"Talbros Automotive Components Limited Q2 FY2018 Earnings Conference Call"

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MANAGEMENT:	**MR. ANUJ TALWAR – JOINT MANAGING DIRECTOR – TALBROS AUTOMOTIVE COMPONENTS LIMITED** **MR. NAVIN JUNEJA – DIRECTOR AND GROUP CHIEF FINANCIAL OFFICER - TALBROS AUTOMOTIVE COMPONENTS LIMITED**

Moderator: Ladies and gentlemen good day and welcome to Talbros Automotive Components Limited Q2 FY2018 Earnings Conference call. This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions, and expectations of the company as on the date of this call. The statements are not the guarantees of future performance and involved risk and uncertainties that are difficult to predict. 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 am now glad to 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: Good afternoon everyone. A very warm welcome to the Q2 FY2018 earnings call. On the call today, I am joined by Mr. Navin Juneja, our Director and Group CFO, SGA, our Investor Relations Advisor from Mumbai.

The results and the presentation are uploaded on the Stock Exchange and the Company Website. I hope everyone has had a chance to look at it.

Let me give you a quick run-up on our performance till date. Post, which Mr. Juneja will talk you through the financial performance of the Company. As you all know, Q1 was a hit by the slow down driven by pre-GST uncertainty; however, performance of the auto ancillary industrial India saw a steady upturn due to revival of demand in Q2.

In the earlier months we saw tangible slowdown in the CV segment post BS-IV implementation; however, the segment already began to see improvement in performance and after long time the CV segment has secured a double-digit growth in Q2. The demand for two-wheeler and the passenger vehicle segment has continued to improve in the last few months post GST implementation largely due to satisfactory monsoons and improvement of demand from the rural areas.

The festive season has also been very positive for the auto industry and coupled with the low vehicle-financing rate, this will be boom to be auto sector. The passenger car segment also saw high double-digit growths in this quarter.

I would like to begin by stating that the entire auto industry grew by 10% in this quarter but our company Talbros Automotive has registered a growth rate of 24% for Q2. This shows you that our continued belief in us being a hedged company with a presence across all segments from two wheelers to trucks as a strategy continues to work in our favour. We are also proud to announce our highest quarter numbers for topline and bottomline, which Mr. Juneja will walk you through in the coming few minutes.

We are very confident that we will able to sustain this momentum for the remainder of the year and comfortably achieve the targets set by us.

Our business is broadly divided into standalone business, gaskets and forging business and we have three joint ventures with global auto component leaders for gaskets, suspension, chassis and antivibration components.

I will talk about the gasket business first. In our standalone gaskets business, we continue to hold our market share of 38% domestically. In Q2 FY2018 our gasket business was rather skewed towards the OEM sales. The sales in our most profitable segment, aftermarkets, was comparatively better than the sales achieved in Q1 FY2018 due to GST; however, the improvement was not substantial in the aftermarket owing to anticipation of reduction of GST on gaskets.

The GST has now been reduced to 18% as on November 2017 and we expect to see the benefit of this in the coming months. We have already started seeing some benefits in Q3 in the aftermarket sales and production. We are focused on our OE export business. We have received our first order from Austria and plus an order form Cummins America and it is expected to come first week of December.

Cost saving initiatives such as localization of raw materials, better plant utilization, off loading noncritical items are also on track. We have successfully introduced BS-IV gaskets and supplied them to Tata, Cummins, Volvo, Eicher, Daimler Tata Motors very successfully from May this year. Our post coating line is going to commence production from December. There has been a slight delay of couple of months on some machine lead-time from Taiwan.

The Forging Division continues to perform very well. In fact, it has posted its highest ever quarter at 67% for Q2. Our focus on domestic OEM business has been playing out well in the last few months. We have also seen some interest on a few premium OEM customers and hope to close these deals in the coming months.

In the Forging business we have increased the manufacturing and sale of mechanical components and AC components. We are also working on upgrading our technologies and increasing the weights that is supplied to the OEMs. Regarding Magneti Marelli. This is as you know a 50:50 joint venture with Marelli, Italy and Talbros for chassis components.

As you know we have a substantial share in Maruti Suzuki. We are roughly about 40% of the control arms business with them. We have recently secured after continuously providing the control arm for the Baleno’s and the Breza’s, the large volume Alto business In Talbros Marugo, we continue to strive to get better in our Hose Division. We have also put a lot of pressure on our partners in Japan to initiate a buyback till that time the Hose Division does not reach capacity.

