



**“Talbro's Automotive Components Limited Q2 FY-17
Earnings Conference Call”**

November 16, 2016

MANAGEMENT: MR. ANUJ TALWAR – EXECUTIVE DIRECTOR

MR. NAVIN JUNEJA – DIRECTOR AND GROUP CFO



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Moderator: Ladies and gentlemen good day and welcome to Talbro's Automotive Components Limited Q2 FY17 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 date of this call. These statements are not the guarantees of future performance and involve risks 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 '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Anuj Talwar – Executive Director of Talbro's Automotive Components Limited. Thank you and over to you Mr. Talwar.

Anuj Talwar: Thank you so much. Good afternoon everyone and a very warm welcome to the quarter 2 earnings call of our company. I am joined here by Mr. Navin Juneja, our Director and our Group CFO and SGA our Investor Relations Advisor. The results and the presentation are uploaded on the Stock Exchange. I hope everyone had a chance to look at it. Just to start off amongst the Mayhem that is happening in the market and what has happened last week, I am happy to announce a good quarter, our top line in the quarter grew by 11% in line with the Automotive growth which is also about 11% and our PAT has increased significantly by 68%. Obviously, Mr. Juneja will talk about the numbers in detail later on but I am happy to announce that the reason for this good numbers and good growth is that all our divisions have performed as per expectation, if not better.

In our Gaskets business, which is the largest business where we command a very large market share in the commercial vehicles space as well as two wheelers space and tractors space, we continued our aggressive penetration within our customers and got more share of business, both in commercial vehicles space, in Agri and in the two wheelers space. Our exports, in the Gaskets business have also started off on a good note as how our strategy to pursue exports in different countries such as Turkey and Iran are also on the way up. Recently, our latest initiative on the Heat Shields business is also picking up steam.

I would also like to highlight that a majority of our growth this quarter has come up from our two joint ventures; Magneti Marelli and Marugo, but the growth for the quarter in Magneti Marelli has been 52% and Marugo 42%. Given these two joint ventures are predominantly for the passenger car business and the passenger cars has a growth by 11% which shows that we are capturing more and more business in the passenger car segments, especially with Maruti Suzuki and Tata Motors. Our Forging business is also going to see a turn around and we are now getting a power cost starting up from quarter 2 and at the same time, our focus is shifted from export customers to domestic customers. This has been a struggle for a long time and we could attract domestic customers in our forging business and now we are being entertained by people like Royal Enfield, Volvo Eicher, Sona Steering, etc.

With that, I would like to hand over the Mic to Mr. Juneja who will talk more in detail to you regarding the numbers for the quarter.



Navin Juneja:

Thank you Anuj. Let me first give you a brief about the Auto sector performances compared to last year. The overall auto segment grew by effectively 13.33% in the domestic market while the exports saw a decline. Passenger vehicles sales improved by 12.34% due to festive season and with a huge improvement in customer's sentiments. The CV segments experienced a comparatively slower pace of growth at about 6%, similarly the tractor segment witnessed subdued 7% growth rate. Two-wheeler segments saw a sales move at a growth of around 18%.

Now coming to our segment performance; in the Gasket division including Nippon Leakless Talbro's, the biggest portion of our Gasket sales were to OEM in this quarter. The combined revenue from the Gaskets including NLK was about Rs. 79 crores in this quarter. This segment saw an EBITDA of about Rs. 11 crores.

Now coming to Forging division, the major focus in this quarter was the Indian business and we have improved sales to Indian OEMs in a big way over the past few months. There were 6% growth in the revenue in quarter 2 of FY17 on the year to year business. However, the bottom lines working on more impressive, further we have begun to draw lower cost power from the Haryana government grid and this has in turn contributed to our improved EBITDA margins. Now coming to our JV; Magneti Marelli Talbro's Chassis Systems Pvt. Ltd., MMT saw a 50% revenue growth this quarter because of higher volumes. Margins also saw a substantial improvement. We witnessed a positive PAT for the first time in this quarter. Total revenue attributed to TACL being 50% of the JV was around Rs. 10.3 crores.

