



“Talbro's Automotive Components Limited Q3 FY15 Results
Conference Call”

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MANAGEMENT: **MR. ANUJ TALWAR – EXECUTIVE DIRECTOR**
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 FINANCIAL OFFICER
 MR. R.P. GUPTA – CHIEF EXECUTIVE OFFICER

Moderator:

Ladies and Gentlemen, Welcome to the Q3 FY15 Earnings Conference Call of Talbros Automotive Components Limited. 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. These statements are not the guarantees of the future performance and involve risk and uncertainties that are difficult to predict. As a reminder, all participant lines will be in the listen-only mode. 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 – Executive Director. Thank you and over to you Mr. Talwar.

Anuj Talwar:

Good afternoon everyone. My name is Anuj Talwar, I am a Director on the Board of Talbros and represent the promoter family.. I am joined today by Mr. Navin Juneja who is the Director on the Board of Talbros & our Group CFO and Mr. R.P. Gupta who is our Chief Executive Officer. We are also joined today by SGA our Investor Relations advisory firm. The results and the presentation are already uploaded on the company website and available to all.

Being our first call I thought I will take about two to three minutes to introduce Talbros to you. Talbros was established in 1950s by my late grandfather Mr. W.N. Talwar. We predominantly started off as being a gaskets only company. Today the Talbros Automotive Group is owned and managed under the leadership of our Chairman Mr. Naresh Talwar, my uncle and my father Mr. Umesh Talwar who is the Vice Chairman and the Managing Director. The company today is managed in a very professional manner wherein we promoters and our Group CFO comprise a Steering Committee. A Steering Committee is a body which is the catalyst between the Group and CEO who runs the operation of the company and has complete independent authority towards the profit and loss of the company. The Chief Executive Officer Mr. R.P. Gupta has joined us recently and is involved in all the operations and the profitability of the company. The Steering Committee which is comprised of Vidur Talwar, Varun Talwar, Navin Juneja and myself, pretty much work in terms of guiding the CEO, a review mechanism, a bouncing board, we work on strategies, relationships, etc.

We have been a leading player in the automotive gasket industry for over five decades. Our brand is known for offering multiple products in the auto component

industry. Our diversified products include gaskets, forgings, suspension systems, anti-vibration products, and hoses. We also enjoy a presence across all segments in the auto industry, we are present in the two wheelers, passenger cars, commercial vehicles, and farm equipments. Our product mix is about 65% OE, exports 20% and the balance forms aftermarket customers. We are a very well hedged company and we are diversified within products, customers, segments, and geographies. To add to that, we have nine manufacturing facilities located next to the OEMs to cater to all the needs as and when required.

I will talk briefly about our various business segments. As I mentioned to you earlier, we started off with being only a gaskets manufacturer. We started the gaskets business in 1956 and we have over the years developed our own in-house tool room, we are able to design the gaskets, we work with the OEMs right from the stage of design, to manufacturing, to production. We are invited by the OEMs to go in the stage right from the first principle itself. I am proud to announce that our market share in gaskets today is about 38%. We are the leaders in gaskets in India. To further strengthen our hold in gaskets, we entered into a joint venture with a company called Nippon Leakless Corporation of Japan, one of Japan's leading gaskets automotive players. Under the joint venture, we manufacture non-asbestos automotive gaskets for Honda and other Japanese players. Now, after having formed a joint venture with this company, we are proud to say that we are market leaders in the two wheeler segment where our market share is 92% in India. We supply gaskets to Honda Motor Scooters India, Hero MotoCorp, and we have been single source to these companies and also Bajaj Auto. So as a total, roughly about 70 million motorcycles produced in the country, we seal 92% of those motorcycles.

Gaskets are the largest revenue contributor at about 72% of the total revenue of Talbros.. I'd like to add one very important point that we are now 100% asbestos-free company, this now opens up the entire globe to us to supply gaskets, you have to be asbestos-free to enter the global markets, and we as the management took a call to do this.

As I mentioned to you earlier that owning the gaskets was not the story that we wanted, we wanted diversified. From the year 2005 our diversification story started , we started our forging division in the year 2006. Forging divisions today comprises of about 18% of our revenues. and we are very specific in our forging division where we now export 65%, this was a strategy that the management took. India being a commodity producer you will get more realizations and better benefits when you export that is why 65% of the forging revenue come from exports today and that too as a very niche segment of agri and off-loaders. The reason why we took this

direction was much easier to homologate a product for the agri and the off loader and much more difficult to compete with local forging players in the passenger car segment overseas.