As far Anti-Vibration is concerned we continue to get businesses from the Maruti Suzuki, Honda, and GMs. Lastly before Mr. Navin Juneja gets into all the financials, I would like to say that we had a very satisfying quarter again based on the fact we are a hedged automotive company supplying across various segments and we are very confident of sustaining this growth in the coming quarters and should achieve the numbers we have set for now. I will request Mr. Juneja to take you the financial performance.

Navin Juneja: Thank you Anuj. First I will come to Gasket Division, which includes our JV Nippon Leakless Talbros. For the quarter our standalone gasket sales recorded the growth of about 14.9% primarily because of improved rural demand due to the festive season and low vehicle financing rates. There has been improved sales performance to commercial vehicle segment; however, the recovery in the aftermarket sales have been slowed due to anticipation of reduction in GST rate, which has now been revised to 18% from 28% earlier.

Our joint venture NLK witnessed the volume growth on the account of its sales to Honda scooters. The revenue from standalone gasket business was Rs.74.6 Crores and our joint venture NLK was Rs.12.5 Crores for Q2 of FY2018. This segment realized a combined EBITDA of almost Rs.12.1 Crores. The revenues from standalone gasket business were at Rs.138.2 Crores and NLK was Rs.24.5 Crores for the half-year ended FY2018. These segments saw combined EBITDA of almost Rs.21.3 Crores.

Now coming to our Forging business, there was 67.1% growth in the revenue in Q2 of FY2018 on Y-o-Y basis from Rs.16.08 Crores in Q2 of FY2018 to Rs.26.87 Crores in Q2 of financial year 2018. On half-yearly basis, the revenue grew by 40.31% from Rs.32.97 Crores in H1 of FY2017 to Rs.46.27 Crores in H1 of FY2018. We have gained from lower fuel charges and execution of new orders received from BMW.

Now coming to our joint venture Magneti Marelli Talbros Chassis System Private Limited. MMT saw a 27.6% revenue growth this quarter because of higher volumes. Total exposure of revenue to Talbros Automotive Component in Q2 of FY2018 stood at Rs.13.03 Crores. On a half-yearly basis the revenue grew by 30.26% from Rs.18.77 Crores to Rs. 24.45 Crores. Improved margins on account of improved volumes achieved from the sales to Maruti Suzuki.

Now coming to our joint venture Talbros Marugo Limited, TMR saw a 31.63% revenue growth in Q2 of FY2018 over Q2 of FY2017. Total revenue share attributable to TACL was at Rs.5 Crores. On a half-yearly basis, the revenue has grown by 25.06% from Rs.7.6 Crores in H1 FY2017 to Rs.9.5 Crores in H1 of FY2018.

Now coming to our consolidated financial performance of our company for Q2 FY2018 total income for the quarter as for Indian GAAP was Rs.132.9 Crores; however, the same as per Ind-AS is Rs.101.6 Crores. The difference is on account of consolidation of share of revenue for JVs. EBITDA as per Indian GAAP was Rs.16 Crores this quarter with a margin of 12%; however, the same as per the Ind-AS is Rs.10.7 Crores, which does not include the share of JVs.

Now adjusting PAT for the quarter was at Rs.5.8 Crores as per Indian GAAP and adjusted PAT was at Rs.5.7 Crores as per Ind-AS. The adjusted PAT does not improve the share of one-time gain or Rs.2.16 Crores. The adjusted PAT margins improved from 3.09% in Q1 of FY2018 to 4.36% in Q2 of FY2018.

Now coming to our performance for H1 of FY2018 total income for H1 of FY2018 as per Indian GAAP was Rs.239.5 Crores; however, the same as per Ind-AS is Rs.183.04 Crores, the difference is on account of consolidation of share of revenue from the JV.

EBITDA as per Indian GAAP was Rs.28.48 Crores with the margin of 11.72%; however, the same as per Ind-AS is Rs.19.12 Crores, but does not include the share of JVs. Adjusted PAT for H1 of FY2018 was Rs.9.19 Crores as per Indian GAAP and PAT was Rs.8.96 Crores as per Ind-AS. The adjusted PAT does not include one-time gain of Rs.2.16 Crores.

This is all from my side and I would now like to open the floor for questions and answers.

Moderator: Thank you very much. We will now begin the question and answer session. We will take the first question from the line of Jiten Parmar from Aurum Capital. Please go ahead.

