"Endurance Technologies Limited Q3 FY 2021 Earnings Conference Call"

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

Moderator: Good morning, ladies and gentlemen. Welcome to the Endurance Technologies Q3 FY 2021 Investor 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. Thank you and over to you, Sir.

Nishit Jalan: Thank you, Lizzan. Good morning, everyone. Welcome to Q3 FY 2021 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: Thank you, and good morning to everybody. I would like to share details of how we have done in the third quarter of FY 2021 and the first nine months of this financial year. In India, in the third quarter of FY 2021, as per SIAM data, the two wheeler industry sales grew by 14.4% compared to the previous financial year, scooters grew by 4.7% and motorcycles grew by 17.7%. The automotive industry in India had a growth of 10.5% in Q3.In Europe, in Q3, there was de-growth of 7.6% in the European Union automotive sales.

On the financials, I will briefly talk to you about the third quarter FY 2021 and then the first nine months of FY 2021. During Q3, as compared to the previous year same quarter, our consolidated total net income grew by 23.9% from Rs. 16,524.6 million to Rs. 20,467 million. Consolidated EBITDA grew by 31.4% from Rs. 2,724.3 million to Rs. 3,579.7 million. Consolidated EBITDA margin is 17.5%. The net profit grew by 53.2% and was Rs. 1,900.5 million at 9.3%.

This Q3 consolidated financial result includes the Maharashtra state mega project incentive of Rs. 234.17 million. The consolidated ROCE was at 24.3% and ROE at 22.8%. There was no net debt as there was a positive cash available of Rs. 1,357 million.

During Q3, our standalone total income grew by 30.8% from Rs. 11,708.5 million to Rs. 15,320.5 million. Standalone EBITDA grew by 51.5% from Rs. 1,737 million to Rs. 2,632.9 million, with EBITDA margin percent of 17.2. Standalone net profit grew by 66.9% and was Rs. 1,505.5 million at 9.8%. This Q3 standalone financial result includes the Maharashtra state mega project incentive of Rs. 234.17 million.

October 2020 recorded our best ever net income of Rs. 5,564 million for Endurance standalone operations, with a growth of 34.5% over the previous year. Q3 has been the best-ever quarter in the history of Endurance standalone business. Also, looking at our OEM schedules, Q4 in India is also looking very good. The standalone ROCE was at 32.5% and ROE at 23.9%. There was no net debt as there was positive cash available of Rs. 486 million.

During the first nine months of FY 2021, our consolidated total net income was Rs. 44,379.6 million as compared to Rs. 53,511 million in the first nine months of FY 2020. Consolidated EBITDA was Rs. 7,318.8 million as compared to Rs. 9,230.7 million in the first nine months of FY 2020. Consolidated EBITDA margin percent was 16.5, the net profit was Rs. 3,322.8 million at 7.5%. This includes the Maharashtra state mega project incentive of Rs. 871.49 million.

During the first nine months of FY 2021, our standalone total income was Rs. 31,850.6 million as compared to Rs. 38,357.7 million in the first nine months of FY 2020. Standalone EBITDA was Rs. 5,057.2 million as compared to Rs. 6,276.4 million in the first nine months of FY 2020. EBITDA margin percentage was 15.9 in the first nine months of this year. Standalone net profit was Rs. 2,530.9 million at 7.9%. This includes the Maharashtra state mega project incentive for Rs. 871.49 million.

We at Endurance are happy to inform you that the credit rating agency CRISIL has given a higher rating of AA+ with stable outlook as compared to the earlier AA with positive outlook for our long-term financing. We are informed that it is due to a well-diversified OEM base, both in India and overseas, which will help us in future in bettering the industry sales growth, good financial strength and risk profile, and improvement in utilization of our assets and operating profit. This is the highest rating for an Indian auto component company. We are told that only Brakes India has the same rating.

