"Endurance Technologies Limited Q4 FY'21 Earnings Conference Call"

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

Moderator: Ladies and gentlemen, good day and welcome to the Endurance Technologies Q4 FY'21 Earnings 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.

Nishit Jalan: Thank you, Stanford. Good morning, everyone. Welcome to Q4 FY'21 Earnings 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; Mr. Raj Mundra – Treasurer and Head, Investor Relations and Mr. Sunil Lalai – EVP-Legal & Company Secretary.

I will 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, everybody. I would like to share details of how we have done in the financial year FY'21 – both for Q4 and for the full year.

In India, as per the SIAM data, the two-wheeler industry sales degrew in FY'21 by 12.1% compared with the previous financial year. Scooters degrew by 20.6% and motorcycles degrew by 9%. The automotive industry in India saw degrowth of 13.5%. The sector degrew during the year largely due to the complete lockdown in Q1 FY'21, and also the subsequent sporadic lockdowns.

In Europe, in FY'21, there was a decline of 19.4% in the European Union Automotive sales. Endurance Europe sales saw degrowth of 18% in euro terms. In Q4 of FY'21, there was a growth of 0.7% in the European Union Automotive sales and our European operations saw a growth of 3.4% in euro terms in Q4.

On the financials, I will briefly talk to you about the fourth quarter of FY'21 first and then for the financial year of 2020-21. During Q4, as compared to previous year same quarter, our consolidated total net income grew by 32.6% from Rs.16,143 million to Rs.21,398 million. Consolidated EBITDA grew by 32.8% from Rs.2,553 million to Rs.3,390 million. Consolidated EBITDA margin was at 15.8%. The Profit after tax grew by 75.3% from the previous year and was Rs.1,873 million at 8.8%. The consolidated ROCE was at 23.6% and ROE at 23.3%. There was no consolidated net debt, and the company had a positive net cash of Rs.3,153 million.

During Q4, our standalone total income grew by 40.6% from Rs.11,390 million to Rs.16,015 million. Standalone EBITDA grew by 58.7% from Rs.1,509 million to Rs.2,394 million with an EBITDA margin of 15%. Standalone profit after tax grew by 93.6% and was Rs.1,391 million at 8.7%. The standalone ROCE was at 31.5% and ROE at 23.5%. There was no net debt and the company had a positive net cash of Rs.1,547 million.

I will now brief you on the financials for the financial year as a whole. During the financial year FY'21 as compared with previous financial year, consolidated total income degrew by 5.6% from Rs.69,653 million to Rs.65,777 million. Consolidated EBITDA degrew by 9.1% from Rs.11,784 million to Rs.10,709 million. Consolidated EBITDA margin was at 16.3%. The profit after tax degrew by 8.1% and was Rs.5,196 million at 7.9%. after considering the Maharashtra state incentive for mega project amount of Rs.872.18 million.

During the financial year FY'21, standalone total income degrew by 3.8% from Rs.49,748 million to Rs.47,866 million. Standalone EBITDA degrew by 4.3% from Rs.7,785 million to Rs.7,451 million with an EBITDA margin of 15.6%. The profit after tax degrew by 8.3% and is Rs.3,922 million at 8.2% after considering the Maharashtra state incentive for mega project amount of Rs.872.18 million.

The above financials for FY'21 were impacted by the very low sales witnessed in Q1, which was affected due to complete lockdowns and subsequent quarter saw sporadic lockdowns.

In FY'21, we are happy to inform you that credit rating agency, CRISIL has given a higher rating for long-term debt facilities of AA+ with Stable Outlook from the earlier rating of AA with Positive Outlook. We are informed that this is the highest rating for an Indian auto component company. For short-term bank financing, we have the highest rating of A1+.

We would like to again mention that Endurance is focused in both the Indian and European operations for a profitable and higher-than-industry growth. The detailed financials are available with the stock exchanges and on the Endurance website.

I would now like to share certain key points for the financial year FY'21:

1. 72.7% of the consolidated Total Income including Other Income came from Indian operations and the balance 27.3% came from our European operations.
2. In India, Rs.6,380 million of new business was won from OEMs which included HMSI or Honda two-wheelers, Royal Enfield, Hero MotoCorp, Hyundai, Kia, Yamaha India, and our new OEM client TVS.
3. I would also like to mention that in addition, we have today Rs.15,000 million worth of request for quotes from various OEMs which are being discussed. Our focus is to supply all our 4 product areas to all OEMs in the next few years.
4. I would also like to mention that Endurance is focusing on more value added and profitable product mix in its future business which includes
    - 200 cc plus motorcycles brakes and clutch assemblies with the help of acquisition of Adler and Grimeca - these are both Italian companies which we acquired in the year 2020.

