"Endurance Technologies Limited Q3 FY2020 Results Conference Call"

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

Moderator: Good Morning, Ladies and gentlemen. Welcome to the Endurance Technologies Q3 FY20 results conference call, hosted by Axis Capital 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. Nishit Jalan from Axis Capital Limited. Thank you and over to you.

Nishit Jalan: Thank you so much. Good morning everyone. Welcome to the Q3 FY2020 results conference call of Endurance Technologies Limited. From the management team, we have with us, Mr. Anurang Jain –Managing Director; Mr. Ramesh Gehaney - Director and COO; Mr. Massimo Venuti –Director and CEO, Endurance Overseas; Mr. Satrajit Ray – Director and Group CFO; and Mr. Raj Mundra – Treasurer & Head, Investor Relations. I will now hand over the call to Mr. Jain for his opening remarks, post which, we can have Q&A. Over to you, Anurang.

Anurang Jain: Thank you very much and good morning everybody. I would like to share details of how Endurance has done both in the third quarter and the first 9 months of 2019-20.

The first 9 months of 2019-20 have been tough for the two-wheeler industry, which constitutes 78% of the Endurance sales in India. As per the SIAM data, the two-wheeler industry sales degrew by 12.8% compared to the first 9 months of the previous financial year. In two-wheelers, scooters degrew by 15.7% and motorcycles degrew by 10.9%.

On the financials, I will briefly talk to you about the third quarter of 2019-20, and then about the first 9 months of 2019-20.

During Quarter 3, as compared to previous year same quarter, our consolidated total income degrew by 9.3% from Rs. 18,223 million to Rs. 16,525 million. Consolidated EBITDA grew by 3.9% from Rs. 2,623 million to Rs. 2,724 million. Consolidated EBITDA margin percentage was 16.5%. Profit after tax grew by 28.5% from Rs. 966 million to Rs. 1,240 million. The profit after tax percentage increased from 5.3% in Quarter 3 of previous year to 7.5% in Quarter 3 of this year.

During Quarter 3, our standalone total income degrew by 12% from Rs. 13,307 million to Rs. 11,709 million. This included a 4% degrowth due to metal price decrease mainly in steel and aluminum. Therefore, the net sales degrowth is 8% in Quarter 3. Standalone EBITDA grew from Rs. 1,646 million in Quarter 3 of previous year to Rs. 1,737 million. EBITDA margin percentage improved from 12.4% in Quarter 3 of the previous year to 14.8% in Quarter 3 of this financial year. The standalone profit after tax grew from Rs. 629 million in Quarter 3 of previous year to Rs. 902 million in Quarter 3 of this year. The profit after tax percentage increased from 4.7% in

Quarter 3 of previous year to 7.7% in Quarter 3 of this year. Quarter 3 includes mega-project incentives of only Rs. 12.59 million.

I will now brief you on the financials of the first 9 months of 2019-20. During the first 9 months of this financial year as compared to the previous year our consolidated total income degrew by 5% from Rs. 56,316 million to Rs. 53,511 million. Consolidated EBITDA grew by 11.8% from Rs. 8,256 million to Rs. 9,231 million. Consolidated EBITDA margin percentage improved from 14.7% to 17.2%. Profit after tax increased from Rs. 3,464 million in the previous year to Rs. 4,587 million. The profit after tax margin percentage improved from 6.2% to 8.6%. This includes the mega-project incentive of Rs. 944.7 million.

The consolidated ROCE was at 23.5% and ROE was at 21.3%. The consolidated net debt was at Rs. 881 million and the net debt to equity ratio was 0.03:1. The asset turnover was 2.06 times.

During the first 9 months of 2019-20 our standalone total income degrew by 6.2% from Rs. 40,887 million to Rs. 38,358 million. This includes the 2.2% degrowth due to metal price decrease. Therefore, the net degrowth is 4% in the first 9 months. Standalone EBITDA was at 6,276 million the EBITDA margin percentage improved to 16.4% as compared to 13.1% in the previous year. Standalone profit after tax increased from Rs. 2,476 million in the previous year to 3,558 million with the profit after tax percentage increasing from 6.1% in the previous year to 9.3%. This includes the mega-project incentives of Rs. 944.7 million. The standalone ROCE was at 25.7% and ROE was at 20.4%. The standalone net debt was at Rs. 572 million and the net debt to equity was at 0.02:1. The asset turnover was 2.14 times.

