



“Talbro's Automotive Components Limited
Q1 FY2021 Earnings Conference Call”

August 31, 2020



**MANAGEMENT: MR. ANUJ TALWAR - JOINT MANAGING DIRECTOR
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Talbro's Automotive Components Limited
August 31, 2020

Moderator: Ladies and gentlemen, good day and welcome to Talbro's Automotive Components Limited Q1 FY2021 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 guarantees of future performance and involved 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, Joint Managing Director of Talbro's Automotive Components Limited. Thank you and over to you Sir!

Anuj Talwar: Thank you so much. Good afternoon everyone. A very warm welcome to our Q1 FY2021 Earnings call. I hope you all are staying safe and healthy. On the call today I am joined by Mr. Navin Juneja, Director on our Board of Talbro's and Group CFO. Also, we have with us SGA our Investor Relations advisors 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 begin with a few updates on the industry. India's automotive sector, which was already combating a prolonged slowdown came to a standstill after the nationwide lockdown to prevent the spread of Coronavirus. COVID-19 led to supply chain disruptions and production halt even after the lockdown was lifted. The month of April was completely vanished for automakers with 0 numbers of volumes sold and like a fresh start the whole industry had to deal with numerous challenges to resume the operations. The impact of this episode had put remarkable effect on the entire industry and it has delayed the growth trajectory of the industry as a whole. As per data published by SIAM the auto industry declined by 75% during the first quarter compared to the same period last year. A significant improvement in July 2020 for passenger vehicles and two wheelers compared to previous month was seen. The total production of passenger vehicles, three wheelers, and two wheelers in the month of July was 1.7 million units as against 2.4 million units last July with a growth of negative 30%, so we are seeing that July is better than June and August is slightly better than July as well. Although the process of rebound is going to be slow, but it is not a company specific event and industry as a whole is battling to outweigh the situation.

Business activity in India is picking up momentum from July onwards and also, we are seeing green shoots in this month of August as well. Also do not forget the festive season is



Talbro's Automotive Components Limited
August 31, 2020

around the corner, which always is positive for our automotive sector. As we move forward, the signs of recovery getting stronger. We at Talbro's Group reported July revenue numbers close to pre-COVID level. Also, I would like to say that because we have been a hedge company and also with focus on exports as well as successfully transitioned from BS-IV to BS-VI product line, we reported EBITDA positive numbers for Q1. Even if you look at just the Gasket and the Forging business, which is a standalone business of our company, in June we were able to report 90% and 96% in revenues respectively compared to June month of last year. We had announced in previous call about securing orders worth \$31 million for domestic as well as exports market over a period of five years. This is not annual, but this will come in tranches as the SOPs happen. Our focus towards growing at export market is showing results. Over the last few years, we have made lot of efforts towards product development and testing with global auto majors. Our exports now cater to USA, UK, Europe, and Japan. Make in India is opening doors for companies like Talbro's to bring together the business opportunity from foreign players. Also, this whole issue between India, China, and USA will give India a huge opportunity in every space to export. These new orders are a huge validation of our technical capabilities and opens door for many large customers for us.

There is a very interesting fact that we are going to share with you that over the last three years our export percentage as a business of the total revenue has grown from 18% in FY2018-2019 to 30% in Q1, this will not be 30% for the full year, but because the domestic OEM base was low it is 30%, but should roughly be on the range of about 23% for this year. I am pretty hopeful in the next year or so we should be at 25%.

Now I should give you a brief of our Company. Our business is broadly divided into a standalone business, which you see when you see results in Indian economic standard, this is a Gasket and Forging business is a standalone business and three joint ventures with global auto component leaders for Gasket, for Suspension, Chassis, and anti-vibration components and hoses. Earlier I told you that we showed you a positive EBITDA for Q1 the reason is our domestic sales is 37% is contributed by two and three wheelers, which is the first one to move towards recovery, 24% is in the passenger car segment, 20% in the CV space, 13% in the agri space. This depicts our diversified client base and wide product range.