- Paper-based clutch assemblies replacing the cork-based clutch assemblies for motorcycles;
- focusing on getting orders for continuous variable transmissions or an automatic clutch for scooters;
- anti-lock brake systems or ABS for 150 cc plus motorcycles which we plan to launch in collaboration with our US based technology partner BWI;
- 200 cc plus motorcycle inverted front-forks and adjustable rear mono-shock absorbers as well as front-forks and shock absorbers for electric two-wheelers and three-wheelers which is with the help of a collaboration partner, KTM AG. We are working with KTM AG to increase supply of the on-road and also start with the off-road motorcycles, including higher technology inverted front-forks and rear mono shockers for which we are together making future plans.
- focus on fully finished machined castings as compared to semi-finished castings for two and three and four wheelers casting business.

5. Our disc brake assembly business is growing with addition of new business from Bajaj, TVS, Royal Enfield, Yamaha, Hero MotoCorp, HMSI. We are increasing the disc brake assembly capacity from the existing 285,000 brake assemblies a month to 570,000 brake assemblies a month. And the disc capacity is being increased from 375,000 numbers a month to 675,000 numbers a month, by August 2021. A new plant at Waluj is being set up for this increase in volumes.
6. On 2nd February 2021, we started operations at our new plant at Vallam near Chennai to supply machined aluminum castings for Hyundai, Kia, Royal Enfield, and we are now in the process of acquiring new business from these existing as well as new OEMs.
7. We are also setting up an aluminum cylinder head low pressure die casting plant at Pantnagar, Uttarakhand for 720,000 numbers per annum and operations will start in Q2 of this financial year.
8. We are happy to inform you that the supply of two-wheeler ABS assembly should start by October of this financial year, as we are in the final stages of testing and validation. As you may be aware, competition is mainly from Bosch, which controls approximately 85% market share in the Indian ABS motorcycle market that requires 3 million ABS assemblies. This is a very large business opportunity for Endurance as there are very few suppliers and they are mainly foreign companies in this line of high technology requirements.
9. In October 2020, in our oldest die-casting plant at Aurangabad which we started in 1985, our company announced a voluntary separation scheme for 86 confirmed workmen with a one-time payout of Rs.112 million. This has led to an annual wage cost saving of Rs.48.7 million per annum and additional savings in canteen, welfare and insurance related to the 86 workmen.
10. On 3rd May 2021 of this financial year, in one of our Chakan plants in Pune, we announced a voluntary separation scheme for on-roll workmen. This is with the aim of improving operational sustainability in our plant operations.

11. We also focused on supply of our products for EV vehicles. We already started supplies of brake assembly, suspension and aluminum castings for electric scooters and three-wheelers. As you may be aware, in financial year '21, 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 two-wheeler OEMs both existing OEMs, and new start-ups funded by the OEMs.
12. Due to increased orders from Bajaj and Yamaha India, we are increasing our capacity of alloy wheels from 240,000 numbers per month to 320,000 alloy wheel numbers a month in our existing Chakan plant in Pune and the production will start in Q3 of this financial year.
13. As far as Europe is concerned, in FY'21 we acquired €19.3 million of new business with Audi, Daimler, Volkswagen, Fiat Chrysler and Maserati.

    As mentioned in previous investor calls, I would specifically like to point out that in the last two years, €110 million of business has been won for electric and hybrids which has started in FY'21 and will reach peak volume in FY'24. Therefore, 50% of our existing total Europe business value has already been won by us for EVs and Hybrids. Out of this €110 million value, €30 million is for electric cars for Audi and Porsche. And €80 million of business has been won for hybrid cars of Volkswagen, Daimler, BMW, Fiat Chrysler, and Maserati.
14. As mentioned earlier, in the year 2020-21, our overseas company, Endurance Overseas SRL acquired 99% stake of a two-wheeler clutch company, Adler SPA, which in turn acquired 100% stake of the two-wheeler brake company Grimeca. These acquisitions give us access to know-how, brand and trademarks. which have helped Endurance to enter the 200 cc plus motorcycle clutch assembly and brake assembly market for the first time for which the production will start in Q3 of this financial year… we have already got orders for the same.

    I want to inform you that both Adler and Grimeca have been our technology partners in the past and a very important part of our journey of growing our clutch and brake business in India.
15. I would also like to point out that Endurance, both in India and Europe, is actively pursuing its focus on gaining access to new technologies and also focusing on a new product offering through organic or inorganic route. We hope to finalize at least one of these projects in this financial year.
16. I would like to mention that Endurance has also entered into backward integration product areas which are import substitutes also. First is aluminum forging parts which are required for our inverted front forks. Endurance has entered into a technical collaboration with FGM, Italy and the production will start at our Aurangabad plant in July '21. We already have orders for inverted front forks, both from KTM and Bajaj.
17. The second product is Wire-braided Hoses, which are required for ABS brakes. This is expected to start on 1st June at our Aurangabad plant. Both these projects will help us in profitable growth in business.
18. The aftermarket business which is our B2C business in India comprises almost 6.5% of our India net sales in the financial year FY'21. The aftermarket sales grew by 4.7%

from Rs.2,977 million in the previous financial year to Rs.3,116 million in FY'21, despite Q1 sales being very low due to COVID-19 lockdowns.