Jiten Parmar: Congratulations on the very good performance of our Company. I have couple of questions on the results one is this other income of Rs.2.16 Crores what is that?

Navin Juneja: We have mentioned in the notes we sold our gasket raw material assets, which was not the core assets of the business to our US Company by the name of Interface so the gain is on account of that.

Jiten Parmar: Okay and what is this other comprehensive income of about Rs.1.58 Crores?

Anuj Talwar: Basically, income of change in the investment values that we have from our company into other companies. It is the new accounting standard so basically change in value of our investment in other company; if you see our balance sheet we have invested money on joint venture; we have invested money in QH Talbros, we have invested in Talbros international, a little money in T&T Motors - this is on account of change of investment value.

Jiten Parmar: Okay. Great and why is that tax component so low I mean if you see the profits have grown by about 55%-60%, but the tax is grown up by only 20%?

Navin Juneja: The exceptional gain of Rs.2.16 Crores is net of taxes.

Jiten Parmar: Net of taxes. Got it and so my final question is basically on the market scenario and the change happening in the sector it is more related to EV lot of our products are something which might eventually get affected by EV so what is the plan of the company what is the view of the company on this I mean how we will be able to adapt?

Navin Juneja: If we look at entire company there is lot of talk of EV vehicles right now if we look at company we are right protected at the moment, the only segment which can get kind of hit is the gasket business. However in our gasket business, we are not into passenger car segment at present. We are in two heavy duty trucks, agri and two-wheelers where EVs is a long, long away and our internal research does tell that no matter what the government is talking about; very heavy push globally by 2025 may be 8% of the car segment becomes EV. So we are not thinking too much about this EV right now at least for 2021 plan. Yes for sure we are working on areas where we are now attacking companies like General Electric to get some non-automotive business for gaskets as well as Crompton Greaves and BHEL but that is not there and we are looking in the new product line heat shield, which gets settled on engine, which is an addition to the gasket for all the cars so even with all OEMs, which are generated some schedules, I do not see anything right now at least for coming future.

Anuj Talwar: I mean definitely this is not an immediate threat. I think our main revenues are coming from the CVs but this is something which I am sure the company has in mind and looking for the future.

Navin Juneja: We happen to discuss with the team every quarter we have also launched new segment, which is non-automotives/industrial gasket which we are working on. We are working on risk management. We discuss with the various people in and outside the industry to take their view how the things are moving of course we are fully aware of this threat and will take proper action as and when required.

Jiten Parmar: I appreciate it and once again congratulations for the very good results. That is all from my side. Thank you.

Moderator: Thank you. We will take the next question from the line of Nitin Kapoor an Individual Investor. Please go ahead.

Nitin Kapoor: Congrats for the numbers. I have three questions. Any plans regarding our Chennai plant to sell the real estate the factory that we have closed?

Navin Juneja: At the moment, we are not looking sell the real estate and that may be in the cards over the next two years; right now there is no plan to sell the real estate.

Nitin Kapoor: Okay that is fair enough and how much that fair in ballpark figure how much that could be value of that plant I mean how much that could be?

Navin Juneja: Value as per our government record at which the registry will be it is approximately 35 to 40 Crores, but the property prices are down and henceit can be sold below the historical rates, we are working on this. I can tell you that the circular rate is around 37 to 40 Crores.

Nitin Kapoor: Okay, no problem and do we have any plans to repay our debts?

Navin Juneja: I am telling you that debt as far as our term loan will be paid as per the stipulated terms and we are planning to bring our working capital down as I am reducing my working capital as soon as possible. Those are in plan. I think I will sell my asset and bring my debt down.

Anuj Talwar: Our focus actually is to reduce working capital. Like we were mentioning to you earlier our imports are substantial in gasket business and these imports have a longer lead time and turnaround is only twice a year, so almost 180 days gets locked off so our current exports are about Rs.75-odd Crores in a gasket business and we are looking to get this down to may be Rs.50-odd Crores in next two years and this has already started because we are in a strategic disinvestments of our noncore asset called material plant Sona, which you see the benefits from April on next year where we will start buying about each Rs.12 Crores material from India so you see the reduction in working capital in the coming quarters and regarding term loan is concerned we will only borrow for capex and for future growth and capex generation.

Nitin Kapoor: The only reason I asked the question is because interest cost is huge part if it goes down the profit margins can vary substantially? That is why I asked the question.

