"Talbros Automotive Components Limited
Q2 FY '24 Earnings Conference Call"
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Moderator: Ladies and gentlemen, good day and welcome to Talbros Automotive Components Limited Q2 FY '24 Earnings Conference Call. This conference call may contain forward-looking statements about the company, which is based on the beliefs, opinions and expectations of the company as on date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict.

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I now hand the conference over to Mr. Anuj Talwar, Joint Managing Director of Talbros Automotive Components Limited. Thank you, and over to you, Mr. Talwar.

Anuj Talwar: Yes. Thank you so much, and a very good afternoon, everybody, and a very warm welcome to our Q2 and H1 FY '24 earnings call. On the call today, I'm joined by Mr. Navin Juneja, our Director and the Board and our Group CFO; as well as SGA, our IR from Mumbai. The results and the presentation are floated on the stock exchange and the company website. I hope everyone is having a chance to look at it. .

Let me begin with the industry and the economy overview. The auto component industry has shown resilience and a will to succeed despite economic hardships, supply chain disruptions, technology upheavals and even major global geopolitical scenarios like the ongoing war that's happening.

Not just supplies shortage in China, but also powerful incentives offered by the Indian government has encouraged domestic manufacturing and has been industries driving force. Along with that, Indian automotive industry saw an exceptional growth of 21 million units in FY '23, creating a robust demand for auto components.

So far in in H1 FY '24 11 million vehicle units have been sold with a growth of 9% Y-o-Y, whereas in H1 of FY '24, the total production of passenger vehicles, commercial vehicles, 2-wheeler sales was 14 million units, probably one of the highest ever.

In FY '23'24, the passenger vehicle segment is expected to remain on a positive side with a growth rate of 6% to 9% on a year-on-year basis. The commercial vehicle industry has also followed a similar path and its overall industry volumes are projected to reach pre-pandemic high levels, even as growth is expected to remain at a modest level of 2% to 4% Y-o-Y, although we believe that H2 will be stronger for commercial vehicles, given the fact that in election year coming up next year as well.

The growth is particularly strong in the vehicle segment and expect it to continue expand in the coming years. The journey of PV vehicles of our country has just begun. Furthermore, the demand for commercial vehicles has been boosted by government initiatives through infra spend on capex, on highway roads and ports. As a company that is strong in both 3 segments, Talbros stand to benefit from the trend and had ample opportunity of growth and expansion.

Coming to company's performance. First half of '24 has been a better period at Talbros Automotive. At a group level, including our joint ventures, the company achieved a revenue of INR616 crores, which is a growth of 23% Y-o-Y for H1. During H1 FY '24, 2- and the 3-

wheelers contributed to about 21%. Passenger vehicles made up the largest share at 33%. Commercial vehicles at about 25%. And again agri and offroaders at about 11%.

For H1 FY '24, our exports, 15% came from the gasket business, 55% came from the forging business, 17% came from the Mareli business chassis and 3% came from Talbros Marugo Rubber. Following the order won back in FY '23 and H1 of FY '24, our overall growth trajectory anticipated to continue in an upward direction. To reinforce our existing order book, we are actively trying to secure additional orders. Throughout the year, JV operations have demonstrated a resolute performance in respective segments, particularly in the PV and the CV segments.

We are committed to our vision of becoming a global leader as an auto component manufacturer. In the process as we embrace and celebrate the milestone achieved so far, we aspired to sustain our growth while advancing the future way being relevant through the services we offer. Furthermore, we shall maintain our position as a diversified and hedged auto component provider and implement a predetermined cost action to boost our product portfolio through the introduction of new value-add items to capitalize on expanding our domestic and international market opportunities.

The company's growth has been supported by innovation and business development as well as being capturing market share in our existing markets and going to different territories worldwide. We are assure of achieving our group sales target of INR2,200 crores by FY '27, of which 35% export -- will be from export. This will come from the U.S., the U.K., Europe as well as Japan.

To end with that, we are pleased with our strong financial results and optimistic about the future of the automotive industry. We remain committed to innovation, operational excellence and driving value to our customers and shareholders.

With this, I request Mr. Navin Juneja, our new CFO, to update you on the financial performance. Thank you all.

Navin Juneja: Thank you, Anuj. Good afternoon, and a warm welcome to all the participants. Let me begin with the financial overview.

The total revenue for Q2 of FY '24 stood at INR197 crores as against INR162 crores, a growth of 21% on Y-o-Y basis. For H1 of FY '24, our total revenue stood at INR382 crores as against INR317 crores, a growth of 21% on Y-o-Y basis.