Now coming to our joint venture, Talbro's Marugo Rubber Pvt Ltd., TMR saw a 42% revenue growth in this quarter as compared to last year due to better traction in the market and improved margins, we achieved a positive PAT in this joint venture. Total revenue attributable to TACL being a 50% partner was Rs. 3.8 crores. Now coming to the consolidated financial performance of the company for quarter 2 of this year; total income for the quarter was Rs. 108.4 crores against Rs. 97.7 crores in Q2 of financial year 2016. EBITDA was at Rs. 13.3 crores showing a growth of 13% from Rs. 11.8 crores in quarter 2 of FY16. EBITDA margins stood at 12.29% against 12.05% in Q2 of financial year 2016. PAT was at Rs. 4.1 crores against Rs. 2.5 crores in Q2 of financial year 2016, a growth of 68%. The PAT margin improved from 2.5% in Q2 of financial year 2016 to 3.8% in Q2 of financial year 2017.

Now coming to the half year performance for the financial year 2017, the total income for H1 of financial year 2017 was Rs. 216.8 crores as against Rs. 194.2 crores in H1 of 2016. EBITDA was at Rs. 26 crores showing a growth of 13% from Rs. 23 crores in H1 of financial year 2016. EBITDA margins stood at 11.98% as against 11.88% in H1 of financial year 2016. PAT was at Rs. 7.2 crores against Rs. 4.7 crores in H1 of 2016, showing a growth of 53%. The PAT margin improves from 2.41% in H1 of 2016 to 3.31% in H1 of financial year 2017.

This is all from our side and I shall now like to open the floor to the question and answers session.



- Moderator:** Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. We will take the first question from the line of Jaishree Ram from Karvy Stock Broking, please go ahead.
- Jaishree Ram:** I just wanted to understand how sustainable are these numbers in the second half of the financial year given the demonetization that has happened now? So I just would like you to throw some light on that.
- Navin Juneja:** As regards demonetization, it is only one week has gone. So I would now be not be able to comments in a very precise manner but looking into our OE schedules, there is no change in that and export market there is no change. In the aftermarket, we are witnessing minor fall for time being because all our dealers are busy in their own affairs but on the face of it, we do not see any major issue in this.
- Anuj Talwar:** See as far the aftermarket is concerned, as Mr. Juneja pointed out to you, our aftermarket sales are only about 10% of our total revenue over the year; on consolidation. Half year is gone, so you only get maybe a 4%, 5% slowdown, maybe a possible slowdown but as we mentioned to you our business is predominantly with OEMs and exports, I think it should not be a major issue but from OEM side there is no reduction issue as of today.
- Jaishree Ram:** Can you tell me something on how much the Heat Shield line is progressed and what will be the top line accountable from that?
- Anuj Talwar:** Yes, just to give you a little background. I was in Japan about two weeks back to reinforce our Heat Shield – TA with our partners and you know this Bharat – VI, Euro - VI norms that have been made mandatory by the government, Heat shield have sold earlier that are mandatory products in the car. We are now talking very aggressively with Maruti Suzuki to try and localize few of the components for them and they are currently buying it from our partner Japan, so talks are on. To give you just an estimate what we have done together with our partners, that the opportunities for Heat shields in India by 2020, should be close to \$25 million. And we want to target maybe about 25%, 30% of that because we are seeing a sudden inquiry from OEMs for this particular product line.
- Jaishree Ram:** And with Heat Shield, you are saying about \$25 million; by what year this is achievable?
- Anuj Talwar:** 2020/2021 should be the target for this number I have shared with you. Obviously we should try an target this 20%, 25% of that in the Indian market.
- Jaishree Ram:** Regarding Maruti Suzuki; how much is the revenue to the contributor in the top line, Maruti Suzuki as a whole?
- Anuj Talwar:** For our current consolidate group?



