



“Talbros Automotive Components Limited Q1 FY16
Earnings Conference Call”

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

Moderator:

Ladies and gentlemen, Good Day and Welcome to Talbros Automotive Components Limited Q1 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 guarantees of the 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. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference 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 of Talbros Automotive Components Limited. Thank you and over to you Mr. Talwar.

Anuj Talwar:

Thank you so much. Good morning everyone, a very warm welcome to the call. On the call I am joined today by Mr. Navin Juneja – Director on the Board of Talbros and our Group CFO and also we have on the call our Investor Relations advisory firm SGA. The results and the presentation are already uploaded on the company website, I hope everyone has had a chance to look at it.

As we all know , we have had a slow quarter. This is because there is a bit slowdown in the auto industry, you have seen in the past couple of weeks the results of the big auto players and big auto comp players, it has been pretty sluggish and pretty slow. However, we feel being in touch with the industry that there is a good chance of recovery in the coming quarters, the LCVs are leading this recovery, they are going through a double-digit growth and we are also hopeful that the other segments that are the two wheelers and the passenger cars will follow. The monsoons will play a very good role because the tractor industry which has also shown a pretty sluggish growth will improve, we had very good monsoons this particular year.

Anyhow, let me try and take this opportunity to give you a brief on the progress in the quarter and the latest development on the company. After being a leader in Gaskets for over five decades we now are a well-diversified player in the auto ancillary space. In addition to Gaskets where we are market leaders, today we are in forgings, in suspension systems, in anti-vibration products and hoses. Also, we are a well hedged player because we are prevalent in the all the auto segment whether it is two wheelers, passenger cars, commercial vehicles, or farm equipments. Last year, we enjoyed a very healthy mix of about 67% in the OEM segment, 19% in the export segment and the balance came on the aftermarket customers.

Our business is broadly divided into our standalone Gaskets and forging business and have three joint ventures with global auto comp leaders. In Gaskets today which comprises of 72% of the company's revenues we are a 100% asbestos free company and this initiative that the management took is enabling us now to reach out to the export market, this is a very strategic initiative on our behalf because we want our exports to grow in the coming years and we are trying to approach all various OEMs now in the export market which we could not do earlier. We have recently been nominated some business from companies like Volvo and a tractor

manufacturer in Turkey. Our standalone gaskets business along with our JV we command a 38% market share in overall gaskets market in India and a 92% market share in the two wheeler industry.

Going on to our forging division, the forging division started in 2005, it constitutes 18% of our revenues of FY15. As a part of our strategy where we are again focusing on exports, this particular division exports about 61% of its revenue predominantly Europe and in the agrarian off loader segment. We are currently looking at restructuring our forging business through various strategic options to be able to generate newer growth drivers.

Coming to chassis, we have a 50:50 JV with Magneti Marelli, a Fiat Group company with a scope to design and develop the complete chassis for OEMs. We currently manufacture control arm assemblies and knuckles for leading OEMs in the country. Today, Maruti Suzuki buys about 40% of control arms from us. We have recently won new orders for the Maruti Suzuki S-Cross Vehicle which you are seeing is being heavily advertised in the media. In addition to the S-Cross I am very proud to say that the upcoming models of Maruti which are slated for start of production in the month of September and March next year we have won most of the business for the control arms. So there is a big growth would happen in Magneti Marelli joint venture in the coming year.

Marugo Rubber, is our latest joint venture with Marugo Rubber Industries Japan which manufactures anti-vibration products and hoses. I feel extremely happy to announce that our anti-vibration division of Marugo Rubber has turned profitable in the quarter. The order book is very healthy, like Magneti Marelli even Marugo Rubber has secured a lot of businesses with Maruti Suzuki, in the coming years we would see their new cars, their new platforms we secured order from. In addition to that we also have secured an order from Honda which is breakthrough because I personally feel that Maruti Suzuki and Honda are going to be the growth drivers when it comes to the auto industry.