The detailed financials are available with the stock exchanges and on the Endurance website. I would now like to share certain other key points for the first nine months of this financial year:

1. In the first nine months of FY 2021, 71.8% of our consolidated total income, including other income, came from Indian operations and balance 28.2% came from our European operations. But in Q3 of FY 2021, 74.9% of our consolidated net income was from Indian operations and 25.1% from our European operations. InQ3, more than 20% business growth was experienced from each of these OEMs such as HMSI, Bajaj, Royal Enfield, Yamaha India, TVS and Kia Motors. We grew with practically every OEM in this quarter.
2. DuringQ3, our factories in India and Europe did not face any mandated lockdowns. We continue to do our best to ensure a safe workplace for our people.
3. In India, in the first nine months of FY 2021, Rs. 4,440 million of new business was won from OEMs other than Bajaj, which included HMSI, TVS, Hero MotoCorp, Hyundai, Suzuki and Yamaha. This business will reach its peak sales in FY 2023. I would also like to mention that we have Rs. 11,450 million worth of request for quotes from OEMs and we hope to win sizeable business from these RFQs.
4. As our disk brake assembly business is growing with addition of new Bajaj, TVS, Royal Enfield, Yamaha and HMSI business, we are increasing the disk brake assembly capacity by more than 90% from the existing 2.85 lakh brake assemblies a month to 5.7 lakh brake assemblies a month, and also the discs manufacturing capacity will increase from 3.75 lakh numbers per month to 6.75 lakh numbers a month, which will be reached

by August 2021. A new plant at Waluj is being set up for this increase. We have 10 acres of land available, and this new plant will start by August in FY 2022.

5. We're also setting up a cylinder-head low-pressure die-casting plant at Pantnagar, Uttarakhand, for 720,000 numbers per annum and operations have been slightly delayed and now it will start in Q1 of FY 2022.
6. In October 2020, in our oldest die-casting plant at Aurangabad, our company announced a voluntary separation scheme for 86 confirmed workmen with a one-time payout of Rs. 112 million. This will lead to an annual wage cost saving Rs. 48.7 million per annum, and additional savings in canteen, uniform and insurance related to these 86 workmen.
7. In the next financial year, we will also start supplies of brake assemblies, suspensions and aluminium castings, including the battery housing castings, for electric scooters and three wheelers. As mentioned earlier, we are focusing on getting business from OEMs and OEM-funded companies because of their financial strength.
8. Due to increased orders from Bajaj and Yamaha India, we are happy to inform you that we are increasing our capacity of alloy wheels by one-third, or 40,000 sets a month to 160,000 sets a month in our existing Chakan plant at Pune. And the production is going to start in Q3 of the next financial year, which is FY 2022.
9. I would again like to mention that Endurance is focusing on a more value-add and profitable product mix in its future business, which includes 250 cc plus motorcycles brakes and clutch assemblies with help of our subsidiaries Adler and Grimeca in Italy, which were acquired in 2020,paper-based clutch assemblies replacing the cork based clutch assemblies for motorcycles, supply of continuous variable transmission or automatic clutch for scooters, anti-lock brake systems or ABS for 150 cc plus motorcycles, inverted front-forks and adjustable rear mono-shock-absorbers for both domestic and export OEMs. The latter is with help of our collaboration partners KTM Technologies.In castings, we are focusing on fully finished machined castings as compared to raw and semi-finished castings for two wheelers, three wheelers and four wheelers.
10. For our European operations, in the first nine months we have acquired EUR 12.6 million of new business from Audi, Maserati and Fiat Chrysler. This business will start from the next financial year onwards.
11. The consolidation of our foundry activities from two plants to one plant in Italy, which will lead to a savings of EUR 600,000 per annum has been completed.
12. Both the Adler and Grimeca acquisitions which included all the know-how, patents brand and trademarks has helped our Indian as well as our Italian operations in getting new business for the 200 cc plus motorcycle clutch assemblies, and in India for brakes also. And these two businesses will start from FY 2022.
13. I would also like to specially point out that Endurance at present is actively involved in technology oriented opportunities and new products, both through organic and inorganic means in India as well as in Europe.

14. I would also like to reiterate that in India, Endurance is entering into two backward integration product areas which are import substitutes also. First is the aluminum forging

axle clamps, which are required for our growing business of inverted front-forks. As you know, we have won business from HMSI and Hero MotoCorp also.Endurance has entered into a technical collaboration with FGM Italy, and production will start at Aurangabad plant in the first quarter of FY 2022.

The second product is wire braided hoses, which are required for the ABS brake systems. These operations will start from this month, as we have already got the business. Both these projects will help us in our future profitable growth.