We have a very strong focus on our profitable aftermarket business and we are targeting to make it at least 10% of our domestic net sales value from current level of 6.5%.

We are exporting also to 29 countries and we are in the process of adding 5 more countries for exports of aftermarket in this financial year.

19. We have also started trading in two and three-wheeler tyres for both exports and for the Indian market. In India, we have a network of 377 distributors and an additional 97 distributors for tyres.

As you all know, the COVID-19 pandemic gave rise to a very challenging and difficult situation in FY'21. In Q1 of FY'21, our plant operations in India and Europe were suspended ranging from 30 to 50 days due to lockdowns. At Endurance, we took this as an opportunity to become leaner in terms of people and be focused to lower our monthly fixed cost amounts, variable cost percentage to sales in our plants, direct and indirect material cost as well as CAPEX.

Since the middle of April '21, unfortunately, we have seen lockdowns again in various states which are affecting our sales in India but our team is again taking measures on fixed cost, variable cost, raw materials and CAPEX controls with full focus on positive cash flows.

On the environment front, I would especially like to mention that Endurance is striving for being 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 and driving use of natural gas and LPG in place of electric power and furnace oil.

We are also focusing on lowering hazardous waste generation and to achieve zero waste to landfill.

On the human resource front, we have implemented an agile and lean structure across our plants and corporate departments in financial year '21. We've implemented a new performance appraisal system with a standardized balance scorecard and a competency framework. We have a very large focus on development of high potential employees as we like to promote and grow employees from within the company as they know our culture. We are also focusing on a succession plan for all key roles and recruiting capable candidates.

We also implement sustainable actions identified through feedback from the employee engagement survey, which we conduct every year and track if the net promoter store is increasing in different plants and functions through our measures aimed at employee satisfaction.

At Endurance, it will be our continuous endeavor to grow through organic and inorganic route, and maintain focus on technology upgradations, quality improvements, cost and environment, health, and 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 everybody. Thank you very much.

Moderator: Thank you very much, Sir. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Ashutosh Tiwari from Equirus Securities. Please go ahead.

Ashutosh Tiwari: Was there no subsidies in the fourth quarter P&L statement, from Maharashtra state government?

Satrajit Ray: In Q4, we booked Rs.6,90,000. So, you are right, it was negligible.

Ashutosh Tiwari: If I look at the standalone performance during the quarter, despite industry declining, we have posted good growth on quarter-on-quarter basis. Which segment drove the performance?

Anurang Jain: The largest growth came from the front-fork and shock absorbers - suspension segment and from our aftermarket. Brakes grew too in absolute terms, and remained the same as a percentage of the overall sales, compared to the previous year.

Ashutosh Tiwari: Aftermarket revenue is Rs.120 crores in the quarter?

Anurang Jain: Q4 was about Rs.1,199 million, out of which export was Rs.347 million.

Moderator: Thank you. The next question is from the line of Jinesh Gandhi from Motilal Oswal Financial Services. Please go ahead.

Jinesh Gandhi: My question pertains to the outlook for FY'22 - we are in similar situation as first quarter last year. What are you hearing from OE customers, in the context of demand which was weaker even before the lockdown came, and inventory in the system being high? What is the outlook or production schedules which OEMs are sharing with you?

Anurang Jain: I would say that like I mentioned we have won roughly Rs.12,000 million of business in India in the last two years, which includes orders from TVS, our new customer. We have always believed in profitable growth and higher-than-industry growth. That's why you saw Q4 being so good. We have the same expectation in FY'22. Unfortunately, we were hit by this huge surge in COVID-19 cases which reached 200,000 in April and that led to lockdown starting from Maharashtra and Delhi and then various other states. This also led to dealerships being closed which affects the OEM's operations; they also started shutting down for up to two weeks or slightly higher. April was quite alright. May will be impacted. For June, we have to wait and watch - looking at the lockdown rules in June, whether the dealerships will be allowed to open. If they are allowed to open then of course things will be very good because, like we saw last year, there will be pent-up demand built up. The growth we saw in July '20 was unbelievable. I'm an optimist. So, let's see what lockdown measures are announced by states from June 1st. For FY'22, we have a great business plan because we have a lot of business.

Jinesh Gandhi: Second question is you've talked about tyre distribution. Of the aftermarket revenues which we indicated for FY'21, how much would have come from tyres?

Anurang Jain: This business started last year in a very small way with sales of Rs. 25 million. In this financial year, we are planning to sell about Rs.530 million approximately.

Jinesh Gandhi: Please share European revenues and EBITDA in Euro terms. Secondly, with respect to the European market outlook, given that most of the European and UK markets are now coming out of lockdown, what kind of growth we expect in euro terms for operations for FY'22?