The quarter had been extremely challenging with a slowdown in the domestic auto environment as well as steep correction in the Euro eroding our progress made in our joint ventures. However, with correction in steel prices a revival witnessed in the recent auto sales data and new launches we are poised to benefit in the coming quarters. We have made substantial progress with global OEMs and in our JVs. We see our JVs will be a big growth driver for us.

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

Navin Juneja:

Thank you Anuj and Good morning everyone. Let me first give you a brief about the auto industry performance in quarter one of financial year 2016. As we all know the auto industry witnessed a subdued growth at 2.4% for the quarter which is led by 3.2% decline in light commercial vehicle despite good export sales and modest 1.4% growth in two wheeler segment followed by a decline in motorcycle of 1.3% in the quarter. The scooter segments saw

a growth of about 9.4%. Overall, the CV segment grew by 6.2% while passenger car segment grew by 5.2%.

Now coming to our segmental performance.

In our Gasket division including our joint venture Nippon Leakless, we added a new product lines heat shield with this we will be going up the value chain in our sealing products portfolio. Under the guidance of our technology partner which is Sanwa Packaging, the installation of the heat shield line is under progress and will be commissioned by October 15. To strengthen our aftermarket supplies, efforts are currently under way for enhancing the capacity at our Sitargunj plant to make the plant independent for aftermarket supplies. For this quarter in Gaskets our product mix was more favorable towards OEM.

Now coming to our forging division, our forging division witnessed an impact of the slowdown in Europe and the weakening of euro which corrected by nearly 10% on year-to-year basis. While prudent hedging measures helped us to cushion a part of the impact. Low raw material cost in Europe saw a preference in local sourcing for OEMs in Europe. The domestic steel prices have now started correcting and we see the benefit of this from August 15 onwards. We continue to look for newer customers across various geographies which will help us to diversify our geographical risk.

Coming to our joint venture Magneti Marelli Talbro Chassis Systems Pvt. Ltd, the joint venture as Anuj told you is progressing well. We have won new order from Maruti Suzuki India for cross over car S-Cross. Now coming to Talbro Marugo Rubber Pvt. Ltd, the joint venture has been performing very well. We have recorded the first quarter of profits in our anti-vibration segments. The business is building a strong pipeline with new orders across models of Maruti Suzuki India and Isuzu Motors. Whole project is currently on trial runs and is expected to start commercial production very soon.

Coming to the financial performance of the company. For the first quarter ended 30th June, 2014, we had received a dividend of Rs 72 lakhs from our joint venture company NLK, this dividend was delayed in this quarter and is expected to be received in the coming quarters. Excluding the impact of dividend, our sales grew by 4% to Rs 96.5 crores despite of a slowdown in two wheeler segment and LCV segment and weakening of Euro impacting the earnings of forging. EBITDA was at Rs 10.1 crores with a margin of 10.5% which was impacted due to higher OEM sales in Gaskets, higher share of domestic sales in forging. As a result of which the PBT for the quarter was flat at Rs 3.44. We had refinanced a portion of our loan and renegotiated interest rates with our banks, this will help us in saving towards financial expenses in the coming quarters.

I just want to add a line that this quarter is not a true reflection of the full year performance of the company, rest assured the performance will be much better than that. This is from our side and I will like to open the floor to question-and-answers.

