



Endurance Technologies Limited Q2 FY23 Earnings Conference Call

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

Moderator: Good morning ladies and gentlemen and welcome to the Q2 FY23 Earnings Conference Call of Endurance Technologies Limited 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 opening remarks. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Nishit Jalan from Axis Capital Limited. Thank you. And over to you Mr. Jalan.

Nishit Jalan: Thank you, Michelle. Good morning, everyone. Welcome to Q2 FY23 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, Investor Relations.

I will now hand over the call to Mr. Jain for his Opening Remarks, post which we can have the Q&A Session. 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 second quarter of this financial year. In India in the second quarter of FY23 as per the SIAM data, the two wheeler industry sales grew by 7.35% compared to Q2 of the previous financial year; scooters grew by 15.78% and motorcycles grew by 5.62%. The automotive industry in India had a growth of 12%.

In our overseas operations in Q2 of this financial year, the EU and UK markets saw an increase of 0.4% in the volume of passenger cars sold, while our European sales grew by 25.9% in euro terms.

I will now brief you on the financials of the second quarter of FY23. During Q2 of this financial year as compared to previous year same quarter, our consolidated total net income grew by 25% from Rs.18,957.5 million to Rs.23,690.6 million. Consolidated EBITDA grew from Rs.2,681.9 million to Rs.2,800.2 million. Consolidated EBITDA margin was at 11.8%. The profit after tax degrew from Rs.1,333 million in Q2 FY'22 to Rs.1,314.9 million in Q2 of this financial year, and the PAT was at 5.6%. This included the income of the Maharashtra PSI Scheme incentive of Rs.284.61 million. There was no

consolidated net debt and company had a positive cash flow of Rs.2,838 million.

During Q2, our standalone total income grew by 26.9% from Rs.15,057 million to Rs.19,113 million. Standalone EBITDA grew from Rs.2,170 million to Rs.2,377.4 million with an EBITDA margin of 12.4%. Standalone profit after tax grew from Rs.1,223.6 million in Q2 of FY22 to Rs.1,312.7 million in Q2 of this financial year, and the PAT was at 6.9%. This included the income of the Maharashtra PSI Scheme Incentive of Rs.284.61 million.

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

I would like to now share certain key points till Q2 of this FY23:-

1. In Q2 of FY23, 80.7% of consolidated total income including other income came from Indian operations and the balance 19.3% came from our European operations.
2. In India, till date of FY23, Rs.6,928 million of new business has been won from OEMs other than Bajaj Auto, which included Honda two wheelers, Hero MotoCorp, Ather Energy, Hero Electric and Tata Motors. We have Rs.22,822 million worth of requests for quotes from OEMs. Our customers recognize us as a trusted and capable partner in the value chain, both in terms of technical and financial strength. Our consolidated net worth is now in excess of Rs.40 billion.
3. The electric vehicles market continues to offer significant opportunities for growth to the auto component industry. It is estimated that the Indian EV market will touch Rs.150 billion by 2030. Therefore, at Endurance, we have taken a major step forward to harness this opportunity by executing a Share Subscription and Purchase Agreement for acquiring 100% of equity share capital of Maxwell Energy Systems Private Limited in a phased manner. 51% equity has already been acquired in July. As you all know, Maxwell is in the business of advanced electronics, particularly in the Battery Management Systems (or the BMS) for automobile, EVs and battery packs. We plan to leverage Maxwell's deep technical expertise, and its BMS deployment experience in India and Europe.

4. We aim to offer our products to multiple new clients including Indian and overseas automotive OEMs and manufacturers of battery packs. We have already started supplies to Hero MotoCorp for their new EV which was launched in October. With the existing order pipeline, the technical capabilities and synergies between Endurance and Maxwell, we are confident of achieving our goals in the embedded electronics space.
5. As you are aware, we have added a high technology new product which is the Driveshaft at Waluj, Aurangabad. Driveshaft is a proprietary product and an EV-agnostic product. Driveshaft transforms the torque generated from an engine through its transmission to the wheels. The application is for three wheelers and four wheelers including some LCVs. The launch of the driveshaft has opened an additional revenue stream in the transmission segment for Endurance and will lead to a significant business growth opportunity for Endurance in the future. Commercial supplies have already started to Bajaj Auto from July '22 onwards. We have won orders from Mahindra and TVS also.
6. To help our overseas operations to grow in the profitable aftermarket business for two wheeler components, we have acquired an Italian company Frenotecnica in July '22. Frenotecnica is involved in the business of friction materials and components for braking systems like brake pads for two wheelers. In 2021, they had a sales turnover of €3.6 million with an EBITDA margin of €1 million. It's a highly profitable business. They have a renowned brand name called Brenta in the aftermarket and replacement business.
7. With this acquisition and earlier acquisitions of the two Italian companies, namely, Grimeca, and Adler in 2020, we want to create a center of excellence in Italy for premium two wheeler components, and grow in the segment in Europe. This acquisition gives growth opportunities to the Endurance Group in the European aftermarket business as well as provide access to in-depth knowhow for process technologies of friction materials, especially for brake applications. We are looking at more such acquisitions.
8. I would like to mention that Endurance is focusing on a more value add and profitable product mix in its future business, which includes:

- a. Braking, suspension, advanced electronics, and aluminum casting supplies to two and three wheeler EV OEMs – both existing players and new startups.
 - b. 200 cc plus motorcycle brakes and clutch assemblies with the help of acquisition of Adler and Grimeca in Italy. The 200 cc plus motorcycle brakes business has already started last year and the 200 cc plus motorcycles clutch (assist and slip clutches for high end bikes) business is expected to start in Q1 of FY24.
 - c. Paper-based clutch assemblies replacing the cork-based clutch assemblies for motorcycles.
 - d. Continuous variable transmissions or the automatic clutch for scooters. With Hero Motorcorp we are at an advanced stage of testing and we expect to start supplies from the next financial year.
 - e. We will also increase Anti-Lock Brake Systems or the ABS business for 150 cc plus motorcycles with our collaboration with Beijing West Industries. We have started supplies to Bajaj Auto and Royal Enfield, and are engaged with other OEMs for winning new ABS business.
 - f. We are also increasing the business of the 200 cc plus motorcycle inverted front forks and adjustable rear mono shock absorbers. This is with the help of our collaboration partner, KTM AG. We are working with KTM to increase supply of both on-road and also start with off-road motorcycle, higher technology, inverted front forks and rear shock absorbers and we have made a three -year business plan for this.
 - g. We have also started supplies of inverted front forks to Honda two wheelers in India, and won orders for inverted front forks for three of Hero MotoCorp's new vehicle platforms. We are also engaged with other OEMs on the inverted front fork new business. This is indeed a fast growing business for Endurance.
 - h. We are also focusing on fully finished machined castings as compared to raw casting and semi-finished castings for all two, three and four wheelers OEMs
9. The brake assembly business is growing with addition of Bajaj, TVS, Royal Enfield, Yamaha, Hero MotoCorp and Ather Energy, as well as HMSI new business. Our second plant at Waluj, Aurangabad has been set up to cater to this increase in volumes, and has already started operations.
10. As you are aware, the supply of two wheeler ABS assemblies to Bajaj has started in the last week of

September 2021. ABS assemblies to Royal Enfield started from February 2022 onwards. Bosch controls the major market share in the Indian two wheeler ABS market of approximately 3 million to 3.5 million ABS assemblies per annum.

We are now in the process of even getting a dual channel ABS cleared by the end of this calendar year. And we are adding capacity of 200,000 ABS assemblies per annum to our existing 400,000 ABS assemblies per annum, which will give us a total capacity of 600,000 ABS assemblies per annum. We are also further planning to increase this volumes to 1.2 million ABS assemblies per annum by the second half of 2024. So, this is a very good growth opportunity for Endurance.

11. We also focus on supply of products for EV two and three wheelers. We have already started supplies for brake assemblies, suspensions, and aluminum castings for electric scooter and three wheeler.

After the acquisition of Maxwell, we are also supplying the Battery Management System for two wheeler EVs and battery pack makers. Our focus is to supply our EV products to two and three wheeler OEMs, both existing and new.

Till Q2 of this financial year, we have won Rs.2,168 million of new business for EVs. All this business has been planned to start in this financial year or early next year and should reach peak volumes by the end of FY24.

The total business win for electric vehicles is at Rs. 4,891 million till date. This does not include a business which we just won a couple of days ago from Hero Electric which is about a Rs.1,200 million business for both the BMS and suspension and this business should start by early next year. So, this actually takes our business win for EV vehicles to now slightly more than Rs.6,000 million till date.

We are also focusing on the E-Bicycles business, especially for suspension, battery management system and brakes. This is both for our Indian OEMs and exports.

12. Due to increased alloy wheel orders from Bajaj, Yamaha India, TVS and Hero Electric, we have added a new plant at Chakan to help increase supplies from 240,000 alloy wheels a month to 380,000 alloy wheels a month. This

plant has already started operations in July 22, and the peak volumes should be reached by next month. The supplies to TVS had also begun in July 2022.

13. As far as Europe is concerned, till date of this financial year, we have won €42 million business mainly from Porsche, Daimler and Stellantis. We had won €70 million business last year

So, both India and Europe are aggressively going after new business. High value of order intake is a very good sign for us, as it reflects the trust of our customers.