Massimo Venuti: In the fourth quarter of the fiscal year 2020-21, sales of new passenger vehicle in the European Union and UK grew by 0.7% YOY. In terms of 12-months, there was a reduction of 17.7% in EU and 19.4% considering EU and UK. Endurance overseas topline grew 3.3% YOY in Q4 and saw a reduction of 18% on an annual basis.

If we speak about the profitability in the last quarter of 2021, we closed with 18.6% EBIDTA margin, or €11.4 million EBITDA. The net result was €5.5 million with 9% PAT margin.

For total financial year 2020-21, we closed with EBITDA of €37.7 million, 18.2% margin and net result of €14.6 million with 7.1% PAT margin.

In the fourth quarter the total revenue was €61.4 million compared to €59.5 of the previous financial year with an increase of 3.3%. For the full year, total turnover was €207.2 million compared to €252.7 of the previous financial year with a reduction of 18%, compared to 19.4% of the market.

Regarding the European market, in the month of April we just received the official registrations numbers. The volume of April was more or less 218% higher YOY, but as you can imagine April 2020 was very low due to the lockdown. But if I compare the total registration of April 2021 with April 2019 we are speaking about a reduction of 24%. So, at this moment, we have not yet come back to the pre-COVID situation. But apparently, for the next months the volumes could be better in Europe, considering that the situation in terms of COVID-19 is improving due to the vaccine campaign. Nevertheless, in this moment, all the OEMs here continue to suffer on account of the shortage of semiconductors and this is the major problem now in Germany and also in France and Italy.

Jinesh Gandhi: Most of your customers are talking about very strong growth in CY'21. But are we seeing improvement in our order book or production schedules?

Massimo Venuti: In 2020-2021, we won more or less €19.5 million of business. Our expectation is to grow with our OEMs, not only because the previous year was affected by lockdowns, but also on the back of production ramp-up for new orders. Compared to 2018-2019, we saw registrations still down 20%. So, my expectation is to grow in the coming months but it's very difficult to predict when we will come back to the same level of volume of 2018-2019.

Jinesh Gandhi: A clarification on the order book for EVs and hybrids which we shared. About 80 million order book is for hybrids is what we have indicated. Any sense on the split between mild and plug-in hybrids of this 80 million?

Massimo Venuti: It's very difficult to have this info. Out of €80 million, €55 million is for the 1.5-litre engine and out of this €55 million more or less 50% is for mild hybrid. VW group uses this range of products in all of their brands in this segment.

Moderator: Thank you. The next question is from the line of Ronak Sarda from Systematix. Please go ahead.

Ronak Sarda: Anurang, I missed your opening remarks when you were talking about the new Waluj brakes CAPEX.

Anurang Jain: The expansion of disc brake assemblies will go up from 285,000 to 570,000 per month and the capacity to manufacture the discs should go up from 375,000 to 675,000 per month. This is because of new orders won from TVS, Hero, HMSI, RE, Bajaj. Here, the major competition is only Brembo, as you know.

Ronak Sarda: So, this is over and above the Pantnagar new disc brake plan which we spoke about last year right?

Anurang Jain: Expansion to 570,000 includes the 45,000 which has started in Pantnagar. So, Waluj plant will be up from 285,000 to 525,000, likely by August though we are trying for earlier. All the 675,000 discs will be made in Waluj.

Ronak Sarda: The other question I had was on the raw material side. Now we have seen a very sharp increase both in aluminum and steel cost. So, can you help us understand the pass-through.

Anurang Jain: The major increases have been in aluminum alloy price as well as on steel prices. It started from Q3 actually. In fact, our RMC percentage to sales in Q3 was below 63% and in Q4 went up to 64.3%. Aluminum alloy price was up by more than 10% from almost Rs.130 to Rs.143 and steel prices went up by 12% from Rs.70 per Kg to Rs.79 per Kg. This led to increase in the RMC% by 1.3%.

But steel producers had a huge market for exports in China and other countries, and were not willing to supply. So, we had to give spot increases, which we couldn't pass on to the OEMs. We gave spot increases to protect our sales, without worrying whether customers will pay. So, we had to take this on-the-spot calls Q3 and Q4. But large part of the increase was passed on.

Ronak Sarda: Do we expect further increase in Q1 as well, I mean, our similar increase being seen in Q1?

Anurang Jain: Yes, the increases are there but that will be passed on; we've already reached that understanding.

Ronak Sarda: We have generated free cash flow even in this year despite a very weak first quarter. Now given the expansions already announced so what could be the India and Europe CAPEX for FY'22?

Anurang Jain: Because of this lockdown, we are trying to postpone some CAPEX. So, the plan is a bit flexible.