- Anuj Talwar:** Just one point before we open up for question-and-answers, our initiatives have been with a single focus of adding to stakeholder value. Despite the market challenges we have maintained our momentum in the business by gaining new orders, exploring newer territories and export. Going ahead we are also working on restructuring our forging business through strategic options which we will be sharing with you when it progresses. We are pretty hopeful and confident that we will achieve better numbers in the coming quarters and have a good financial year. I open up the floor for question-and-answers please.
- Moderator:** Thank you very much sir. Ladies and Gentlemen, we will now begin the question-and-answer session. Our first question is from Mithul Shah of Karvy Stock Broking. Please go ahead.
- Mithul Shah:** Sir I have a question on this order book, sir can you give details of the order book for different segments?
- Anuj Talwar:** The order book from different segments, you mean OE export aftermarket or division wise?
- Mithul Shah:** Division wise sir.
- Anuj Talwar:** So when you come to the order book for Gaskets, we are working on few projects with Tata Motors, we are also working on a few projects with Volvo-Eicher to commission new engines.
- Mithul Shah:** As Mr. Anuj was discussing, based on that any indicative number for expected order book over next two quarters on which we are working right now?
- Navin Juneja:** Yes, in this quarter we achieved a Rs 96.5 crores turnover, I am hopeful in the next two quarters the turnover should cross minimum Rs 105 - 110 crores.
- Anuj Talwar:** As I have mentioned earlier the growth will come from the joint ventures as the joint venture management and Marugo Rubber have won a lot of business for Maruti Suzuki and you may have noticed Maruti Suzuki is now again back to about 43% market share, they have a lot of product launches in the pipeline that are going to happen with Maruti and once that happens you will see our revenues go up because we have secured businesses with upcoming four models in both Magneti Marelli as well as Marugo Rubber.
- Mithul Shah:** Sir, can you give more details on the new product launches in second half FY16 and FY17?
- Anuj Talwar:** You are talking about the cars or what we are introducing?
- Mithul Shah:** Overall new products what you are going to launch for the different segments?
- Anuj Talwar:** So on Gaskets as I mentioned to you, in addition to Gaskets as Navin mentioned we have installed and successfully completed the installation of the heat shield line, head shield is a natural extension to Gaskets, it is a new product line, it is a new initiative by Talbros and we are launching this product maybe by January of this year. In Marugo Rubber we are launching the hoses line which will be ready by October, which will cater the hoses for Maruti Suzuki, in

Marugo Rubber we are also launching some suspension bushes and working on some strut mounts. In Magneti Marelli I already mentioned to you we are maintaining the 40% market share of Maruti in the control arm assembly. As of now this is what I can share.

Moderator: Thank you. Our next question is from Mahesh Bendre of Way2Wealth Securities. Please go ahead.

Mahesh Bendre: Sir in the first quarter we have grown by 4% whereas Indian industry has grown around 2.5%, so for a full year what is the outlook for the growth?

Navin Juneja: If the industry improves of course we are looking at a growth of 12% minimum.

Mahesh Bendre: Sure. And in terms of margins do you think the last year's margins are sustainable?

Navin Juneja: Yes, we will try to improve those also.

Mahesh Bendre: And sir debt on the balance sheet for March 2016 was around Rs 117 crores, so what is the debt repayment schedule for the next few years?

Navin Juneja: Debt has not increased, overall debt is the same, it has not gone up.

Mahesh Bendre: But will it remain the same for next two years or do you see...

Navin Juneja: I can say it will be the same.

Moderator: Thank you. Our next question is from Arun Malhotra of Santalum Capital. Please go ahead.

Arun Malhotra: I wanted to understand, are these contracts with OEMs on a cost plus basis or...?

Anuj Talwar: You are talking about the Indian OEMs or the Global OEMs?

Arun Malhotra: Both.

Navin Juneja: So our Gaskets today is 72% of our revenues, Gasket is a proprietary product, it is a product where there is immense R&D and technology involved, so we are not going to quote to the OEM, we quote them a particular price and unlike our other businesses like stamping which is a chassis business which is only metal, a lot of knowhow goes in the Gasket business. So we quote a particular price and we are not liable to tell the OEMs what is going in it, so it is not totally cost plus, there is some cushion in the cost plus basis because the raw material is proprietary raw material they are not aware which raw material we are buying, of course we have to tell them the indicative price of raw material. But detail costing in Gasket we do not give to OEMs.