Magneti Marelli is a Fiat Group company of about EURO 6 billion, we did a 50:50 JV with them to design, develop, and manufacture chassis components. With this joint venture we have a design capability to manufacture controller assemblies, knuckles, front axels, and rear axles. We are proud to say that we are able to supply the entire front chassis for the vehicle. Today in Maruti Suzuki, we are supplying about 50% of their control arm requirement.

Then in the year 2013, with a lot of pressure from Maruti to localize production as you may have heard the Maruti management talking about that localization for them is a big KRA, we formed a joint venture with the company called Marugo Rubber, to manufacture anti-vibration components, rubber components and we have helped localize Maruti's requirements in a big way. Today, we supply engine mounts, truck mounts, suspension bushes, hangers, and mufflers. And recently again with the help of Maruti Suzuki and to help them out we have started a hose division.

While our joint venture is still in its very nascent stage, I am happy to share that we have achieved near cash breakeven in December of 2014. This is a proud achievement for the Talbros' family that within two years of our JV coming into working it's already at cash breakeven.

Now I would like to hand over the line to Mr. R.P. Gupta, our CEO to take you through the business highlights for the quarter and nine months. R.P, over to you.

R.P. Gupta:

Thank you Anuj. Good afternoon Ladies and Gentlemen. As already stated by Mr. Anuj Talwar over the years we have diversified ourselves as a group from the only gasket manufacturer to a multi product player in the automobile component industry and also we have very strong tie ups and access to international technologies. Over the years we have hedged ourselves through various demand cycles due to our strategy of diversification across the products, customers, segments and also geographies. Despite the automotive market growth lagging expectations there have been numerous positive developments which are helping us maintain ahead of the market growth. This year medium and heavy commercial vehicle has shown recovery over the last quarter while passenger vehicle sales have not been as per our expectations for the year to date. We have witnessed good growth in the sales to OEMs particularly in the spare parts division, as we can see an increase in the

consumer spending with the improvement in the economy and the passenger vehicle segment will also show some traction and it will benefit the industry.

Further, the lower fuel prices, interest rate cuts and with overall positive sentiment in the market led by the new government thrust on development we are positive for our strong future growth led by our efforts to stay ahead of the market in technology and the product offering. We endeavor to increase our client base and profitability for our two new joint ventures thereby helping us gain more market share in these products.

Before I hand over to our Group CFO, Mr. Navin Juneja, to take you through the financial performance I would like to briefly touch upon the operational performance of our segments. First about the gasket division, gasket division growth was led by better volumes coming from increased OEM, spare parts division demand. The margins also witnessed improvement led by better material utilization and cost optimization measures. Also, as already stated after having gone asbestos free we have got the first order from our OEM customer Volvo to supply heat shields to USA and Mexico regions and we will build on this in the future, that is part of our strategy. Coming to the forging division, forging division growth was led by good domestic sales despite slowdown in Europe. This quarter we started supplying new product line which is the crown wheel to diversify our base and increase our product range in the agri segment to our European customers and which is now going to increase further in quarter four.

Moving to JV performances, Nippon Leakless Talbros had a stable performance on its existing customer base. Honda being a single source and growing rapidly in the scooter segment particularly, and this augers well for us in future as the scooter segment is growing by more than 20% this year. Magneti Marelli Chassis Systems saw a steady growth, volume for the quarter has been marginally impacted from delayed vehicle launches from our key customer particularly Bajaj, RE60 product. We also received new control arms business from Tata Motors and also started supply of control arms for Alto K10 to Maruti Suzuki Limited. With the addition of Alto we have increased our share in MSIL control arm sourcing to 50% from earlier 40%. Talbros Marugo Rubber saw strong performance of course with a low base. The business is now EBITDA positive as already shared by Anuj, and we are expecting a better volume in the coming year and then the financial performance will move towards the positive side. In this quarter we completed the setup and installation of the hose plant which is a new initiatives now in the Marugo Rubber other than the anti-vibration products and it has been now commissioned as per the schedule. We also won orders from Isuzu for complete suspension bush and from Honda Car India for the rubber exhaust mounting.

So that is it from my side. Now I will hand over to our CFO Mr. Navin Juneja to take you through our financial and operating performance for the quarter and for the nine months. Thank you.