15. In the first nine months of FY 2021, our aftermarket business in India was almost 6% of our standalone India sales. The aftermarket sales were Rs. 19,17 million in the first nine months of FY 2021, as compared to Rs. 2,146.8 million in the first nine months of FY 2020 In Q3 we are seeing a large growth in the aftermarket business, both for supplies in India as well as overseas.
16. I also wanted to update you that our new Vallam plant near Chennai for supplying machined aluminium castings to Hyundai, Kia, Royal Enfield has started operations on the 2nd of February 2021.We are also in the process of acquiring new business from other OEMs for our Vallam plant.
17. We are also at an advanced stage of testing clearance for our ABS brake assembly project. And we will start operations definitely in the next financial year. We have already been allotted the motorcycle model for which we have to supply. It has taken a bit of time, but we will definitely start in the next financial year for sure.
18. On the environmental front, I would especially like to mention that Endurance is striving to be carbon neutral in its plants, by effective use of solar power and wind power, creating carbon sinks by driving tree plantations and thereby creating dense forests. We are also driving use of natural gas and LPG in place of electric power and furnace oil in our plants. Further, lower hazardous waste generation has been achieved by us by switching from painting to powder coating operations in our plants. Hazardous waste generated like sludge is sold to different cement plants and our grinding dust is converted to iron oxide required for the paint industry.

We at Endurance are focusing to achieve zero waste through landfill.

At Endurance, it is our continuous endeavor to grow through organic and inorganic means, with a focus on technology upgradation, quality improvement, cost competitiveness and environment, health and safety. We will do our best to fulfil 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 very much.

Moderator: Thank you. Ladies and gentlemen, we will now begin with the question and answer session. The first question is from the line of Aditya Jhawar from Investec Capital. Please go ahead.

Aditya Jhawar: Congrats on good set of numbers. My first question is on Europe. What was the share of electric vehicles in overall registration? And at the same time, was there a drag in margin because of the mix, as you have explained in the previous quarter?

Massimo Venuti: In the previous calendar year, the market saw more or less 25% of registrations in electrical vehicles, including hybrid vehicles. So there was an important increase compared to the previous year.

Aditya Jhawar: In the previous quarter, that is September quarter, you had mentioned that because of the sudden shift towards electric vehicles there was a drag on margins. So, just trying to understand that while we are seeing there is a sequential improvement in margin, but as compared to last year margin for Europe is still down about 200 basis points.

Massimo Venuti: In the quarter, EBITDA contracted by 13.5% compared to the previous year. Our EBITDA percentage remain above 18%. But this reduction from 20% last year is not exclusively due to the electric mix. The reduction is due mainly to the tooling revenues that are lower compared to the previous year by more or less EUR 2.5 million due to the new business already acquired. So currently, the reduction of the profitability is not linked to this aspect of mix.

On the contrary, in the last quarter we have had a positive EBITDA compared to the previous year in Germany, where we are producing electrical components. As you know, in this moment, we are producing more or less 1,400 parts for Porsche per week, which is an 84% increase compared to the previous year. As I told you in the past, there will be a reduction in terms of profitability due to the electrical technology due to the fact that customers are increasing the life of platforms and therefore also the volume. And so it is normal that the customer will ask the supplier for reduction in terms of price. And this can affect our profitability. But frankly speaking, if I consider these nine months, the reduction in terms of EBITDA is not primarily linked to EV.

Aditya Jhawar: Okay, that's quite helpful. Moving on to the India business, what was the share of proprietary business in this quarter as compared to last year?

Anurang Jain: It would have increased by about 2% points.

Aditya Jhawar: So, Anurang, the question here is that if there is an increase in the share of proprietary business, that is not reflected in gross margin on the standalone business, is it that because of the commodity inflation that we are seeing now?

Anurang Jain: Indeed, it is mainly because of the unprecedented rise in the steel and aluminium and oil prices. It is unprecedented, I have never seen a price increase like this. But I must mention here, that the margins for our casting business are also substantially improving. And, in future we don't want to see a difference between proprietary and casting business margins, that is our focus. Because for us every business is important and we have to make money. And because of our strategy on the product mix of castings, with more machined castings, going into four-wheeler castings, all this is helping us. So, what you see in the form of the increased margins are also because of the above.

Aditya Jhawar: And are we thinking now of passing on the impact of commodity prices, maybe with a lag?

Anurang Jain: Yes. Because we cannot stop the production, we have given spot increases, right from October onwards to our suppliers. We are working very actively with our OEMs on ensuring that we get the differential, albeit with a lag.

Aditya Jhawar: Sir, my final question to Mr. Ray. What should we expect on the tax rate into Q4 and going into next year? There was abnormally low tax rate in this quarter.

Satrajit Ray: You can take a marginal rate of 25.2% for India.

Moderator: Thank you. The next question is from the line of Varun Baxi from Equirus Securities. Please go ahead.