Anuj Talwar: Any proprietary product in the industry you do not share all the details.

- Arun Malhotra:** Sure. And any positive impact of the fall in the commodity prices in our margins?
- Navin Juneja:** Commodity prices everybody knows, it is not a hidden fact, if there is a fall on the commodity prices the OE will jump on you, but in the aftermarket yes we are having some benefit of the commodity prices not to a major extent because we are importing a lot of materials. But in forging of course to OE we have to pass on the benefit but in exports we do not have to pass on the exact benefits.
- Arun Malhotra:** You did allude to some refinancing where the cost of the debt would be lower, can know the financial impact?
- Navin Juneja:** Approximately 0.5%.
- Arun Malhotra:** Lastly on the JVs you mentioned on the dividend, what is the intent of these JVs strategically to earn dividends or any equity side also what can investors expect out of it?
- Navin Juneja:** No, the JV is totally debt free first of all, the EBITDA of this business is more than 20% and they have enough money and they declare dividend every year, last year they declared dividend of 70%. So when they do not require money they declare dividend because they are very cash rich companies, zero debt.
- Moderator:** Thank you. Our next question is from Vivek Mahajan of Aditya Birla Money. Please go ahead.
- Vivek Mahajan:** Some basic questions, what is the size of this Gasket market in India?
- Anuj Talwar:** It is about 800 crores.
- Vivek Mahajan:** How big is unorganized sector?
- Navin Juneja:** Unorganized sector supplies in the aftermarket only to two wheelers and tractors, that's all, maybe not more than Rs 30 to 50 crores.
- Vivek Mahajan:** What is the number of SKU in the Gasket segment, the traditional business?
- Anuj Talwar:** Number of SKUs?
- Vivek Mahajan:** Yes.
- Navin Juneja:** Yes. For your information, we have SKUs to the extent or more than 2000.
- Vivek Mahajan:** More than 2000, okay. So production will be basically based on the order which is coming in, so you cannot produce and keep, right?
- Navin Juneja:** No, OE orders get scheduled in advanced like Tata and Bajaj Motors, Hero. But in the aftermarket and in the core segment we measure on the basis of order book, while doing the

businesses you get a feel of this business, the parts we do every months, we accordingly prepare schedule for that.

Vivek Mahajan: What is the market share of Nippon Leakless?

Anuj Talwar: See you must look at it together, I will repeat, if I look at our total market is about 800 crores of Gasket, so 240 crores last year in TACL standalone and 100 crores in NLK, so about 350 crores were both the companies. Nippon Leakless is 100% supplying to Honda Motors India, 65% to Hero MotoCorp and all Honda cars. So this covers the entire two wheeler segment. And with Talbros my parent company and NLK we cover 92% of India's two wheeler market because I am also single source to Bajaj and about 35% of Hero MotoCorp from my Gasket company.

Vivek Mahajan: So a market share gain is not possible, whatever comes is only volume growth, am I right?

Anuj Talwar: Market share is possible, we are working on in our Gasket business on a new line called heat shields. We are already maintaining about 40% market share in India, we have got two initiatives we are working on to gain market share in India, one is we have revamped our aftermarket team, we have got a new person leading the aftermarket team, we have had no growth in Talbros in last years in the aftermarket. We are making our Sitargunj plant totally independent by September, you will see a major increase in aftermarket supplies from Talbros because we command a very strong brand in the aftermarket. It has been flat hovering around Rs 40 - 41 crores, this year we are looking at about Rs 54 crores in the aftermarket and also with heat shield we are going very aggressive in the passenger car segment where we are weak. So these are two initiatives to gain Indian market share. And also on exports I mentioned in my opening remarks that we are asbestos-free now and now we are getting contracts with global OEMs which was not a possibility earlier on, they would not touch a company which was an asbestos company. But now being an asbestos free company I am betting big on markets like Turkey and Iran and also Mexico.

