



Talbro's Automotive Components Ltd Q1FY19 Earnings  
Conference Call”

**August 16, 2018**



**MANAGEMENT: MR. ANUJ TALWAR – EXECUTIVE DIRECTOR,  
TALBROS AUTOMOTIVE COMPONENTS LIMITED  
MR. NAVIN JUNEJA – DIRECTOR AND GROUP CFO,  
TALBROS AUTOMOTIVE COMPONENTS LIMITED**



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**Moderator:**

Ladies and gentlemen, good day and welcome to the Talbro's Automotive Components Limited Q1 FY'19 Earnings Conference Call. This conference call may contain forward-looking statements about the company which are based on beliefs, opinions and expectations of the company as on the date of this call. These statements are not the guarantee 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 '\*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Anuj Talwar – Jt. Managing Director of Talbro's Automotive Components Limited. Thank you and over to you, sir.

**Anuj Talwar:**

Good afternoon, everyone. A very warm welcome to our Q1 FY'19 earnings call. On the call today, I am joined by Mr. Navin Juneja, our Director and Group CFO and SGA, our investor relation advisors. The 'Results' and the 'Presentation' are uploaded on the stock exchange and the company website, I hope you all have 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 take you through the financial performance of the company. As per data, in fiscal 2019, the auto component industry is expected to grow 12-14% year-on-year over a high base. This is on the back of demand from domestic manufacturers across vehicle segments. On a year-on-year basis, June of 2017 was impacted by BS-IV norms up to some extent which also meant the YoY growth primarily very high on the CV side. Higher sourcing is expected from the commercial vehicles and the tractor manufacturers who have been benefiting from the government's infrastructure push and four consecutive years of good crops. Led by improved rural demand, assuming a normal monsoon and the state pay commission payout, we expect the demand for two-wheeler and PV segment to remain very-very buoyant. As you know, we are a very hedged automotive company supplying to all segments of the industry. We are extremely pleased with our growth as well as buoyancy in the auto sector during the quarter with focus on getting new orders from both domestic as well as international OEMs, and we have been successful on that. Our business is broadly divided into a standalone business, Gaskets and the forgings and our three joint ventures with global automotive leaders for Gaskets, Chassis components, and Rubber components.

Further hedging our portfolio, we have also started getting orders for our product Heat Shields from certain customers from overseas, that has been part of our standalone business which is Gaskets. In our standalone Gaskets business, we continue to hold 40% market share domestically. We are the leaders by far when it comes to the Gaskets industry. Our focus on OE export business has helped us secure orders for global giant such as Cummins, Zetor Tractors in Czech Republic and a non-automotive conglomerate in Austria. We are also talking to people like Caterpillar and several other car makers in Europe for our Gaskets business.



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We have recently won an order from an European OEM for Heat Shields which marks the beginning and is a testimony for our product development capability and the reliability of our product.

The depreciation of the Indian rupee against major currencies and the adverse product mix tilting more towards OEMs predominantly. Also, we are the large supplier for the CV segment. As there is a huge demand in CV and we have been supplying more OE and lesser aftermarket altogether has resulted in an increased raw material cost. Also, there have been a price increase over all commodities, steel, rubber, chemicals which has impacted our RMC percentage. However, Talbros Automotive is working very aggressively on price increases from the domestic customers. We have received a few price increases right now but majority of them will probably come in Q2 and Q3. This I am personally looking into. The Forgings division continues to perform very-very well and has gained a lot of momentum both in the domestic and international market. Our focus on the domestic OEM business has been playing out well, in fact, our Forgings had a growth of 115% on YoY basis. We started our supplies for the order received from European OEM. Our strategy to move towards heavier components is also on the way. We have probably new orders worth about Rs.50 crores lined up, for which we are making the right investments which Mr. Juneja will talk to you about in his part of the speech.

Regarding our JV, Magneti Marelli Talbros, this company also grew at about 37% on YoY basis with major of the supplies going to Maruti and here the good news is that in addition to the big controller order for Alto, we have just started supplying to the Bajaj RE60 which will be a game changer for the joint venture. In addition, to this we have just secured a very large order from an European OEM. The supplies will start happening in the next year, that would be in the tune of about Rs.25 crores plus.

