gives you EV capabilities?
- Anurag Jain:** Our growth into new products could be organic with foreign technology partnership, and some are acquisitions.
- Aditya Makharia:** Are you actively talking or it is just something which could happen over the next one to two years?
- Anurag Jain:** We are actively engaged.

Aditya Makharia: Your earlier acquisitions have been fairly small - they have given you lot of capability – as in the case of the Italian companies you acquired. But the turnover is relatively limited. I guess that is the thought process you are moving ahead with - right?

Anurag Jain: Overseas, we have to be very careful about the people because with uncertainties in business and the way we have seen volumes fluctuations from 2007 we have to be very careful because people can become the biggest cost liability for the future. So, in the past in Europe we always took companies with good management and space to put up our green-field new business opportunities. We will have to look at the market size and the growth potential. This should be technology products with barriers to entry and the margins should be good, and it should be EV agonistic.

Aditya Makharia: Just last question there is no leverage which will take on the balance sheet which you have never taken so far that is it from a capital allocation point of view?

Anurag Jain: In the line of sight we have, fresh loans will not be sought.

Moderator: Thank you very much. That was the last question in queue. I now hand the conference over to the management for their closing comments.

Anurag Jain: I said what I wanted to inform to all the investors and I just want to say that we will keep doing our best in this very uncertain times. So, we will continue to focus on profitable growth and higher than industry growth - both in India as well as overseas.

Moderator: Thank you very much. Ladies and gentlemen on behalf of Axis Capital that concludes this conference call for today. Thank you for joining us and you may now disconnect your lines.