Vivek Mahajan: Another question, there is an overlap of business between this Gasket that is the main company and Nippon Leakless for his Gasket thing, so how do you address that?

Anuj Talwar: There is no overlap, I will explain to you, there is no overlap. Nippon Leakless is a company predominantly for Honda and Honda subsidiaries, so basically they have got 100% of Honda Scooters India, 100% Honda Cars, and 65% Hero MotoCorp, the only overlap is that Hero being such a large manufacturer of motorcycles cannot have only one source. So for the Gasket parent company we supply 35% of the Hero MotoCorp production, that is Hero's diversification strategy to de-risk, they cannot have one supplier supplying for the motorcycles that they make. And Bajaj being an Indian company we supply from our parent company. I hope I have answered your question?

Vivek Mahajan: Yes, thanks.

- Moderator:** Thank you. Our next question is from Karan Batelia of IIFL. Please go ahead.
- Karan Batelia:** Sir I would like to know the revenue breakup from the two wheeler segment, four wheeler segment and CV segment with respect to both your main business that is Gaskets and forging, so can you help me out with the number or the percentage.
- Navin Juneja:** We do not have the exact numbers in the first quarter, I can give you an idea for the last year and the same percentage is following this year.
- Karan Batelia:** Or sir percentage wise.
- Navin Juneja:** I have percentage, OE aftermarket percentage export I have got, if that is the percentage you have asked.
- Anuj Talwar:** I can give you for the whole company.
- Karan Batelia:** Okay.
- Anuj Talwar:** So two and three wheeler is about 37% of our revenue, passenger cars are 15%, HCV, LCV are 35%, agri and offload are 8%, and others are 5%.
- Karan Batelia:** Sir this LCV and...?
- Anuj Talwar:** HCV and LCV 35%, this is excluding exports I am talking about, if we add exports the figure will be a little different.
- Karan Batelia:** It is from the overall company's point of view, right?
- Navin Juneja:** Yes, this is excluding exports I am talking about.
- Karan Batelia:** And sir can you also help me out with the revenue breakup with respect to OEMs, exports and aftermarket?
- Navin Juneja:** In Gaskets I will tell you, in the first quarter 55% is OE, 19% aftermarket 11% exports and 5% others. In forging, in the first quarter 41% is OE, 56% is export, and 3% are others. In JVs all are OE, all three JVs are catering to OEs.
- Moderator:** Thank you. Our next question is from Sreemant Dodhia of Unify Capital. Please go ahead.
- Sreemant Dodhia:** Firstly, was the segmental distribution for the first quarter same as FY15 that is 62 from Gaskets, 18 from forgings and the rest from the subsidiaries?
- Navin Juneja:** No, regarding the segment, in the Gasket in this quarter if you compare the last quarter of the last financial year last quarter there is a shift of 3% to 4% towards OE in the first quarter. Revenue for each division will be similar.