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- Jaishree Ram:** Yes. Can you tell me the percentage please?
- Anuj Talwar:** See while I find that number for you exactly, Magneti Marelli Talbro's and Marugo Rubber the two joint ventures which are pretty much for 85-90% Maruti Suzuki completely.
- Jaishree Ram:** So now if I have to look into growth in the top line, should I consider increasing your share of business with Maruti Suzuki or should I understand that you would be aiming more clients to account for revenue growth? So how should I be looking at it?
- Anuj Talwar:** It is mixture of both. I think if you look at division wise, if I cover Gasket business, you know it is predominantly commercial vehicles as well as for two wheelers. In the Gasket business growth, will come up Heat Shields as a totally new product line ended the passenger car segment and Maruti will become a customer for Heat Shields. Going forward, the export markets are giving us a good chance to participate now, we are looking country like Mexico, Iran, Turkey, and USA. Our exports for example, in the first quarter for our Gasket business was up 13%, if you look at the industry but the Auto industry in exports are down 11%. So, that shows that our strategy is correct in the right direction by moving towards newer markets, etc. The MMK Talbro's, gross will depend predominantly on the two wheelers which is Hero and Honda scooters as well as Honda cars, that will continue to happen in the same ratio as it is going to happen as the growth in this particular segment. Forging business, we are adding a lot of new customers, domestic customers which were never our gambit before because of the power cost; Royal Enfield, Volvo Eicher, Sona Koyo, Musashi, so we are because of power cost that happening. Marelli we are looking at domestic customers predominantly Maruti Suzuki, we are also talking to export OEMs, we have won orders from a large European OEM right now which will start in 2017 June. With regards to Marugo Rubber, we are looking at aggressive buybacks from our partners. So all in all the growth is there and a sustainable growth is there over the next 3 to 4 years.
- Jaishree Ram:** Okay, so this heat shield is going to be a part of the standalone or consolidated?
- Anuj Talwar:** Standalone Gasket business.
- Jaishree Ram:** Any CAPEX numbers you have for 2017 and 2018?
- Navin Juneja:** For the current financial year, I don't think there will be much CAPEX, but going forward it depends on the demand, majorly in Gaskets and all the joint ventures there will only be maintenance CAPEX, so that is Rs. 8 crores to Rs. 10 crores., and since the order book is healthy we would need to invest Rs. 5 crores, Rs. 6 crores, that is all.
- Moderator:** Thank you. The next question is from Manan Mehta from MS Ltd. Please go ahead.



Manan Mehta: My question is on the forging business; the forging segment part. Sir I wanted to understand in detail about how is the forging business panning out in our domestic market basically and are we looking at exports?

Navin Juneja: Already 50% of my forging is being exported to European markets. We have customers like Dana, Ferraro and JKM and we are growing there because as you are aware that European market is fluctuating so we are focusing on my domestic customers. In the North as you are aware, with the **stricter vehicle norms** going down, there is a huge demand of good quality forgings and we are getting very good response from Eicher, Volvo Eicher by Royal Enfield from customers like Sona Steering, Musashi who are looking for good forging, so we are focusing there. Spicer India for the commercial vehicles, so at present we are going forward it seems to have very good work from our domestic market.

Manan Mehta: As you said sir, 50% is exports, right?

Navin Juneja: 50% now is exports, two years back it used to be 70%, now 50%.

Manan Mehta: So do you see this further reducing on our domestic share improvement?

Navin Juneja: I think it should remain 50-50 because as scheduled, our GKN order for the next financial year has doubled out.

Anuj Talwar: Our endeavor is to keep the ratio at 50-50 and as you know the exports in the European markets are slow at the moment but we have added new customers like a GKN for example.

Manan Mehta: The next question would be, on our power cost saving that we have done, could you throw some light on that thing sir and how we will be continuing in that?

Navin Juneja: Previously we were working on the generators, then we are working on the HFO plant we are having and with the dollar going up and the HFO prices which were Rs. 13 till three years back, had come down to Rs. 9 recently but now we have got the power from Haryana Grid, the power costs Rs. 8 there and we will pay only the units we will be utilizing. In HFO, plant was running the whole day and night and whether we use capacity 20%, 30%, 40%, 50%, we used to pay for the whole generation of power. And going forward, we are also tapping the bidding of an IEF Exchange; we are also working on that. I think it will start in three weeks to four weeks. So the power cost which is Rs. 8 at present, they will come down to about to approximately Rs. 7 going forward. As a percentage of my top line, it used to be 19%, came down to 14%, now are target is down to below 10%; 9% to 8%.

Manan Mehta: So this target of getting it to 8% or 9%, how much time would that take approximately?

Navin Juneja: See for 9% I think within one month it should be there.