Talbros Marugo Rubber, our latest joint venture, we had the 32<sup>nd</sup> Board Meeting in Japan last week which I attended, things are looking very positive in that division as well, the company grew at about 30% on YoY basis and with the help of Marugo Japan, we are focusing a lot on buyback from Marugo, Japan, supply to Japanese OEM and we are doing more and more business with Suzuki. Our efforts for turning on hose division has paid off and we have been able to break even in this quarter. Going forward, we expect JV to give good profits.

Now, I request Navin Juneja to update you on the Operational and the Financial Performance of the quarter.

**Navin Juneja:**

Thank you, Anuj. First, I will talk about Gaskets division which includes Nippon Leakless Talbros also. For the quarter, our standalone Gaskets sales recorded a growth of about 34.4% because of the impressive sale performance in commercial and two wheelers segment than last year same quarter. Nippon Leakless witnessed a volume growth on account of sales to Honda Motorcycles. The revenue from standalone Gaskets business was Rs.82.5 crores and Nippon



Leakless was Rs.13 crores for the quarter. This segment saw a combined EBITDA of almost Rs.11.9 crores.

Coming to the Forgings division: There was 115% growth in revenue in Q1 of FY'19 on YoY basis from Rs.19.4 crores in Q1 of FY'18 to Rs. 41.72 crores in Q1 of FY'19.

Coming to Magneti Marelli Talbros Chassis Systems Private Limited: MMT saw 37.9% revenue growth this quarter, because of its higher volume. Total portion of revenue to TACL in Q1 of FY'19 was around Rs.15.8 crores. Improved margin are on account of decreased volume. This volume growth came from sales of Maruti Suzuki for their two flagship models, named Brezza and Baleno.

Now, coming to Talbros Marugo Rubber Private Limited, TMR saw 29.7% revenue growth in Q1 of '19 over Q1 FY'18. Total revenue share attributable to TACL was Rs.5.9 crores.

Now, I am coming to the consolidated financial performance of the company. For Q1 FY'19, total income as per IndAS was Rs.123.2 crores which is 53.9% growth than last year same quarter. EBITDA including other income as per IndAS was Rs.14.3 crores for Q1 FY'19 with the margin of 11.6% as against Rs.8.5 crores last year same quarter. PAT as per IndAS was Rs.6.2 crores for Q1 FY'19 with the margin of 5% as against Rs.2.7 crores for the last year same quarter.

This is all from our side. I would like to open the floor to questions-and-answers.

**Moderator:** Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. We will take the first question from the line of Sunil Kothari from Unique Investment Consultancy. Please go ahead.

**Sunil Kothari:** This Forgings seems to be major growth driver now in terms of percentages and you are talking since long about existing 2,500 tons press and all. So, would you like to share some more details about when you will be starting investment, how do you see outlook on this division?

**Navin Juneja:** Mr. Kothari, you are right, we are talking about higher tonnage, in fact, we are in the process of finalizing the press. We have lined up a total CAPEX of around Rs.11-12 crores for 2,500 press along with the equipments and we have put up a new heat treatment plant also because of the volume we foresee going forward. So, for our press line we have given some advance a couple of days back for 2,500 press. So this expansion will be completed by the end of this financial year and we shall see the benefit of this expansion in FY'19-20 which will be approximately Rs.25-30 crores from this press alone.



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**Sunil Kothari:** Next point is GST has come by June '17 and almost we have crossed 12-14 months of time as a country, basic challenge was the GST transformation in the aftermarket, yet it seems to be, there are maybe many reasons why it is not growing. So would you like to say something on overall situation in the aftermarket and specifically related to Talbro's?

**Anuj Talwar:** You are right, when the GST was implemented, the GST rate on Gasket was 28%, so it has come down recently to 18%. In the first quarter as compared to last year the aftermarket has grown by 32%. I feel that it will grow, growth should be around 15% you can say, but I understand from the people we talk to our distributors, etc., that there is a cash crunch in the market, which when we talk to our competitors, in our group companies also, we talk to other people in the aftermarket, the growth is little bit muted. But we are witnessing good response from our distributors in this month and next month., Most of the business opens after the monsoons are over. So, we will recover from that, do not worry, I think we will have a growth of 15% as compared to last year in the aftermarket.

**Sunil Kothari:** It seems that we are getting really good export orders from international giants and our focus also seems to be to increase the exports. So please throw some more lights on what is our strategy, what type of growth or overall export size we want to create over maybe next two, three years in terms of percentage terms?