Let me give you some details on the segment wise business. In our standalone Gasket business, we continue to hold a healthy market share domestically, here we are the market leader and continue to dominate this market space. Focus on OE export business has helped us secure orders from established international brands on the gasket division. Along with



Talbro's Automotive Components Limited
August 31, 2020

our JV Company we hold near 50% market share in this segment in our country. Our strategy here is to help OEMs adapt to BS-VI technology. Here I would like to add in the commercial vehicle space once you moved from BS-IV to BS-VI, our value addition per engine for one large OEM in the country has gone up by 3x, benefits of that you will only see once the CVs pickup, which I feel is going to happen sometime in Q3 of this year. We are focused towards increasing our utilization on post-coating lines and this will reduce our imports and this would result in cost savings. We have made strategic raw material sourcing agreement with lighter performance materials from USA to bring saving in operational costs, reduction of raw material inventory and working capital investments. We are confident to report improvement in savings going forward on our localization efforts. Heat shields is gaining a lot of momentum we have been talking about this for the last two, three years, but now finally we are seeing domestic car makers because who have moved to BS-VI have new CAFÉ norms for light weighting and better emission they are talking to us now the three leading players in the country are talking to us today for this product line. we should give you some good news that we made penetration into the domestic market in addition to the \$2 million we already supplied internationally.

The Forging business has continued to perform well, we have had orders from both domestic and international markets, and we have discussions with various Indian and European Tier-1 customers for heavier forging products and I am very optimistic of a good performance by this segment going ahead. The Forging division is an outlier for our group, 50% of its revenue comes from exports. We are now swiftly moving to heavy value machine components, which will improve our margin trajectory further. We have completed the installation of the 2500 tonne press this year. With this we have one-stop shop for hot forging and machine components from 750 tonnes to 2500 tonnes.

Regarding our joint ventures Magnetti Marelli Talbro's we have 50:50 joint venture with Magnetti Marelli Chassis systems, a Fiat Group company with a scope to design and develop the complete Chassis for OEMs. Even in Magnetti Talbro's today we have exports worth about 25% going to leading European OEMs. Talbro's Marugo our smallest company is a joint venture with Marugo Rubber Industries of Japan, which caters to rubber components and hoses. What I would like to also add out here is in these two JVs scope is immense, opportunity is fantastic and we are seeing a lot of big companies with big investments into India who are the lion of OEMs such as Ford or General Motors are going to give way. It gives a good well leveraged company like Talbro's today the opportunity to capture more market share both in the domestic and the international markets. Now I request Mr. Juneja to update you on the financial performance for the quarter.



Talbro's Automotive Components Limited
August 31, 2020

Navin Juneja:

Thank you Anuj. Good afternoon and a warm welcome to all the participants. Let me begin with the financial overview. In the gasket division including Nippon Leakless Talbro's, for Q1 of FY2021 our standalone gasket sale was Rs.32 Crores as against Rs.74 Crores in Q1 of FY2020. Decline in sales to OEM segment was about 58%; aftermarket about 64% has resulted in the decrease in overall sales of the division. The performance of this division has been adversely impacted due to slowdown at our major customers in this segment. Revenue of Nippon Leakless was Rs.2 Crores in Q1 FY2021 versus Rs.12 Crores in Q1 FY2020. As we are aware there were zero sales in the month of April and May, only in the month of June we have some sales over there. This segment saw a combined EBITDA of about Rs.0.5 Crores during Q1 of FY2021.

Coming to the forging division, the revenue of Q1 of FY2021 was at Rs.19 Crores against Rs.37 Crores in FY2020. There has been decline in the sales to OEM by 62% as compared to Q1 of FY2020 led to the fall in the revenue. Magneti Marelli Talbro's Chassis system, our share of income in Q1 FY2021 stood at Rs.3 Crores versus Rs.16 Crores in Q1 of FY2020. The major reason was that this company is a major supplier to Maruti and European car maker in abroad, so Maruti has little degrowth in the first quarter and so was the European customer so there is a drop in revenue. Talbro's Marugo Rubber Private Limited, our share of total income for Q1 of FY2021 stands at Rs.1 Crore versus Rs.6 Crores in Q1 of FY2020, again this was a major supplier 70% of sale is to Maruti, so Maruti was closed during the first quarter that is why the low sales..