In the last 9 months, the low level of debt and tight control on fixed cost and raw material cost has enabled us at Endurance to maintain a strategic focus on long term value creation, even in these times of prolonged degrowth.

The detailed financials are available with the stock exchanges and on the Endurance website.

I would also like to share certain key points on the first 9 months of 2019-20,

1. 72% of our consolidated total net income including other income came from Indian operations and the balance 28% came from our European operations.
2. In India there was sizable growth in business mainly with Hero MotoCorp by 22%. It is important to note that in the first 9 months of 2019-20, in spite of the Indian two wheeler industry degrowth of 12.8% and the total auto industry also degrowing by the same 12.8%, Endurance standalone business degrew by 6%.
3. In Europe, in the first 9 months of the year we acquired 22.5 million euro of new business with Volkswagen, Fiat Chrysler and Maserati.

In Europe in the first 9 months of 2019-20 our European operations have posted a total income growth of 1.7% in euro terms and we mainly grew 48% in euro terms with the Volkswagen group which included Porsche.

Our top 5 customers in Europe of course are the Volkswagen group including Porsche and Audi which has become the highest share of business for us; then Fiat Chrysler Group , Daimler, BMW and Opel which is now part of Peugeot.

4. In the first 9 months of 2019-20 aftermarket sales in India grew 9.6% from Rs. 1,958 million to Rs. 2,147 million which included both the domestic and the export sales.
5. Since April 2019 Rs. 4,633 million value of business has been awarded in India and we have Rs. 13,160 million of request for quotes of new business in hand, which does not include the Bajaj Auto new business. This new business is mainly from Kia Motors, HMSI, Hero MotoCorp, Royal Enfield, TVS and Tata Motors. This includes new product platforms and replacement business.
6. The status of our new plants are as follows:
   - Our Kolar plant in Karnataka for supplying the scooter front fork and shock absorbers to HMSI had started in September, 2019 and had reached 4,000 sets of scooter front fork and shock absorbers per day in this month. In our Sanand plant also in Gujarat, we have also reached 4,200 sets of scooters front fork, shock absorbers for HMSI from this month. Both these plants include the replacement of the scooter shock absorbers to front forks. As I mentioned here earlier this total business is approximately Rs. 3,000 million per annum; so we have already reached a peak from this month onwards.
   - In Chennai, our second die casting and machining plant at Vallam will start from next month - March 2020. The customers to start with will be Royal Enfield, Kia Motors and Hyundai.
7. As our inverted front fork orders are almost doubling in the next 2 years, and as I mentioned earlier, we are entering the aluminum forging business so as to start making axle clamps and other forgings required for the inverted front forks in-house. We have signed a technical collaboration with FGM in Italy. This project will help increase our profit margin also on the inverted front forks and give a huge opportunity to Endurance to grow this aluminum forging proprietary business for not only the two and four wheeler aluminum forging requirements, but this will also include the electric vehicle requirements. The supplies will start from July 2020.
8. As far as the ABS brakes is concerned, it is getting late. We are doing our best to get the ABS test clearance from our first OEM, in the first quarter of the next financial year. So as I mentioned the initial capacity will be 250,000 ABS brakes which we can easily increase

in a few months to 400,000 units. So the business is anywhere between 750 million to Rs. 1,200 million for us to start with.

9. As far as TVS is concerned, we have taken new disc brake assembly as well as front forks and shock absorbers orders.
   As I had mentioned the front forks for motorcycles has already started and from this month we will be starting the disc brake assemblies to TVS. As we speak, we are in the process of getting further orders on brakes and suspension products both for two wheelers and three wheelers from TVS.
10. I am also happy to inform you that our 29 acre test track at Aurangabad is completed and all testing have started for our two and three wheeler products. The testing association ARAI and the OEMs have already started to use our test track for their tests also. We would like to invite all of you to come and see it. This track is one of the best test tracks for two-three wheelers testing in India and as mentioned earlier it will help us give "first – time right" products to our OEM clients.