Satrajit Ray: When we sat down on the drawing board before the second wave came in, our plans were definitely upwards of Rs. 300 crores. But as this COVID wave is sweeping the country, we would just hold our horses for the time being and see. Last year, we spent a tad below Rs. 200 crores in India and that was primarily due to the lockdown impacted Q1. So, right now, it's probably a little premature to give you a number. We will just wait till June to see how things are working out, then decide our CAPEX outlook.

Massimo Venuti: For the European operations, the gross CAPEX recorded in the last 12 months was about EUR 24 million, of which EUR 20 million specific for adding production capacity. The main projects were for Volkswagen EUR 4 million, FCA EUR 6 million, and Daimler EUR 5 million of capex. Regarding 2021-2022, in my opinion, we can maintain more or less the same level of investment. Please consider that in this financial year, we will install the production capacity for Audi and Volkswagen for the new hybrid and electric solutions. And so this will be another important year in terms of investment, more or less EUR 20 million.

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

Vimal Gohil: Please elaborate on your growth with Bajaj, Royal Enfield, Honda, Hero – and also how have they grown in FY 2021?

Anurang Jain: Bajaj Auto saw volume de-growth of (-13%), and our sales to them de-grew only (-4.2%). HMSI saw a de-growth of 23.5%, but we grew 1.8%. Hero MotoCorp de-grew by 9.7%, we de-grew by 5.8% with them. Yamaha de-grew by 14.5%, where we de-grew by 6.2%. With RE, we degrew 9.1% against their volume growth of 8.3%. TVS of course is a low base, we grew 258% in spite of their de-growth. Suzuki, on a smaller base - we grew 33.6%, they had a de-growth.

So, like we have always aspired, we have done better than industry because we are adding a lot of new business. And like I said, our aim is to supply all of our product areas to all the OEMs, to go for higher value added products. So, all this is helping us to grow our sales.

Vimal Gohil: Sir, what would be the breakup of your aftermarket revenues between exports and the domestic?

Anurang Jain: Rs. 90 Crore out of Rs. 312 Crore was exports.

Vimal Gohil: What is the rationale for entering the tyre trading segment? I know the return ratios in this business will be fairly high because it's a trading. What else is exciting about it?

Anurang Jain: This helps our Aftermarket go for higher profitable growth. I will not tell you the margins. But I would say that it will lead to a good profitable growth. We have tie-ups with the manufacturers, and the quality and all is well in place.

Vimal Gohil: Are they manufactured here or are we importing them?

Anurang Jain: No, we are not manufacturing tyres. I am repeating, we are trading in tyres. Manufacturing idea has been dropped by us two years ago. We are only buying and selling and we are making money on it and ensuring quality control. That's all. We have a strong brand image in the aftermarket, so we are selling under the Endurance name. We have 97 distributors and we are growing the network.

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

Nitin Arora: Sir, on the electric side, we saw Ola already setting up a plant. All the OEMs are also about to launch their electric vehicles in the next two years. What kind of product pipeline and growth in the electric vehicles side are you seeing?

What was the total four-wheeler composition in your revenue in FY 2021?

Anurang Jain: Four-wheelers are about 6% of our revenue. We are growing with Hyundai, Kia, Tata Motors, Mahindra. We just got a tractor order. And we are already working with Maruti. We are targeting new OEMs in the Chennai belt, and also aim to grow export of castings. There are very few players in the market for machined castings. There is Sundaram Clayton**,** Jai Hind - they are very few. The opportunities are huge, but we are being very selective. So, we are looking at machined castings which have good EBITDA margins. So, that's to answer your second question.

And now on to the first question on EVs - last year, our focus was on the existing OEMs and OEM funded companies, and you must have heard me say that in our investor calls. Now we have changed our thinking and would like to include new OEMs like Ola, and there are others, I don't want to name them though. These are confidential. We are now looking at existing OEMs, new OEMs, and companies funded by them. We target manufacturers that have the technology, the financial strength, and good control on the vendor base. Things change. Tomorrow we may go for more number of customers - we will see how things move in future.

In Bajaj, we are involved in all the platforms of scooters and three wheelers. We have won the orders. For Chetak we have started suspension and castings for them. We will be starting three wheelers when they start; we have won order for both vehicles. We are in touch with TVS Motors, for their scooters. We are supplying 800 per month of the tandem master cylinder for the three-wheeler brake assembly to Mahindra Electric. So, we are engaging with many players. We are engaged with players who are more likely to succeed. We are not talking to everybody. I will be honest about it. But yes, Ola is among those we are engaging with.

Nitin Arora: We hear that vendor base is finalized by Ola.

Anurang Jain: Like I said earlier, we were not focusing on the new OEMs last year, we lost out in the first phase. But in the new phase we hope to get orders. We are a leader in our products - cost leader and technology leader. So, I am very confident here because we have changed our strategy and large OEMs will want to work with leaders. Ola are being funded by SoftBank in a big way. We didn't know that. So, things change. And we were focusing on a lot of new business we are getting from TVS - Rs. 2,000 million of business, and Hyundai-Kia. So, we had kept this a bit at the side. But now with these big announcements, of course, we will have to be a part of it, we will do our best to get the orders.

