



“Talbros Automotive Components Limited Q3 FY 16 Earnings Conference Call”

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MANAGEMENT: MR. ANUJ TALWAR – EXECUTIVE DIRECTOR
MR. NAVIN JUNEJA – DIRECTOR & GROUP CFO

Moderator:

Ladies and gentlemen, good day and welcome to the Talbros Automotive Components Limited Q3 FY16 Earnings Conference Call. This conference call may contain forward-looking statements about the Company which are based on the beliefs, opinions and expectations of the company as on the date of this call. 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 would now like to hand the conference over to Mr. Anuj Talwar – Executive Director of Talbros Automotive Components Ltd. Thank you and over to you Mr. Talwar.

Anuj Talwar:

Good afternoon everyone, a very warm welcome to our Q3 Earnings Call for Financial Year 2015-2016. On the call today I am joined by Mr. Navin Juneja – Director and Group CFO and also SGA, our Investor Relation Advisor. The results and the presentation are uploaded on the stock exchange and the company website. I hope everyone had a chance to look at it.

Let me give you a quick run up on our performance till date, post that Mr. Juneja will take you through the financial performance of the company. I would like to start the call by giving you a little bit of an insight of the Indian automotive industry. The Indian automotive industry is still not showing signs of recovery, it is still very sluggish with the growth of 2% for the nine month ended 2015-16, the two wheeler continues to decline, the passenger car market is increased by about 7-8% but that is only 20% of our turnover because we are predominantly in the HCV, LCV, two wheeler and Agri space which is very sluggish. Despite a drag from the auto sector largely led by continued weakness in the LCV and the motorcycle sales we have been able to build strong order pipeline in passenger vehicles through our joint ventures.

This has been a constant endeavor of the management as we could not have ignored the passenger car segment thereby forming a joint venture with Magneti Marelli and Marugo Rubber to gain steam in the car segment especially with Maruti Suzuki. We also have launched new products called Heat Shields which is a product where we are getting a lot of export interest as well as from the domestic car makers. We are also working on some large OE orders in the domestic market for our forging business. We have been a leader in gaskets for five decades and now are well-diversified player in the ancillary space. We supply products such as forgings, suspension systems, anti-vibration products and hoses. We are present across all segments of the auto industry ranging from two wheelers to heavy trucks to cars to commercial vehicles and to farm equipment. We are a player in the OE space, after market and exports thereby enjoying a hedge position in the industry.

Our business is broadly divided into our stand-alone business that's the gaskets and forging and we have three joint ventures with global auto component dealers which I have already mentioned to you earlier. In gaskets last month we commenced operations in our new dedicated heat shield line at our Faridabad plant. This new line has been installed to cater to

potentially large orders from our customers in India and overseas. Earlier we were working with smaller orders from our gaskets plant itself. We currently have got heat shield orders from Volvo, Eicher, Cummins commercial vehicle, Daimler and also Ashok Leyland. We are also talking to Volvo for the export market for heat shields. Apart from heat shields we have been expanding our geographical reach in our gaskets business with new orders from Turkey and Iran. Our exports has been only 13% in our gaskets business but by entering into upcoming markets such as Iran and Turkey we are pretty hopeful that we will be able to take this up to 20% in the next 3-4 years. This is again OE business in exports. With this we continue to be a leader in our gaskets market with close to 40% market share in India and along with our joint-venture company Nippon Leakless we control about 92% of the India's two wheeler market.

In our forging business, as I mentioned to you in my previous calls we have been working on re-strategizing our forging division and I am happy to add that we have been successful in activating some domestic OEM business. As we were very heavily dependent on exports the Italian market has caused us a lot of pain specially in this quarter.

In Magneti Marelli Talbros we are making very good progress in this joint-venture. We have secured almost about 45% of Maruti's control on business. This is a product which we are a leader in and also we are now waiting for the Bajaj RE60 'Qute' to start. Unfortunately, we have been waiting for long and still we don't see any signs of it starting but for the first time we have been given some Orders for the export market. This is going to be a huge game changer for this joint-venture as the price per product is about Rs. 7000 as opposed to today what we do at Maruti and TATA is about Rs. 800. This is the chassis components for the vehicle.