Going forward, we see a large increase in our business volume and value by way of:

- Entering new product areas of aluminum forgings.
- Increasing our supply of technology upgraded products including paper based clutch assemblies, combined braking system up to 125 cc motorcycles, rear disc brakes, ABS for 150 cc and above two-wheelers, inverted front forks and advanced rear shock absorbers in high cc bikes with the help of KTM and fully machined castings for two-wheelers, three-wheelers and four-wheelers.
- We are also increasing our business with Hyundai and Kia Motors, and as mentioned earlier we have already received Rs. 2,790 million per annum of business which will see peak sales in 2021-22. Our next year's plan is to reach Rs. 1,500 million per annum of this business.
- Also at HMSI, as I mentioned earlier, the 2.76 million scooter front fork and similar level of shock absorbers have now achieved peak sales from this month and this will be at Rs. 250 million per month or Rs. 3,000 million per annum.
- We are also going for increasing our business as mentioned with TVS for two and three wheeler brake assemblies, front forks and shock absorbers and we also have RFQs for clutch assemblies. So this will also be a growth path for the future.
- Our strengthening partnership with KTM Components will help us substantially increase our front forks and shock absorbers exports, to KTM Europe and China plants with latest technologies including electronic suspensions and supplying suspensions for e-bikes and electric two wheelers. These projects are already in talks and we are going to start these very soon.

We at Endurance are continuing to focus to grow higher than industry by

- increasing our share of business with existing clients,
- adding new clients,
- adding and upgrading to latest technologies required in our product areas through collaborations and have in-house R&Ds.
- Focusing on growth in new product areas
- increasing aftermarket and export business and
- looking at inorganic opportunities both in India and Europe.

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

Moderator: Thank you. Ladies and Gentlemen. We will now begin the question and answer session. The first question is from the line of Aditya Jhawar from Investec. Please go ahead.

Aditya Jhawar: Anurang if you can explain, this was the first quarter where our growth was broadly in line with two wheeler industry, despite your key customer Bajaj doing relatively better, as well as new orders getting commissioned. Similarly, in case of Europe our OEM production was relatively better, but still the growth was quite muted. Please explain these two disconnects.

Anurang Jain: As far as the 9 months industry degrowth is concerned, motorcycles degrowth was about 11%, and scooters had de-grown by 15%. The total degrowth of two wheelers was about 12.8%. Degrowth in 2W sales was 11.2% for Q3. In Q3, ETL standalone sales fell 12%, largely because of material prices. In this third quarter 4% degrowth out of total 12% is because of aluminum and steel prices dropping. Aluminum is 60% of our purchases, because apart from aluminum die-casting, we also use aluminum for proprietary parts, a lot of aluminum is used whether it is for clutch assembly casting, inverted front forks, bottom case castings, shock absorber. Aluminum price has fallen by almost Rs. 15 a kg for which is about 10% decrease. Similarly for steel and for all steel tools, spring steels, sheet metal parts which are about 20% of our total purchases. This has also de-grown by about Rs. 7.5 a kg. Now in Quarter 3, we have seen such a big decrease in metal prices which was not so sharp in the first two quarters. So even though we are showing a 12% degrowth in sales 4% of it was because of material. So the way I would put it is we have de-grown by 8% versus 11% of the industry sales volume degrowth. Industry production volumes decreased by 13.2%

Aditya Jhawar: Was it the same reason for Europe business as well?

Satrajit Ray: Massimo would be giving you the growth numbers in Euro terms. The fundamental change between Q3 and Q3 on YOY basis is that rupee appreciated vis-à-vis Euro. So in rupee terms you see a very small degrowth, but in Euro terms there is a growth. So Massimo will explain the growth in Euro terms.

Massimo Venuti: In the third quarter of 2019-2020, new passenger vehicle registrations in Europe grew by 11.5% as compared to the same quarter of the previous year. The sales jump in December was by 21.7%, caused by announcement of significant changes to CO_2 emissions based taxation for 2020. Major market sales were up - Germany by 13.7%, France by 12.2%, Italy by 7.3% and Spain by 5.1%.

At Endurance Overseas, we closed the quarter with a growth of 4.3% as compared to same period in previous year and if we consider same level of aluminum prices the growth would be at 7% level. Also, in Europe there was an important change in inventory for all the OEMs. New car production has lagged behind new car registrations. Despite an increase in car registrations in 2019 as compared to 2018 of 5% in Germany, we had a reduction in terms of production of 9% and reduction in terms of export of13% over the same period. In the month of December, even if there was an increase of 20% in new car registrations, there was a reduction of 14% in terms of exports and 7% in terms of production. Thus all the customers are reducing the stocks. Yesterday morning, we had received the official numbers for the month of January. In January, there was a reduction of 5.9% in Italy, 13.4% in France, 7.6% in Spain and 7.3% in Germany and the production in the month of January was negative by 9.3% in Germany. So, our revenue growth for the quarter of 4.3% should be seen in the light of sharp degrowth in car production.