Navin Juneja: We are fully aware of that and if you see it is coming down quarter-by-quarter for the last one year it has substantially come down on a higher turnover.

Nitin Kapoor: Yes, I can see that but let us say reduce it by 5 Crores to 10 Crores that would just boost the bottomline by that margins?

Navin Juneja: I think as a management we are not going to for example get rid of Chennai assets today on a value below par. As we sweat our assets better, create more, produce more and at the same timeimprove ourworking capital cycles. Cuurently it is affected by long lead times; whether it is export orders, the payments come after a long time. So we were working generally on reducing our working capital cycle.

Nitin Kapoor: Great news. Thank you.

Navin Juneja: You should able to see that Rs.8-Rs.10 Crores swing pretty much very, very soon.

Nitin Kapoor: Fantastic. Good to hear and last question so I think see as per the targets you have got sales target of about Rs.725 Crores that gives us a CAGR of about 12% to 13% per annum any plans to kind of shift 20% per annum sales growth for the next three to four years?

Navin Juneja: To be honest with you, the auto industry in India is the more stable industry with the government and what they do with us they sometimes ban diesel cars, they sometimes implement high GST as they levy high VATs on us, so it is difficult to give you commitment of 20% on growth. I think numbers we will be showing sharing with you that 12%-15% we will do it on yearly basis so we would like it to be Rs.725 Crores today. We will like to try even any more numbers after that but for bottomline that we are working on, we are working on cost reduction of less imports, changing of our product mix, going more towards the export, less to a domestic market so bottomline we were very often but topline I would recommend even 725 and we will see maybe one year from now where we are at and look at them again.

Nitin Kapoor: Okay that is great and do we have any possible export orders that we may get?

Navin Juneja: Export orders that we already won very large contact and forging division of BMW that is about one Rs.25 Crores per annum. We won Jaguar Landover about Rs.18-20 Crores per annum from Magneti Marelli. My gasket business is going very, very hard to get some OE orders, we have won GE right now, which is not very large at moment about Rs.3-odd Crores, we are looking to commence orders very, very soon to export a big way like 2019-2020, I would say at least minimum 20% of revenue should be export, which is roughly about 13%-14% today and in the forging our own of assessment there is a huge volume in this calendar was 5 Crores projecting Rs.10 Crores business to us in the next calendar year.

Nitin Kapoor: Okay what is your capacity utilization right now overall?

Navin Juneja: Capacity utilization you will see we are choked now at present. In Forging we are full choke, we are acquiring two other plants, one will be operational in the January of 2018 and then we can see growth from them to perform that side in gasket. We need to expand our capacity. We are really 80% level and it comprises 80% which is equal to 100% because we need to change our tariff frequently. We are now in the process of making of budget for the next financial year by January will pay us and accordingly we will plan for the next financial year.

Nitin Kapoor: Fantastic Sir. These all questions I have once again I mean we can see hard work you guys so it is really a commendable job and all the best for future. Thank you.

Moderator: Thank you. We take the next question from the line of Vishal Shah from Individual Investor. Please go ahead.

Vishal Shah: Congratulations for good set of numbers. So to start with in terms of capex plans, how is it structured and also including the present capex?

Navin Juneja: Of course we grow broadly the capex,but whenever we prepare our budget, we calculate our capacity and then re-decide the exact capex where to put the money but I anticipated for next financial year because this is more or less for us, we have balance capex we are doing, 4564 we have to do by March, which we will take care of some capacity for the next financial year but I am anticipating with that in the next financial year in Forging business gasket we have done it do a capex around 10 Crores, in forging business who required capex of Rs.5-6 Crores to achieve the budgeted targets and joint ventures at Magneti Marelli, we need a capex of Rs.3-4, in Marugo against Rs.3-4 Crores. This is tentative, we can see at this moment for the exact we cannot end up first quarter next financial year.

Vishal Shah: Sir roughly we can come down to number of Rs.25 Crores of capex in totality?

Navin Juneja: Just say Rs.29 Crores of capex for which year?

Vishal Shah: For next year?

Navin Juneja: I was taking 100% share of JVs if they are not 100% and on standalone business I will say standalone business of gasket?

Vishal Shah: Consolidated basis?

Navin Juneja: Next year, add approximately Rs.20 Crores capex.

Vishal Shah: Fine and any guidance on the EBITDA improvement further?