EBITDA for Q2 FY '24 stood at INR31 crores as against INR22 crores, a growth of 39% on Y-o-Y basis. And for H1 of FY '24, EBITDA stood at INR59 crores as against INR43 crores, a growth of 37% Y-o-Y. EBITDA margins for Q2 FY '24 stood at 15.6% and for H1 of FY '24 stood at 15.3%.

PAT for FY '24 stood at INR20 crores as against INR13 crores, a growth of 53% on a Y-o-Y basis, and for H1 of FY '24, the PAT stood at INR37 crores as against INR25 crores, a growth of 50% on Y-o-Y basis. The Board of Directors have declared an interim dividend on INR0.20 per unit share, a base value of INR 2 for the company.

In the Gasket division, including Nippon Leakless Talbros. For Q2 of FY '24, our stand-alone Gasket and Heat Shields sales were INR130 crores as against INR107 crores in Q2 of FY '23, a growth of 22%. Total revenue of Nippon Leakless was INR26 crores in Q2 of FY '24 as compared to INR25 crores in Q2 of FY '23, a growth of 3%. For H1 of FY '24, our stand-alone Gasket and Heat Shieldssales was INR252 crores as against INR212 crores in H1 of FY '23, a growth of 18%.

Total Revenue of nippon leakless of was INR49 crores in H1 of FY '23 as compared to INR48 crores in H1 of FY '23, a growth of 3%. This segment saw a combined EBITDA of INR27 crores in Q2 of FY '24 versus INR21 crores in Q2 of FY '23, a growth of around of 29% and bought H1 of FY '24, this segment serve a combined EBITDA of INR48 crores as against INR39 crores, a growth of 23%.

Now coming to our Forgings division. Revenue in Q2 of FY '24 report grew by 23% to INR68 crores as against INR56 crores in Q2 of FY '23. In H1 of FY '24, revenue grew by 26% to INR132 crores as against INR105 crores in H1 of FY '23. EBITDA in Q2 of FY '24 grew by 55% to INR12 crores as against INR8 crores in Q2 of FY '23. In H1 of FY '24, EBITDA grew by 62% to INR23 crores as against INR14 crores in H1 of FY '23.

Now coming to Marelli Talbros Chassis private division, our JV. Revenues for Q2 of FY '24 stood at INR54 crores versus INR55 crores in Q2 of FY '23, raising a growth of 17% on a Y-o-Y basis. For H1 of FY '24, revenue stood at INR121 crores versus INR100 crores, a growth of 21% on Y-o-Y basis. For Q2 of FY '24, EBITDA stood at INR9 crores as against INR6 crores in Q2 of FY '23, a growth of 51% on Y-o-Y basis. For H1 of FY '24, EBITDA stood at INR16 crores as against INR10 crores in H1 of FY '23, a growth of 60% on a Y-o-Y basis.

Now coming to our third joint venture of Talbros Marugo Rubber Pvt. Ltd. Revenue stood at INR33 crores in Q2 of FY '24 versus INR20 crores in Q2 FY '23, reaching a growth of 68% on Y-o-Y basis. For H1 FY '24, revenue stood at INR63 crores as againstINR36 crores of H1 of FY '23, a growth of 74% on Y-o-Y basis. For Q2 FY '24, EBITDA stood at INR1.6 crores as against INR1 crores in Q2 of FY '23, a growth of 62%. for H1 of FY '24 EBITDA stood at INR4.5 crores as against INR1.8 crores in H1 of FY '23, a growth of 143% on Y-o-Y basis.

Anticipating the future, we foresee a multitude of prospects that promise to foster continuous expansion with the automotive sector, significant investments have been made in new technology, capacity expansion, product portfolio, diversification, customer base expansions and market entry by the organization. The company is certain that these initiatives will position the organization to capitalize on forthcoming opportunities in diversity and foster long-term growth.

This is all from our side, and I would now like to open the floor to questions and answers. Thank you.

Moderator: The first question is from the line of Akash Mehta from Investments.

Akash Mehta: My question was mainly on the new segment that you entered, the agri construction and Offroad segment and you've done a capex of about INR400 crores for the same. So I just want to understand how lucrative business segment for us? And is it slow moving? Or is it expected to grow at a fast pace?

Anuj Talwar: Your voice is not clear.

Navin Juneja: Voice is not clear.

Akash Mehta: Sir, talking about the new segment that we've entered into, the agri construction, offroad segment. So we've done a capex of about INR400 crores for the same, right?

Navin Juneja: No, no, no, INR400 crores. It's not INR400 crores.

Anuj Talwar: Capital is forging the new agriculture segment.