Aditya Jhawar: This quarter, there was a lower recognition of the incentive. What could be the reason for that?

Satrajit Ray: We follow mercantile basis of accounting for incentive recognition. It is recognized upon certainty of accrual, which is achieved upon conclusion of sales and booking of GST liability in the state of Maharashtra. Accordingly, based on the intra-state sales and the SGST payable thereon in each quarter, the incentive is recognized. So we had pretty much consumed the appetite for 19-20 in the first two quarters itself.

Aditya Jhawar: So what would be expectation for Q4?

Satrajit Ray: Q4 there is nothing. It is all over now for this financial year.

Anurang Jain: We will not get any more mega-project incentive in this financial year.

Aditya Jhawar: In terms of new order wins, did you mention that in the total order wins, there is no order of Bajaj included?

Anurang Jain: In new orders wins Bajaj orders are not included whether it is additional order, new products or KTM, I have not included that.

Aditya Jhawar: The targeted ABS order of 250,000 - which OEM you mentioned?

Anurang Jain: Bajaj Auto.

Moderator: Thank you. The next question is from the line of Pramod Kumar from Goldman Sachs. Please go ahead.

Pramod Kumar: My first question is on the wallet share. I think historically we have been highly skewed towards Bajaj and we have made massive diversification with other brands. Please share your wallet share with different manufacturers and where would you aspire to be with especially newer customers like say TVS or even Honda?

Anurang Jain: See as far as Bajaj Auto and Royal Enfield are concerned our share of business is almost I would say 80% because they are very old OEM clients of us. As far as HMSI, Hero, Yamaha and TVS are concerned, this depends upon product-to-product, somewhere volumes are lower but we had 100% share, but if you see today this Rs. 3,000 million order we got from Honda, which I have been talking about since last 18 months, our share of business is 70% of both scooter front fork and shockers. So it depends on product-to-product. Now for example TVS,, we already have started brakes from this month for Apache and we already started scooter front forks from last September- October. The share of business was one-third ie 33%. Our view is to continuously upgrade products, technologies and try and get started with a smaller share of business - could be one-third - and then increase it based on your quality, cost, performance and in terms of new product introduction in course of time. So our focus will be to just take more business and that is the reason I said that we have already taken Rs. 4,632 million of business which will start from next year and we have got a 13,000 million of RFQs which are under finalization.

Pramod Kumar: And is this with all the manufacturers combined the RFQ number that you talked about?

Anurang Jain: The RFQ numbers are with most of them - Royal Enfield, TVS, Yamaha, HMSI, Hero, Tata Motors, Suzuki. We are also talking about some exports to some big European OEMs for aluminum casting fully machined. We at Endurance have no control on the external factors; we are going after business where our profits grow higher than our sales. You can see, with a mega-project incentive of hardly Rs. 12 million in third quarter, our EBITDA and PAT amount is more than the previous year, in percentage and also in absolute terms. You can see the focus on operational efficiency and focusing on the material cost control. Endurance Vendor Association, which we started 7, 8 years ago, is a big strength for us. So we believe in only profitable growth - that is what creates value. No company can control external factors. So we are focusing on making more money and going after new business; that will be our focus in Endurance.

Pramod Kumar: And related to that we understand in Q4 some of the two wheeler companies have already highlighted that they are facing production constraint on the BS-VI ramp up relating to some exhaust parts or something like that. Does that impact your dispatches as well?

Anurang Jain: Even if we leave aside the new business we are starting with TVS and the HMSI scooter front fork/shockers big business of Rs. 250 million extra per month, we can expect strong months ahead. Bajaj has given us one of the highest schedules and they are almost fully BS-VI now. Bajaj is a big strength for us because 45% of the sales is exports and exports are really doing well - two wheelers and three wheelers both. I know they have got a big share of our business - slightly more than one-third, but they are a huge strength and are financially very strong. They are huge strength for us and their schedule is the best in February.

Pramod Kumar: And sir on the ABS side I know we have got a bit delayed, but does it put us at a disadvantage because ABS has already been a norm?