Navin Juneja: we are working on EBITDA Improvement proactively. and EBITDA can be improved by topline, by reducing RM cost and fixed expenses. I am working out that localization of material, deciding that make this year for our low end products and localization is one and thirdly on realization we are accruing all the activities, reducing my rejection rate, wherever it is high so it is continuous process and we will keep on working on that. We have CFTs for each and every work.

Vishal Shah: Sir any specific numbers aspired for?

Navin Juneja: We are targeting EBITDA improvement of 0.5% every year.

Vishal Shah: Last question do you see product mix change?

Navin Juneja: Our endeavor is to actually try and increase our export and aftermarket business. In the first six months OE has grown freely. In the first six months we are 70% plus OE.

Vishal Shah: This should come down by 2019 and 2020 we just 65%-66%?

Navin Juneja: 55%.

Vishal Shah: Right and what will be your current working capital cycle?

Navin Juneja: Working capital are 56 days as at this moment.

Vishal Shah: That is all from my side.

Navin Juneja: It has come down from 72 days of March 2017 to 56 days as of September 2017.

Moderator: Thank you. We will take the next question from the line of Sunil Kothari from Unique Investment Consultancy. Please go ahead.

Sunil Kothari: Congratulation for performance. Sir my two to three questions are particularly one is related to year-on-year margin standalone is a little bit lower compared to last year's second quarter it was 11.3 now it is 10.5 topline also?

Navin Juneja: I will just give you the figures of the product of last financial year. Last year Q2 of FY2017 my product mix was OE 57%, aftermarket 17%, exports 16%, which has gone up, OE has gone up from 57% to 73% in this quarter, aftermarket has come down from 17% to 15% and exports has come down from 15% to 13%. The product mix, and in RMC more in OE that is only major reason. Second is that Euro movement. We are importing material in Euro. Euro has gone up for last year, average was Euro was 75 and this second quarter was Rs.77 plus that is one of the two reasons. That is the two reasons that is all.

Sunil Kothari: Next is Nippon Leakless is basically stagnant, growing at very low pace, what is our plan to grow that Nippon Leakless JV?

Navin Juneja: OE has stopped buying because Hero is putting pressure on topline reducing our topline. Hero, which constitutes about 45% to 50% of my topline and other players, are trying to enter there. We promised some top sales price reduction to them but we have brought new material, it is not affecting my margin. **Sunil Kothari**: In my related question was if you can provide us with all the JVs EBITDA margin?

Navin Juneja: We can share with you. The EBITDA of NLK, Nippon Leakless for HYFY18 it is 20.87%. For the quarter July to September 2017, EBITDA is 23.6% last year same period it was 17%. In Q1 FY18 it was 18%. Our topline growth is muted because we have offered price reduction. However, we have used our own raw material too.**Sunil Kothari**: And Sir related to other JVs EBITDA margin?

Navin Juneja: Magneti Marelli EBITDA for this quarter is 7.5%.

Sunil Kothari: 7.5% second quarter and first quarter?

Navin Juneja: Pardon me.

Sunil Kothari: First quarter it was?

Navin Juneja: 7.5% in this quarter and this quarter last year it was 8%, last year same quarter it was 4.5%. This quarter EBITDA is 7%, last quarter 6.3%.

Sunil Kothari: Great I think we are really improving well on all the JVs margin and I think that is reason of substantial jump this quarter and was this quarter JV profit saving?

Navin Juneja: I think what is happening is better utilization of the JV assets is happening. The only area of where we have to push a little bit more is Talbros Marugo, as you all know about the host plants scenario out there by otherwise Nippon Leakless, Magnetti Marelli are working on a very, very good speed, margins are increasing on day-to-day basis. Marugo will be okay by Q4. In fact we have meeting in Japan next week to draft out their plan for 2020 and draft out their plan for host by that so it will all get better. We have to just wait for the product mix to change a little bit in gaskets that much happened on Q4 with enhancements in certain capacities and aftermarket going up and also my personal intervention on getting some good OE contracts for the export market.

Sunil Kothari: Sir last question is this MMT our vision 2020 document talks to increase scale and profitability, if you can little bit explain what is the plan for MMT?