Now coming to the consolidated financial performance of the company. Total income including other income stood at Rs.51 Crores in Q1 of FY2021 as against Rs.109 Crores in Q1 of FY2020. EBITDA including other income stood at Rs.1.8 Crores in Q1 of FY2021 as against Rs.12.3 Crores in Q1 of FY2020. Continuous focus on cost optimization resulted in a positive EBITDA during these challenging times. PBT before exceptional items and including share of profit from JV stood at a negative of Rs.9.2 Crores in Q1 of FY2021. Way forward is going to be eventful. In the coming period it is not only the topline, which will require the concentration the focus will be shifted on strategy planning and our hedged nature of business coupled with new orders and sufficient efficiency at plants we are confident our team to help us to grow in the same. This is all from our 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. The first question is from the line of Priyanka Singh from Atidhan Securities. Please go ahead.



Talbro's Automotive Components Limited
August 31, 2020

Priyanka Singh: I have a few questions. So, the first one will be our portfolio is diversified from 100% gasket to now wide range of products, so any plans to add new products based on changing customer requirements due to BS-VI?

Anuj Talwar: With regards to BS-VI whatever portfolio we had, we already converted to BS-VI however the company is always open to introduce new technological products as and when the opportunity arise, we will definitely go ahead with that. For example, in gasket business, we did a very interesting product for BS-VI and also heat shields as I mentioned in the call earlier is a product which basically manages the noise, the vibration and the heat in the engine with all the engine now most powerful, more towards spectral, we are already developing that product with top OEMs in the country to develop that. So that is a new segment altogether, but let us see how the order comes and then we will talk.

Priyanka Singh: In continuation with this how is the BS-VI shaping up for our existing product portfolio and are we are experiencing any loss of revenue due to this?

Anuj Talwar: No, we have successfully converted all our products to BS-VI, there is no issue at all.

Priyanka Singh: Okay, that was helpful, thank you.

Moderator: Thank you. The next question is from the line of Ayush Oberoi from Victor Delta Securities. Please go ahead.

Ayush Oberoi: Thank you Sir for giving me the opportunity. So, I have a few questions. First one is do we have any new orders in hand except the \$31 million you have mentioned?

Anuj Talwar: At the moment this is what, but it keeps changing, we are constantly working on getting new orders. This is an order book that we have already shared with you and at the moment it is there, and we are already working with other OEMs for future orders as well. By the end of next quarter, we will give you some news on new order also.

Ayush Oberoi: Second is, it is very great to see the positive EBITDA numbers despite of the loss of revenue in April, so can you throw some light on what kind of cost saving measures you have taken and whether it is temporary or long term in nature?

Anuj Talwar: So, it is a mix of that. Regarding reduction of salaries, staff welfare expenses, saving on travelling, some localization and some is due to improvement in productivity etc., it is a mixture of all. Of course, I cannot say if it will be permanent or it will not be permanent but



Talbro's Automotive Components Limited
August 31, 2020

salary etc., will reverse by the month of October, November. Other benefits like travel for business promotions etc., which we have curtailed will continue for the full year and productivity, localization benefit will be permanent.

Ayush Oberoi: The third one is that did we see any supply chain issues while we were resuming operations and how did we manage on that? What is the situation currently in terms of labor availability and logistics?

Anuj Talwar: I must say that there are no major supply chain issues as regards to our operations. Initially there were some hiccups in the labor availability in the month of May and June, but now it is no more there.

Ayush Oberoi: That was helpful Sir, I will join in the queue for followup questions.

Moderator: Thank you. The next question is from the line of Atul Kothari from Progwell Securities. Please go ahead.

Atul Kothari: Sir what has been our capacity utilization in the month of July and August?

Anuj Talwar: In gaskets it is around 85% to 90%, in the forgings same 85% to 90%, in MMT it is around 70%, Marugo 70%, Nippon Leakless 80%.