Anurang Jain: The existing supplier has had issues in the field, after clearance. The initial testing standards which were set was further tightened, with much more stringent controls on the type of test track on which the ABS has to pass. It is taking a bit more time between us and our collaborator BWI to set the tuning so that we can pass the test. The test has become much more stringent than what we started a year ago. So it is taking more time, but this is a technology item and there will not be many players in this. Advantage with Endurance will be cost we have to give and the performance and quality. So maybe we will be entering late – in other products too we have always entered late and slowly step by step we went to capture the highest share of business. That is our strategy, so I know we are late by almost 8 to 9 months, but there were things which happened which was not expected. Our initial business can be 250,000 sets or Rs. 750 million, or it can go to 400,000 sets or Rs. 1,250 million rupees per year. So the size of business is not that big. What is important to me is that this segment is important. Our rear brakes volumes, which came in about 18 months ago, have compensated for this loss of ABS sales. But of course we are fully focused to get ABS order in first quarter of next year. So we are putting our best efforts to that. We are focused on all the higher technology products like the inverted front forks, adjustable mono shocks and all similarly in brakes we have to get into ABS.

Moderator: Thank you. The next question is from the line of Hitesh Goel from Kotak Securities. Please go ahead.

Hitesh Goel: I missed hearing the outstanding order book you had given - can you repeat that for me? Also can you give some granularity on the new business wins - What comes in FY21 and FY22 if the industry is flat? What is the quantum of new orders we can expect annually?

Anurang Jain: We had taken about Rs. 10,000 million of orders in 18-19 which, I have said, the peak will be in 21-22. Now this year in the 9 months, we have taken orders of about Rs. 4,633 million. Now these orders will start next year, but again peak will be in 21-22. The peak sales value of more than Rs. 13,000 million will be reached in '21-22. For our large Honda orders, peak has already started from February 2020. So, this quarter we will see a good sales growth from HMSI. Do not hold me on to it, but my view is that the de-growth stops from February for Endurance because of new orders from TVS, Honda. Also, Bajaj is doing well. Then, you have Honda, Kia coming in, KTM has increased. So according to me, in February 20 the de-growth stops for Endurance in terms of value but only time will tell. Apart from this, we also have request for quotes of Rs. 13,100 million, for which we have to get the customer nod and LOI. So we are very aggressively going after new orders. I cannot control the industry going up or down; we are focusing on profitable growth.

Hitesh Goel: So if the industry is flat for 2 years, basically FY22 will see sales from new orders of Rs. 13,000 million?

Anurang Jain: Yes, apart from that another Rs. 13,138 million of RFQ which we are trying to convert into business.

Hitesh Goel: From this Rs. 1300 crores plus of new orders booked in FY19 and FY20, how much will come in as sales for FY21?

Anurang Jain: I could give you a flavor. From Honda, it is Rs. 250 million, Rs. 25 crores a month which has reached peak from this month onwards. It has suddenly gone up from January. So this quarter we will see a very good growth in Honda, apart from TVS and others. Bajaj schedules are also very good in February.

Hitesh Goel: So basically in FY21 versus FY22 big order that is coming is Honda of Rs.300 crores?

Anurang Jain: It is Honda, it is TVS reaching its peak, Hyundai Kia Rs. 2,790 million out of which Rs. 1,500 million comes in next year with the new plant at Vallam and then there are many other orders - Tata Motors, Suzuki, there are lot of new platforms..

Hitesh Goel: And RFQ submitted Rs. 13,000 - In what period can that deliver additional turnover?

Anurang Jain: Some in 21-22, some in 22-23.

Hitesh Goel: If you win those orders like ABS for Bajaj - that would also be in this number - right?

Anurang Jain: That will be much faster. With Bajaj, it is normally very fast. What I am talking about here is other than Bajaj. Bajaj is not included in the numbers that I said earlier. KTM, Husqvarna, Triumph -all this is not included.

Moderator: Thank you. The next question is from the line of Chirag Shah from Edelweiss. Please go ahead.

Chirag Shah: On new order wins that you shared - how should we look at the existing orders, the draw down on that, and whether some of this would be replacement of the existing orders?

Anurang Jain: 50% is replacement, 50% is new.

Chirag Shah: So if you are supplying to Bajaj Auto and when you share a new order, some part would be for the existing model and some model is getting upgraded?