- Sreemant Dodhia:** It will be similar sir?
- Navin Juneja:** Yes, if we see the revenue in Gasket, in first quarter my OE is Rs 38 crores, aftermarket is Rs 11 crores and export is Rs 7 crores, others is Rs 3 crores, total is Rs 60 crores. In forging, OE is Rs 7 crores, export is Rs 10 crores, others Rs 1 crores, total is about Rs 17 crores.
- Anuj Talwar:** But to answer your question, revenues are predominantly coming from Gasket 62%, plus NLK about 10% to 12%. But in the first quarter there is little shift towards OE because we have a huge order book of OE lying in our hand. As a result of which we are not able to cater to the export orders in the first quarter and I think we have to cover this Gasket in the next two quarters. You can see a shift in the next few quarters onwards export and aftermarket.
- Sreemant Dodhia:** Sure sir. And how much we did in the heat shield business, is there any contribution from the heat shield business in the current quarter?
- Navin Juneja:** Not now.
- Anuj Talwar:** Heat shield will start in January and we have secured orders for heat shield, +10 crores orders are already there without the line being fully installed.
- Navin Juneja:** We are waiting for the heat shield facility to commence so that we can showcase the facility to our OE customers and further order will follow.
- Sreemant Dodhia:** Sir secondly, our employee cost for the last two quarters have been in the range of around 14% of the sales, historically it has been around 12% so do we see this trend going forward or is it like one-off?
- Navin Juneja:** You will see this trend will come down in future, we already started taking action, of course annual increment you have to give to all employees, we have done that but we are rationalizing a lot of manpower in our Gasket business and till December you can see that trend, already action has been online.
- Anuj Talwar:** We are aware that we are more than the industry average in manpower cost and we have taken some very strategic initiatives to reduce this and you will definitely see a big improvement by December.
- Sreemant Dodhia:** So we see this coming to a historical level sir, manpower cost as a percentage of sales?
- Anuj Talwar:** No, our target is to bring it down 1% every year in the next three years.
- Sreemant Dodhia:** Also sir, other expenses in the current quarter for Q1 FY16 has also come down, so what could be the reason for that?
- Navin Juneja:** As compared to last year, this year we are under taking a lot of initiative, last year we had a Chennai plant, this year we do not have the Chennai plant so some expenses are not there, so

this is one of the reason. Plus, it all depends whether you are traveling, you have motor show, etc., something happens in one quarter it does not happen in second quarter.. Of course we are trying to reduce all fixed cost and you can see the impact of that, but on a percentage wise at the yearend it will definitely come down.

Sreemant Dodhia: Lastly, one more question on expenses side. For the current quarter also our raw material cost went up...

Navin Juneja: The reason being the product mix.

Sreemant Dodhia: Product mix sir?

Navin Juneja: Yes, basically product mix, it is total shift in the first quarter in Gasket to our OE and in forging there is a shift of 6% to 7% towards Indian OEMs as compared to export, and my realization on export as if last year was Rs.80 per Euro, in this quarter it was Rs.69 per euro.

Anuj Talwar: But you will see in the coming quarters that our product which will go back like it was last year and I mentioned to you earlier that we are getting our independent set up in the aftermarket plant in Sitargunj so you will see a better favorable mix happening.

Navin Juneja: And the steel price will also start pulling from August and we will get the benefit of that also.

Sreemant Dodhia: Sir I wanted to know the status on RE60, was there anything that is happening in this area, RE60 we were awaiting the court judgment for the compliance, so what is the update on that?

Navin Juneja: The RE60 project is still hanging in the courts in the Indian market and they are trying to give us orders in our joint venture company for some exports market, they are looking at Bangladesh and Sri Lanka. Bajaj looking at launching this car in other markets before India, but we are pretty hopeful that this product will come will come to life.

Sreemant Dodhia: Sir lastly, in your initial remarks you highlighted, we are planning something on restructuring of the forging business, so can you please elaborate on that, what are we looking forward in the forging business?

Navin Juneja: We are looking at a few strategic options in the forging business to just enhance our technology and improve our yield, we have worked out a few things. The thing is that we are aware that ROI of this business is low, we are making some efforts to increase the ROI, we are thinking of two to three type of strategic decisions which I cannot share at this moment, I will come back to you when something is finalized and we are hopeful to turnaround this within less than six months we are targeting that.

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

Vikas Rajpal: Can you give me a breakup of the revenue from the JVs please?