Varun Baxi: Sir, my question is regarding the Europe business. So in January we have seen that a lot of OEMs are facing challenges in terms of production schedule, because of the semiconductor shortage. So is it having some impact on our production schedules also for this quarter, in Europe?

Massimo Venuti: In the month of January, the market closed with an important reduction compared to the previous year. Italy closed with reduction of -14%, Germany -31%, France -6%, Spain-50% and UK -40%. This is due to a different reason. The OEMs had some problem with the supply chain, for a specific part from a European supplier. But apparently they are solving the problem. And starting from the third week of February the situation is getting back to normal. The month of January was very low, due to the fact that at the end of December 2020 a lot of government incentives stopped. The month of December saw fairly high volumes considering the COVID period, compared to the previous year. But regarding the volume, for the month of February and March, apparently, we are seeing the same reduction compared to the previous year, more or less from 10% to 15%. I can tell you that the amount of January for Endurance was more or less in line with our expectations.

Varun Baxi: Okay. And sir, my next question is regarding the incentive scheme, how are we positioning ourselves to take benefit from the government incentive scheme? And what are our strategies to leverage that?

Anurang Jain: Under the first PSI scheme of the government of Maharashtra, which was the 2013 scheme, we have already received eligibility certificate for Rs. 4,660 million approximately. And this comes back to us in way of cash back from the government against the GST. And now that GST collections are good, so we will start getting the money. But there is also a new 2019 scheme. Here, if you spend Rs. 3,500 million in next five years, in places like Waluj, you can get that money back in the subsequent seven years after that. And that's why, I have announced the brakes plant in Waluj, where we will get an incentive for investments. So for us to do Rs. 3,500 million in five years in Waluj is no problem. Waluj is treated as Zone D, a backward area, which is eligible under this scheme. 'We are going to apply under the new scheme in May of 2021.

Varun Baxi: We are seeing more incremental disk orders from HMSI, Yamaha, Royal Enfield and TVS. So, is it fair to assume that it is because of the import substitution that we are getting these orders are it's more of the new business entirely for the new models and all?

Anurang Jain: TVS I believe is import substitution. We already have orders of about 1 million brakes in a year - already started, it will reach peak in next financial year end. And the other brake business is based on technology acquisition of Grimeca, our strong R&D in India, our price which is very, very important- we are cheaper than the competition. All this helps us. And of course, not to forget, the new regulations of CBS and ABS has also helped us a lot in getting orders to supply the disk brake assemblies, as it's become mandatory.

Moderator: Thank you. The next question is from the line of the Vimal Gohil from Union AMC. Please go ahead.

Vimal Gohil: Sir, my question on European business has been answered. Just a couple of data points which I may have missed, if you could just give me the incentive number for Q3 and nine months for the India business. And what was your aftermarket growth in the same period? Thank you.

Satrajit Ray: Q3 incentive booking, mega project incentive under Package Scheme of Incentive, Maharashtra, was Rs. 234.17 million and YTD December the total booking has been Rs. 871.49 million.

Anurang Jain: In aftermarket, Q3 saw a 28% growth from Rs. 807 million to Rs. 1,034 million. But if I see the nine-month period, the value went down from Rs. 2,146 million to Rs. 1,917 million, which is about 10.7% less. So that's because of the first quarter, as you know, we did hardly 26% of sales in the first quarter this year. 28% is increase in the Q3, and this trend will continue the way we see it.

Vimal Gohil: And sir, is it possible to give us what would be this trend of incentives going forward? I mean, for the next two, three years, how much are we expecting to get in?

Satrajit Ray: We had originally got incentive eligibility of Rs. 367 crores, and that was subsequently increased by Rs. 99 crores. This typically flows in over seven years. Due to broken periods, we expect this benefit to be recorded over 8-9 years, starting from FY 2019.

Vimal Gohil: What was the total production growth in Europe? Probably it will help us compare our performance with the overall industry growth. And if you could just breakup between electric and normal ICE vehicles, that would be great.

Massimo Venuti: I can tell you about the trend of our sales compared to the registration data, not the production data of the industry. In the nine months there was a reduction of close to 24% in registration data and in our revenues. In the last quarter, we closed with a reduction in revenues of ~4% against 7.6% reduction in registrations, so we have done better compared to the market. But please consider that we are speaking about the production of Endurance compared to registration of the market. So we have to consider that there was an important reduction of the stock to the dealers starting from June 2020, after the lockdown. Thus drop in our sales has been lower than the drop in OEM production numbers.