Anurang Jain: There could be new orders, replacement orders, and also there could be replacement with upgradation. Now for example, to HMSI we used to supply normal front forks - now they are going into inverted front forks where it is the big value add for us. So value additions are also happening. Cork based clutch assemblies are getting replaced by the paper based paper clutch assemblies - so that is a value add for us. So even if an existing order is being replaced, it can be at a higher value. Of course, when Bajaj places orders for Husqvarna, Triumph, these will be highly value added products.

Chirag Shah: Generally for Endurance how much is generally they share between the new order wins and the existing order or the old order?

Anurang Jain: Nowadays it is approximately 50-50.

Chirag Shah: When I look at your margins we have seen extremely good performance on gross margin level in YTD this year, how do we look at the sustainability of that? Internally, do you look at margins %, or you look at per ton profitability or per kg profitability because margins would also be a function of commodity prices?

Anurang Jain: We have 17 plants in India, and our focus is on plant wise profitability. So, when sales are down, we may shut the plant for 10 - 12 days and stop variable costs, and even some fixed cost. We focus on operational efficiency, plant wise and monitor the product mix changes which can happen with technology upgradations and letting go of some products which do not give us that much money. So we always have been looking at product costing and how much money we are making and in every field. If we need those products for economies of scale we keep it, but we do not increase capacity, and whenever we can replace them with better business, we do that. So according to me, it is focus on plant operational efficiency, its product mix and of course the focus with our venders on containing the material cost. So there is a lot of effort going into making the margins. The margins that you see in Quarter 3, despite very little mega-project incentive, is a result of, a lot of work on these areas. Otherwise you cannot make this kind of money. Normally due to economies of scale, when sales goes down then the profit goes down - that is a general trend. In Endurance, the amount of profit has gone up, so it just shows our focus.

Moderator: Thank you. The next question is from the line of Nishit Jalan from Axis Capital. Please go ahead.

Nishit Jalan: My question is on the Europe business we have seen good growth compared to how the industry is performing and the margins are continuously going higher, so if you can throw some more color as to what are we doing differently to take the margins higher it is almost 20% plus now and how do you see this margins sustaining over the next few quarters?

Massimo Venuti: Our focus is on efficiently managing our operations in this period of reduced volumes. We are insourcing or outsourcing certain activities depending upon the level of saturation in each plant. Currently, we have capacity in the foundries where we have higher fixed cost as compared to the machining. So, in the last 2- 3 months we have insourced part of a die-casting that we usually outsourced in the market. Also, we managed our fixed costs in the best possible way. Further, we have benefitted in terms of mix compared to the previous year due to the new business acquired from Volkswagen Group. It was more profitable as compared to past, as these operations have a high level of automation. In the future, from my point of view, for the next 12 months the mix will be more or less the same. Thus, I think that the margins that we have at this moment are more or less sustainable for the next 12 months.

Moderator: Thank you. The next question is from the line of Narottam Garg from True Investments. Please go ahead.

Narottam Garg: Sir, with the launch of Bajaj Chetak, you would have experienced electric vehicles. How does your share of business change in an electric vehicle vis-à-vis a conventional two wheeler?

Anurang Jain: No change in brakes and suspensions - front and rear. For Castings, the shape and size can differ because you have different type of castings you have some covers, you have battery housing, you have motor housing, but no engine parts like cylinder blocks, cylinder heads. So, there is a replacement in EVs; replacement could be lower or higher depending upon what is the battery pack technology and based on the extent of use of aluminum castings in the vehicle. So aluminum castings can be 70%- 80% or could be the same. I do not see any change in brakes and in suspensions, but definitely there will be no clutch in the EV. That is about almost 8% of our India business. So like I have mentioned in earlier calls, if EV captures 100% market, we lose 8% of our India business.

Narottam Garg: And on castings, what is the initial sense that you may be getting from the customers in terms of the aluminum intensity that they want to utilize? There are some structure frames wherein the castings can be used, as you talked about earlier.

Anurang Jain: We have got structural orders - the small frames, swing arms. So there is more interesting business. I think it should be around 70% to 80%. Now, we are also getting into aluminum forgings. This will add to that business because our aluminum forging plans are not only for our inverted front forks production, but also for other OEM requirements. Forgings will make up any loss of volumes on aluminum casting business.

Moderator: Thank you. The next question is from the line of Mahesh Bendre from Stewart and Mackertich. Please go ahead.

Mahesh Bendre: Sir, we are at the fag-end of this financial year now. How do you see the outlook for both European business and Indian business?