Regarding the Talbros Marugo joint-venture we have won orders for all the new variants of Maruti Suzuki at least in the anti-vibration space and hose. At the same time we are also looking at some export markets, we are looking at exporting back to Indonesia and to Japan through the efforts and contribution of our joint-venture partners. I am hopeful and positive that both these joint ventures will gain a lot of market share in Indian OEMs such as Maruti Suzuki, Isuzu and Tata motors.

Now I request Mr. Navin Juneja to update you on the operational and financial performance of the quarter.

Navin Juneja:

Thank you Anuj. Let me first give you a brief about the auto sector performance. The auto industry saw a slight recovery in September to December quarter with a growth of 3.34% led by passenger vehicle sales where passenger vehicles performance improved by 14.6%, the CV segment grew by 11% on subdued LCV performance while medium and heavy commercial vehicles segment grew by 22.4% in the quarter. Two wheeler sales continued to create a drag which is led by weak motorcycle sales.

For the nine months the performance remained on the similar lines, passenger vehicle sales increased by 8% which is led by 11% growth in domestic car sales and 43% growth in utility

vehicles segment. Commercial vehicles segment grew by 9% led by 27% growth in medium and heavy commercial vehicles but a 4% decline in LCV segment. In the two-wheeler segment 12% growth in scooter sales were set off by a decline in motorcycles and moped sales.

Now coming to our segmental performance, in the gasket division which includes our JV with Nippon Leakless Talbro we have received fresh orders from new models of Yamaha and Maruti Suzuki India. Revenue has an impact because of price reduction offered to customers due to competition activity and a slowdown in the motorcycle sales in the quarter coupled with this our margin has been impacted due to the FOREX loss on account of raw material imported from US because of dollar going haywire.

In the forgings division despite weakness in demand from export markets impacting our income for the forging division for the nine months of this financial year now we have been working very aggressively to **penetrate** the domestic OEM segment in this business. We have activated Indian OEMs in a big way over the past few months and are at the final stages of negotiations currently which are expected to close by the end of this quarter. In the recent months we have witnessed a revival in the export market with 80% of our regular orders now being revived correctly and are expecting to better Q4 performance and a strong financial year 2017-18.

Magneti Marelli Talbro Chassis Systems Private Ltd: In this while we are catering to the new projects from Maruti and Tata we have also started fulfilling orders for the Bajaj quadracycle which is quite in this quarter for their export business. While the quantum remains small we are hopeful of it picking up in the coming few quarters. The pipeline of orders for financial year 2017 and the financial year 2018 in both domestic and export continues to remain strong in this business.

Now coming to Talbro Marugo Private Ltd, we have gained new business from Maruti Suzuki and Isuzu Motors for anti-vibration products. In the quarter we have also commercialized our operations in our new hose plant and are gradually witnessing good traction from the market.

Now coming to the financial performance of the company, for the quarter ended December 2015, total income for the quarter was Rs. 98.5 crores against Rs. 102.4 crores in Q3 of FY 15. This is mainly because of slowdown in the growth of two wheelers segment and also change in the accounting methods of Magneti Marelli Talbro Chassis Systems, JV which had an impact of Rs. 1.5 crores on the total income. The accounting method was changed from booking sales to processing charges for the sales done to group company. During the quarter my EBITDA was at Rs. 12 crores showing a de-growth of 9% which is led by increase in the employee cost to the extent of Rs. 38 lakhs that was under the New Minimum Wages Act in Haryana which was effective from 1st November, 2015. Also there was a FOREX loss of approximately Rs. 11 lakhs against the gain of Rs. 67 lakhs in the same quarter last year. Overhead expenses related to newly commercialized hose plant was also there in this quarter. EBITDA margin stood at 12.16% against 12.82% in Q3 of FY 15. If we discount the above impact which we have mentioned earlier the like-to-like EBITDA margin excluding the impact of the new minimum

wages and FOREX loss, etc., we see an improvement in the margin at 13.3%. Our PAT for the quarter stood at Rs. 3.9 crores against Rs. 3.8 crores in the Q3 of last financial year, a growth of approximately 4%.