Navin Juneja:

Thank you Anuj and R.P. and welcome ladies and gentlemen. Let me take you through the financial performance of the company. First I would talk about the quarter of December 2014. Our sales for the quarter grew by 13% to Rs 102.4 crores which is led by strong performance of the gasket and forging division. Contribution margin improved by 340 basis points to 44.4% as a result of various cost saving measure taken during the year as explained by Mr R.P. Gupta. EBITDA grew by 19% to Rs 13.1 crores while the EBITDA margins expanded by 60 basis points to 12.8%, PBT grew by 66% to Rs 5.7 crores largely aided by lower interest charges and flat depreciation for the quarter. Two of our facilities in Uttaranchal that is Sitargunj and Haridwar where the tax benefit was there for 100% of the profit has come down to 30% during the financial year as a result there is an increase in the tax charges. Profit after tax has grown by 33% to Rs 3.8 crores.

Now I will talk about the nine months ended 31st December, 2014. During nine months our sales has grown by 8% to Rs 295 crores, which is led by strong performance from our gasket and our joint venture Nippon Leakless Talbros. EBITDA has grown up by 11% to Rs 36.1 crores while EBITDA margin has improved by 30 basis points to 12.24% on a consolidated basis which is led by various cost saving measure and improving profitability of our joint ventures. PBT for nine months is up by 36% and has gone up to Rs 14.5 crores vis-à-vis Rs 10.65 crores for the last year's nine months ending 31st December, 2013. PAT for the nine months has grown by 9% to Rs 9.9 crores which has been little bit impacted by by the taxation changes in the Uttaranchal facilities which I have explained earlier.

This is the small brief from my side and I would like to open the floor for the question-and-answers.

Moderator:

Thank you very much sir. Ladies and Gentlemen, we will now begin the question-and-answer session. The first question is from the line of Samrat Das from Florintree Advisors. Please go ahead.

Samrat Das:

Sir, I would like to know about the performance of the new joint ventures, would you please elaborate on that.

Navin Juneja:

Performance of the new joint ventures you want?

Samrat Das:

Yes.

Navin Juneja: Okay. My last joint venture is Talbros Marugo, it started in 2013, it is a very small joint venture, it has just started production a year back. During the nine months ended in this financial year, they achieved a turnover of approximately Rs 10 crores with EBITDA of approximately 1.4% on a negative side. On Magneti Marelli front which is again a joint venture, started production in 2012, income for the nine months is approximately Rs. 46 – Rs. 47 crores and the EBITDA margin at present is down by around 1%.

Samrat Das: Okay. And sir apart from that...

Navin Juneja: And our third joint venture, Nippon Leakless, we have started production in 2007, turnover for this nine months is approximately Rs 65 crores and my EBITDA margin is 25% here. I would like to add two points, Talbros Marugo joint venture being only two years old has already come into near cash breakeven in the month of December and this is because of the fact that we are able to get schedules for Maruti which were delayed on accounts of testing of the product. The parent company of Talbros Marugo in Japan makes similar products, supplies them to Suzuki, Suzuki to Maruti; now we have cut that long lead time and we supply directly from India to Manesar into Maruti. So it has a localized production and this joint venture going forward will sail through.

Samrat Das: Okay. Sir, and apart from that going forward what will be your CAPEX plans?

Navin Juneja: Going forward into 2015-2016 on a consolidated basis my CAPEX should be around Rs 25 crores to Rs 30 crores. for 2016-2017 it should be again Rs 18 crores to Rs 20 crores. Just for your information, we have already invested in our JVs to the full extent so major CAPEX has already been done, balance CAPEX will be routine work plus some maintenance CAPEX into other forging division and the gasket division.

Samrat Das: Okay. And any new product launches you are planning?

R.P. Gupta: In the gasket side we have already launched the heat shield, we have done the CAPEX in this financial year for the complete new heat shield line and we have already started doing the heat shield for our heavy commercial vehicle segment customers like Daimler, Tata Motors, VECV and Ashok Leyland, through this line, we have also got the first international OEM business of Volvo. What we developed for the VECV is being extended to the international customer which is Volvo. So that is the first product line which we have already launched here. The second product line is in the forging division, earlier we were doing only up to 6kg to 7kg of

weight forging through hot forging, we have extended now to the first segment which is the crown wheel which is around 12 to 16kg segment. Currently we are doing it through a wet leasing mechanism, taking a 4000 ton press and doing this business through the wet lease process and that we expect the business volume will increase. As already stated in the joint venture company we are already ready for the full front and rear axle for the Bajaj RE60 vehicle, the moment it is cleared by the government and our customer Bajaj launches this it will immediately increase the revenue of the Magneti Marelli division. So we are taking steps in almost all the divisions for launching new products.