Moderator: Thank you. We will move on to the next question, which is from the line of Jinesh Gandhi from Motilal Oswal Financial Services. Please go ahead.

Jinesh Gandhi: Are we seeing a 10% to 15% decline in revenues in Europe for March 2021 based on the trend so far?

Massimo Venuti: The expectation for the month of February and March is a reduction of more or less 10% - 15% in registration numbers compared to the previous year. As I told you before, Italy closed January with (-14%), Germany with (-30%), Spain (-50%). Though European Union aggregate numbers are still not out, but apparently, the total market in Europe closed with (-15%) - (-20%) in January. As you have seen in the last quarter, in Europe we performed well compared to market.

Jinesh Gandhi: Okay. And this reduction is primarily because of the supply side issues or anything else?

Massimo Venuti: The situation of COVID had the most important impact as there are a lot of countries still in the lockdown. We closed the previous calendar year 2020 with 13.8 million cars and light commercial vehicles sold in the European market, compared to an average of the last five years of over 16.8 million. So there has been a reduction of 3 million light vehicles. From my point of view, 2022 will be better compared to the previous year, but it is not feasible in this moment to understand when we can come back to a growth situation after COVID.

Jinesh Gandhi: Any update on orders for CVT?

Anurang Jain: On CVT we are actively engaged with HMSI and Hero MotoCorp. And it is taking time as, we would be a third source for them. That's why it's taking a bit of time. But we are very actively engaged. And in fact the testing is on. So we are focused, it's taking time like it did in ABS, but we hope to get these clearances by next financial year.

Jinesh Gandhi: Are we also now open to looking at alloy wheels for passenger vehicles?

Anurang Jain: Right now we have not looked at passenger vehicle alloy wheels because the processes are different. But I think in the two-wheeler space there is so much of opportunity. We have to look at the CAPEX as well, the CAPEX is high for passenger vehicles. We are doing expansion of 2W alloy wheels in Chakan as incremental CAPEX will not be that high. Fortunately, we have land of seven acres, behind our existing plant in Chakan, and we are expanding there for economies of scale. And definitely we are going to make money in this business. We are increasing our capacity by one-third mainly for Bajaj and Yamaha, and for slightly more high-end models. And there are, I know, opportunities out there, so we will go step by step. I don't want to jump into it fast. But PV alloy wheels is a good opportunity for future, for sure.

Jinesh Gandhi: And any idea about what's the proportion of alloy wheels which are still imported? Considering that there is a good amount of localization done over last couple of years?

Anurang Jain: I don't have that figure. I don't know whether China imports are still coming or they have stopped. And I think with us expanding by August, September, everything will stop from China. Some premium models are coming from there, which I think will completely stop. Because OEMs are going to de-risk China, and already the process started last year, so this will carry on. And that's why the Indian suppliers have been brought up for the last two years by giving extra orders.

Moderator: Thank you. The next question is from the line of Aditya Makharia from HDFC Bank. Please go ahead.

Aditya Makharia: There is a lot of noise around two-wheeler sales moderating; we saw that festive season sales also were flat and many companies reported a decline in terms of the retail. And also, if you saw the numbers which came out yesterday, there was a 10% decline in overall retail. So just wanted to know your thoughts, how you are reading the trends in the two-wheeler sales and what is actually happening?

Anurang Jain: The way I see the market, to be honest, is slightly different. In FY 2019, the total sales, both domestic and export put together, was 24.5 million vehicles. This went down in FY 2020 to 20.9 million. And with COVID situation in FY 2021, no growth would take place. The good volumes recently could be due to pent-up demand or festive demand or preference for individual transport. There is no reason why FY 2022 cannot go back to 24.5 million or more. If we get a good monsoon, higher MSP coming in, and more sectors in the economy coming back from the COVID situation, I don't see why we cannot go back to that 24.5 million figure. I am an optimist. I see no reason why FY 2022 should not be a 24.5 million market, barring some external unexpected factors, like a COVID or something similar, that is not in our hands. Moreover, if you see Endurance, we are fortunate to supply to a company like Bajaj where 45% of the sales are exported to more than 70 countries. That's doing very well, as you know. The challenge is more in domestic than in exports. So that's a good sign for us with a large share for all our products with Bajaj. Now with the vaccine coming out in next six to eight months, I think the sentiment can only go up.

Aditya Makharia: You mentioned you have Rs. 4,441 million of new business in this quarter and what are the RFQ amounts you said?

Anurang Jain: I said Rs. 4,441 was won in the first nine months. And the RFQs being evaluated are Rs. 11,450 million. Out of which, we are hoping to at least get one-third of that for sure.

Moderator: Thank you. We will move on to the next question that is from the line of Arvind Sharma from Citi. Please go ahead.

Arvind Sharma: On the India business, could you please share some more thoughts on the replacement of imports and how it impacts Endurance? And if possible, can you give the breakup between the various segments, that is casting, suspension, transmission, braking?

Anurang Jain: I will not be able to share the segment information, we normally don't share that. But if we talk about import substitutes which is really helping us to grow our profitable business, and high-value business, is I think brakes is one. I mentioned that TVS is import substitution. We offered lower prices there. Surprisingly, compared to China we offered lower. And another substitution is on alloy wheels. These two we clearly see as very good opportunities going forward. And we have been approached by many OEMs on these. On brakes, we are just going all out, we are just doubling the numbers. It is a very large product area for us from next year. And alloy wheels, I see a good future. Passenger car alloy wheels is a good idea, we will think about it.

Arvind Sharma: Sure. Sir, how big would China imports be in alloy wheels in terms of percentage of consumption in India?

Anurang Jain: I do not know those figures, but at one time – around one and half years ago they were major. Slowly there has been de-risking because other players have come in place of them. We have been slowly growing and now we are growing in a faster way.

Arvind Sharma: Sir on the European business if you could just talk more about the exposure to electric vehicles. What is the trend there in terms of electric vehicles?

Anurang Jain: So I will request Massimo to answer that, but like I have mentioned in the past we have already won 120 million Euro of business out of which 30 million Euro is for EVs mainly Porsche and Audi, the Volkswagen group and the balance 90 million Euro is for hybrids to various customers including Volkswagen group, Maserati, Daimler, fiat Chrysler group. We have already won this business which will start I think within a year or two years.

Massimo Venuti: In the past three years we already acquired more or less €120 million of annual business for hybrid and electric technology. Peak production for all these orders will be in the next 24-36 months. More or less 80% of projects that we are now quoting for are for electrical and hybrid vehicles. In European market we have seen a forecast for 2030 when more or less 40% of the total market would be for battery electric and the residual for hybrid solution and so there will be a reduction in the powertrain. All the OEMs are looking at new engines in the powertrain division only to combine these engines with electric technology for hybrid vehicles. I am optimistic because the OEMs are investing in this technology and have Endurance as a strategic source for castings.

Arvind Sharma: Please share revenue, EBITDA, PAT in Euro term if possible?

Massimo Venuti: In Quarter 3 we have closed with 59.1 million Euro turnover with 10.8 million Euro EBITDA at 18.3%, with a net result of 4.5 million Euro at 7.7% with an increase of 6% compared to the previous year.

Moderator: Thank you. The next question is from the line of Nikunj Gala from Principal AMC. Please go ahead.

Nikunj Gala: Sir my question is on PLI scheme. On the central government's PLI scheme which they have announced, and where they have kept aside Rs. 57,000 crore of incentive for auto OEM and auto components, are we looking at any opportunity?

Satrajit Ray: We have heard about this production linked incentive scheme and industry was also asked to give views in August last year, but since then there has been no announcement from government as to how the schemes will work. All that we know is that out of the four schemes, production linked incentive scheme and component champion incentive scheme would be applicable for companies like us and to our understanding they are linked to export increase. In one case it is linked to long distance sales increase and in the other one, it specifically talks about export increase. So unless we see the final scheme it would be very difficult to state the impact. We have not done specific work which is tailored towards this policy because we need to see the policy in detail and understand what it means for us; only then can we strategize.

Anurang Jain: I would just like to add that being in Waluj in a backward area zone D the kind of incentives we are eligible for, from Maharashtra state are large. I do not think the PLI can match that as far as Endurance is concerned. The PLI scheme is meant to encourage exports, but what we are getting as a PSI mega project incentive in Maharashtra is to encourage investment in backward regions.

Moderator: Thank you. The next question is from the line of Ashutosh Tiwari from Equirus Securities. Please go ahead.

Ashutosh Tiwari: What is the current market share in India for brakes, and based on orders that we have got, are we expecting a big ramp up in market share next year?

Anurang Jain: Right now, for the brake system our market share is about 29%- 30% and for discs it is 45%. With our proposed capacity addition, we will become the major player in the disc brake systems market. For the disk brake assemblies, our market share is likely to be close to 55%, and for discs close to 70%.