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

Moderator: Thank you. Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Abhishek Jain from IndiaNivesh. Please go ahead.

Abhishek Jain: As the interest cost is around 50% of EBIT so do you have any plan to reduce rates or deleveraging balance sheet?

Navin Juneja: As regards the reduction and debt cost, first of all I am not borrowing any further, you can see from the long-term borrowings it has come down to the extent of Rs. 7-8 crores during the financial year but our working capital has gone up to the extent of Rs. 6-7 crores during the same period. As regards the reduction by way of deleveraging, etc., of course land is lying in Chennai to the extent of approximate 2 acres which I am hopeful will be disposed off in a period of another one or two years whenever our market position improves and we will use that money to bring our debt cost down. Except that I am not planning to buy any further, I will use this money to grow my turnover and automatically the percentage it should come down during the next financial year.

Abhishek Jain: What is your strategy on turnaround of forging business because it's a loss-making?

Navin Juneja: I agree with you. There are two prong-strategy, one is we are looking for a strategic partner in the business, while we are talking somebody is sitting at my plant.

Anuj Talwar: A Japanese partner.

Navin Juneja: I do not know what will happen because it takes time for these strategic partnerships. On the other hand, we have increased our focus in the domestic market in a big way. We are contacting some big OEMs and I am hopeful to book some orders with them during the next quarter which I will come back to you on that account. My power cost which was at about Rs. 9-10 during the last year with that HSEB connection coming in within next one month it will come down to the level of say around Rs. 7.50 per unit.

Anuj Talwar: This will have a major impact on our forging business profit and loss.

Navin Juneja: For topline growth I am hopeful in the next financial year now that the worst is over with all reasons in the current quarter I should have a respectable turnover and next financial year we should have a decent growth.

Moderator: Thank you. The next question is from the line of Ekta Lalwani from Dewan Investments. Please go ahead.

- Ekta Lalwani:** Just few questions on the orders that we just mentioned that we have received in this quarter, can you give us some visibility of these orders when will these get executed, any of these getting executed in the current quarter that is Q4 or any of these getting executed next year?
- Anuj Talwar:** In Magneti Marelli Talbro as I mentioned to you earlier we have won orders with all the new models of Maruti Suzuki that you see now on TV also whether it is Brezza or the Baleno or the S-Cross. We are already supplying to the S-Cross. We are waiting to start supplying to the Brezza, this has already started. You will see much more of this accumulation in next financial year sometime around June and at least for the Brezza car and then Marugo Rubber also we have won contracts where you will see a Q4 being much higher than Q3 because we have again won orders with Maruti Suzuki as well as Isuzu which will happen in Q4 and then you will see full impact in next financial year. Regarding our gaskets business, we have won some business with Iran and Turkey; Turkey will start faster than Iran. Turkey should start in the next financial year and Iran can see some sort by Q3 of next year. The Iran business could be around Rs. 4-5 crores, but I cannot comment on that at the moment but yes that will happen around Q3 of next year. Regarding our forging business, we have got some confirmed orders which will also pan out in the next financial year. That is also a pretty large double-digit number but with an Indian OEM starting of production is always a question mark. And as Mr. Juneja already told you earlier that our export customers which are 100% assured business which had come down drastically in Q3 is back to some normalcy in Q4.
- Navin Juneja:** 80% normalcy.
- Ekta Lalwani:** Whatever you just mentioned it seems like FY 17 is going to be a much better year than the current year, so on those lines can you give us some light on how my EBITDA margins will move because I also see a lot of export orders so assuming that export realizations and margins are much better.
- Anuj Talwar:** Yes, I think export orders will definitely add to margins in EBITDA because what we noticed that normally with the domestic OEM and export there is a difference of about 1.5-2% with that coming back in our forging business again restarting our exports you will see an improvement in the margins next year for sure. Growth is looking pretty positive, about 8-10% on a conservative side growth which will also help in impacting the EBITDA margins.
- Ekta Lalwani:** Anything quantitatively, like how many basis points?
- Navin Juneja:** I think they are some pressures because of the minimum price increases from Haryana government, the partial EBIT will be this year but the full-year impact will be next year and keeping in mind the new bonus announcements made by the Finance Minister I do not expect much greater increase, of course, a marginal increase of 1% should be there in the EBITDA margin next year keeping these two things in mind.