14. I would also like to point out that Endurance, both in India and Europe, is actively pursuing access to new technology and focusing on introducing new products through organic or inorganic means.

15. As I mentioned earlier also, Endurance has already entered to backward integration product areas which are import substitutes. Firstly, aluminum forging axle clamp production, in technical collaboration with FGM, Italy. We already started deploying these forged parts in inverted front fork supplies for both Bajaj as well as for exports since April 22.

We have recently won an order for third party sale of forgings - from Hero MotoCorp's upper bracket aluminum forging, which will start by next year. So, the aluminum forging itself can become a segment and it's a huge opportunity for growth for us.

The second product is steel braided hoses for ABS applications for mid and high end bikes. This supply has already started.

Both these projects will help us make higher profit margins in the businesses of inverted front forks and ABS.

16. In the first half of this financial year, our aftermarket sales grew 16.2% from Rs.1,727 million in the previous year to Rs.2,006 million. We are exporting aftermarket parts to 31 countries and we are adding four more countries in this year, which are Rwanda, Burundi, Brazil, and Vietnam. The aftermarket sales growth will continue to be a very large focus area for us at Endurance.

17. In the first half of this financial year, the export sales for India standalone business decreased by 8.4% from Rs.878.56 million in the previous year to Rs.804.91 million. This was due to the lower orders of aluminum die casting exports to our European OEM customer. But I think it's slowly coming back; we are winning new orders from Europe for castings. So, the future looks quite good.

We are also extremely happy to inform you, Endurance has been judged as one of the India's Best Managed Companies based on Deloitte's Best Managed Companies 2022 Program.

On the environment 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 and driving use of natural gas and LPG in place of electricity and furnace oil. We are happy to tell you that the use of furnace oil has been completely stopped now at Endurance. We are also focusing on lowering hazardous waste generation and to achieve zero waste to landfill.

At Endurance, it will be our continuous endeavor to grow through organic and inorganic means, with a focus on technology upgradation, quality improvement, 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.

We at Endurance have a very positive outlook based on our new large business wins in the last two years including electric vehicles orders, both in India and Europe.

With these opening remarks, I would like to invite questions from all of you. We also have the Maxwell Founder and CEO, Mr. Akhil Aryan on the call to answer any questions you may have on Maxwell. Thank you.

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

Aditya Jhawar: My first question is pertaining to India business, if you can help us understand the breakup of the Rs.7 billion new order win in this year. You indicated that the cumulative order wins for EV are about Rs. 6 billion. Is this including Bajaj or not? And is there any breakthrough into new age OEMs for EVs in India?

Anurang Jain: Rs. 7 billion order addition includes orders from HMCL for castings, HMSI for front and rear shock absorbers, Tata Motors for the high end machined castings, and from Hero Electric for

alloy wheels. We also have orders from Ather Energy for the battery box housings, Yamaha for their suspension, TVS for brakes for the new N-360, and Royal Enfield for castings. I have not counted the order of the BMS and suspension worth Rs.1.2 billion from Hero Electric which we have won recently.

The best part is that 80% is new business and replacement is only 20%.

Coming to the EV order book, out of Rs. 6 billion, Bajaj orders are of Rs.1.24 billion for the scooters and three wheelers. The other key orders are from Ather, Hero Electric, Mahindra Electric and Bounce. And as we speak, we are engaged with all these new big companies, which are there in the market and we hope to give you some more good news in the next call.

Aditya Jhawar: My next question is on European business. Firstly, how are the customers reacting to price increases due to higher energy costs? And secondly, how's the production schedule for customers looking like in the next couple of months?

Massimo Venuti: The first question is regarding the energy prices. In Q2 FY-23, the energy costs reached €472 per megawatt in comparison to Q2 FY22 cost of €125, and gas was at € cents 208 per meter cube in comparison to € cents 50 per meter cube. The European governments, including Italy, are supporting us with contributions to offset these price increases. In Italy, for Q2 FY-23, around 25% of the cost increases were made good by the government. And this 25%, grew to 40% in the month of October and November. Further, we are discussing with our customers in order to find the solution for the future. I'm very happy to inform you that starting from the 1st of October, we reached an agreement with our major customer. And so it means that in the next quarter, the contribution from the government and from the customer will offset part of the impact of higher energy costs, though these will not cover 100% of the increase of energy costs. But, we are pretty confident about increase in our EBITDA% going forward, due to these measures.