Navin Juneja: And also R.P. you can add on the hoses as well for Talbro Marugo.

R.P. Gupta: Yes, in Marugo Rubber, we have commissioned a new hose plant, other than anti-vibration products we have commissioned completely new plant for the intercooler hoses and that is to start supplying to Maruti and approach to the other customers like Honda and Isuzu. So in almost all the companies, there are many new products in the pipeline which is part of our initiatives to increase our range.

Samrat Das: Okay, great. And in the expense side could you like give an insight as to why the other expenses have increased?

R.P. Gupta: So one reason for that is the overall revenue in the quarter has increased by 13%. So the variable expense related to the top line growth including the variable expense related to sales and variable expenses related to the other than material, even in the production or the conversion cost is coming in the other expenses.

Navin Juneja: Major of which is power fuel, freight, and forwarding

R.P. Gupta: In power and fuel cost, last year in the Haryana government, we had the benefit of exchange where we were doing the bidding. This year because government increased the base rates for the bidding and the benefit for the bidding has gone away so we are getting the power almost at the same rate as the grid. So last year we enjoyed some benefit in the power which was not there this year particularly in the Haryana side. The second of course in the Bawal side where the power rates were linked to the gas rates and that rate continuously increased because the gas used by the Caparo which was supplier for the power has increased to more than \$21 per metric unit of the gas which has affected some power cost for the forging division. However, the heartening news is that starting January the Caparo had the contractual obligations to change the gas source by almost 75%. starting January the gas source has changed by 75% and the overall gas rate has started coming down for which will see the benefit

in the quarter four in the forging division. So these are the reasons for the other expenditure going up in quarter three.

Moderator: Thank you. Our next question is from the line of Nitesh Sharma from Reliance Securities. Please go ahead.

Nitesh Sharma: Couple of questions from my side. One would be, could you split your gasket revenues as per the vehicle segments like what percentage of revenues would be from CVs, PVs, and two wheelers?

Anuj Talwar: In our gasket company of the total revenue, OEM is about 65%.

Nitesh Sharma: Not by OEMs and aftermarket, by segments of vehicles like two wheelers, CVs and passenger vehicles.

Anuj Talwar: See, I will have to break this up a little bit more in detail total gasket turnover 65% is OEM, of that 65% which is OEM half of that would be the heavy commercial vehicles, medium commercial vehicles and light commercial vehicles.

Nitesh Sharma: Okay. So 50% of the OEM segment is from MHCV segment and heavy?

Anuj Talwar: Yes, and the balance is coming on two wheelers and very-very small share in terms of passenger cars and industrial gaskets in our gasket companies. Our strength in the gasket company is two wheeler and MCVs, HCVs, and LCVs.

Nitesh Sharma: Okay. So the bulk is the CV segment, rest is two wheelers and minute portion is passenger vehicles?

Anuj Talwar: So 90% of my OEMs in our gasket business comes almost equally in terms of HCVs, MCVs, LCVs, and two wheelers.

Nitesh Sharma: Okay, got it sir. Secondly sir, we have a market share of around 35% - 36% in the gasket segment...

R.P. Gupta: 38%.

Nitesh Sharma: 38%, who would be our key competitors, I presume Banco Products would be one of them?

Navin Juneja: After me there is Banco Products whose turnover should be around Rs 90 crores to Rs 100 crores which includes OE & aftermarket export. After that it is Victor Gasket having turnover of Rs 50 crores – Rs 60 crores, these are my competitors.