**Navin Juneja:** If we come to standalone business, in the Gaskets, our export this year will be around Rs.38-40 crores, with the order we have started getting and within the three months to four months, we are expected to get more orders from our clients. We expect this 38 to go to 52, 53 next year, then go to 70, 75 year after that. This is the minimum, it can in two years double also. As regard Forgings, very-very healthy export orders, we are having long-term contracts with the players like Dana, and they are growing every year by 15-20%, no problem.

**Anuj Talwar:** Also, like to add to you, not only in Gaskets and Forgings, but also when it comes to Magneti Marelli, we just secured a very large order from European car maker, when it comes to Talbro's Marugo, we are doing a lot of buyback with Japan, I was in Japan last week for a board meeting of Talbro's Marugo and there is a lots of demand happening out there, even Marugo, Japan is growing at 10% year-on-year, unheard of Japanese economy and they want to buy more and more from us. So our strategy has been committed to you earlier towards exports and that is going to happen. The only division which is taking a little bit longer is the Gaskets division because the OEM takes a lot of time to validate the quality systems, etc., But we are on the right track and we are very hopeful of whatever numbers we shared with you, we will achieve.

**Sunil Kothari:** Sir, this European OEM, major order you talked about in this presentation, if you can disclose what is the product and any further potential future because with MMT I think we can do a lot bigger also?



- Navin Juneja:** It is a rare suspension product and we only started supplies to the car maker but the big volume will come next year in excess of Rs.25-30 crores with only one part number.
- Anuj Talwar:** Even RE60, which recently got the approval from transport ministry, etc., I think in south India two governments have cleared the product, we are supplying 1,000 pieces per month now, but it is going to be 2,500 from second half of this financial year and next year should be 5,000 per month. So if we sell next year about 40,000 also, the sale will be approximate Rs.30 crores on that product alone. We see very-very huge growth in MMT also.
- Sunil Kothari:** Sir, consolidated we have achieved 10.9% EBITDA and hopefully as this scale goes up, you feel...?
- Navin Juneja:** Definitely goes because in this quarter there are two things happened: One is as you are aware in the accounting every quarter we need to pass the entry on reinstatement of assets and liabilities of foreign currency, just a notional entry which had a loss of Rs.40 lakhs on that account in this quarter, last quarter we had gain of Rs.50 lakhs on that account, it is a notional entry we need to pass on that. Plus it has impacted EBITDA a little bit. Price increase we have recovered in all the segments, in Gaskets we have launched all the price increases along with conversion part also. All OEMs I think 30% has been recovered, ~70% we have to recover, they are in the advanced stage of finalization, I think 90% should be over by the end of this quarter. So you can see improvement in that in coming quarters.
- Moderator:** Thank you. We will take the next question from the line of Ankit Merchant from SMC Global. Please go ahead.
- Ankit Merchant:** So my question is pertaining to CV. There have been a lot of talks related to higher tonnage vehicles now increasing the gross weight vehicles for the CV and the people are saying that there could be an impact on CV sales. So I would like to know it from you that are we seeing any slowdown from the OEM to you?
- Anuj Talwar:** Regarding CV makers, we supply Gaskets to the CV makers which basically are engine owners. So engine they continue to build. The CV slowness is slightly in only for a couple of months which is August and September because there were axle loads norms and I have been talking to the CEO of Volvo Eicher or Tata Motors, things are okay, what they predicted for the full year will happen and we continue to supply gaskets because demand is very-very high for the engine build and the spares.
- Navin Juneja:** So we do not foresee any problem on this account, our sale will be there as permitted.
- Ankit Merchant:** Related to BS-VI, any new commitments you have got from the OEMs related to your particular Gaskets?