- Navin Juneja:** Vikas, you want in percentage terms?
- Vikas Rajpal:** Yes sir, that will be fine.
- Navin Juneja:** In percentage terms Gasket is 72% along with our NLK. And forging is 18%, MMT is 8%, anti-vibration is 2%. If I come to rupee terms in the first quarter my income from gasket is Rs 59 crores, for forging is Rs 17 crores and Nippon Leakless 40% share is Rs 11 crores, , MMT is Rs 15 crores, our share is Rs 7.5 crores, and Talbros Marugo our share is Rs 2.5 crores
- Vikas Rajpal:** Sir and the other question is on the tax rate sir, the tax rate was higher in this quarter at 35%, so what was the reason for that?
- Navin Juneja:** No, last year there was dividend in the income that was tax free. It is not 35%, tax rate along with the provisional rates at the end of the year it will be around 24%, 25% you will see around that because differed tax, etc., all calculation will be done at the end of the year.
- Vikas Rajpal:** Okay sir. Sir and what will be the ideal EBITDA margin like in the next few quarter would you target?
- Navin Juneja:** We are hopeful to cross last year's EBITDA of approximately 12 point some percent.
- Vikas Rajpal:** 12% is the ideal EBITDA margin that you are targeting?
- Navin Juneja:** 13%. This is also linked to the product mix, we have been mentioning to you about that we had a product mix move more towards OE in the first quarter, but we will recover that and end of the year it will be back to the normal, we will 100% recover that.
- Moderator:** Thank you. Our next question is from Raghunandan of Quant Capital. Please go ahead.
- Raghunandan:** Sir on exports we have been fairly optimistic, can you throw some light on the ramp up heat shield exports, how do you see it happening to Volvo and even some likely orders were expected from Cummins, Daimler, Harley Davidson, what could be the size of exports in this year, next year and potential opportunity size there? Thank you sir.
- Anuj Talwar:** As I mentioned to you earlier, this has been a decision by the management to go asbestos free in the Gasket's business. In the Gasket business our exports are only 13% and our mandate given to the president of that company is to take it up to about 22% in the next three years and we are working very aggressively by participating in a lot of shows in the overseas market. We are travelling to the US, we are travelling to Iran now. You may have read in the media that Talbros is participating big time in Iran and Russia as well. We, by going asbestos free we now have more orders from Volvo, we have also won some orders in Turkey by a tractor manufacturer. So efforts are on to go to these markets, get the business but OEM business is much longer than aftermarket business. So it will take some time but we are very confident it is going to happen.

- Navin Juneja:** We are targeting a growth of 20% in the export business over the period of next three years which is approximately this year we are targeting Rs 40 crores, we should be Rs 80 crores in the next three years.
- Anuj Talwar:** And one very important point as you mentioned, we are single source of Cummins in India, as you know that Cummins is about Rs 35 crores in India we are now talking to them for their worldwide markets as well as for Cummins, for their market in South Africa, for their markets in Americas. So talks are ongoing and efforts are on from our side, hopefully we should be able to succeed in what we are endeavoring for.
- Raghunandan:** And specially on the exports and your forging division, so I think you had started a new product export crown wheel, earlier I think you were doing gears blanks and King Pinshow are you seeing the ramp up of exports of this crown wheel and what are the next products you are trying to look in there, I think pinion was one area which I think you have just said.
- Navin Juneja:** We already supply crown wheels which is there already, I think our new product offering is already on line, we have quoted to them and we are awaiting their order which we expect in the next two, three months we will get a new range of products from them. Whenever it comes through in next two to three months we will come back to you. By the way on the other hand we have started in a big win with GKS, GKS business was just one container two months back, now it has come to three container per month and we have just started the business, they have won a big project, we have already started. But what the exact product I am not able to tell you, I have just been told it is a housing for pistons.
- Raghunandan:** So sir just as you mentioned, what kind of growth are you looking here over the next three years in the forging exports?
- Navin Juneja:** Forging, I told you for growth we are already in the process of taking a strategic call in this business which will come to you in the next three to six months. Our objective is to increase ROI of this business.
- Raghunandan:** Sir and what would be our strategy on how to counter this euro depreciation? Of course several companies are facing this issue, would it be increase our price...
- Navin Juneja:** No, to some extent we have renegotiated our prices , not to the whole extent, balance steel prices have started coming down in India, it has come down already to Rs.2000 per ton, 2.5% down and that benefit we are not going to pass to them so that we can count on it.
- Raghunandan:** So in our margins this time around if I compare on a QoQ or YoY there has been a dip, how much of this dip would you attribute specifically to Euro depreciation?
- Navin Juneja:** In rupee terms it is approximately (+60) lakhs.
- Raghunandan:** Only 60 lakh?