Atul Kothari: So Sir we can say on an average it is around 70% right, overall?

Anuj Talwar: It is around 78%.

Atul Kothari: When can we expect to reach pre-COVID levels?

Anuj Talwar: Already if you see the pre-COVID levels, of course you know that the market was down before the pre-COVID level also, in the month of July, August we have achieved pre-COVID level on a standalone basis and we have already achieved pre-COVID levels. In fact, in the month of September we will exceed that also.

Atul Kothari: Sir, can you give some update on the order which we have received worth \$31 million, so what is the progress on that?

Anuj Talwar: So as you are aware, we have received the orders and we are process of delivering the products and we have mentioned in the press release also that supply will start, we will start



Talbro's Automotive Components Limited
August 31, 2020

manufacturing the tools, and supply will commence. We have already mentioned the orders will start in second quarter of next financial year, it is already online. We will have some revenue this year also in last quarter. It is a large OEM, so it is a long-term order; it is not a onetime order.

Atul Kothari: Sir, there will be no delay due to COVID right for this order to progress?

Anuj Talwar: No.

Atul Kothari: Sir, if we see our share of exports of total revenue has been increasing over the past few years, now in this post-COVID world, what will be our strategy going forward?

Anuj Talwar: At the moment we are focusing on gaining market share in the country, we have the technology, we are already seeing that we are going ahead of our peers and we continue to maintain our exports as well. You see luckily all the travel that we did over the last two to three years, those are paying dividend today. Today we cannot travel right now, all that we did before, we are getting a lot of calls, the export teams are having calls on a regular basis from US, UK, Japan so it is strong, they are not in building in physically they are working from home call like one of the customer in the US successfully did a virtual audit of our plant for the new product development, so those things are happening innovatively.

Atul Kothari: Are there any chances of us capturing market share from countries especially China?

Anuj Talwar: I think so, we are very positive. Of course it is the Indian OEM which is getting parts from China, I think it will come down and even for some customers in Europe and US, they are giving us business, one customer has given us business, which is export customer. He is importing from China, he has given 50% share of that business to us, so slowly it will go up.

Atul Kothari: That was very useful, thank you Sir.

Moderator: Thank you. The next question is from the line of Sunil Kothari from Unique Investments. Please go ahead.

Sunil Kothari: Sir, congratulations for a very good cost management during this tough time. Sir, my question is during this last three months to five months, this challenging time, we must have given thought and strategy to how to control our various costs, so any permanent cost



Talbro's Automotive Components Limited
August 31, 2020

cutting measures we must have taken or plan, which area we have scope, if you can little bit qualitatively convey something about possibility of reduction in cost?

Anuj Talwar:

As the lockdown started, of course we came to know that it is not a one month problem, it is a long term problem, then we started putting our head together on the zoom calls etc., by respective people and just asked them what we should do that we should not lose good people and we should not take any chance on our quality, we should improve productivity, what we can do. Then we arrived at 10 to 12 measures for each plant, every plant has a different scenario, it is not common for all. So, we started working on preserve cash first. Reduce inventory, optimize our HR Costs and look afresh at productivity Everybody took a hit on the take home salary, because it was the need of hour, if the company is not doing well, we will take cut. Some employee benefits we stopped, travel, business promotions, no capex, no foreign travel etc., because it was not possible also and local travel was not possible also, we were not aware that this will take so much time, so all these measures company by company we took and I am proud to say that we achieved very good savings and next quarter we will also see the same thing and we shall see full year savings also, localizations we work very hard on localization and its has now started giving results. By December we will localize as much as Rs.20 Crores per annum of imports, it will save my working capital, etc., etc., so these are the measures we have taken. Also, the euro and dollar has moved up and we are having price increase everything happened in this COVID time. Each and every product line, what is our contribution of each product, if the product is having less contribution, less work for our material, increase productivity or do whatever, so my contribution increases, so these are the measures which we have taken.