- Anuj Talwar:** We are working with every OEM for their BS-VI requirement. We are working with Cummins, Tata Motors, Volvo Eicher, Ashok Leyland, we have no issue right now, we are working personally well with them and we are aligned to give them BS-VI product when they wanted.
- Moderator:** Thank you. We will take the next question from the line of Awanish Chandra from Centrum Broking. Please go ahead.
- Awanish Chandra:** Sir, first follow up question on the Forgings. After the investment, what would be the total potential of the Forgings business and currently what is the utilization of our Forgings division?
- Navin Juneja:** Capacity utilization of the Forgings is approximately 80%. This year with the existing CAPEX, whatever set up, machining, etc., we should be closing the Forgings division by Rs.150-155 crores plus in this financial year depends on that going forward. With the 2,500 tons press and then high equipment, etc., we foresee that Forgings to be close at 200 crores plus in FY'19-20.
- Awanish Chandra:** Now everybody knows that RE60 has become reality. Is there any indication from the Bajaj Auto for the order or what will be the potential...?
- Anuj Talwar:** Yes, there is an indication, they are asking 1,000, we now supplying 1,000 sets per month to them, from the October onwards, they want 2500 sets per month and for the next '19-20 they have given us the schedule of 15,000 per annum, that amounts to Rs.35-40 crores for us.
- Awanish Chandra:** Realization per unit is around 6,000, right?
- Navin Juneja:** 7,000 approximately.
- Awanish Chandra:** That would be big revenue driver in the coming quarters?
- Navin Juneja:** Yes.
- Awanish Chandra:** One follow-up question on BS-VI, like you mentioned that you would be ready for the BS-VI transition for your Gaskets. So sir, we will get any realization upgrade because we are doing some value addition for BS-VI.
- Navin Juneja:** Of course, the price will be up by 10-20% per piece. Commercial not finalized, now product is under advancement but it will be 10-20% more than the existing price.
- Awanish Chandra:** So that will increase some kind of margin or it will be kind of just pass on thing?



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- Navin Juneja:** Whether the product is Rs.100, 1,000, margin percentage does not come down, it will increase the margin going forward.
- Moderator:** Thank you. We will take the next question from the line of Shikha Mehta from Equitree Capital. Please go ahead.
- Shikha Mehta:** Sir, could you give guidance on the working capital and what is the current working capital cycle would be?
- Navin Juneja:** I can give you a broad guideline, my debtors have come down from 88-days to 73-days, but my stock is so under control as every quarter but I have not calculated the total working capital days, it is little bit on the long side, but my borrowings has little bit gone up because of the volume by 7-8 Crores my working capital has gone up, my term loan has gone up by approximately Rs.15 crores because I am doing CAPEX, I am availing some loans, plus stoppage of the buyer credit from end of March, we took some foreign currency loan to clear our buyer credit, so Rs.37 crores is my term loan and my working capital is Rs.99 crores.
- Shikha Mehta:** Sir, how much cash flow have we generated from operations this quarter?
- Navin Juneja:** Cash flow we have generated about Rs.9-10 crores, my inventory has gone up by Rs.2 crores, my debtors have gone up by Rs.3-4 crores approximately about 4 to 5 crores has been deployed for inventory.
- Shikha Mehta:** Sir, we have given a guidance of margin touching around 12% at EBITDA level. So do we maintain that for FY'19?
- Navin Juneja:** I would like to maintain that.
- Shikha Mehta:** Sir, could you give some guidance on the post coating gaskets line as well, has that started and are we supplying that to the client?
- Anuj Talwar:** We are supplying to Tata Motors. In fact, I was in Japan last week to meet our partner, SANWA and line has already started supplies to Tata Motors, I think the engine is called 497 and also for the future engines of the customers we are proposing the post coating technology, so give it a couple of years it should be sizeable business for us.
- Moderator:** Thank you. We will take the next question from the line of Ankit Agarwal from Arc Capital Partners. Please go ahead.
- Ankit Agarwal:** I have a couple of questions here. Firstly, the raw material cycle seems to have increased for this quarter. So can you please elaborate on the same?





**Navin Juneja:** Let us come to the Gaskets division, the prices of both imported material and local material and the chemicals, rubber, etc., has been increased, which is also increased with our OE customers. Some customers we have arrangement with them after every quarter we look into it, majority of customers we do not have the arrangement. Raw material prices increased it results in the price increases and it is under process, I think 30% has been recovered, balance will be recovered by the end of this quarter, it is in the final stages because they have a long process for that. Now, coming to the Forgings, of course, there are three prices increases for last six to seven months, 100% has been recovered.

**Ankit Agarwal:** One more question on the current scenario of rupee depreciating. So will we see any more adverse effects in the coming quarters or have the prices of the contract has been fixed beforehand?

**Navin Juneja:** The price increase we have taken the dollar at 69, already price increased is launched on that basis also, plus we are a net exporter as the company as a whole because Forgings exports approximately Rs.60 crores and the Gaskets exports was Rs.40 crores and my import is less than that, so we are a net exporter, we are not adversely affected, of course, limited time it may vary here and there but as a standalone basis we are okay with that.