- Navin Juneja:** Yes, (+60) lakhs because we had some hedging, we recovered some through hedging but overall we lost 60 lakhs, 70 lakhs on account of pure currency loss, the loss in business from currency depreciation over last year would be much more.. Plus there were dip in business from Europe also, export has come down in this quarter, my OE has gone up in this quarter, there is a slowing of 6%, 7% toward OE in this quarter as compared to last year, that has also contributed towards a low recovery.
- Raghu Nandan:** Sure sir. And sir like aftermarket business has been on muted side in terms of growth, what is affecting that or what is hurting the growth there?
- Navin Juneja:** As I had mentioned to you earlier we are very stagnant over the last three years in the aftermarket, but we have done two initiatives in this direction, one is we have revamped our aftermarket team, we have hired a new person who just joined us last quarter. Number two, we are also making our aftermarket plant in Sitargunj independent, what used to happen was that if we got more order form the OEMs we would then give it like a step child treatment and we would not give it the supplies, but come September the Sitargunj plant will be 100% for the aftermarket and you will see as I have mentioned earlier growth of about 15% to 18% in the aftermarket this year. And we are also launching newer product in the aftermarket, we are launching a lot of cylinder head Gasket for companies like Mahindra, we are launching more products for the passenger car segment as well for the aftermarket. Our brand is very-very strong in the aftermarket, it has been a problem of capacity which will get cleared up by September.
- Raghu Nandan:** Sure sir. And sir power cost was likely to reduce in one of our forging plants, Bawal Haryana, any update on that sir?
- Navin Juneja:** Yes, it has been reduced to an extent, it used to Rs.11 some paisa, now it is Rs.9 some paisa, but we are expecting power form HSEB in the next two months. So if that comes it will be Rs.8 some paisa, it is coming down.
- Raghu Nandan:** And sir promoter shareholding has been increasing, is there any further increase in holding expected sir?
- Navin Juneja:** We are expecting it to be about 1% more, we are doing some restructuring exercise, it should be 1% - 1.5% more, not more than that.
- Raghu Nandan:** And lastly, I think earlier for a question you mentioned the breakup of EBIT across various segments, can you please repeat that sir?
- Navin Juneja:** Yes. In the first quarter the EBITDA of Gaskets if 13.87% to be exact, the EBITDA of forging is (-1%), the EBITDA of my JV Nippon Leakless is 20.2%, the EBITDA of Magneti Marelli is (-1%), the EBITDA of Talbros Marugo is 10%.
- Raghu Nandan:** And how do you see these margins going ahead sir?

Navin Juneja: Gasket will go up definitely, it should go up to (+14%) with a change in the product mix in the coming quarter, the forging I think the work is over, it will not go to 7%, 8% but it should definitely turn positive in this quarter and my JV Nippon Leakless will be between 20% to 21% and Magneti Marelli it will turn positive in this coming quarter and Marugo we already turned positive it should remain like that.

Moderator: Thank you. As there are no further questions from the participants, I now hand the floor back to the management for closing comments.

Anuj Talwar: As I mentioned to you our initiative has been with a single focus of adding to stakeholder value despite market challenges we have maintained our momentum in the business by growing a little bit more than the auto industry grew, we have gained new orders both India and globally. We are currently working on getting our product mix back to where it belongs with more focus on the aftermarket and exports which gives you better margins. And as Navin has mentioned in the call we are working on restructuring our forging business through various strategic options and I am very optimistic about the auto industry given the good monsoon we should be back to where we had anticipated earlier in the year. Thank you.

Moderator: Thank you. 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.