Sunil Kothari:

Great Sir, and my second question is to understand a little bit, may be near term, may be another month or three months, you must have received some schedule from your customer for September, probably October also, so if you can talk a little bit about may be tractor industry, two wheeler, car, how things are, may be not because of demand, but may be to fulfill this inventory supply chain all these things, because there is possibility of pent up demand and there is a inventory is also very low at dealer level, so combining all these three, four segments, any hint you can give?

Anuj Talwar:

I will start with two-wheeler first. Two-wheeler demand was okay, Hero is now quite good, this month, and next month also, last month it was good. Honda has started picking up from this month also. Honda Scooter was slow because they had a lot of inventory but from August to September, we have very good orders from Honda also. In the agri, we have John Deere, it is going crazy, in fact TAFE, and agri they are going crazy, but you know that after this harvest season is over, the demand will come down, but they are picking up a lot.



Talbro's Automotive Components Limited
August 31, 2020

From this September their offtake will be double than July and August. This is a better indication of commercial vehicle. You know that Maruti is the leader. He is now more or less close to COVID levels in working to impact. This is primarily a customer base we have but keeping in view the order book actual performance for the month of July and August because August is closing today. We are aware of what is happening. The order book we have in hand for the month of September I am quite confident and sure that my performance for this quarter will be better than Q2 performance of last year.

Sunil Kothari: Great. Sir, last question is regarding replacement market. If you can talk a little bit about how compared to last year how it is improving, month on month?

Anuj Talwar: Compared to last year because of the local norms that we are facing in every state, sometimes the Chennai closes, sometimes Bengal closes, sometimes Andhra closes, sometimes Mumbai closes, but now I think the lockdown opening scenario, government has said clearly open some areas, close that area, please do not close anything else, I think now with this the performance going forward will start, but obviously if the people, CVs people are delaying the purchasing CVs then obviously there will be more replacement market, you need more spares and as Mr. Naveen pointed out those issues are now clearing up and it will pickup.

Sunil Kothari: Great Sir. Thank you, Mr. Talwar and Mr. Juneja. Thanks a lot.

Moderator: Thank you. The next question is from the line of Apurva Mehta from AM Investments. Please go ahead.

Apurva Mehta: Congratulations on again on at least having some positive EBITDA on this low turnover. Really your hard work has given you fruits. Sir, I just wanted to know where we stand in the heat shields and wire harness gasket. What is our current situation, what is the opportunity which we have, what is the visibility for long-time? Can you throw some light on that?

Anuj Talwar: Like we already told you that we have secured orders from international OEMs in this segment, now we are working with three leading carmakers in the country today who are going to use this technology. In fact, our partners some are supplying these carmakers in Japan. So, it is all about localization and getting this product here. So, you know all these new cars that you see on the road, the fancy car you see on the road, they all require fuel and we have been talking about for a long time that this opportunity will come one day to



Talbro's Automotive Components Limited
August 31, 2020

our country also. So, within one month or so we will be closing the fuel orders in heat shields. This is under just final stage, very, very final stage.

Apurva Mehta: Thank you. Is it domestic orders or make in the international orders?

Anuj Talwar: Everything it will be around Rs.15 Crores to Rs.20 Crores for us going forward in the next couple of years.

Navin Juneja: So, we have added product portfolio to our kitty.

Anuj Talwar: Regarding the gasket you spoke about the integrity of wire harness, everything is in place, we have started supplying, the quantities are now 2500 to 3000 per month and we hope to bring it up by December it will go up to 5000 to 7000 and my imported machine will in the sea, they will be arriving by October, but we have got in-house capacity because dyes and tools are with us, we can then purchase other machines to the extent of 3000 to 4000 per month, there is no issue, by October end we will have a capacity of 7500 per month with the machines we have.

Apurva Mehta: So, what will be ballpark if we get all the heat shield, we will be contributing next year maybe what point of revenue can heat shield get and this wire harness, what kind of ballpark numbers we can get from this?

Anuj Talwar: On the wire harness, we acquired business next year between Rs.20 Crores and Rs.25 Crores will be the offtake for that. I am telling you the government process will start so next year because once we receive the order and the government will take so, next year the local business will start from the second half of next year.