- Anuj Talwar:** Of Banco's total turnover of about 400 crores about 320 crores is from the radiators.
- Navin Juneja:** And they have a fully-owned subsidiary for the gasket business which is around Rs 100 crores.
- Anuj Talwar:** Yes. So we are the largest in gaskets and when you combine my JV and all, we go to a level of Rs 350 crores.
- Nitesh Sharma:** Okay. And who is the third player you said, I could not get it?
- Navin Juneja:** Victor Gasket, it is an Anand Group Company, it is again a Rs 50 crores company approximately.
- Nitesh Sharma:** Okay sir. And if I comprehend you correctly, we are 100% asbestos free as of now?
- Navin Juneja:** That's correct.
- Nitesh Sharma:** And what about our competitors, even they have a similar trait?
- Navin Juneja:** No, they are not asbestos free.
- Nitesh Sharma:** They are not, okay. And in terms of your export opportunity, how big is the export opportunity for you guys and what sort of strategy?
- Anuj Talwar:** That is something that R.P. was also going to highlight upon, we have just turned asbestos free recently.
- Navin Juneja:** Recently from 1st April, 2014.
- Anuj Talwar:** Our exports in gasket division only contributes 13% of the turnover. Going forward, this is going to go to about 25% and the reason being that all the big customers of ours in India like for example Cummins which is a worldwide company for who we are single source in India are now opening up their world wide doors to us. And I will like R.P. to stretch a little bit more about this exports strategy, R.P. please go ahead.
- Nitesh Sharma:** Okay. So the target is 25% you said?
- R.P. Gupta:** No, between 20% to 25%, so far we were concentrating only on the aftermarket clients but having gone asbestos free the big opening of the doors is from our OE customers. So the first step was to prove our credentials of going through asbestos free where our partner, Cummins, the US facility have come down and have done almost 10 man days audit for all our plants and certified us that we are absolutely

asbestos free, that was the first step. The second step was of signing of their contracts which is like partnership contracts for supply to international locations so we have already signed contracts with Cummins, Daimler, Volvo and Harley Davidson. So we are already signing these contracts one by one so that the RFQ starts flowing. Volvo is the one where the first initial RFQs came and we have quoted and started the first business for the USA and Mexico markets, so that is the first breakthrough which we got it. So international business starts slow because they will test on all our QCD parameters which is quality, cost, delivery and then we expect the big ramp up because once we are into the loop the orders or the enquires start flowing from all other locations for the similar programs which they are doing. What happened is after we did the Volvo USA bidding, now similar enquiries are coming from the European region and the other parts of the world. We expect the similar thing from Daimler, we have already displayed our products in one of the sourcing campaign which they did it in the month of August last year and we displayed our product in the Chennai facility. Now they have studied our dipstick codes and we expect very soon to have the new RFQ packages coming from them. So we expect this business will start slow but will have the ramp up. At the same time for the aftermarket customers we have a good exposure in the USA market, with US growing we expect that business to start growing further. Over the period of three to four years we expect the revenue from the export side to grow from the current 13% to around 18% to 20% and then grow it further.

Anuj Talwar: This is a very clear strategy from the management that we had to bridge the gaps on exports and with whatever R.P. is saying to you as a measure that we have taken as management, this should happen in the next three to four years.

Nitesh Sharma: Right. And also any ideas in terms of how the export contracting works, so given that you already got the Volvo order so what would be the tenure of this order, any order book size that you we could share?

R.P. Gupta: No, as I said this starts in a small way, they will test the water for the Indian customers. So if the first orders is let's say is around worth around Rs 60 lakhs, but more important is that how you build on that and then get further RFQs from other parts of the world because now once you are into that league we are on their portal as the supplier so which is seen by the worldwide buyers for the similar product. So once we are the supplier we are now displayed on the Volvo portal as the heat shield supplier. So the RFQs from the other region starts flowing so it starts slow but it has the potential to grow big because the worldwide all other buyers from China, from Europe, from Japan they are seeing us as the supplier, one of the potential supplier so RFQ starts flowing. Thereafter it is our competitive bidding.

- Navin Juneja:** I would like to add on one thing today we are single source for a lot of OEM in India whether it is Cummins, Tata Cummins, Bajaj Auto, and Volvo. So to maintain that I am definitely sure we have got some technology and some niche than our competition and that is what we are going to leverage on for exports as well.
- Nitesh Sharma:** Right. Sir and in the gasket division who would be your key clients domestically and if you could share the percentage of the revenue?
- R.P. Gupta:** In the gasket our top client is Bajaj Auto which is comprising about 16% of the share, Hero MotoCorp is around 11.2%, Tata Cummins is the third big which is around 10% to 11% and Tata Motors is the fourth one, the top four if I have to count which is around 40%. This is other than the JV company, this is pure gasket separate company, these are the top four clients.
- Moderator:** Thank you. The next question is from the line of Vikas Rajpal from East India Securities. Please go ahead.
- Vikas Rajpa:** Sir as you mentioned in the gasket division that there were some cost saving initiatives like better material utilization and cost optimization, so could you throw light on what were you talking about this.
- R.P. Gupta:** Yes, so the major initiative because our cost has been rationalized in terms of the material utilization. So the yield, two things is one is how exactly we can standardize the material and see the better yield through yield optimization because if you see the gasket raw material, from a sheet once you blank out, the blank can go waste or if you can utilize it for some benefit for making a smaller gasket your yield improves, so that is one major benefit. The second is standardization on the sheet thicknesses, that is the second aspect. And the third is some raw material localization as an alternate source which we have tried it this year starting with the aftermarket. So these three major initiatives led to the material cost benefit.
- Vikas Rajpa:** Okay. Sir and the other thing is from the JV Magneti Marelli, so you said that you got an order for control arm business from Tata Motors so which vehicles you got it for?
- R.P. Gupta:** Zest and Bolt.
- Moderator:** Thank you. Our next question is from the line of Sailesh Raja from B&K Securities. Please go ahead.