- Manan Mehta:** So that will help improve our margins significantly?
- Navin Juneja:** Of course because there are two factors in this; one my top line will improve so the capacity utilization will be there, so our bottom line by percentage will come down, per unit cost will come down.
- Manan Mehta:** So what would be the expected margins for FY17 then Sir, at least for the second half?
- Navin Juneja:** Second half our EBITDA margins, I can give you, it should be (+10%).
- Moderator:** Thank you. The next question is from Prayesh Jain from IIFL Wealth. Please go ahead.
- Prayesh Jain:** Continuing on the forging segment, have we started getting orders from QHT?
- Navin Juneja:** Already there, previous order was already there, now we have increased the number of items from at the most was there, it was already Rs. 1 crore plus per month, now it is going up to Rs. 1.5 crores per month because we have got huge order from Ford, the production of which will start from December onwards for which the Forging plant is a huge supplier.
- Prayesh Jain:** In the first half, what would be the utilization of the forging?
- Navin Juneja:** Forging plant utilization I should say we can do Rs. 36 crore, it is already 60%. So, next quarter I am hoping 70-75%.
- Anuj Talwar:** Also I would like to add something to you that in forging now we are looking at the cause of this whole power situation Mr. Juneja explained to you that the power cost has come down to 18-19% to about 10-9%, we are now competitive in the Indian market, with that we are now targeting heavier parts, value-added parts, so the QH Talbro's will be roughly be 18-20% of our topline as a group company is buying it but we want to do heavier parts, now we are developing parts in excess of 5 kilos 7 kilos, 8 kilos so that is where the money comes in, so that is our strategy.
- Navin Juneja:** We have got a good order from Eicher for Volvo trucks for the parts. We have already developed the forging worth 8 kg and the samples have been submitted and the PO is with us and I think that parts will be approved this month, from next month the regular supply will go and going forward one more order Hendrickson India we have won, it is Rs. 4-5 crore per annum, it is the first order we have won for Hendrickson very recently.
- Prayesh Jain:** And sir what was the EBITDA margin or EBITDA number for the forging sector in first half?
- Navin Juneja:** In first half only number, half year approximately forging is 10.70%. **Prayesh Jain:** And sir forging sector EBITDA was 10.70%, so in spite of savings coming from power, you are saying in the second half the margins would remain in this level?



- Navin Juneja:** Going forward it will remain in this level because of the product mix also, because we have hedged our foreign currency also, some profit has come from that also. The raw material cost was low; we have not passed any lower raw material cost benefit to our export customers. So some portion is due to some extraordinary events, I should say but going forward 10%+ margin is sustainable.
- Prayesh Jain:** And also on the two JVs Marugo Rubber and MMT, what was the utilization levels?
- Navin Juneja:** Marugo Rubber has MMT, if I see MMT my utilization was 70%+ and Marugo Rubber on the antivibration side it was 80%, plus on the hose side is 20-25%.
- Prayesh Jain:** Okay, so on the hose side also we have started picking up business?
- Navin Juneja:** Yes, because we have recently had a board meeting with them, Anuj was in Japan few days back, they have signed up a bipartite agreement of 7 crore for the next year with us.
- Anuj Talwar:** See there are two divisions in Marugo one is the Antivibration which are the rubber components, where we are supplying a lot of components directly to Maruti and to Tata and to Honda. Then there is another product called a hose, the hose factory is pretty much lying vacant today, not even running at 10% utilization, 15% utilization this is because the whole diesel ban has happened; now our partners have assured us that they will buy back from us at least to get this plant to breakeven till the time there is a turnaround and diesel shifts to petrol or whatever the case maybe, they will buy back next year from us to make this unit breakeven.
- Navin Juneja:** For all the new models of Maruti and other hoses we are getting all the orders here. It is a matter of maximum 6-8 months to breakeven.
- Prayesh Jain:** And also sir for the Gujarat plant of Maruti Suzuki we would be supplying components there as well, right?
- Navin Juneja:** Yes. Earlier what we supplied, hoses, etc., will go from here.
- Anuj Talwar:** And Maruti have announced that they want to increase the share of the Baleno and Baleno we are seeing in Marelli and in Marugo and also QH Talbro's which is our group company. Baleno which we supplied now will be also produced in Gujarat for export market like South Africa and the Asian region but we will continue to supply from here but if Maruti says move to Gujarat for the sheet metal business we will think of that also.
- Prayesh Jain:** And also sir you have mentioned in the past about inorganic growth as well, so have you boiled down to any or could you update anything new to us?
- Navin Juneja:** No.