Apurva Mehta: Thank you. Any new orders we are talking for our new crèche which is there of 500 tons of crèche, any new orders which you are currently negotiating or you may get some volume?

Anuj Talwar: We are in the process of deliberating this. We are having huge discussions, long discussions with our customer is US on a day-to-day basis and we are getting at least one order every month. We are expecting one or two big orders to be closed with them. On the forging front also, the customer we have recently closed that large order but that order we are yet to receive and of course the process is on.

Apurva Mehta: Even in the gasket side, we were talking of lot of exports, where do we stand currently? Are you getting there also any new enquiries coming in?



Talbro's Automotive Components Limited
August 31, 2020

- Anuj Talwar:** Last year export is for Rs.40 Crores, approximately Rs.38 Crores. This year we are expecting about 25% growth in that in this COVID year. As the last year order, it will come next year because of the validation, receiving times, but next year we will see a much larger jump in exports, next year going to be a breakthrough year for our company.
- Apurva Mehta:** Thanks a lot. Wish you all the best.
- Moderator:** Thank you. The next question is from the line of Ankit Agarwal from ARC Capital. Please go ahead.
- Ankit Agarwal:** Thank you for the opportunity. I have a couple of questions. Sir, what is the company's current debt level as of June 30, 2020?
- Navin Juneja:** Debt level term loan is around Rs.29 Crores and the working capital is Rs.104 Crores.
- Ankit Agarwal:** Are we planning to raise to any additional debt to meet our order requirement?
- Anuj Talwar:** I think we have recently availed the debt of about Rs.4 Crores in term loan for our imported machines. I do not think so that my debt level will go up at the end of this year.
- Ankit Agarwal:** Sir, in terms of our working capital, what is our working capital cycle in days?
- Anuj Talwar:** Working capital cycle depends on business to business because I think the cycle has no meaning.
- Ankit Agarwal:** Sir, did we face any issues in terms of piling up of inventory during the last few months?
- Anuj Talwar:** Can you repeat the question?
- Ankit Agarwal:** Sir did we face any issues in terms of piling up of inventory due to lockdown?
- Anuj Talwar:** During the lockdown the plants were closed. We had inventory in hand, and it went to large localized manufacturer and import and I was able to manage. There are no major issues with this.
- Ankit Agarwal:** Fine. Given the current environment, what is our capex plan for FY2021 and FY2022?
- Anuj Talwar:** It will be bigger. We are expecting a capex around Rs.7 Crores in gaskets and out of which we have already around Rs.3 Crores for the imported machines and forging we have a



Talbro's Automotive Components Limited
August 31, 2020

capex of Rs.3 Crores to Rs.4 Crores only, if the need arises, and regarding JVs there is no major capex planned.

Ankit Agarwal: Sir, any M&A opportunities if it arises, like entering into a new JV or acquisition?

Anuj Talwar: We are working on mergers and acquisition and when it comes, when it matures.

Navin Juneja: We are going to do everything possible to only increase our market share in the country and international, whether it is current technology partners, current JV partners, or what not because we are very, very bullish about our company, we believe in the company, we do not have much debt. Debt equity is very well controlled and the next three years I think if this whole scenario of COVID goes away, you will see some good results from our company going forward.

Ankit Agarwal: That answers all my question. Thank you. Best of luck.

Moderator: Thank you. As there are no further questions, I would now hand the conference over to the management for closing comments.

Navin Juneja: Thank you all for being on the call. As a promoter group, we have increased our stake and have firm belief that we have built a solid ground for growth. I think the worst is pretty much over. I would feel that CVs are bottoming out now. That is the last one to start. We have a good exposure in every segment which will take us through. We are working extremely hard to validate our export orders and also to gain market share in the country. I really feel positive ever than before. Hopefully, we should get back to in the next quarter with some better numbers and better results. Thank you so much for your time. That is all from our side. Thank you.

Moderator: Thank you very much. On behalf of Talbro's Automotive Components Limited that concludes this conference. Thank you for joining. You may now disconnect your lines.