Moderator: Thank you. Next question is from the line of Hitesh Goyal from Kotak Securities. Please go ahead.

Hitesh Goyal: Congratulations on winning a lot of orders in this tough environment. I gather you are going to gain a lot of market share on the alloy wheels, disc brakes and ABS, which will be the key growth drivers, over and above the industry growth. What is the revenue potential from these additional share gains, apart from the normal growth that you see in the industry?

Anurang Jain: I have never given forward-looking figures. I have always said uncertainty is the new normal. I maintain that. I have also told you that we aim for higher-than-industry and profitable growth; I have told you we have won Rs. 12,000 million of orders in the last two years, we have Rs. 15,000 million of request for quotes. You have seen our performance in the financial year 2021, which was a very tough year, one of the toughest years after 2008.

I will not give you forward looking figures. You will have to interpret how well we can do, compared to market.

Hitesh Goyal: Rs. 12,000 million orders - what does that mean? That is the annual order you can win or is it over a period of the project?

Anurang Jain: These are annual sales values, at peak - which will be in FY 2022-2023, the peak. Particularly, Hyundai and Kia volumes will peak after a few quarters. And there are some projects of brakes which will start only at the end of this financial year.

Hitesh Goyal: So, this is the peak annual revenue, additional annual revenue from Hyundai, Kia, and other customers, over and above the industry growth - that is how we should look at it?

Anurang Jain: No, I didn’t say above industry growth, I said these are the orders which we have won. Now, I don't know which vehicles the OEMs will phase out, which new vehicles they will get, which new variants we will get. I am only making a statement that we have won these orders. And we have always performed higher than industry growth and profitably.

Hitesh Goyal: So, it's a combination of existing programs and new programs that you have won.

Anurang Jain: Yes, absolutely.

I am sure you will appreciate that nobody knows how the OEMs will do, what will be the uncertainties. We have seen how things have gone in the past, with uncertainties like the global financial crisis and demonetization and COVID. So, we are focusing on what we can manage - cost controls, consolidating our plants, making our plants multi-product centres, lowering fixed cost and other such strategic actions. We are outsourcing to our vendors. We have our Endurance Vendor Association. I mean, we have done a lot of work to reach this stage where we can offer good product at competitive prices. It's not easy to make these kinds of margins when your price is lower than the competition. Almost all our prices are lower than competition.

Hitesh Goyal: If you look at the standalone performance, the gross margins have deteriorated this quarter. There is a lag in terms of passing on cost hikes to the OEM, or are these the kind of gross margins we should see for the first half of FY22?

Satrajit Ray: Our RMC percentage in Q3 was below 63%, which became 64.3% in Q4. You would remember that mega project incentive booking in Q4 was next to nothing, it was only Rs. 690,000 whereas in Q3 it was Rs. 23.4 Crore. So, if you would knock that off, you will get an RMC percentage of 63% in Q3 versus 64.3% in Q4. This was primarily driven by increase in aluminium prices which went up by 10.3%. Also, we saw 12.1% increase in steel prices, if I take a weighted average of the kind of steel that we use in our products. So, this explains that 1.3% change.

Also, what Mr. Jain said a little while earlier is very important, that there were spot increases, because steel producers were not willing to supply unless you give them spot increases; some of that cannot be passed on. So, that's why the gross margin dropped from Q3 to Q4.

Moderator: Thank you. Next question is from the line of Pramod Amte from Incred Capital. Please go ahead.

Pramod Amte: What is the mix in your cost basket in terms of aluminum and steel based components? Is it like 70% aluminum over 30% steel or they are equal proportion?

Satrajit Ray: I also don't have this answer right now. Die casting products would be by and large aluminum. In proprietary products, our clutch castings, front fork castings, shock absorber castings and brake castings require aluminum. But I can't give you a percentage.

Pramod Amte: You said that you have opted for protecting sales by securing metal even by absorbing spot price increases. Do you see this helping you in the medium-term to gain market share versus competitors?

Anurang Jain: Definitely, we have seen price as being one of the most important factors in winning new orders. The other factor of course is the technology. One has to have the technology and the price to first enter a new product. And then of course the quality comes into play. Quality gets the highest vendor rating points; you have to maintain low customers complaints. Products must meet the aesthetic, fitment, and function requirements. Warranty on the field should be low. But it's your price and it's your technology which gets you in. To develop new products, we have our own test track. We are the first Tier 1 to have a 29-acre test track in Aurangabad. And we are trying to give first-time-right products by deploying them on our track. We have an advanced engineering cell, in addition to the core R&D centers for all our product areas.