We are not closing in a structural way these agreements with our customers, as the policy of the government of each country for energy related compensation to industry is different. In France and Spain, a price cap for energy and gas is in place. In Germany and Italy, they have no price cap. However, Germany officials have stated that they will fund €200 billion in order to support the consumers and also the industry. They will officially announce this strategy at the end of November. In Italy they are supporting us, but in a temporary way, and they renew their commitment month-per-month. Hence it is very difficult to

enter into a structural agreement with the customers to take care of the energy cost increases. This is because the industry, including the OEM's, are awaiting an official position from the European Union. But the situation is expected to improve in the next month.

Speaking about the production schedules, in this quarter, the new car registrations went up by 0.4% - the numbers are more or less in line compared to the previous year. But Endurance Europe performed very well; we increased the turnover by 25.9% from €45.3 million to €57 million. Also, the production of passenger cars in the same period in Germany was up by 42%. So, it means that they are increasing the inventory levels to address higher volumes for the next months, which is a positive compared to the previous year.

Different customers in different countries will support us in different ways, but I'm pretty optimistic that we will be able to recover majority of the energy cost increases.

In the last quarter, we have had an impact in our profit & loss of €1.9 million. In last six months of this financial year, the total impact was about €3.6 million. The EBITDA of this quarter would have been almost 16% without the energy cost increases and EBITDA of the six months around 16.6% without energy cost increases. So, barring these increases, our profitability is in line compared to the previous year.

Moderator: We have the next question from the line of Nitin Arora from Axis Mutual Fund. Please go ahead.

Nitin Arora: On Maxwell Energy, the order book at the time of acquisition was about Rs.150 crores. Please throw some light on EV specific order increases since then, without adding alloy wheels going into electric vehicles. Also if you can comment on the acquisition price and when it should be done 100%?

Anurang Jain: As of now, the orders in hand are in excess of Rs.105 crores, There are leads of Rs.125 crores being pursued. Earlier, we had announced active order pipeline of Rs.150 crores which included Hero MotoCorp. We got a new order of Rs.70 crore for the BMS from Hero Electric. So, in totality the orders in hand are now up from Rs. 105 crores to Rs.175 crores.

Satrajit Ray: On acquisition cost, there's a comment in the stock exchange release which we've given post our results yesterday. It's mentioned that we purchased 51% of the company through primary issuance and secondary purchase for a consideration of Rs.135 crores and with that, Maxwell became a subsidiary; that

happened on 1st July. So, the results are getting consolidated from 1st July 2022. The balance 49% of Maxwell equity share capital will be purchased by Endurance in five tranches spread over next five financial years, and the consideration of each tranche will depend on Maxwell achieving certain financial targets as specified in the Share Purchase Agreement.

Nitin Arora:

While EV market has grown rapidly, your BMS order book does not seem to have kept pace.

Akhil Aryan:

We already have about Rs.175 crores in our order book. We have about another Rs.125 crores in active lead pipeline. Our thought process behind the market is not short-term. So, we are not chasing the last three months or last six months volumes. We are looking at what are the volume creators of 2025 or 2030. We have to identify the OEMs that are genuinely being serious about their EV plans and also the ones that are building robust products that will stand the test of time. Of course, in the EV space with the numbers itself, there has been a lot of noise, but very little signal.

In terms of business opportunities, we either go after high volume or high margin business. So, in India, with the new regulations coming in - new AIS-156, FAME-II, safety norms in the battery space and the vehicle space, all OEMs are responding and trying to align with these new regulations.

There are some OEMs that have been in the market with Chinese CMSs that will eventually localize the supplier. So, this transition from China to India is in process. And then there are also some OEMs that have traditionally built their own BMS, for example Ather. So, even if their volumes in the last three months have gone up, there is not really a space for us to sell to them.

However, most other major OEMs are coming into the market to source BMS, and this includes Hero MotoCorp who is a significant customer for us. Other customers in India as well as in Europe are keen to buy this from technology experts like us.

Our focus is not necessarily on chasing short term trends by selling more volumes right now by lowering their cost but to focus on volume creators of 2025. We are also focusing more on integrating our technology and integrating our BMS into the battery sizes of those OEMs both in India as well as in Europe. This will enable us gear up for the next FY and to ramp up in the EV market so when the serious OEMs step in, we want to be part of that journey.

Moderator: The next question is from the line of Ronak Sarda from Systematics Group. Please go ahead.

Ronak Sarda: Sir, my question is on the standalone operations. The quarter-on-quarter and YoY growth looks pretty strong despite Bajaj Auto facing a lot of issues on their export market. If you could help us understand what has driven this strong growth? Also, how is the product mix? And in conjunction to that, how has been the ABS revenues seeing the scale up over the last few quarters?

Anurang Jain: The business has grown because of our new order wins over the last three years. Even during FY'21, we won orders worth Rs.5,850 million of new business; last year, we won Rs.7,650 million. Till now, in this financial year, we have already won almost Rs.7 billion worth of orders till date and going strong. This doesn't include recently won order from Hero Electric for Rs.1200 million. Endurance is going after profitable business and doing a lot of cost controls, whether it is consolidation, more operational efficiency, anything in the product mix being better. We are trying to improve the profitability by going for machined casting, we are expanding alloy wheel capacity to 380,000 alloy wheels a month from 240,000. Also, our Brakes business is growing very fast and we have set up a new plant for brakes which is operational. For brakes, we have received orders from EV companies like Ather where we are their single source. And luckily except for the clutch, all our products are EV-agnostic.

We have also done backward integration to improve profitability which includes steel braided hoses and aluminum forgings for inverted front forks. This has helped us to increase our margins. These are both import-substitutes. So, our strategy is to outsource to Endurance Vendor Association. So, we are able to focus on critical operations in-house like surface treatments or assemblies.

Of course, the advanced electronics with Maxwell as well as driveshaft is still at initial stage. Also, I mentioned about aluminum forgings. It's not only about inverted front forks, we have received orders for upper brackets for conventional front fork from Hero MotoCorp. We are getting a lot of enquiries for other type of aluminum forgings.

So, I think our outperformance is a combination of product mix, technology, focusing on upgrading products, EV parts. EVs will grow very fast and we want to be a part of that growth. We have won EV orders worth Rs.600 crores of business already and we are going strong on this business.

Higher commodity prices also increases sales, and increases RMC as % of sales. The RMC percent to sale in Q1 was 67.6%, Q2 was 67.2%. So, it's only gone down by 0.4%, but the EBITDA margin has gone up by 1.4%, so extra 1% would be attributable to richer product mix and cost controls. From Q3, we're expecting a further drop in raw metal prices. Aluminum is around 52% of our RMC, steel is 32%. Both these commodities' prices are going down substantially in this quarter. That, of course, will help to increase the EBITDA margin %.

We are very optimistic on the future. In Europe, energy prices had gone up, resulting into lower EBITDA margin. Many companies in Europe are not doing well. We are seeing this as an opportunity to get new orders from all major OEMs.

So, I just want to say that I think our outperformance has been a combination of sales growth, better product mix and cost controls and purchasing being better.

Ronak Sarda:

Mr. Aryan, can you help us understand how the two new norms on the battery side or on electric vehicles which are coming on 1st December, and then on 31st March can change the entire supply chain for BMS? And what could be the kind of cost increases?

Second question for Mr. Ray. The way we calculate the subsidiary performance for ETL group is directly consol minus standalone. Now with Maxwell getting consolidated as well, if you can help us understand, what kind of revenue and cost are sitting in the overall subsidiary numbers so that we can decipher the Europe performance separately.

Akhil Aryan:

We are very happy with the new norms. In almost all of our BMS products, from the design stage we have taken extra precautions - more than what was mandated by law in India, because we were selling in international markets to Europe, the US, and we were already designing as per the global standards. Many of our products by default comply with the new norms announced by the India government, which includes AIS-156. There are some unique things that have been also announced in Phase 2 of AIS-156 which will require some minor adjustments. We have designed the technology as a platform approach and not as a product, which allows us to comply without fully redesigning new hardware. We are simply implementing new firmware upgrades to our products, which will enable us to quickly have a compliant BMS. Again, like I said, most of our products are already compliant for both phases. For the other products, where minor tweaks are required, we're estimating to be ready before 1st December for phase 1.

With these norms, a lot of the OEMs who were buying PCM which are protection circuits from China instead of a BMS, are now realizing that this is no longer going to work. When you're buying a PCM instead of a BMS, the problem is that there is no firmware because there is no microcontroller. So, you are basically in a place where you have a black box hardware that you just have to connect and it acts like a fuse. If something goes above a certain threshold, it just stops the battery from working.

So, there is no way to write some firmware to comply with the standards. So, it's almost as if they have to find a BMS supplier instead of protection circuits. This increases our addressable market significantly. I had mentioned in previous concall that FAME 2 regulations were just one step in that direction, and AIS, helps in adoption of reliable battery management technology.

Last but not the least, I also want to highlight that not only do these rules require a lot of OEMs to source BMS instead of PCMs, but also to source these BMSs locally. And in India, when it comes to an AIS compliant BMS which is cost competitive, we have the volume threshold and are definitely market leaders in this regard. And so, we're seeing a lot more conversations happening as many of our competitors do not meet the standards or do not have the experience of delivering products for the Indian market. So, I think the overall cost impact for companies that were using PCMs will be there, because they will have to move from PCMs to BMSs. So, there will be an increase in cost for their vehicles. But in the context of us as a supplier of technology and BMS, it will expand the addressable market for our technology. Our BMSs are compliant to phase 1 and phase 2 regulations.

Satrajit Ray:

To answer the second part of your question, I'll give you numbers for Europe and Maxwell separately, because standalone numbers you already have. As far as Europe goes, I'll give you numbers in euros. Q2 FY-23 had a total income of €57 million and an EBITDA of €6.6 million compared to last year, total income was €45.3 million and €6.3 million EBITDA.

Now, you must remember that in Q2 FY-23, there has been an 8% depreciation of euro against rupee. So, as far as the rupee value is concerned, it will be lower. Now, as far as Maxwell is concerned, the total income in this quarter is Rs. 4 crore. At EBITDA level, there is a loss of Rs. 6.15 crore. This is primarily driven by the fact that we considered employee costs build up, but a very major order started fructifying later, so there's a timing mismatch between revenue and costs. So, that's why this

loss on such a low value of sales. And the last point from my side is that a straight arithmetical aggregation will not get you the numbers, because there are consolidation adjustments.

Ronak Sarda: Right. That's really helpful. So, Europe was not as weak as the overall numbers reveal.

Moderator: We have the next question from the line of Sonal Gupta from L&T Mutual Fund. Please go ahead.

Sonal Gupta: In other operating income, what is the Maharashtra subsidy for Q2 FY-23 and Q1 FY-23 ?

Satrajit Ray: Maharashtra subsidy goes in Revenue from Operations. It doesn't go in Other Income.

For Q2 FY-23, the booking has been Rs. 284.61 million and in Q1 FY-23, the booking was Rs. 300.95 million. So, in totality for H1 FY-23 the booking is Rs.585.56 million.

Sonal Gupta: If you look at the strong growth on a year-on-year basis in the revenues, how much is because of the commodity prices going up? And how much do you expect to reverse in the coming quarters?

Anurang Jain: The RMC was 67.6% of sales in Q1 FY-23, which went down to 67.2% in Q2 FY-23. Our EBITDA went up from 11% in Q1 to 12.4% in India during the same period, which means we made an additional 1% because of sales growth, better economies of scale, cost control measures and better product mix.

Sonal Gupta: How much deflation in top line do you see due to decrease in aluminium prices on QoQ basis?

Anurang Jain: It is very difficult to predict as the customers keep changing their schedules every month. Since the IPO, we are focusing on higher than industry and profitable growth. With too many uncertainties we strive to do our best. In commodity prices, for instance alloys for alloy wheels there could be about 8% to 12% drop which is very good for us from % margin perspective. Steel is going down; I was told about Rs. 6 or Rs. 8 /kg on an average.

Once the RMC % goes down, EBITDA margin % will go up. We are seeing commodity prices coming down. We grew in a big way on YOY basis, not only due to higher commodity prices, but also due to higher volumes, coming from a Delta variant impacted base and on the back of new business win in the last three years.

- Sonal Gupta:** On a year-on-year basis, how much of the revenue growth you've seen only because of commodity prices?
- Satrajit Ray:** In H1, about Rs. 270 crore impact of higher commodity prices, out of Rs. 870 crore growth in sales. But you must understand these are estimated numbers because there's a lot of indirect inflation in the components we purchase, which is very difficult to put our fingers on.
- Moderator:** We have the next question from the line of Jinesh Gandhi from Motilal Oswal Financial Services. Please go ahead.
- Jinesh Gandhi:** How are you seeing the order book developing or production schedule developing post festive season on the 2-wheeler side in India?
- Anurang Jain:** I think this month is absolutely all right. Next month, we have to wait and see, as we will get schedules in the last week of this month. In our case, growth is also because of business wins.
- Jinesh Gandhi:** My next question is with respect to the ABS business which we have from Bajaj Auto and RE; can you indicate what kind of share of wallet we have for them for ABS?
- Anurang Jain:** As of now, we are doing a single channel ABS with Bajaj Auto having monthly volumes of 18,000 to 20,000. Additional 8,000 for Royal Enfield, but they want more. Our current capacity is 33,000 a month. We plan to achieve the monthly run-rate of 33,000 from January 2023. Also our dual channel ABS is in clearance stage. We are adding another 200,000 capacity in addition to the existing 400,000, and are expecting orders for our dual channel ABS. So, we'll have a total capacity of 600,000 in a market size of 3 million to 3.5 million.
- Jinesh Gandhi:** We have seen outperformance in Europe, where we have grown at about 26%, or on an adjusted basis 19%, while the registration data is flat. What has led to that kind of a strong outperformance in the European market for us?
- Massimo Venuti:** In the previous quarter, even if the car registrations were up only 0.4%, there was an increase in the production of cars in Germany by 42%. OEMs are increasing car inventory. In comparison, in Q2 FY-22, there was a shortage of semiconductors that impacted their production significantly. The market is recovering only for the premium cars. While the semiconductor aspect continues to be in a critical situation, all the OEM's are using the available semiconductors mainly for the premium cars. If we analyze the numbers of all OEM's in Europe, we find that there is reduction of volume compared to the

previous year, while turnover and also the profitability have increased. We have 10% - 11% inflation which is resulting into weak demand for low-end vehicles.

We are optimistic for the next 6 months as we are entering in the production phase for several new electric components. In the previous quarter, pure electric vehicles reached a market share of 11.9% implying 22% growth; plug-in hybrid technology reached 8.5% share. So, currently 20% of the market is completely electric. We started investing in electric technology in 2015 and we are realizing the benefits of the same in our product mix.

Moderator: We have the next question from the line of Pramod Amte from InCred Capital. Please go ahead.

Pramod Amte: Considering that you are increasing ABS production and also Maxwell seems to be gaining orders, how do you see your import content going up in the coming years? And second is related to the ECU, are you looking at export opportunities?

Anurang Jain: I will talk about the ABS and then Akhil can speak on BMS. As far as ABS is concerned, we have reduced import dependency by setting up a facility in-house for hoses, and now for valve manufacturing. This will lead to very good saving for us. Moreover, we're not importing the ECU, which is currently coming from Mando Hella in Chennai. So, for ABS, we'll not have much in terms of imports.

Akhil Aryan: So, when you get into the domain of designing and manufacturing advanced electronics like Maxwell is, unfortunately, the reality today is that there are not many global semiconductor companies who have set up shop in India. In the context of the BMS product, we will have to continue importing the semiconductor components. Some passive components can be sourced locally, but a lot of the active components, if we want to build world class products, then more often than not we have to rely on international semiconductor suppliers like say a Texas Instruments or Microchip, NXP and so on. And most of them don't have any presence in India. So, we will have to continue importing that. They had initially set up shop in multiple places around the world, but they are also de-risking themselves after the whole China scenario as well as COVID.

As we start setting up a manufacturing plant inside of Endurance for manufacturing and assembling our own electronics, Endurance will most certainly be placing orders on Maxwell's behalf to import some of these components and as the volumes for Maxwell pick up, unless there are ways in which

India as a country overcome the semiconductors' dependence on other countries and these large semiconductor companies set up shop in India, I would say for the foreseeable future, at least for the raw material of semiconductors, not the PCB or the assembly, we will have to depend on imports.

However, I think from a strategy standpoint, we are very aggressively looking at international growth. Because like I said, for us we focus on either high volumes business in India or high margin business in Europe and in US. So, we have now created a dedicated team that is focusing on winning business in Europe. And we are not only focusing on the 2-wheeler market but also looking at applications of BMS in industrial equipments like forklifts, excavators, and so on, because a lot of those industrial equipment are transitioning from diesel to battery in Europe.

Pramod Amte: I wanted to check with Anurang Sir on the broader theme of Europe? How are you looking at the power crisis, is it giving you any opportunity to build your export business from India?

Anurang Jain: See, our strategy right from when we did the European acquisitions in 2006 is that we don't want to try and be a substitute for our business in Europe. We want Endurance Europe to grow. I am happy they've grown more than 25% in this quarter. Our exports from India have been to certain specific customers in Europe, like Getrag, for many years. But our strategy is very clear, we don't want to come in the way of our European operations to try and take their business unless we both agree that it makes sense. Business should not go to a third party.

The sea freights reached very high levels in recent times, which made exports uneconomical. In terms of exports, we have enough business opportunities from Sanmina for the castings required for their cell towers, and from Generac for the gensets.

Moderator: We have the next question from the line of Arvind Sharma from Citigroup. Please go ahead.

Arvind Sharma: What was the PAT for this quarter for the European business? How much can be the expected decline in the energy prices?

Satrajit Ray: PAT in Europe for Q2 was €1.7 million.

Massimo Venuti: In Q2 FY23, we reached peak of energy prices at €472 per megawatt and €208 for gas. Currently, the futures are €300 for the energy and €120 for the gas, the situation is improving in terms of price. At this moment, it is difficult to fix the future

prices, considering the uncertainties around government support initiatives. We are optimistic considering that there is an energy price reduction, and support from our customers and the government.

Arvind Sharma: Can you please give some details on the driveshaft business? What's the current revenue and what are the opportunities here?

Anurang Jain: I don't have the revenue numbers handy. We've already started with Bajaj and Mahindra. We are starting TVS in the first quarter of next financial year.

Moderator: We have the next question from the line from Ashutosh Tiwari from Equirus Securities. Please go ahead.

Ashutosh Tiwari: You mentioned that from next quarter, the raw material prices should come down. Will it lead to margin expansion? In the second quarter, have we got the pass through, or is it still pending from the customers?