- Sailesh Raja:** The suspension model you were talking about sir whether it is a leaked-based suspension model or parabolic suspension model sir?
- R.P. Gupta:** We will answer it offline, right now we may not be able to give you the information.
- Sailesh Raja:** Okay sir. With regard to capacity utilization what is the current capacity utilization say on standalone basis and on the JV basis?
- R.P. Gupta:** The gasket utilization is close to 70% or close to 74%, forging plant utilization is once again close to 65% to 70%. The new JVs the utilization is, the NLK is also close to around 70% but the new JV Marugo Rubber is maybe close to 50%, Magneti Marelli maybe around 40% to 50%.
- Sailesh Raja:** Sir, I mean with how much we can expect in next two years, how much capacity utilization can improve in next two years, any...?
- R.P. Gupta:** Like gasket we would like to optimize it to around at least 80% utilization level and the forging also we would like to bring it to the same level 80% and the JVs as the volumes are ramping out first we would like to bring it to around 60% - 65%.
- Sailesh Raja:** Okay sir. Sir but now the two wheeler space is now currently a little bit slow sir so how will you get away from the two wheeler slowdown sir?
- R.P. Gupta:** Two wheeler segment, very distinct phenomena is occurring, the scooters are ramping up by more than 20% growth, the motor cycles growth is slowing down, it has not gone negative but it has from the double-digits has come to single-digit.
- Sailesh Raja:** Yes sir, because Bajaj is our main client and Bajaj if I export in Nigeria and domestic also a little bit slowdown in the Bajaj, so that's what I was a little worried.
- Anuj Talwar:** I would like to add one thing, Bajaj is not only the main client, through our joint venture also I mean Nippon Leakless we supply 100% to Hero MotoCorp and Honda Motor Scooters India, and I will just break up. Bajaj 100% supply comes from Talbros' gasket division and 20-25% of Hero MotoCorp's production comes from Talbros gasket division. Our joint venture has got 100% of Honda Motor Scooters India and 75% to 80% of Hero MotoCorp. So the 70 million motorcycles between me and my joint ventures will supply 92% of India's two wheeler market. Yes, have I cleared the point?
- Sailesh Raja:** Yes sir, very nice sir. Sir just two more things, sir margin improvement, what kind of traction can we see sir?

- Navin Juneja:** Margin movement, what type of?
- Sailesh Raja:** Sir margin improvement, what consistence, we have a lot of scope to go on the operating leverage.
- Navin Juneja:** Yes, we are working on that. For margin improvement R.P. just explained to you earlier that he has done some homework in raw material side by commonizing, by substituting imported with Indian raw material. On the other hand we have closed our Chennai plant three months back so that we rationalized our production capacities, as a result there is some cost saving from the fixed cost. Plus going forward we are taking various measures to reduce our fixed cost, the benefit will come in the next two to three years to the extent of maybe 0.8% to 1.5%.
- Anuj Talwar:** After 1.5% over the next three years.
- Sailesh Raja:** So can we expect 200 bps margin improvement from the current level can we factor in say in the next two years' time?
- Navin Juneja:** We cannot commit to that but our roadmap is to go to 1% to 1.5% at least.
- Sailesh Raja:** Okay sir. What is your focus sir to maximize the return on capital employed?
- Navin Juneja:** First we will increase our capacity utilization, because of JVs have a very low utilization.. There are two new JVs Magneti Marelli and Marugo Rubber, they have just started the production so, when the capacities of these two JVs and my forging and gasket division grows we will have better utilization, on which no major capacity addition will be required because all the capacity has been in place. So as a result the ROE, the return on capital employed will definitely go up. The two new joint ventures are hardly two years and three years old. Orders have already been won in Magneti Marelli for example we already have secured orders from Bajaj, from Maruti, from Tata but we are just waiting for them to start production. The capacity is in place for them. Similarly Talbros Marugo also we have already won businesses, we are only waiting for them to start production. So as and when Marutis and Tatas and Hondas roll out the new cars, it is only a matter of them coming into production, and then we will take off as well, that will help us spread our assets better.
- Sailesh Raja:** Okay sir. Sir debt reduction, any plans which you can share you can think?
- Navin Juneja:** Out of major debt Rs 25 crores is towards money borrowed to invest in the joint venture companies and balance is into working capital and term loans. We are now

planning not to increase our debt, if you see for the last one year my interest cost has come down.