On prices, we have done a lot of work with Endurance Vendor Association, on outsourcing of our internal operations to them. We have done a lot of operational efficiency measures. We have consolidated plants. In Pune, we went from four plants to three plants, Manesar we shut down, we did a VRS in our first die casting plant in Waluj and have offered VRS in Pune. Plus we are going for multi-product plants, for example, now Pantnagar plant, all our four product areas are there. So, even if sales go down, fixed costs gets spread. We don't lose so much of money.

But of course, there is only one rider I must tell you, if the RMC prices go up, then RMC percentage of sales keeps going up, it reduces the EBITDA margin percentage; that's mathematics! I may not lose money because we can pass-through, except some of the spot increases which we faced in Q4.

Pramod Amte: The other question is with regard to the EVs. As you have expanded your customer base now, what are the type of parts to be supplied to? And has that scope expanded multi-fold?

Anurang Jain: Yes. So, definitely our suspension, brakes and castings are there already, clutch will not be there in EVs. But, like I said in my opening remarks, we are also looking at inorganic and organic growth through products that are also relevant for EV.

Moderator: Thank you. Next question is from the line of Ashutosh Tiwari from Equirus Capital. Please go ahead.

Ashutosh Tiwari: As we are seeing improvement in the volumes in the European market on a quarter-on-quarter basis sequentially, would our revenues in Q1 be higher than what we delivered in Q4?

Massimo Venuti: I believe Q1FY'22 will have higher revenues than Q4FY'21. In 2020-2021 we crossed EUR 56 million in Q2, in Q3 EUR 59 million and in Q4 were close to EUR 62 million. So, trend is positive. If I compare these figures with 2018-2019, we are still 15%-20% less. So, there is potential for higher numbers. OEMs not facing disruptions, are working five days per week. We are working up to 18 shifts per week. While OEMs are facing shortage of semiconductors and the impact due to the COVID-19, the market is slowly coming back to normal. So, my expectation for the next quarter is to continue to maintain the stability of the last 2-3 months.

Ashutosh Tiwari: And was April a better month versus March, as far as industry volumes are concerned?

Massimo Venuti: Registrations in April were lower than March, also considering the number of working days. In this quarter, it will be very difficult to compare the figures to the previous year. For this reason, we are trying to compare these figures with 2019. And as I told you, the month of April closed with minus 24% compared to 2019.

Ashutosh Tiwari: You had said last quarter that our market share in brakes will probably improve from 30% to around 55% in 2022, as you were doubling capacity. So, will that improvement will be on an average for the full year or do you see higher impact in Q4 or second half?

Anurang Jain: That was in calculation which was done based on number of disc brake systems in two-wheeler vehicles sold. And that 55% should be there once we reach the peak level. Now, our share in disc brake systems is around 30% and in the discs about 45%, disc only. In brake systems and discs, we are almost doubling the capacity. At the end of FY 2022, at peak, we should reach that figure.

Ashutosh Tiwari: In FY 2022, will higher growth come from brakes or suspension also will grow?

Anurang Jain: I think brakes, suspensions, machined castings - these three will be the largest growth engines. And when I talk about brakes, we also have the ABS starting, we have of course all these disc brake assemblies and discs. In Suspension, we have inverted front forks, shock absorbers. The business is anyway increasing with new customers like TVS. And we are going for fully finished castings for two-wheeler, three-wheeler, four-wheeler - there will be a higher value-add from there also. And then, of course, we have a big growth plan for aftermarket.

Moderator: Thank you. The next question is from the line of Jay Kale from Elara. Please go ahead.

Jay Kale: You have mentioned about orders for EVs and hybrids in Europe. Can you talk a little about the products that you supply to the EV's and hybrids - how complex or how different are they from the existing ICE products? And what would be the competitive intensity in those EV products that you are supplying - would there be the same players that are currently supplying the ICE products in the die casting business?

Massimo Venuti: The product in terms of process and technology are the same, if we speak about the hybrid technology, which has engine and also transmission components. If we speak about the process of EV components, for sure there is a different alloy. Due to some technical rules, the technology is shifting from secondary alloy to primary alloy, mainly for the structural parts but also others.

But if you speak about our position compared to our traditional competitors, we are in a better position. In this kind of business, you have to invest in high pressure die casting machines. And as you know, this is one of the points of strength of Endurance Europe, because a lot of our competitors had invested in small sized foundry and machining infrastructure. Our existing infrastructure and our ability to invest makes us more appealing compared to our competitors.

Jay Kale: Just a clarification - you mentioned about hybrids, but would it be similar for EVs? I guess it would be more of battery casing, housing and maybe some other components in EVs - engine components wouldn't be there, so the complexity…

Massimo Venuti: Yes. For the electrical vehicle, the transmission covers, pumps, brackets, battery housing and other casing are in high pressure die casting. For the hybrid technology, the process and the components are the same of the internal combustion engine, because for the hybrid solution in the car, they are assembling the electric engine and also the normal internal combustion engine. And so we continue to produce the same parts also for the hybrid technology.