- Anuj Talwar:** We are also approaching our customers, we have already send them letters for a price increase in the product pricing because of this wage increase bill, I would say about 1% should be the target for next improvement in the EBITDA margins.
- Ekta Lalwani:** Is it very difficult to get a price hike from the OEMs or it is the annual sort of a thing; they are also in the industry they will also be subjected to the same bonus act?
- Navin Juneja:** It is not easy to get conversion increase from the OEMs, one should be very clear.
- Navin Juneja:** Conversion increase is difficult but, of course we will try definitely, but from the aftermarket we can recover this.
- Moderator:** Thank you. The next question is from the line of Ruchi Gandhi, an individual investor. Please go.
- Ruchi Gandhi:** I had a question for the gasket division, so it has been impacted because of the slowdown in CV and two wheelers segment but M&HCV and the passenger vehicle segments have been going really well, so have we any plans to change our strategy?
- Anuj Talwar:** In our gaskets business we are predominantly into the heavy commercial vehicles, light commercial, Agri and two wheelers. Gasket is a very critical product it is not like a sheet metal which anyone can do it. Regarding entry in the passenger car segment as of today I am not in it. My joint venture NLK Talbro's does some work for Honda. You have to be very closely involved with the OEM when it comes to sealing gasket. Having said that, we are increasing our focus on our aftermarket business, we have made some investments to make our plant in Sitarganj independent, so initially what would happen was that to meet the OE schedules sometimes I would sacrifice the aftermarket sale but you will see and in fact from Q3 of last year that our aftermarket is now pretty much independent, should do about 10-12% growth as one area of expansion, the second area of expansion is our export strategy. Our total export is about Rs. 25-30 crores that is there, it has come down this year was mostly for the aftermarket overseas but now we are working with OEM overseas like for example, we are working with Iran Khodro which is a large business order, worked with the Başak Traktör, Ducati Motorcycles as well as Volvo Maximum. So we are working on areas that we can, at the same time we are in some talks to enter the passenger car segment as well but I cannot disclose at this point of time to you but my new heat shield line which I have installed with the alliance of sigma packing with that we are already hitting hard the passenger car segment.
- Ruchi Gandhi:** Can you share some numbers in terms of the orders that we have received in some export markets that you just mentioned?
- Anuj Talwar:** The orders that I have received in the gaskets business is about Rs. 8-10 crores, it's the first order as an export OEM but it will take some time to filter into the company and even heat shield is about a couple of crores. So a new business you can look at about Rs. 12-15 crores

next year in the gasket side, this is new business, new customers that is all I can share at this moment.

Ruchi Gandhi: In terms of margins how would export market and aftermarket that you mentioned how would the margins look in those segments?

Navin Juneja: They are better by 1-2% minimum as compared to the domestic margins.

Moderator: Thank you. The next question is from the line of Vikas Rajpal from East India Securities. Please go ahead.

Vikas Rajpal: My question is regarding other income part, I believe this quarter you have taken some dividend income from the JVs into other income, I just wanted to know what is the breakup of that and in next quarter how much you will be taking?

Navin Juneja: For the first nine months we have taken income of about Rs. 1.6 crores and before last year it was approximately (+1) crore, for the next quarter I am expecting income of Rs. 60-70 lakhs.

Vikas Rajpal: Regarding the tax part what will be the tax rate for the next quarter approximately?

Navin Juneja: The tax will be less because we have not done the calculation of deferred tax, etc., till nine months and for the 12 months we will be including that calculation, for dividend there is no tax. I think the tax should be on the lower side.

Vikas Rajpal: How are the capacity utilizations of each of the segment like gaskets, forging and all of those?