Navin Juneja: For MMT as you know we have mentioned that we want to try and touch Rs.150 Crores on standalone basis which is our share, we have got Rs.75 Crores. Here we are getting a continues business for Maruti and Tatas and JLRs and the business from Maruti Alto, which is a large volume player. We have just kick started that as well. The Jaguar business we just started I think we can see a huge and this year we should be closing on 100% basis, and which should be around Rs.130 Crores next year. We plan to increase by about 0.75% year-on-year because the core business of Jaguar business model is better.

Sunil Kothari: Great Sir. Wish you good luck. Thank you very much.

Moderator: Thank you. We have the next question from the line of Awanish Chandra from Centrum Broking. Please go ahead.

Awanish Chandra: Congratulations Juneja Ji and Anuj on a strong performance. My question is on 'Heat Shield' we are working on this product for quite sometime so have we started getting some revenue contribution from this and also how with BS-VI norms we will have some growth momentum from this product?

Navin Juneja: Heat Shield you are right it is taking a little bit longer than expected. We always supplying Heat Shield worth about Rs.8 Crores today but these are traditional Heat Shields to Volvo, and to Daimler and to Tata Motors but the new technology which comes in with the Euro-VI that I am working on with my Japanese process advance that into India as soon as possible and it will take some more time and then at the same time we have seen RFQ from Tata Motors, and Leyland on the same. Regarding Euro-VI our work to get our gasket kits Euro-VI cleared is already in process. We have received the first go ahead from Cummins to start the trial for the BS-VI gasket kits so that is also ongoing at the moment.

Awanish Chandra: Okay in 2020 we can expect this product business should be large enough right in the gasket segment?

Navin Juneja: We should hope so. We are working on that roughly.

Awanish Chandra: Congratulation once again. Hopefully we will continue with this kind of strong performance in coming quarters?

Navin Juneja: Thank you.

Moderator: Thank you. We will take the next question from the line of Milind Doshi from Individual Investor. Please go ahead.

Milind Doshi: Congratulations for good set of numbers. Sir just few questions from my side, one you said next year you will do capex of around Rs.20 Crores will this be funded through internal accruals?

Navin Juneja: No, partly from accruals, and partly through growth because we are looking at as I told more 15% topline growth. So partly we will plan when will make the budget. Cash flow we will decide at that time.

Milind Doshi: Sir, I understand your current aftermarket share. You say 15%, Do you see in next two to three years this share go up due to GST ?I see there is lot of opportunity that was not there earlier?

Navin Juneja: This year the aftermarket has been derailed because of 28% GST coming down to 18%. Now I do not think anything is going to happen. This year we should be closing. My aftermarket has Rs.50 Crores. We should go up to Rs.75 Crores in next two years. We are targeting that.

Milind Doshi: How do you manage any increase in raw material cost ? Would that be passed down straightaway to customer or there is some lag?

Navin Juneja: In upwards, some OE is up. Till 4% to 5% we have to allow ourselves. It goes beyond that we approach OEs, but in case of Bajaj, we will do it every quarter. Bajaj has taken care of all that. In the rest of OEs, we approach them. It moves up consistently for six months above 4% to 5%, otherwise we are valuing as long as we have to tune ourselves.

Milind Doshi: Okay and Sir, also I understand now you said that most of your plans are operating at close to full capacity, so I guess the operating leverage has already played out in terms of incremental margins?

Navin Juneja: No, , there is a lot of capacity in the hose division under the Marugo joint venture. The other companies have 80% to 85%. We had a few balancing lines to get that done but Talbros Marugo has got enough capacity today because these are the hose line where the whole diesel ban happened which just got revoked,, hence enough stretchability in the hose division.

Milind Doshi: Okay Sir and the final question from my side is Sir, do we hedge completely against our exports or how is our hedging policy?

Navin Juneja: Yes, we hedge our exports to extent of 30% to 40%, not imports.

Milind Doshi: Okay. Thanks a lot Sir for all your answers. Again congratulations.

Moderator: Thank you. We will take the next question from the line of Jayesh Gandhi from Harshad Gandhi Securities. Please go ahead.

Jayesh Gandhi: Sir, do we give revenue breakup of gasket to different segments, I mean two-wheeler, three-wheeler, LCV, agri off-loader?

Navin Juneja: I can give with you for OE business, Do you want it for gasket also?

Jayesh Gandhi: I want only for gasket to these different segments?

Navin Juneja: Yes, I will give it right now. As I mentioned earlier, in gasket we have a 70% share coming from OEMs, 40% share coming from the aftermarket and 12% share coming from exports.