Sailesh Raja: In absolute terms it has come down sir.

Navin Juneja: There are two reasons, one is better inventory utilization, better working capital cycle, and better negotiation with a bank and we have repaid quite a bit during the last financial year and we will not increase our bank borrowing. As a percentage of turnover my bank borrowing is coming down and it will keep on coming down.

Sailesh Raja: Okay sir. Any plan on monetization of that Chennai land sir?

Navin Juneja: At present no plan because we are still negotiating with our worker union and maybe after a year or so, not before that.

Moderator: Thank you. Our next question is from the line of Mir Chande from Equirus Securities. Please go ahead.

Mir Chande: Sir thanks for the opportunity. See just a couple of questions, like the union budget is coming up next week so what would be our expectation regarding our industry for the budget?

Navin Juneja: They have recently withdrawn excise benefit in the month of January. Industry is demanding the benefit to come back but I am not expecting, basically I am expecting bigger growth to infrastructure, mines, etc., so that more commercial vehicles will be utilized and commercial space goes up. So we are the leader in the commercial area.

R.P. Gupta: And maybe the interest rates will go down, but that is RBI's job, that will help us in the commercial vehicle recovery.

Mir Chande: Yes. And sir are there any inorganic growth prospects the company is looking into in the coming years?

Navin Juneja: At present, no.

Anuj Talwar: At present our aim is to utilize our assets better, in the last two years all the CAPEX has gone towards the new joint ventures, they need to still come into at least 80% - 85% capacity utilization. Our immediate aim right now is on sweating the asset better, getting the JVs to come into line, and in addition doing certain initiatives, improvements in our existing businesses. In our forging business looking at value-

added products such as assemblies for the overseas market. As of today there is no inorganic plan.

Mir Chande: Okay sir. And sir what would be our working capital cycle for the quarter and for the year?

Navin Juneja: Working capital cycle is approximately at 80 to 90 days.

Moderator: Thank you. Our next question is from the line of Nitesh Sharma from Reliance Securities. Please go ahead.

Nitesh Sharma: My question pertains to your Magneti JV, so just wanted to know what products we would be focusing on, how big is the opportunity in India and who are the competitors and what are the market shares?

Anuj Talwar: Currently we are doing two product lines, one is a control arm assemblies and steering knuckles. In control arm assembly we are already in about 50% of Maruti's vehicles that used to be about 33% - 34% earlier. The design capability of Magneti Marelli which helps us to design the control arm and also add values such as light weighting exercises we are hoping to maintain its market share with the market leader which is Maruti. Our new product steering knuckles which is basically a product made out of cast iron which is a very highly safety critical item, we have entered that. We have now already commissioned for the front axle and the semi cornered and the rear axle, this will come into berthing once the Bajaj quadricycle comes into berthing. To add value to this joint venture our approximate value per product used to be about Rs.700 - Rs.800 in a car but with the Bajaj quadricycle that has gone through and we are also working with the other vehicle manufacturers, our contribution per car is going to be about Rs.6,500 given the fact we do the entire front axle work and control arm, steering knuckle then putting it all together in assembly.

Nitesh Sharma: Okay. And any other products you will be launching through this JV, like what are the contracts with Magneti? Is it restricted to a few product?

Anuj Talwar: Our joint venture is restricted to suspension components and modules.

Nitesh Sharma: Okay, the entire suspension component and module?

Anuj Talwar: Entire suspension module, rear axle to front axle, control arms. We are working with Tata Motors, we already talked with Piaggio for these kind of products, we are working with Maruti for a front cross member, this is a huge market. It is not like

gasket which is a tight business, it is a huge market. I mean today for example you have JBM Auto which is almost a \$1 billion company in India make these kind of components. So the opportunity is immense in this case and we already have contracted one business about Rs 70 crores to Rs 80 crores but it is waiting for them to come into berthing.

Nitesh Sharma: Any idea in terms of the market size, the ballpark numbers?

Anuj Talwar: We will ask SGA to come back to you on that.