Ashutosh Tiwari: Are market share gains coming due to drop in imports, or also from domestic players as well?

Anurang Jain: There is Chinese import substitution with one of the OEMs. But China de-risking is not the only reason. Definitely, based on price and technical offering, we are taking a higher share of business. The acquisition of Grimeca has helped us on technology to enter the 200 CC plus brakes business. Finally, the regulatory norm which came in FY20 and FY21 where it is mandatory to have a CBS up to 125 CC and ABS for larger bikes, has also led to market growth which we were able to address. So market share growth is a combination of all these factors.

Ashutosh Tiwari: You have got some ABS order visibility, and will probably start next year. Can localisation happen in ABS as well may be over two, three years?

Anurang Jain: ABS is a very big focus area for us. We had cleared the requirements for the initial model, but later that model got changed which required a collaboration to be done again, but that collaboration is not too time consuming. We are two years late on this including the COVID-19 period when people could not travel at all. So we will definitely start with our first model allotted, and the pricing is clear. So, in the next financial year we will start and as we start with one model, and we will go on to other models because our technology is very good, and we do not expect that competition can match our pricing in the industry. We have always entered into new products in a small way and we have increased business based on quality, on cost and on technology. I see no reason why we would not be able to do that in ABS, where there are very few players - only Bosch and Continental.

Ashutosh Tiwari: What is the content of the ABS two-wheeler brake in the cost of a two wheeler?

Anurang Jain: It actually depends on the vehicle pricing, whether the ABS is single channel or double channel. So it varies vehicle-to-vehicle.

Ashutosh Tiwari: What is the cost for the two wheeler disk brake assembly, roughly?

Anurang Jain: I can say more than Rs. 1,000 per set and depending on the vehicle you can go to even double.

Moderator: Thank you. The next question is from the line of Pratik Poddar from Nippon India Mutual Fund. Please go ahead.

Pratik Poddar: On standalone EBITDA margin, there has been a substantial improvement led by employee cost, other expenses. Could you just talk a bit about the sustainability of this cost reduction?

Anurang Jain: In Q3 without mega project incentive, we did 15.9% EBITDA standalone. As you know, RMC percentage to sales makes a big difference on the EBITDA% and, among other things, that is dependent on the commodity prices. EBIDTA % can move within a range of say 14.5-16%, for factors beyond our control, but definitely, we are a profitability focused company. So definitely, on the employee cost as well as other fixed and variable costs, it is a very high focus area for us and we will try our best to sustain the savings, despite sales growth .But the EBIDTA % can definitely move in a range, considering the way the steel prices and alloy prices move.

Pratik Poddar: But is it fair to say that the brand has clearly moved upwards and higher share of proprietary products increasing?

Anurang Jain: Indeed, our brand has moved upwards. Firstly, let us not differentiate between proprietary and casting considering that we are increasingly doing value-added large fully machined castings. For us, both businesses are as good because we only do profitable business and so both are going to be our focus. If we can do high margins for Castings in Europe, we see now reason why cannot we do it in India.

Castings product mix improvement involves going into full machining, going into passenger cars and commercial vehicle OEMs like Hyundai, Kia and Tata where we have got a lot of orders. You can see a new plant at Vallam coming up and we are talking to other OEMs apart from Hyundai and Kia for Vallam plant and for our plant in Chakan, Pune for a passenger car OEM, including exports. So I see no reason why castings margins will be lagging behind proprietary products.

Pratik Poddar: So that means that margins are only likely to move up?

Anurang Jain: For reasons mentioned earlier, my answer is that EBIDTA % will be in a range of 14.5 to 16.

Pratik Poddar: Why are you saying that demand in Europe in the months of February and March is also looking weak similar to January?

Massimo Venuti: So the primary reason is the situation of COVID that continues to be very critical in the European market. The second problem the OEMs are having is with the supplier for the electric components and apparently this problem will affect the business till the third week of February. However, the month of March compared to the previous year will be better as we had a lockdown starting from the second week in March 2020. In the European market, more or less 1.5 million cars per month were being sold till the end of 2019. In this moment, we are doing 1.02 million cars per month, so certainly we are faced with and we have a reduction of 50% of the general market. The European market was strong from 2012 to 2019, and it is normal for the European market to see de-growth from time to time. . Also, due to the change of technology, there are people who would prefer to buy certain electric and hybrid cars, but the OEM is not able to meet this demand. If you go to the dealer to buy a car you have to wait for a German car such as Daimler, BMW and Volkswagen for 8 months or 9 months before you receive the car.