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- Anuj Talwar:** It is a work in progress, right now I think time is come to at least sustain this growth that come sometime, inorganic growth is in the pipeline but I do not have any views to share at this moment.
- Prayesh Jain:** Okay and sir any plans of consolidating or any of the group companies into this?
- Navin Juneja:** Not now.
- Moderator:** Thank you. The next question is from Priyanka Gandhi Individual Investor. Please go ahead.
- Priyanka Gandhi:** I just wanted to know the new venture into Volvo USA and Basak Tractor, Turkey when will it start reflecting in our P&L?
- Anuj Talwar:** I think by Basak Tractors in Turkey we are already supplying them very small numbers for gaskets, I would recommend this would probably come by next year.
- Navin Juneja:** And Volvo, we are already, I think it will start from this year.
- Priyanka Gandhi:** Okay and what is the heat shield scope for the next two years in revenue terms?
- Navin Juneja:** Maybe Rs. 10-15 crores over the next two years.
- Priyanka Gandhi:** Sir year our outlook for Marugo Rubber JV and Magneti Marelli JV what would it be?
- Anuj Talwar:** As we already shared with you for the first quarter both the JVs are up in excess of 50%. Marelli this year should be around Rs. 75 crores because it is a joined the bull run of the Baleno and the Brezza. Also we have now secured orders from some European OEMs and going forward I would say that next year we should try and target Rs. 100 crores and then going into Rs. 130 crores. These are aggressive numbers but they are going by the business in hand that we have secured. Regarding Marugo rubber we just scaled of three-year plan only last week when I was in Japan. This year we would end up in Rs. 30 crores, next year's Rs. 44 crores and then about Rs. 60 crores.
- Moderator:** Thank you. The next question is from Ashesh Parekh Individual Investor. Please go ahead.
- Ashesh Parekh:** Sir my question is regarding the two wheelers, so how do you perceive the demand for two wheelers and passenger vehicles going ahead?
- Anuj Talwar:** So, two wheelers for the first H1 has been about 14% and the quarter 1 and quarter 2 we have about. Two wheelers if you ask me this question before the demonetization I would say let us stick to a number of 12% but because two wheelers are also purchased in cash, one does not know today the impact will be but I would still say a growth of 10-12% should be there in the next 6 months.
- Ashesh Parekh:** So, do you see recovery probably in the last quarter of the year in terms of two wheelers?



- Anuj Talwar:** I am pretty sure.
- Navin Juneja:** Because it is not a very expensive item, Rs. 40,000 to Rs. 50,000 is not a big deal for anything and all the companies can give easy interest loan for low rate of interest. So, I think it is short term sentiments, till 30th December there is a little crunch in the availability of money if the government improves the availability in, if the withdrawal limit becomes more than Rs. 24,000 per individual per week, it doubles if it becomes Rs. 1 lakh, I do think everything will fall in line.
- Ashesh Parekh:** Regarding the CAPEX guidance, do we give any CAPEX guidance for the year, how much we spend in H1 so far and how much we are planning to spend in H2?
- Navin Juneja:** H1 we have spent about Rs. 5-6 crores altogether and in H2 we are going to spend about Rs. 3-4 crores and going forward next financial year we are expecting Rs. 8-10 crores total CAPEX including maintenance, everything.
- Moderator:** Thank you. We have the next question from Rohit Sinha from Asit C. Mehta. Please go ahead.
- Rohit Sinha:** Just one question, we are seeing some recovery in the commodity prices in the last sometime, so how much this will reflect in your margins, especially for the forging business?
- Navin Juneja:** So, at present we have not given any price increase to anybody, raw material supplier has not asked for that but if these increase the commodity prices that will be recovered from the OE customers there is no problem in that.
- Rohit Sinha:** So, we can expect the margins remain in the range of 10%+ for forging?
- Navin Juneja:** Yes. We are not expecting a huge upswing in the prices also, maybe minor.
- Moderator:** Thank you. As there are no further questions from the participants I now hand the conference over to the management for closing comments.
- Anuj Talwar:** Okay thank you all for joining the call, I hope we were able to answer your questions. For any further queries get in touch with SGA and I am sure they are going to address your questions offline. Thank you once again.
- Moderator:** Thank you very much. Ladies and gentlemen on behalf of Talbros Automotive Components Ltd. that concludes this Conference Call for today. Thank you for joining us and you may now disconnect your lines.