Jayesh Gandhi: Sir, what I meant to say is, see we are selling Rs.500, what part of it comes from two-wheeler, three wheeler, LCV vehicle?

Navin Juneja: I am coming to that. As I mentioned you that of the total gaskets 70% is OE business, of the OE business 41% comes from the commercial vehicles, 38% comes from two to three wheelers, 12% comes from agri and off-loaders and passenger cars is about 5%, so our main play is with the likes of Cummins, Tata Motors, Volvo, Eicher, Bajaj, Hero, HMSI, and tractor makers, so we are not prevalent in the car segment that much in the OE, as in the gasket business today.

Jayesh Gandhi: Is it because the application of gasket and CV is insignificant and we are not?

Navin Juneja: We are not present because what happened was, when the Indian economy opened up in the 1990s all the Japanese car makers like Maruti and Honda and Toyota got their suppliers for gasket from India because gasket as a commodity, the brand itself is very, very high, so that is why today if we have almost 40% of market share of India because we are able to maintain the single sourced tariffs.

Jayesh Gandhi: Okay Sir. That is all from my side. Thank you and best of luck for future.

Moderator: Thank you. We will take the next question from the line of Vishal Shah, Individual Investor. Please go ahead.

Vishal Shah: I just had a followup question. This regarding your product mix, you said gasket was 57%, forging is 19%, so can we have individual EBITDA breakup?

Navin Juneja: Vishal if you will add the NLK also, 68% would be gasket.

Vishal Shah: Yes and how much would be the EBITDA breakup?

Navin Juneja: The EBITDA breakup, division wise?

Vishal Shah: Yes.

Navin Juneja: I will give the breakup of EBITDAfor Q2. Gasket division EBITDA is 12.13%, forging is 9.6%, and Companies who have joint ventures, first Nippon Leakless 23.67%, Magneti Marelli is 7.5%, Marugo Rubber is 7%.

Vishal Shah: Any guidance on the revenues outlook for the next three years?

Navin Juneja: We have already given guidance that we will grow about 12% to 15% year-on-year and as far as this year is concerned we had budgeted 14% about 490 Crores odd, and in the next by 2019-2020, we should be in the range of Rs.700 Crores topline.

Vishal Shah: All right. Perfect. That is it. Thank you.

Moderator: Thank you. We will take the next question from the line of Nitin Kapoor, Individual Investor. Please go ahead.

Nitin Kapoor: Mr. Talwar, few other questions I had, so do we have any other non-core assets that we will probably sell apart from the change you made this quarter?

Anuj Talwar: No, we do not have non-core assets, all our land base is got machine installed in them.

Navin Juneja: Sir we have one property in Chennai, which is just lying, but we have no plan to sell it in this financial year or next year.

Anuj Talwar: Chennai is the only asset, which we will rationalize as, and when the market price is right but apart from that there is no other non-core asset.

Nitin Kapoor: Okay. That is great. As you said earlier as you know we had issues regarding government policies and the policy is not very stable, after GST I guess the rates and the policy will be much more stable, so do you see any great change because of that in terms of revenue run rate?

Navin Juneja: I think GST is neutral for our industry. I mean previously it was approximately 14.5% (Excise + CST), which has gone to 28%, so more cash was involved in the business, now it has come down to 18%.Hence, neutral.

Nitin Kapoor: Okay so it could help us to get more orders because of GST, especially for the kind of work we do?

Anuj Talwar: In a big way, because it does not make a difference in OE, but it makes a difference in aftermarket. now I think the after market, which was the first before GST they are waiting one will happen, one did not happen, then suddenly the GST went to 28% and then government starts making noises after one week, every week that they are saying they will bring it down reconsidering, no they are reconsidering now Now,they have reconsidered the decision and from November 10, 2017 they have brought it down to 18%. Now I think all the schedules are over and now everybody will concentrate on the business.

Nitin Kapoor: Sir, what kind of plans you have got to increase our return in equity and return in investment? Would that be a game changer for company like us?

Anuj Talwar: Yes, first of all we have to grow EBITDA which is the result for everything. EBITDA as a percentage basis also and PBT also both ways. We will take care of the topline increase of our businesses, where the margins are better, reduce our RMC percentage by localization i.e. by taking out non-core activities, they will make by this year, by effectively reducing our working capital .

Nitin Kapoor: Okay, so what our targets in the next four to five years in terms of requirement investment?

Anuj Talwar: 0.5% every year, EBITDA margins, it is our best.