Moderator: Thank you. The next question is from the line of Ronak Vora from AUM Advisors. Please go ahead.

Ronak Vora: Sir in the earlier comments you said that with more EVs coming in the business and the revenue along with the margin were decrease can you just elaborate on that?

Massimo Venuti: My view is that in the next year there will be an important increase of volume in the electric and hybrid technology and there will also be reduction in terms of profitability due to the fact that in this moment all the OEMs are reducing the number of platforms. You must consider the fact that we had several different products for the powertrain business due to the continuous changes in the emission norms every two, three years. Now with the electric technology, the platform period of life is 10-15 years. As the supplier, we will invest less compared to the past and we will have a possibility to better utilise our investment. It is also true that the customers are trying to squeeze the supply chain, considering all the costs that are being spent by the OEM for the research and development and for the new business. So the pressure on the price will be very tough in the next financial year. However, there will be more or less the same result in terms of net margin because we will be able to charge less depreciation to make good the lower EBITDA.

Ronak Vora: Can we quantify in terms of how much would be the reduction in margins or top line?

Massimo Venuti: So the reduction in margin is very difficult to state, because this will depend on the volume of new business taken by beating competitors. In the European market we cannot expect more than 16 million cars sold per year. So the strategy is to take business from our competitors. So if we are able to take business more than in the past we can compensate the reduction in terms of EBITDA due to price with more volumes. Over the past few years we have increased EBITDA from 13% and we reached 20% in the previous financial year, and now we are crossing 18% despite the COVID situation. Our target is to maintain and to improve our EBITDA, but I believe that in terms of net results we will have similar percentage as last year.

Anurang Jain: Like Massimo said, it will depend on the volumes, the product mix, the advent of EVs and hybrids which would come in vis-a-vis ICE engines. We have already said we have won 115 or 120 million Euro of new business for EVs and hybrid. So it is very difficult to give a number because we will have to take it year by year. We just like to say that we aim for higher than industry growth, which we have always said since IPO as you know.

Ronak Vora: And last one if you can squeeze in with the whole EV technology and everything how much revenue come from the core engine part which might be replaced with the EVs coming in and you know if that can be substituted with some kind of battery housing that you are seeing earlier?

Massimo Venuti: More or less 45% of our total business is with gasoline and diesel technology for internal combustion engine. We are gradually substituting these parts with new electrical components. Regarding the previous question please consider that when I speak about reduction in terms of profitability, you must note that in the past the strategy of Endurance was to take business with a maximum payback period of five years. Now we are taking business with a product life of 10 years and so it is normal for the customer to ask for price reduction, considering lower investment per piece compared to the past. The return of the business is the same, but the difference is that earlier you had a payback of investment in five years and now you have a payback of investment in seven years or eight years.

Moderator: Thank you. The next question is from the line of Bharat Sheth from Quest Investment. Please go ahead.

Bharat Sheth: How much is our total value content per vehicle in two wheelers, and with the introduction of BS-VI and with our new initiatives with alloy wheel as well as brakes, how do we see it increasing?

Anurang Jain: Normally 15% to 17% of the ex-factory selling price of the 2W can be achieved with our four products. If we enter a fifth or sixth area, then that will be added on in future. So for example, in Bajaj we are there at 14-16% in certain models; with RE, we could be around 11% to 12%. For Hero, HMSI and Yamaha we are increasing now it may be at around 5% to 8% except for the Activa where we are almost 11-13%. So I would say that for each vehicle model, we can target upto 15% to 17% with the advent of the BS-VI and the brake system orders.

Bharat Sheth: And on decline in European new car registration of say 15% to 20% - that is largely for ICE engine-based car or overall including EV side also?

Massimo Venuti: Generally speaking, there will be 10-15% reduction in the overall new car registrations; but electric models are growing, so the reduction in registration is mainly on traditional combustion vehicles.

Bharat Sheth: And is it possible to share how much decline in ICE engine and EV there is a substantial difference?

Massimo Venuti: No in this moment I cannot give you this information because we have to receive this information from the market.

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 Lizann. On behalf of Axis Capital, I would like to thank the Endurance management and all the participants for general record today. Mr. Jain if you would like to have any closing remarks and after that we can conclude the call.

Anurang Jain: No, I have said in my opening remarks whatever I needed to say.

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.