Anurang Jain: I will talk about the Indian business first. I think, things will start improving not earlier than August. This is my gut feeling, I mean these things cannot be predicted. Some OEMs like Bajaj which have 42% export sales may do slightly better than others. It will also depend upon whether GST will be decreased on two wheelers and automobiles from 28% to 18%, which is the industry demand. If that happens it will be great for two wheeler volumes. The Rabi crop is expected to see 9% growth compared to last year. The income tax changes for middle class can put money in the hands of people. Whether these things will help is a question. I am only anticipating growth for the industry from August, September onwards. As far as Endurance is concerned, we are ready for harnessing industry growth as and when it comes.

Mahesh Bendre: And for European business?

Massimo Venuti: For Europe, it is very difficult to speak about the future. Frankly speaking, in the last 6 months I was able to understand the market of the previous month only after passing of 15 days of the next month. This is the level of uncertainty. We continue to see the car registration numbers going up and down because of policy changes. A lot of OEMs gave profit warnings for this financial year and also for the next financial year, because they are reducing the prices in order to sell the cars and this is not positive. The major factor driving the market in 2019 was reduction in the exports from Germany. Further, the duty situation between China and US affected the situation for European car manufacturers. Next year is an important year for us, as we stabilize our production capacity to take care of orders from Volkswagen Group and Daimler. We hope that the inversion of duty will improve exports and probably we can come back to the same level of 2018. So considering the fact that 2019 was not a particularly brilliant year, but we expect improved market conditions in 2020.

Mahesh Bendre: Sir, is it fair to assume that we will outperform the market in both in India and possibly Europe for next year?

Anurang Jain: India - I am sure. About Europe, let's hear from Massimo Venuti.

Massimo Venuti: In Europe also, I am sure.

Mahesh Bendre: And what are the capital expenditure plans this year and next year?

Anurang Jain: As far as India is concerned, the next year will not see much Capex, because we have spent quite a lot of CAPEX for last 3 years. Now we have to sweat our assets. So there would not be much CAPEX, but at the same time we may look at some interesting acquisitions which we have in mind. I cannot talk about it now but that may happen in the next year. But, the CAPEX will be very less next year. We do not want to spend money on any expansion right now. Capex could be for environmental, health, safety or for some quality improvements but not for growth unless there is some specific special projects for Hyundai, Kia or something similar. So I will not put a figure, but it will be very less. We will be finalizing our CAPEX plan for next year, in this month.

Mahesh Bendre: So directionally, the CAPEX will be lower than the depreciation cost - will it?

Anurang Jain: Our annual depreciation cost in India is close to Rs. 190 crore.

Satrajit Ray: See, about 1750-2000 million is our depreciation roughly per year. Our focus will be to contain capex next year. We will finalize our FY21 Capex Plan later this month, and will determine whether and by how much annual capex would exceed depreciation.

Massimo Venuti: Regarding Europe gross capex for 2018-2019 was €36 million and for the first 9 months of 19-20, it was close to €27 million, of which €24 million was for specific new projects. Regarding 2020-21- we are open to all opportunities in terms of inorganic growth and also for new business. However, in my opinion, there will be reduction in Capex as compared to the past, not only due to situation of the market but also because as compared to past we are seeing more stability in the new platforms of power train engine and transmission due to the hybrid solutions. Let me explain. From 2002 to 2018, every 2 years we observed different rules for the CO_2 emissions. Now, there will be more stability, and we can now better utilize our production capacity as compared to past and this could also be an opportunity for us to reduce the depreciation due to the reduction of capex.

Mahesh Bendre: If you do not do any acquisition next year, probably in the first half of FY22, you will be a net debt free company based on cash flow generation. Is that correct?

Anurang Jain: Net debt to equity on consolidated basis is 0.03:1 and in India we are at 0.02:1. Debt is only close to Rs. 500 million in India and around Rs. 880 million on consolidated basis, which is working capital debt. So we have almost debt-free right now. Some working capital debt is needed to run the business and mainly because of keeping inventories for customers. So you can call us debt free already - that is one of our strengths.

Moderator: Thank you. Ladies and Gentlemen, that was the last question. I now hand the conference over to Mr. Nishit Jalan for his closing comments.

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

Anurang Jain: I have covered the key points in my opening remarks.

Nishit Jalaln: Sure. We can end the call now.

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