Navin Juneja: Forging till last quarter it was approximately 50% but this quarter it should be around 65-70%, for the gaskets side we are around 70-75%.

Vikas Rajpal: In the JVs Nippon would be higher, right?

Navin Juneja: Nippon is also 65-70% because two wheelers did not perform.

Vikas Rajpal: About Magneti Marelli and Marugo?

Navin Juneja: Magneti Marelli also is 70% approximately and in Marugo there are two divisions, in the anti-vibration it would be (+80%), in hoses it is only 15-20%

Vikas Rajpal: Yes it is a recent plant.

Moderator: Thank you. We will take the next question from a line of Apurva Shaha from BNR Associates. Please go ahead.

Apurva Shaha: I would like to know about raw material prices and how is the movement going to impact us like the Dollar price that would impact?

- Navin Juneja:** In gaskets there are approximately 200 types of materials. I will talk about major materials, imported materials that are pre-coated steel and specialized rubber items. In those cases because of the Dollar going back to Rs. 68 its impacting my bottom line to a great extent and the nine months as compared to last year 14-15 to 15-16 when I compare, nine months I have lost Rs. 1.2 crores because of the FOREX, because the raw material prices have been going haywire in this current financial year but out of which I have recovered 50% from my OE customers. Balance I have to suffer myself, I got the local raw materials, nothing has come down drastically from my side in the gasket business except some CRA sheet material only which I had to pass to OE customers but in the aftermarket and the export market I did not pass the same benefit. Coming back to the forging business of course the prices are softer, I have to pass on the same softness, whatever reduction I get I have to pass to the OE customers locally but I am keeping the margin for the export customers in this business. In MMT we are supplying to all OEMs, in OEs whatever the reduction is there we have to pass on to the OEM suppliers. In Margo we are using synthetics rubber and there is no natural rubber, there is hardly any reduction but whatever the reduction we have to pass to Maruti.
- Apurva Shaha:** How much would you pass on to the customers?
- Navin Juneja:** To customers whenever there is an increase we will take it, whenever there is decrease 80% we have to pass off.
- Apurva Shaha:** Can you give me a rough percentage of it, the benefits that we are passing on to the customers?
- Navin Juneja:** In forging I can tell you it's approximately 10 lakhs per month out of which I have to pass on 6 lakhs. In Marugo Rubber its 1 or 2 lakhs only per month, that's all. In Magneti Marelli its 5-6 lakhs, I have to pass 100% to Maruti for that. Maruti tells us from where to buy and in gasket I told you I have lost 1.2 crores in the financial year out of which I have recovered only 50 lakhs that's all.
- Apurva Shaha:** Global players like Fiat are entering India so are we seeing any orders from them?
- Navin Juneja:** You are right Fiat is coming, Daihatsu is also coming. In Daihatsu we have a very good chance for Talbros Marugo to get the business because they have very a good relationship in Japan and Thailand with them. Whenever it comes we will get the business for Daihatsu in Marugo Rubber.
- Anuj Talwar:** And in gasket also and heat shields.
- Moderator:** Thank you. The next question is from the line of Ekta Lalwani from Dewan Investments. Please go ahead.
- Ekta Lalwani** You have mentioned that we have started supplies for RE60 exports market, so how does it look like for the current quarter and what are the orders that we have from them for next year?

- Navin Juneja:** As regards the RE60, in this quarter we are supplying 250 sets per month, each set is costing Rs. 7000 but the projection schedule which we have got from the next quarter, April to June of 2016, and the schedules are to the extent of 1250 sets per month.
- Moderator:** Thank you. Ladies and gentlemen, that was the last question. I would now like to hand the floor over to the management for their closing comments.
- Anuj Talwar:** I would like to thank you all for joining the call. We are doing constant efforts in our company to reduce costs, trying to improve our margins, trying to gain other markets, dual markets to capture some substantial growth and we are still committed to at least an 8-10% growth for next financial year and that's pretty much it from our side and thank you so much.
- Navin Juneja:** Thank you.
- Moderator:** Ladies and gentlemen, on behalf of Talbros Automotive Components Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.