Navin Juneja: No, no, the total capex on a stand-alone basis for the first 6 months is around INR23 crores. Okay. Out of which forgingis around INR17 crores -- INR16 crores, INR17 crores only.

Akash Mehta: Okay. How lucrative is the segment for Talbros? I just want to understand is that fast-moving segment or?

Navin Juneja: During the past 6 months, this segment, we've sold around -- my sale is around INR30 crores plus, INR30 crores to INR40 crores. We expect that this segment going forward should give a revenue of around INR100 crores per annum in a couple of years. .

Anuj Talwar: It's a lucrative segment. It's a lucrative business. Its business out of U.K., where we exported to USA and Europe. So it's a very -- it's a strong growth business.

Akash Mehta: And on the margin front, how do we see the margins growing?

Navin Juneja: This EBITDA is around 18% plus.

Moderator: The next question is from the line of Dipen Shah, who's an individual investor.

Dipen Shah: Okay. I had just one question on the profitability of the subsidiaries. We understand and we see in the presentation that Marugo as well as Magneti, the relative profitability is slightly lower as compared to the forging business. So in your opinion, over the next couple of years by FY '27, what kind of EBITDA margin should we assume for Marugo as well as Marelli?

Anuj Talwar: First, let me talk more about Marugo. Please don't look at the last quarter. During the last quarter, the company has shifted this manufacturing facility from existing -- earlier in Manisa, there were 2 plots.

Now we have bought a big facility in During the shifting, we, first of all, extraordinary expenditures were incurred shifting and machines, plus a lot of manpower -- manpower was not shifted to, which is around 50 kilometers from the existing old facility. So they didn't turn out there. So we have to employ fresh man power, which resulted in higher material costs, higher rejections and lower productivity.

These are extraordinary payments for the company in the last quarter. I say that by now, I have 90% -- 80% to 85% problem has resolved. manpower is there. Now we can see a much more improved next 2 quarters in this. This is one-off quarter, please ignore this quarter for us. This is one-off because of our shifting thing.

Now everything is -- 80% of teams are online. And I think this was -- coming -- this current quarter, you will see a much better EBITDA. And after that, it will be much, much better in the next '27, EBITDA of this business should be between . 13% to 15%

Mareli is a chassis business -- it's a sheet metal. We had sheet metals. There's lot of -- and raw material cost is 75%, 76% in this business. The business margin cannotcompared with forging there at 55% is more proprietary product. So going forward, this business -- going forward, this business can give you -- also give you EBITDA of between 14% to 15% in next 2 years. Import is just to pick up. My Export is yet to pick up. The day of the market is better. And I think in the next 2 quarters, you can see a little flavor of that improved EBITDA in this business also.

Moderator: The next question is from the line of Jyoti Singh from Arihant Capital Markets Limited.

Jyoti Singh: Sir, my question is on the other expenses side, which is higher 6% sequentially. So if you can throw some light on that? And secondly, congratulation on the good set of numbers.

Navin Juneja: Thank you. Thank you. First of all, regarding other expenses. The other expenses basically is higher on the Forgings side. There are 2 things happening there because on the export is going up, and we saw some problem in the packing side. The packing was on the lower thickness side, packing boxes. We increased for the higher because my component which is going to higher by higher. Now we have improved the packing. So we have incurred the additional cost about INR50 lacs in this process. So my packing has improved so customer complains, which was there as a result. So in all the export packaging, we have improved the packing. Plus there is one-off expenses related to trade, which was partially linked to first quarter, has been diverted in this quarter. So this is one-off, again, okay?

You need to compare -- please compared that to '23 versus '24, that will be better. I have a fewer -- don't compare to Q2 in the case, this is some onetime expense. That's all.

Jyoti Singh: Okay. And sir, another on the margin side. So like in this quarter also, we deliver 15%. So we will be going to continue this trajectory or we have any projection going forward?

Anuj Talwar: Going forward, my margin EBITDA should above 15%. We are quite vocal about it. Yes, we should sustain it. Not 15.6% is a little higher in this quarter. But going forward between 15% to 15.5%, it should be there.

Jyoti Singh: Okay, great. And sir, if you can also guide us on the top line side.

Navin Juneja: For which year? Hello? For which year?

Jyoti Singh: The coming years. .

Anuj Talwar: I think to be honest, we've -- we should maintain a good double-digit growth rate even for H2 and then we'll get back to you after.

Navin Juneja: It should not be -- because last year is not very higher -- the second number. It should better this year also. But overall, it should be around 18%, it should be there. Yes, forfull year growth

Jyoti Singh: So sir, for that, we have any good order, if you can explain to as that in the pipeline?

Anuj Talwar: Yes. Yes. We have orders in pipeline. Also some new business is being converted in the coming quarters also. It will be added to our top line, plus the existing business growth should also be here. And regarding the project, we have in the process of compiling the order book -- fresh order book, and it will be till shared with the investor community shortly.

Moderator: The next question is from the line of Rajvi Shah from BrightSec.

Rajvi Shah: I just had one question. What has driven H1 FY '24 revenue to grow by 21% year-on-year?

Anuj Talwar: What has driven? I think it's a mixture of the current growth in the Indian market. Our increased market share with customers, new products, new customers, same products, new territories. And for example, the heat sheet line is growing, the forging business is growing in a massive way to the UK for the agri and offroad business.

EV component called the battery cradle for Tata Motors as an EV product line from Puna is growing the -- which are subject to Marabou, that is growing. products, new business acquisitions, as I told you, is also leading to the growth.

Moderator: The next question is from the line of Ravi Shah from Okal Sec.

Ravi Shah: First of all, congratulations for a good set of numbers, sir. Second, so I had a few questions, you just spoke about EV pertaining to here only. So your revenue share in our presentation you have mentioned, we plan to take it to 12%. It currently is at 2%. So what are the so we are looking -- what the capex we're looking over here? And what could be our capacity utilization after this capex, so a little comment on that.

Anuj Talwar: The EBITDA grew to 12%. The business is being under process of being awarded. The production is yet to start. In the case of our customer, we have won of the business, I think a decent business for the product to be launched from next year. So from next year, you will see a little bit traction in that e-business going forward.

And because when the model is start, when the things will start, it will grow, the order book is with us for that, but we have got the Maruti order of -- but whenever their is EV of Maruti, we are a single source for our suspension in that. So that will be launched in '25, so the business EV percentage will go up in that time.

So regarding the capex – capacity utilization, if we -- my standard of business of gasket and heat sheet is around 90%. In my Forging division, it is now 85% and in Magneti Marelli is again 80% plus in my Talbros Marugo, it is around 90%. In my joint venture of Nippon Leakless is around 75% capacity utilization.

Ravi Shah: Understood, sir. I have one more question, sir. So what would be the three key external and internal drivers that would lead to a sustainable PAT margins that we have?

Anuj Talwar: I think basically the hedge portfolio to different components are car makers, truck makers, off-loaders. At the same time, we export a lot, a constant watch on our cost controls, constant watch on our manpower cost, constant watch on localization BAV. So it's a mixture of that. Also economies of scale, like in Forgings business line or chassis, we're building higher revenue part numbers. So automated that adds more value to the bottom line. .

Ravi Shah: So the current margin, can we assume to be sustainable or it can increase from the other side?

Navin Juneja: The sustainable margin is 15% plus sustainable margin.

Moderator: The next question is from the line of Jiya Shah.

Jiya Shah: Sir, we have mentioned to increase our presence to 22% approximately by FY '27 in export market. So how do we plan on executing this? Like are we planning on new geographies or volume price realization?

Anuj Talwar: Only export we talk about, ma'am. Not very clear.

Navin Juneja: So what you are saying? What's the question, could you please repeat that?

Jiya Shah: Okay. So what I'm trying to ask is that, we are trying to increase our presence in the export market, right, to approximately 22%. So how are we planning to execute this?

Anuj Talwar: We have our exports north of 25% in '27. And how we're going to execute this ma'am is basically, we are looking at new territories. We are looking at new areas, newer product lines, new customers. Even a lot of customers in UK, US wanted to buy from India with the whole China tariff situation. So in the same plants that we have, better audit facilities, I would say, better quality systems.

Navin Juneja: And in that also we have lot of export orders in pipeline also at present. And we are in the process of doing more export orders, I think, in the next 6 to 9 months. So it is visible. It is -- we can see light of that achieving that. We have to add the equipment machines. We are inthe process of doing that.

Anuj Talwar: There is nothing out of the ordinary. It's very similar components that go in India also go by exports. So nothing that you had to make a 360 change. No, not even that sort.

Navin Juneja: So some great partners are there, we are careful of working growth part numbers, don't worry about that.

Jiya Shah: Okay. I have a second question. We have about 50% market share in the gasket business, which is great. So my question is that how do we see our market share further growing? Are we like targeting new customers or new markets? Would you like to throw some light on this?

Anuj Talwar: First of all, of course, you have 50% plus, you are right. We are adding, first of all, more customers in that. Lot of new customers are giving new part development is coming to us. So there are new part numbers and more value addition part numbers. Number two, heat shield is coming in a big way to us.

Navin Juneja: Which is in the gasket business.

Anuj Talwar: Which is included -- which is added in the gasket business. It is also come in big way. Last year, we did as a whole around INR 40 crores of heat shield business. In the first 6 months, we've already done INR21 crores this year. So it is -- we are looking at great future in that also.

Moderator: The next question is from the line of Ruchi Gupta from Value Consultant.

Ruchi Gupta: Yes . So I understand that capex is funded majorly through internal accruals and some debt, right? So is it 50% to 70% would be through debt and debt -- and could you quantify debt numbers and cost of debt for the same?

Anuj Talwar: Yes. Ma'am, total debt is the company around INR85 crores. Out of which around INR5 crores is term loan, balance is the working capital, okay? The cost -- out of which around INR40 crores in the form of banking credit, which at present is around 5. 9%. Balance, I think 40% out of it -- actually even INR5 crores balance in our WCTL, working loan which is around 7.9% now with -- my improved rating that it has gone down to 7.59% to 8%. This is my borrowing cost.

Ruchi Gupta: Okay. Okay, sir. Sir, I have one more question. Who are our top customers in the Gasket and Forgings business? And how much do the top 5 or top 10 contribute to these businesses?

Anuj Talwar: Yes. In the gasket and Heat shield business, my top are in the first 6 months Tata Cummins, there, we did a sale of INR41 crores. Bajaj Auto, we did a sale of INR48 crores, we did sale of INR16 crores. Tata Motors INR15 crores.HeroMotocorp, INR10 crores. JLR INR8 crores. INR8 crores. Maruti INR7 crores. And these are my gaskets and heat sheet. And the Forgings, my main -- top customers are BMW, INR28 crores; INR22 crores; Tata Italy export is INR18 crores; JLR export is INR14 crores; GK export is INR11 crores. These are my -- what are the other questions? This is my customer of Gasket and Forgings. And what you said -- anything else which you had? Hello?

Moderator: The next question is from the line of Yash Kukreja from Equitree Capital.

Yash Kukreja: Sir, my question is regarding the orders from the nonautomotive segment. So sir, how much this segment contributes as of now?

Navin Juneja: At present, it's very minimal to be very fair to you. It's around INR10 crores. Order book is there at INR10 crores to INR12 crores at present, very minimal at present.

Yash Kukreja: Okay. So sir, are we planning expand into this?

Navin Juneja: Agri is our...

Anuj Talwar: See, we consider agri, off-roader construction automotive basis.

Navin Juneja: And segment, we are there generator or from other segment was, et cetera, we are there. quite nonautomotive.

Moderator: The next question is from the line of Ravi Shah from Securities.

Ravi Shah: So basically, we had received a big order during July period of INR400-odd crores. After that, I mean, any new client addition we have done or anything an update on those sir?

Navin Juneja: We have already orders. We are in the process of compiling those data. And shortly, we will release that order book. Very shortly.

Ravi Shah: Okay, any names you can give?

Navin Juneja: The order is there. We are in the process of waiting some more order to grow, and we will release this to the investor community shortly.

Ravi Shah: Understood, sir. Sir, one more question I had was on the cash flow and actually receivables have jumped by INR20-odd crores. Any reason for that?

Navin Juneja: Yes. Because as we posted that we are talking about JCB, we have started supplying to them I think INR42 crores sale has been done.. I think some by the March, it should be a because the number of deals have not gone up. Number of deals is still the same, but the figure is.

Ravi Shah: Correct. Correct. So what kind of normal working capital cycle should we expect going forward? Like I mean...

Navin Juneja: It depends on business to business. In OE, we around 75 days, okay? In export is around about 130 days and it depends on customer. In Maruti, we will do in 1 month. For Boral, we are not selling much to Maruti. In JV, we are selling to Maruti. Otherwise, 50 to 90 days payment terms are there. takes about 100 to 130 days.

Ravi Shah: Understood, sir. Because a lot of -- I mean, we made good profit growth, but it's not directly translating to cash flow concern on that.

Navin Juneja: It will be because the markets are good, everything is great and that the cost is -- inventory holding cost, everything is that. Of course, I agree with that. Agree with you.

Moderator: As that was the last question for today, I would like to hand the conference over to the management for the closing comments. Over to you, sir.

Anuj Talwar: Yes. Thank you so much for being part of the call. We've had a good quarter. We've got a good year. We're very confident about our progress going forward, and we wish you all be Happy Diwali.

Moderator: Thank you very much. On behalf of Talbros Automotive Components Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.