**Moderator:** Thank you. We will take the next question from the line of Pankaj Jain from PS Securities. Please go ahead.

**Pankaj Jain:** I had a couple of questions: First was like can you just tell me about the Heat Shields, how do you see it looking forward?

**Anuj Talwar:** Heat Shields today is about Rs. 4-5 crores only. We expect that the Heat Shields market once the BS-VI kicks in, into India, this will become a huge opportunity; however, the Indian OEMs today are not working towards this because it is basically a component for noise by emission and heat; however, we changed that strategy and by going west, so we are talking with a lot of European customers, talking with the US customers, we just received a few orders from European car maker, roughly about million dollars of business and there is a huge potential out there but obviously I like to shed light to you after I have closed the orders but there is good potential.

**Navin Juneja:** If everything goes well, it can be Rs.30 crores business in next two years.

**Anuj Talwar:** \$5 million is not a problem.

**Pankaj Jain:** What is the growth of the JV looking forward?

**Anuj Talwar:** I would say that the way we are going right now from 25-30% we will see the same growth for the JV in the next two years, there is no problem at all because we are winning new businesses,



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we are winning newbusiness with Maruti, we are winning businesses with European car makers, we are doing export buyback to Japan, we have hose tire which is hardly utilized right now about 30%, for that we are getting new hoses from Maruti today. Maruti actually is in pain with some of the current suppliers, so we are benefiting. So whatever growth guidance we have given you, we are maintaining it, there is no change at all right now.

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

**Sunil Kothari:** Sir, looking at Magneti Marelli, they have many product range, they are a global giant and we are getting some newer business also because of this JV. So any major scope of maybe over next three, five years to get some more products with them and development and further investment?

**Anuj Talwar:** There is a French car maker called PSA Citroen, with them, we are working with the whole chassis, front axle, rear axle, controlled arm, we are working with them, so we are in constant touch with them and things are work in progress and they have just delayed the project by one more year right now, they have not come into India right now, after one year they will come, they themselves have the clarity on design and all. So we are constantly working with them and I think partners are very supportive whenever we do. I am now going to supply parts to Morocco very-very soon also. So there is no issue out there.

**Moderator:** Thank you. We will take the next question from the line of Shikha Mehta from Equitree Capital. Please go ahead.

**Shikha Mehta:** Could you explain CAPEX apart from the Forgings division if we are doing any?

**Navin Juneja:** In this CAPEX for '18-19 I can talk about that, we are doing in Gaskets the CAPEX of Rs.12 crores which we will take my capacity approximately to Rs.30 crores per month. Forgings, except 2,500 tons, I will do CAPEX of Rs.5 crores which I have one Forgings, 500 ton press for **Musashi** rest are all my machining lines, Magneti Marelli it is Rs.5 crores, Marugo is Rs.3 crores and Nippon Leakless is Rs.4 crores. If I take the 25-tons press and other equipments it will be Rs.12 crores, but it will be under work-in progress this year, it will be commercialized most probably by end of March or by April next year.

**Shikha Mehta:** Sir, these numbers that you have given for the JV, is that the gross figure or the figure to be borne by us?

**Navin Juneja:** Gross figure.

**Moderator:** Thank you. We will take the next question from the line of Deepak Jain from Subhkam Ventures. Please go ahead.



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- Deepak Jain:** Sir, if I look at your 2020 revenue range which you guided for, so over the last two, three presentations when you started giving this range, it has not changed much whereas I see that incrementally RE60 business which earlier was under the jurisdiction and now it is cleared up and then now you are expecting 50,000 units coming through. So why have you not changed the guidance or is it like very conservative in this?
- Navin Juneja:** This guidance is as per IndAS. IndAS does not show the top line of the JV businesses. So it shows a top line of standalone business only.
- Navin Juneja:** If we add the JV numbers this numbers would dramatically change.
- Deepak Jain:** No sir, RE business Bajaj is under which JV?
- Navin Juneja:** Magneti Marelli Talbro's.
- Moderator:** Thank you. There are no further questions. I now hand the conference over to the management for the closing comments.
- Anuj Talwar:** Yes, thank you so much. I hope we answered all your queries. The automotive industry is buoyant, consumption is good and we are on the right track to achieve our vision for 2020.
- Moderator:** Thank you. Ladies and gentlemen, on behalf of Talbro's Automotive Components Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.