Anurang Jain: We get substantial pass through for aluminum and steel in the same quarter, but I would not say it is 100%. But there are other components like rubber, sintered items, bearings etc. which will not get addressed by pass-through. However, majority - say 90% does get addressed from the customer. Some pass-through price amendments come early while some of them come later with a quarter lag.

Ashutosh Tiwari: So, from Q3, margins should improve from Q2 levels?

Anurang Jain: Our focus to keep improving the margins.

Ashutosh Tiwari: Our current revenues are probably at the highest on a quarterly basis, in comparison to pre-COVID period. But our margins are significantly below for our standalone business? Generally, what is the target range you're looking over the next 1 or 2 years?

Anurang Jain: See, when we had EBIDTA margins in the range of 14.5%-15%, at that time the RMC percentage was 62% to 63%. In Q2 FY23, RMC was at 67.2%. So, as the raw material percentages go down again, it'll have an upward impact on the EBITDA margins.

Ashutosh Tiwari: On aftermarket sales, while the numbers for H1 FY-23 grew as compared to H1 FY-22, there is a small decline of 5% if you look on QoQ basis. So, how should we look at aftermarket sales from the full year perspective?

Anurang Jain: This decline is mainly because of exports to countries like Sri Lanka, Bangladesh and Egypt. We cannot risk collection of our export invoices. Thus, we have partly resorted to merchant export route, but that does not get classified as our exports. All these 3 countries are important for us, but are facing some kind of financial crisis. In Egypt, we are seeing signs for improvement.

We aim to grow our Aftermarket exports. Like I mentioned in my opening remarks, we are adding 4 new countries now in the next few months.

Ashutosh Tiwari: Do you see any uptick in exports to these countries from next year?

Anurang Jain: There are external factors that are not in our control, which are playing out in countries like Sri Lanka, Bangladesh and Egypt. As far as profitability is concerned, there is no compromise and we are getting our payments on time. We expect that measures taken by these countries and by RBI could ease the situation.

Ashutosh Tiwari: And largely on the ABS side, how much revenue you would have done in the H1 FY-23, can you give a broad range?

Anurang Jain: See, normally, I don't give individual product wise revenue. We are doing volumes of 28,000 to 30,000 per month. We should do 33,000 from January 2023, and we're adding another 200,000 capacity. This is mainly to meet dual channel ABS needs.

Ashutosh Tiwari: The 200k addition in ABS capacity will come up in Q4 FY-23?

Anurang Jain: The addition of 200,000 for dual channel will come from Q1 FY-24 as there is lead time for building up the capacity. We have already placed the orders for imported machinery which will take around 6 months to reach our facility.

Ashutosh Tiwari: And by when can we expect to have a total capacity of 1.2 million?

Anurang Jain: It will be more towards fourth quarter of calendar year 2024.

Moderator: We have the next question from the line of Aman Agarwal from Carnelian Capital. Please go ahead.

Aman Agarwal: So, I have 2 questions. First is on our incremental capital allocation. So, in the past we have allocated the capital very wisely and that has led to sales growth and profit growth for us. So, going forward Sir, which areas are we looking to allocate

more capital? Will it be more towards EV agnostic products like driveshafts or will it be towards EV-related products like BMS? Or will we be focusing more on dealing in the PV opportunity, to increase the PV share?

Anurang Jain: So, it's a combination of everything. I think for driveshaft we have enough capacity at present and we have already invested in it. The focus for resource allocation will be on the high-end suspension, on brakes business, machined casting business for four wheelers. EV of course, will be a major focus for us, but that's a part of suspension, brakes and casting business. We'll of course be investing in our own assembly lines for the BMS. We hope to start in April 2023, which will help us really improve our margins also on the BMS.

As a strategy we've followed 10-12 years, we like to do the critical operations in house and avoid investment for non-critical processes. We'll invest in all areas of business opportunities which have potential for profitable growth.

Aman Agarwal: My next question was on this new technology of integrated die casting where some of the players like Tesla are using large machinery to cast the overall structural body of PV at once. So, in our European business, do we see this as an opportunity or a threat?

Massimo Venuti: This new technology of integrated pressure die casting is absolutely interesting. Big European OEM's can consider investing in this technology, not the suppliers. These machines are costly, and it is not possible to transport the large parts produced. I don't believe that this could be an opportunity for Endurance in the short term.

Moderator: Ladies and gentlemen, that was the last question that the management could answer today. I would now like to hand the conference over to the management for closing comments.

Anurang Jain: No, I don't have anything further to add. As I mentioned in my opening remarks, we are very positive about the future.

Moderator: Thank you. On behalf of Axis Capital Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.