Moderator: Thank you. Next question is from the line of Sonal Gupta from UBS. Please go ahead.

Sonal Gupta: For your existing products like suspension, brakes, etc., does the value in EV scooters change compared to an Activa?

Anurang Jain: In aluminum castings, you don't have cylinder heads or cylinder blocks or crank cases in EVs. You may have battery housing, case extensions, some plates, some modules and some terminal based casting. The size and shape is changing. But in terms of pricing and profitability we don't see any change. And the existing die casting machines can be used with different tooling. So, we don't see any significant drop in casting.

As far as brakes and suspensions is concerned, see, the products would be slightly different looking at the inputs we get from the customers, like suspension damping force values of compression and tension. So it could differ. But in terms of pricing, we don't see much change, it could be plus or minus but that will depend upon the type of shock absorber, the type of front fork or a type of brake which is required.

Sonal Gupta: What is the percentage revenue that you have from Bajaj and Royal Enfield and some of your other large customers?

Anurang Jain: Though I have shared in the past, I don't like to give this breakup. But of course, Bajaj is the largest. So, if you see the top five, you have Bajaj, HMSI, Volkswagen, RE and Fiat Chrysler – FCA is now called Stellantis after their merger with Peugeot. So, these will be our top five. And of course, we are doing a lot with Yamaha, RE, TVS of course, so we are growing with everybody. But Bajaj is the highest.

Moderator: Thank you. Ladies and gentlemen, we take the last question from the line of Chirag Shah from Edelweiss. Please go ahead.

Chirag Shah: How do you decide on new aftermarket products, and why did you choose only tyre distribution?

Anurang Jain: Already, we are trading in some other products also. We call them value added products, which include wheel rims, control cables, camshafts, rocker arms and connecting rods and a few other items. Here, we have good suppliers, value add on quality and branding. As far as the tyres was concerned, it is a high value business with very good growth potential for our aftermarket business, and that's why we chose it. And tyres has got a very good replacement market, as you know. Endurance has a good brand image, and our tyres have been received quite well. We ensure that the quality is maintained in all our value-added products. So, tyre was a new addition. So, aftermarket business has two facets, one is our own manufactured products and second is the value-added products. So, tyre comes as a part of our value-add product trading.

Chirag Shah: Any more product you are evaluating for aftermarket and aspirationally what kind of revenue percentage you would like to have from aftermarket?

Anurang Jain: So, like I said, we were last year at 6.5% of domestic sales, we would like to reach 10% of domestic sales. But it depends on other elements of domestic sales also. We are really growing in many product categories. So, to reach 10% is not that easy, but that is the target.

Chirag Shah: Any more products you are looking to add over there in the aftermarket?

Anurang Jain: I will not be able to tell you, but we are exploring the products.

Chirag Shah: Thank you. And a follow-up question on the disc brake. You indicated that at peak you could get around 55% market share, I presume that would be the highest market share for you in any of your products?

Anurang Jain: Yes, because here the major competition is only Brembo. And with the help of Grimeca we have entered the 200 cc plus brakes market, which is given us a new market from this year. So, this is an estimation. Now please don't catch me on future investor calls on that 55%, it could be plus or minus from this figure. But yes, when I am going from 285 kpm to 570 kpm, and today I am at around 28-30% market share on brake systems, you have your answer. So, from that angle I gave this figure, looking at the overall volumes.

India, in FY 2019, sold about 24.46 million two-wheelers in FY 2019, of course, went down in FY 2020 to 20.9 million, and 18.4 million last year, but I see no reason why it should not come back to 24.4 million units.

Looking at the opportunities from so many OEMs and de-risking by people like TVS from a Chinese supplier to us, and new orders from Hero and HMSI on brakes, I don't see any reason why we should not be at that figure. So, this was estimated figure which I gave you in my last call.

Chirag Shah: In suspension, what would be your estimated market share? If I had to do a like-to-like compare with brakes, where would be suspension in terms of market share?

Anurang Jain: It is about 40%.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to the management for closing comments.

Anurang Jain: Well, April was quite good. We are now caught up in this lockdown scenario, which is definitely affecting our sales. But, we are optimistic that from June, the market recovery should take place. Last year, it happened from July mainly. I am an optimist. There would-be pent-up demand. And definitely we will keep a keen eye on cost controls and CAPEX investments. And luckily we have learned a lot from last year's experience. So, just want to tell all the shareholders and potential investors here that we will continue to do our best for profitable growth. But external factors are beyond our control. And I would like to thank everybody for their support and their confidence in Endurance. That's all from my side.

Moderator: Thank you very much, Sir. Ladies and gentlemen, on behalf of Axis Capital Limited, that concludes this conference. We thank you all for joining us. And you may now disconnect your lines.