Nitin Kapoor: That is great and Sir what is the current debt equity ratio, what are our plans in the next five years?

Navin Juneja: As I said it is around 0.77.

Nitin Kapoor: It is 0.77 currently.

Navin Juneja: Yes, 0.77 only.

Nitin Kapoor: Okay and how much can we reduce it to in the next two to four years down the line 0.5?

Navin Juneja: At a consolidated basis, only 22 Crores and I think it will remain at this level. We cannot reduce it to make it zero. We have to put our more capacity to achieve a growth of 12% to 15% as a capex in the next two to three years, the level maybe marginally higher because we need to add machines in the next financial year.

Nitin Kapoor: Excellent and just a last question. Can we get any big domestic orders as I know in exports you are working really hard, but any big domestic orders that you will get in the next three to four years?

Navin Juneja: Maruti Suzuki, Volvo, Alto business. This year we have got a large order from Tata Motors for our division and in forging division we have secured a large order from Tier 1 of Honda scooter business, JLR Auto.

Anuj Talwar: And in the gasket business we have secured orders from Ashok Leyland and our market share with the current customers that we have. The order from Maruti Suzuki will take some time to pan out, so Leyland and Suzuki are two customers for gaskets. For Forging we mentioned Honda, Tier I, for Magnetti Marelli Tata Motors and Alto, for Marugo it is Honda and Daimler and that is it.

Nitin Kapoor: Okay. Great. Excellent. Great explanation and just last question that came to my mind, Sir to enhance shareholder return do we have any plans to do any buyback or increase dividends?

Navin Juneja: At present no, Sir.

Nitin Kapoor: Okay. It is fair enough. That is great. Thank you. Nicely explained. Thank you Sir.

Moderator: Thank you. We will take the next question from the line of Sunil Kothari from Unique Investment Consultancy. Please go ahead.

Sunil Kothari: Thank you very much again. Sir our short-term borrowing and long-term from 107 to 117 Crores in March to September, and our EPS run rate cost is around 3.5 Crores so roughly we are paying 13%-14% rate of interest, are we planning to reduce our debt and reduce our cost?

Navin Juneja: No, my interest cost is sub 9% because we are taking bank credit also, which is what is reflected. There are some debts at higher rates but not 13%-14%, it is sub 9%. There are some other additional charges too.

Sunil Kothari: So Sir, what I am trying to ask you is see this 14Crores annualized interest can we reduce it by how much, one is what I understand is non-core asset and what other way any debt repayment or because our interest is taking out 14-15 Crores every year?

Navin Juneja: So my aim is to first of all reduce our working capital, not forgo. On a consolidated basis, Term loan is above 22 Crores, whereas for working capital short term borrowings are above 90 Crores. If we break it down, number one, increase topline, increase the cash generation, use that for the business, so I thought I do not want to sell any assets to bring my debt down.

Sunil Kothari: Fine Sir. My question is related to that asset only, what is the size of that land Ambattur Industrial, I think, it is Ambattur Industrial Estate, right?

Navin Juneja: It is approximately 1.7 acres.

Sunil Kothari: It is in Ambattur Industrial Estate.

Navin Juneja: Yes, Ambattur Industrial Estate.

Sunil Kothari: Okay Sir. Thank you very much.

Moderator: Thank you. That was the last question in queue. As there are no further questions, I now hand the conference over to Mr. Anuj Talwar for closing comments.

Anuj Talwar: Thank you everybody for being on the call with us today and for being part of our journey where we are trying to improve every quarter. As far as this quarter is concerned I mentioned to you that the industry grew at about 10%, again emphasizing our belief in being a hedged auto component player who is supplying across all the segments,t the same being in the export market and the aftermarket. Whatever guidance we have given you for this particular year, we are very hopeful that we will achieve it. In the first half of this year, we have achieved a PAT of about 9 Crores without exceptional item and as per Indian GAAP and we are pretty hopeful that we will touch Rs.20 Crores of PAT without the exceptional items by the end of this financial year and the way things are moving on and the demand from OE, demand from the exports and demand from the aftermarket so that is a good guidance I like to share with you that we will achieve our numbers, provided the momentum goes and there is no hiccups from the government. With that I would like to end this call and look forward to seeing you all soon. Thank you.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of Talbros Automotive Components Limited that concludes this conference call for today. Thank you for joining us. You may disconnect your lines.