Nitesh Sharma: Okay, not an issue. And who are the other competitors in this segment?

Anuj Talwar: JBM Auto, SKH Metals, Sharda Motors.

Moderator: Thank you. Our next question is from the line of Aditya Sundaram from Edelweiss Financial. Please go ahead.

Aditya Sundaram: My basic question is on the standalone gross margins, I believe it has come down by about 100 bps, I just wanted to know why that is in light of the raw material cost which has come down so I was expecting it to be a little better. So could you just explain that to me please?

Anuj Talwar: Basically the margins are the result of the product mix. If export is better the margins will be better. Last year in that export segment we got very good prices for the export because dollar went to Rs.68, Euro went to Rs.84-85 which is not there this year, that has resulted in the reduction of a little bit gross margin.

Navin Juneja: Because of the forging division which has got 65% revenue coming from exports we have added huge benefit last year, as a result customer from 1st January renegotiated the prices and we are now back to our normal things, number one. And the steel prices have not come down here in India by the way.

Aditya Sundaram: Not 5% QoQ?

Navin Juneja: No, it has not come down at all. Because when we talk to steel suppliers we see that gas prices have come down, they say like my furnaces are not gas based they are coal based. So there is no impact in steel prices as of date.

Anuj Talwar: There is also a slowdown in Europe and this year we have lost some money in the last quarter on the euro front also because euro is coming down, so for forging my major export market is Europe so that's why it has a little loss, a little bit.

- Navin Juneja:** But we are to see better prospects in quarter four and quarter one of next year.
- Aditya Sundaram:** Okay. Sir my next question is on the heat shield technology, a very basic question. This would be an opportunity basically for the export market and not for the Indian market because I understand this is for premium cars?
- R.P. Gupta:** No, there are two aspects. The first is the heat shields are of two different technology, one is the aluminum coated steel which is heavy and used largely by the heavy commercial vehicles and the medium commercial vehicle, that is being used currently by Indian customers as well and we have started supplying these mainly to VECV – Volvo Eicher, Tata Motors, Ashok Leyland, Daimler. The second technology which is a light weight technology for the passenger car vehicle, for that as of now we are ready because we already have a tie up with our technology partner Sanwa Corporation Japan and which is made of pure aluminum, the weight for the heat shield is almost 1/3rd compared to the aluminum coated steel. Passenger car segment in India are not using it, they are using heat shields only for the vehicles which are getting exported. So the first contract which we were trying to negotiate for the export vehicles was for Maruti Suzuki, and they are not ready to invest in the tooling because the tooling itself will cost roughly around Rs.0.5 million as a matter of fact, so because the volume being very small they are not ready to invest and they are still taking it from the Suzuki Japan who intern is getting from our technology partner Sanwa. Technology wise we are ready to support the passenger car vehicle, once the demand increases we are ready, so we are looking for that opportunity and we are definitely open for the export opportunity if it comes through. But the first come first, we are right now looking at the heavy commercial vehicles where the Indian OEMs have started using it and the opportunity likewise is also coming from the international market.
- Aditya Sundaram:** Okay. And would you have an opportunity size maybe for the India MHCV ballpark figure?
- R.P. Gupta:** It is already supplying, and as the volume increases we are ready. So we have won the contract from VECV, Daimler, Tata Motors, Ashok Leyland, now volumes will only increase.
- Aditya Sundaram:** Okay. And sir this is just one more follow-on question, any targets that you have three years down the line on a sales front, EBITDA front maybe looking at some inorganic expansion or something like that, do you all have any targets in mind which you all could share?

Navin Juneja: Of course, every business has a target in mind otherwise you cannot run a business without targets.

Aditya Sundaram: No, no anything you could share I meant.

Navin Juneja: We are on the organically basis we are looking at growth rate of 13% to 15% CAGR growth over the period of next three years depending on the market conditions. And our internal target is to improve our EBITDA margins from the front level, 0.75% to 1.5% over the period of two to three years. That's all I can say.

Moderator: Thank you sir. Ladies and Gentlemen, that was the last question. I now hand the conference over to Mr. Anuj Talwar for his closing comments.

Anuj Talwar: Thank you all for participating, it was our first Earnings Call, I am glad we were able to answer all the questions and if not then you can always go back to our investment advisory firm, SGA and they will be able to help you out. Thank you so much.

Navin Juneja: Thank you everybody.

Moderator: Thank you very much members of the management. Ladies and Gentlemen, on behalf of Talbros Automotive Components Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines.