



**“Talbros Automotive Components Limited Full Year Ended
FY-15 Earnings Conference Call”**

May 25, 2015



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

Moderator:

Ladies and gentlemen good day and welcome to the Full Year Ended FY-15 Earnings Conference Call of Talbro's 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. I now hand the conference over to Mr. Anuj Talwar – Executive Director of Talbro's Automotive Components Limited. Thank you and over to you, Mr. Talwar.

Anuj Talwar:

Thank you. Good evening, everyone and a very warm welcome to the call. On the call today I am joined by Mr. Navin Juneja – he is the Director on the Board of Talbro's and our Group CFO also joining us today is SGA our Investor Relations Advisor. The results and the presentation are already uploaded on the company website I hope everyone had chance to look at it.

Let me take a opportunity to briefly take you through Talbro's Automotive Components Limited. We have been in the business for over five decades where we enjoy a very strong brand recall in the auto component industry. We have been a leading player in the automotive gasket industry where we command market share of about 38% domestically, where the nearest competitor is less than one-third of our turnover. Over the past decade we have diversified our products segments such as forgings, suspension systems, anti-vibration products, and hoses. With hoses being the most recent product line added to the group in the year 2013-2014.

We are also very well diversified across two wheelers, passenger cars, commercial vehicle, and farm equipments. Our hedged position makes up for any market slowdown in specific automotive segments.

For the financial year ended 2015, our product mix was about 67% from OEM, about 19% from exports, and the rest of it from aftermarket. We are very well hedged through various demand cycles due to our strategy of diversification across products, customers, segments, and geographies. Our eight manufacturing facilities are strategically located to cater to large OEM customers and are pretty much in the vicinity where the OEM is. We have plants in the north to cater to company likes Honda and Hero MotoCorp we got plants in the west to cater to companies like Bajaj Automotive and Tata Motors.

Our business is broadly divided into our standalone gasket and forging business and our three joint ventures with global AutoComp leaders.

Let me talk to you a bit about the gasket business. Last year, we completed our initiative to become a totally asbestos free company. I am proud to say today that we are a 100% asbestos free company. This endeavor of the management to go asbestos free and to be the first from the India to do so, gives us accessibility to the worldwide markets. Our exports in the gasket division predominately use to be for the aftermarket but now having being asbestos free I am able to meet the demands of the OEMs abroad and also win businesses from them.

As I mentioned earlier, we have been in the business for about five decades and currently have 38% market share in the gasket industry in India. Our in-house tool design and manufacturing capacity along with our dynamic testing abilities we are able to design the gasket from early stages with the OEMs from the time the engine gets developed.

Post entering into joint venture with Nippon Leakless Corporation, Japan a leading global manufacturer of gasket. We have been catering to the demands of Honda and other Japanese OEMs. The joint venture along with our gasket division enjoys a 92% market share in the two wheelers gaskets in the country. As you may know last year there was approximately 16.8 million motor cycles & scooters sold in India of which we sealed 92%. Gasket form about 72% of our revenues in the year 2014-2015.

Coming to our forging business, this business was started in the year 2005 where 18% of our revenues come from. In the forging business we supply to very niche segment of gears but basically for the agri and off-loader and about 58% of our business comes from the Europe and the U.S. market as well. And again here we are only targeting the agri and the off-loader business.

In our chassis business we enter into a 50-50 joint venture with Magneti Marelli. Magneti Marelli is a euro 6 billion auto company based out of Italy which is owned by the Fiat Group where we now design the entire chassis system for the Indian OEMs we currently manufacture two products call the control arms and the knuckles for the Indian OEMs. Maruti Suzuki today is almost about 50% of our business and in particular product line which is control arm we cater to about 50% of their requirement so of their 1.3 million cars roughly 450,000 cars we supply to.

In addition to these two products the JV scope includes product like front axles, rear axles and chassis. We have got the first order from Bajaj for their new Quadricycle the RE60 where we have designed the entire chassis spectrum including front-axel, semi-corner, control arm, knuckle. We are waiting for Bajaj to launch this product

in the Indian market as this will catapult this joint venture to the next level with per product contribution at almost five times then what it is today.

Marugo Rubber is our latest joint venture, again a 50-50 between Marugo Rubber industry Japan and Talbros Automotive. Under the JV we manufacture anti-vibration products and hoses for the OEMs predominately Maruti Suzuki and Tata Motors and now are looking at Honda as well. In this joint venture, which is relatively new we are also exporting our products to our JV partner which in turn is buying this products from Indonesia plant.

I am very happy to share with you that all though the joint venture is only since 2013, in the financial year ended 2015 we have achieved cash breakeven.

In the past year, we made some substantial progress with many initiatives such as being asbestos free in our gasket unit thereby the global market being level playing field for us. We set up a brand new hose plant in Manesar to cater to demand of Maruti Suzuki. We gain market share in Maruti Suzuki through our JV business. We won our first export order by OEM for gaskets from Volvo, from heat shields, a lot of efforts were made to localize material in our gaskets we do a lot of imports of material and we also start our exports on joint venture.

Despite the automotive sector not having grown to the level that were expected the light commercial vehicles still catapulted our down. We at Talbros manage to grow at about 8% year-on-year.

Before I pass on the phone to Navin Juneja, who will take you through the year I would like to say that given the hopes that we have seen in the auto sector primarily driven by the commercial vehicles which is a very large part of my business we will see a double-digit growth in Talbros Automotive in the top-line and with my JVs now coming into better capacity utilization our margins will also improve.

Now I would like to handover the call to Navin Juneja who will take you through the year gone by. Navin, over to you.

Navin Juneja:

Thanks, Anuj. I will first like to take you through the operational performance of our segments. The auto industry witnessed a subdued growth for the financial year 2015 which was led by mixed performance across various auto segments while medium and heavy commercial vehicles grew by healthy 17%, light commercial vehicles witnessed de-growth thus recording a subdued performance in the commercial vehicle segment. The two wheelers space grew by 8% which is led by strong growth

in scooters while motorcycle lagged behind. Passenger segment also saw disappointing sales led by poor consumer sentiment.

For the fourth quarter of financial year medium and heavy commercial vehicles continue their steady growth at 10% while light commercial vehicles continue to create lag in the commercial segment growth. On the scooter side, motor cycle segment slowly showed healthy recovery with overall two wheeler sales growing by 11%.

In the division wise performance, gasket division and Nippon Leakless Talbros growth both are related to gaskets. In our gasket division our performance was at par with auto industry. Our strong position in medium and heavy commercial vehicle segment helped us cushion the weakness in the motorcycle industry. On the other hand in Nippon Leakless Talbros our gasket joint venture saw healthy sales growth driven strong scooter performance. Margin for gasket business saw improvements backed by localization of raw material and material yield improved measures we have undertaken in the past year.

As for our forging division, in that division 58% of our revenue came from export sales largely to European market. Slowdown in Europe and weakening Euro currency had an impact on our revenue for the year but our prudent hedging measure helped us to cushion part of that impact. We are exploring new customers across various geographies which will help us to diversify our geographical risk.

As regards to Magneti Marelli Talbros Chassis Systems throughout the year our joint venture with Magneti Marelli we have consistently increase our share in the material requirement of Maruti Suzuki India we have also received our first order from Bajaj for RE60.

With regards to Talbros Marugo in our joint venture with Marugo Rubber we have commenced operation of our hose plant and started supplying intercooler hoses to Maruti Suzuki India Limited. The business also start exports to our JV partners Marugo Rubber for the Japanese requirement. Led by the good performance our anti-vibration products the joint venture achieved near cash breakeven in second-half of the financial year '14-'15. In financial year '16 the business will witness revenue from both anti-vibration and hose segments.

Now I come back to the financial performance of the company for the year ended March '15. Our sale grew by 8% to Rs 398 crores led by strong performance of gasket segment including our joint venture.

EBITDA grew by 17% to approximately Rs 50 crores led by raw material localization and optimization and lower variable overheads. EBITDA margins improved by 90 basis points to 12.5% for the year. We were able to control interest cost in the year led by efficient working capital management. Further recently, we have refinanced a portion of our loan and renegotiated interest rates with banks. This will further help us in savings towards financial expense in the coming financial year. Our profit before tax and exceptional items before taking into account the exceptional items grew by 60% to Rs 21.1 crore.

In the past year, working towards consolidating our manufacturing operation for better asset utilization we decide to close our gasket facility in Chennai. We incurred a cost of approximately Rs 1.9 crores towards the terminal benefits of the employees in the last quarter which forms a part of our exceptional expenses for the year.

Two of our facilities is Sitarganj and Haridwar in Uttaranchal which last year have moved from 100% tax exemption to 30% tax exemption bracket during the year are increasing our tax outgo. Excluding the exceptional items from our Chennai facility and exceptional income from sale of land for the financial year 2014 our profit after-tax grew by 25% to Rs 15.4 crore. The total debt for the year stood at Rs 131 crores and debt to equity ratio stood at 1:1. Lastly I want to add that going forward we are expecting a double-digit growth in the next financial year with an improved EBITDA margin of approximately 13% I can say we can do that.

Now I open the call for the discussion please.

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin the question and answer session. We have the first question is from the line of Rohit Krishna from Spark Capital. Please go ahead.

Rohit Krishna: My question relates to the gasket business, can you tell me the top five customers across segments in this particular segment?

Anuj Talwar: Yes, top customer... Yes, Navin go ahead.

Navin Juneja: Hero MotoCorp. Bajaj Auto, Honda Motorcycle Scooters, Tata Cummins, Tata Motors.

Rohit Krishna: Yes, okay. And to what percentage of Hero's requirement do we supply

- Navin Juneja:** We along with our joint venture supply 100% requirements of Hero MotoCorp., 100% requirement of Honda Motorcycle and Scooters, 100% requirements of Bajaj, 100% requirement of Tata Cummins.
- Rohit Krishna:** All right. Just looking across all the segments including your gasket and forging which would be the highest profitable segment for your company?
- Navin Juneja:** At present gasket.
- Rohit Krishna:** Gasket, okay.
- Moderator:** Thank you. The next question is from the line of Ekta Lalvani from Crisil. Please go ahead.
- Ekta Lalvani:** Sir, I will just have two questions one, again if you can just give us some light on how do you see the automobile sector panning out in the next two to three years? And how that will have its impact on us?
- Anuj Talwar:** Navin, I will take that. The auto sector as you know has been growing only in single-digits in the last couple of years and also it has been relatively flat I would say we have only seen a bit of recovery in the heavy commercial vehicles happening this year. But going forward with the projection that have been given to us by SIAM which is Society of Indian Automobile Manufacturers, they are looking at about 8% to 10% growth in this coming year which will definitely help us because as we already mentioned to you about 67% of our sales comes from OEMs and not only that our emphasis as a company to go more to the exports and more to the aftermarket we will try our best to grow a bit more than what the industry grow at.
- Ekta Lalvani:** And sir if you can just give us a thumb rule like for example if the industry is growing by 1% so what would be our delta in it?
- Anuj Talwar:** I cannot give you a thumb rule, it is the efforts of the organization that if the industry is growing 8% or 9% our endeavor is to try and grow by at least 3%-4% more than the industry. It did not happen last year because of the fact that motorcycle is pull down pretty badly towards the last quarter of financial year. At the same time our replacement markets in India took a downturn but roughly a couple of percent more in the industry. Navin, is that fine or would you like to add?
- Navin Juneja:** I would like to add one thing here, for last two-three years you have seen the commercial vehicle industry it has not moved it has moved a little bit in the last quarter in the last four-five months only. With the infrastructure moving up and the

mining opening up and coal opening we expect a huge potential in this segment. I think this segment should grow about 15%-20% and we are the market leaders in that.

Ekta Lalvani: Sir, my other question is, if you can just throw some light on the margins that we are targeting over the next few years targets basically.

Navin Juneja: On consolidated basis I am looking at EBITDA of 13% for the next year and even in the next two years to grow it to 14% to 15%.

Ekta Lalvani: Sir and this will be coming mainly from?

Navin Juneja: From all of our businesses, mainly from gasket, then from Talbros Marugo Rubber. our joint ventures of gasket and forging.

Ekta Lalvani: Understood. Sir just one last question so, your presentation...

Anuj Talwar: Also just want to add our two new joint ventures Magneti and Marugo Rubber are very new. They started in year 2012 and 2013 respectively so they are still working at very low capacities like our rubber JV is only working at maybe 25%-30% capacity so better capacity realization will get better margins.

Ekta Lalvani: Understood, sir. Sir just asking on last question on sir your presentation mentions like we are one of the most hedged company so if you can just throw some light on that?

Navin Juneja: Yes, we are hedged because we are not only a 100% OEM Company like other AutoComp players. Our OE business about 65%-66% while our exports about 19% and balance in the aftermarket. So when there is a downturn in the OEM we push exports. In exports we are supplying to various countries such as the U.S., Europe. So if there is downturn in Europe, the exports to U.S. takeover at the same time. when the aftermarket when the OEM in India slow the we push our sales with the aftermarket we get better realization of margins through the aftermarket in India as well a very strong brand for many-many years as Talbros Automotive in the aftermarket not only that we are present across all the two wheelers...

Anuj Talwar: We are present across All the segments of OE,- two wheelers, four wheelers, commercial vehicle, chassis, engine, tractors. So it is not like an automotive company only, let's say for example Hero which is dependent only on two wheelers, or a company only dependent on OEMs that is hedged across segments and across sectors.

- Navin Juneja:** That is why, for last four years, when the market was down, this has helped us to survive.
- Anuj Talwar:** Yes.
- Moderator:** Thank you. Next question is from the line of Sreemant from UNIFI Capital. Please go ahead.
- Sreemant Dudhoria:** Sir firstly, there has been a significant increase in our other income. Can you explain the reasons for this increase sir?
- Navin Juneja:** There are two elements one is dividend from NLK generally last year the dividend came in every quarter. this year, the dividend came in the last quarter. plus exchange gain entry which came here of approximately Rs 3 crores. because of the accounting standard we had to put it in other income. Both are operational incomes.
- Sreemant Dudhoria:** Okay. So the Rs 3 crore additional income was due to the FOREX hedges?
- Navin Juneja:** Forex gains plus hedging we did.
- Sreemant Dudhoria:** Okay, fine. Sir what percentage of your gasket revenues for the March ending quarter was from exports?
- Navin Juneja:** Exports was approximately approx Rs 10 crores in gasket but forging it was Rs 12 crore.
- Sreemant Dudhoria:** Okay. Sir as you mentioned in the opening remarks also in the previous concall you have received your first order from Volvo for asbestos free gasket. So in the March quarter have we received any further orders from the export sir for the gasket?
- Navin Juneja:** Not any further order we have already quoted our prices to various OEMs abroad. Plus through other companies we started getting orders because they are exporting in a big way not directly, but indirect..
- Anuj Talwar:** No, but to add on to your question like for example if today our exports in our gasket division is only 13% of top-line. This will go to about 20% in the next three years. As I have also stated in the previous call that we were predominantly only in the aftermarkets now becoming asbestos free we will start getting more and more contracts from the OEMs worldwide.

- Navin Juneja:** I can also mention that we are talking to a big tractor manufacturing in Turkey and an OEM in Iran to supply gasket... we are also talking to two major suppliers of consumer forgings in US.
- Sreemant Dudhoria:** Fair enough. And regarding your JV Magneti Marelli in which we have received order for RE60. When is RE60 likely to get into the production sir?
- Anuj Talwar:** There is a court case going on right but Mr. Rajiv Bajaj is trying to fight it..But we are seeing some light I think by July of 23rd we should know the fate of this product.
- Navin Juneja:** By the way I think Mr. Rajiv Bajaj has already started the process of exporting this model to Nigeria, Sri Lanka and Bangladesh and we have already got the commercial production orders, it is a small business at about 800 pieces. We will be supplying from next month onwards in the first phase. **Anuj Talwar:** This will get clear it will be a totally new product line. It is a very safe product I am sure you have seen the ads in auto expos So we are waiting for this to happen, This will take the JV to the next level because my per car is about Rs. 16,000 and margins are very good.
- Sreemant Dudhoria:** Okay. And sir regarding your Chennai plant where we have made settlement with employees for Rs 1.9 crores, is this final settlement or are we looking for anything due from us to the employee?
- Navin Juneja:** Legally nothing is due from us. Even their benefit separation gratuity, etc., everything we have provided.
- Sreemant Dudhoria:** Okay. Now the settlement with employees is over are we looking to monetize our Chennai property sir?
- Navin Juneja:** Not now maybe after a year or so because the property prices are on the downside these days.
- Sreemant Dudhoria:** Okay. Also sir you mentioned in the initial remarks that you have renegotiated your interest cost with your bankers so what will your revised...
- Navin Juneja:** Approximately 1% savings we have got.
- Moderator:** Thank you. Next question is from the line of Sahil Jain from RM Financial. Please go ahead.

- Sahil Jain:** Just wanted to get some clarity you mentioned about raw material cost savings if you could just throw some light on what the initiative that you are taking or talking about when saying about raw material cost initiative? And how much is that...
- Navin Juneja:** There are two types of initiatives we are taking, one is localizing the imported material,. Second is communizing the material. thirdly, we are negotiating in a big way with our imported raw material supplier and we are in the final stage of negotiation. We are expecting good news of reducing the pricing. The manufacture has two facilities one in U.S. and one in Europe. At present we are buying from U.S. facility. Now we are renegotiating with them that he should supply the material to us from the Europe facility as it will reduce my cost and reduce lead time also.
- Sahil Jain:** Okay. So in your sense sir what could be the incremental margin we could expect from this initiative?
- Navin Juneja:** I think the initiative will come in force by the end of second quarter and this year it should have a saving of approximately Rs 1 crore, for six months.
- Moderator:** Thank you. Next question is from the line of Minisha Sharma who is an Individual Investor. Please go ahead.
- Minisha Sharma:** I have a question on two wheelers, what portion is two wheelers of our sales I mean approximately what percentage?
- Navin Juneja:** Percentage is very low. In two wheeler my component price is only Rs. 140 but...
- Minisha Sharma:** Actually I wanted to know what kind of impact that see from scooters and motorcycle , I mean any impact?
- Anuj Talwar:** Our JV company NLK Talbros has approximately Rs 90 crore in two wheelers sales and my own parent Gaskets Division is about Rs 65 crores. So about Rs 155 crores is the two wheeler sale that we do from Talbros.
- Minisha Sharma:** Okay, got it sir. Okay and sorry sir I joined in a little late so I just want to know what is your CAPEX plan for the coming year?
- Navin Juneja:** CAPEX will be approximately Rs 10 crores to Rs 12 crores on the consolidated basis
- Minisha Sharma:** What are your expectations from volumes in our gasket business?
- Navin Juneja:** We are looking for 15% growth.

- Minisha Sharma:** 15% growth, okay sir. And sir one more thing what helped you in the margin gain in the past year?
- Navin Juneja:** Major reasons were my raw material optimization. I converted a lot of imported material into indigenous material communize. Plus some benefit I got from the euro pricing coming down, and some price increase in the aftermarket.
- Moderator:** Thank you. The next question is from the line of Raghunandan from Quant Capital. Please go ahead.
- Raghunandan:** Sir on the domestic revenue side how would be the exposure towards two wheelers, passenger vehicles, commercial vehicles for the OEM business?
- Anuj Talwar:** When you say exposure, are you referring to percentage of sales.
- Raghunandan:** Revenue cost recognition, yes sir.
- Anuj Talwar:** As we mentioned to you earlier, if I look at my business overall about 65% of my business is OEMs we are supplying to 92% of Indian's two wheelers market. we are also supplying to about 40% of India's commercial vehicle market. So do you want an absolute number in terms of product segment wise?
- Raghunandan:** Correct sir, that 65% how would you break it down into two wheelers, commercial vehicle, and passenger vehicle.
- Navin Juneja:** Okay, I will come back to you on this, can you hold for a minute
- My two wheeler and three wheeler is approximately 31% out of OEM, passenger vehicle is 14%, HCV-LCV is 30%, agri off-loader is 20, and the balance is 5%.
- Raghunandan:** Balance will be what sir?
- Navin Juneja:** Like stationary engines, industrial gasket.
- Raghunandan:** Okay, sure sir. And sir last year we had successfully started supplying to Volvo and also have likely order from Cummins, Daimler, and even Harley-Davidson, so can you throw some color on the size of opportunity and what kind of revenues we expect from them some color on it will be helpful sir.
- Anuj Talwar:** On the export or Indian market?
- Raghunandan:** Export sir.

- Anuj Talwar:** As I mentioned to you earlier, in our gasket business which is about 72% of revenue for the whole company our exports are only 13% and because we have gone asbestos-free, over the next two to three years this will be 20% of top-line. Hence, our exports will double in the coming two years, Also, we are the single source of supply to Cummins in India. By becoming asbestos-free now I am now able to supply to Cummins offices and companies abroad and the process has already started.
- Navin Juneja:** We are also talking to two big OEM companies in Turkey and in Iran. Both are tractor manufacturers and are in an advanced stage and we are hopeful to supply something in '16-'17 to them.
- Raghunandan:** Sir the Iran entry would be...
- Navin Juneja:** Through Dubai.
- Raghunandan:** Okay, through Dubai.
- Navin Juneja:** And Turkey is direct.
- Raghunandan:** Sure sir and in the forging side earlier we use to supply to DANA and Carraro?
- Anuj Talwar:** We still do.
- Raghunandan:** Of course we still do, I mean to say there were some opportunities in terms of ramping up our product portfolio like I think last year we were supplying we added a new product Crown Wheel was a new opportunity, any progress on that side?
- Navin Juneja:** We are still doing that and my portfolio is increasing day by day in that. So in this next financial year we have already tied orders of about 40 crores with DANA.
- Raghunandan:** Okay, that is heartening to hear sir.
- Navin Juneja:** Yes I think for forging we are in a very advanced stage to enter in the U.S. market.
- Anuj Talwar:** Our endeavor will be that our forging export business next year about 65% of which we are targeting higher value items in the same customer segment. So not only are we looking at new customers like American Exiles and GKN but also at higher value items with higher machine and technology with the same customers.
- Raghunandan:** How would be the current machining mix sir?

- Navin Juneja:** Machining mix is 80% machines.
- Raghunandan:** Okay. And sir, like on the export side what is our hedging policy do we hedge for...
- Navin Juneja:** Yes, we hedge approximately 60% of exports. We are going forward for one year.
- Raghunandan:** And sir we had a plan of shifting from Caparo India to state grade power for our Bawal plant...
- Navin Juneja:** Yes, we already started the process. We already got 500 KV sanction from HSCB and at present we are also starting to using HFO plant because HFO prices have come down very heavily.
- Raghunandan:** So that is reflected in the current quarter business.
- Navin Juneja:** Our current quarter will have margin benefits from two areas. , We are renegotiating the prices and from July onwards the new prices will be in place with our export customers and by June we will get the full power from HSCB. We are also hoping that power prices come down to Rs. 9 at from the present levels of about Rs. 11.
- Raghunandan:** So September quarter would reflect full year...
- Navin Juneja:** Yes, it should.
- Raghunandan:** So how big that could that be on sir power and fuel expenses?
- Navin Juneja:** It should be savings of approximately Rs. 10 lakh to Rs. 12 lakh per month.
- Raghunandan:** Okay. Sir on the dividend which is the part of other income you said Rs 3 crores was FOREX and dividend was how big sir?
- Navin Juneja:** Dividend approximately Rs 3 crores.
- Raghunandan:** Okay. Both of them together make up that close to Rs 6 crores.
- Navin Juneja:** Yes. Because if you see the previous year we used to give dividends every quarter but last year because of various CAPEX, etc., free cash flow was not available that is why we declared the dividend in last quarter.
- Raghunandan:** Sure sir and sir we have been consistently increasing the promoter holding so any targets where we would stop?
- Navin Juneja:** Of course, it will go up by another 4%-5% over the period of next two-three years.

- Moderator:** Thank you. The next question is from the line of Awanish Chandra from East India Securities. Please go ahead.
- Awanish Chandra:** Sir, I wanted to get some clarity on the U.S. customer that you are scouting for in the forging business, so are you targeting the Tier-I customer or the Tier-II customers?
- Anuj Talwar:** Tier-I.
- Awanish Chandra:** Tier-I as an OEM manufacturer, right?
- Anuj Talwar:** Yes.
- Awanish Chandra:** What names are you targeting?
- Anuj Talwar:** We are already supplying to customers like John Deere Tractor and the New Holland Tractors. through Europe. We are trying to make an entry to some of the customers in the U.S. but till the time I don't win the business I cannot divulge the name.
- Awanish Chandra:** And sir some clarity on the tax rate sir for this quarter the tax rate came in very low at around 10% so like gong what exactly is the tax rate?
- Navin Juneja:** If you see the overall tax rate will remain the same because a lot of things we do are not take in to account every year. we do all calculations at the end of the year. . It will not be 30% but around 20%-25%.
- Awanish Chandra:** I was around 26% for the...
- Navin Juneja:** It will remain the same it will not go up.
- Awanish Chandra:** Around the same time thing?
- Navin Juneja:** Yes.
- Moderator:** Thank you. The next question is from the line of Apoorva Agarwal who is an Investor. Please go ahead.
- Apoorva Agarwal:** My question is that you have started export through a JV so can you throw some light on what is the plan in the future with that JVs?
- Anuj Talwar:** Our most recent joint venture is of Talbros Marugo Rubber. They have got plants in Indonesia China, the U.S. and Japan. Looking at India's capability of producing at low cost and in an efficient manner, we are considering exporting from India itself.

- Apoorva Agarwal:** So is there any number that you can tell us that we can have.
- Anuj Talwar:** Very small Rs 7-9 crores right now.
- Apoorva Agarwal:** Rs 7 to 9 crores.
- Anuj Talwar:** For that particular JV. But other exports are much higher, I mean if you look at the the cumulative exports going forward in this financial year would be approximately ~Rs 190 crores for the company.
- Moderator:** Thank you. The next question is from the line of Sreemant Dudhoria from UNIFI Capital. Please go ahead.
- Sreemant Dudhoria:** What levels are we hedged for FY-16 and FY-17?
- Navin Juneja:** Approximately 60% will be hedged.
- Sreemant Dudhoria:** At what rate sir?
- Navin Juneja:** Dollar is approximately 65 and Euro about 74.
- Sreemant Dudhoria:** Okay, sir and next I want to understand how is the demand looking in the European market sir?
- Navin Juneja:** There is no issue on demand in the European market. There is no problem in demand.
- Anuj Talwar:** We are also supplying to very niche segment for heavy commercial vehicles and off-loaders.
- Moderator:** Thank you. The next question is from the line of Vikas Rajpal from East India Securities. Please go ahead.
- Vikas Rajpal:** Sir my question would be on strategy. many OEMs are now talking about many new models. Yesterday Mahindra & Mahindra talked about compact vehicles, Maruti is coming out with CVs and many other OEMs announcing their new model so how are your talks happening with all these OEMs?
- Navin Juneja:** Basically when they talk about different models, the engine does not change much in the sense the engine in the Van and Celerio is same.
- Vikas Rajpal:** Right, sir. Maruti is coming out with one new engine they would be having on this CV product they have already name OIC.

- Navin Juneja:** Unfortunately we do not supply gaskets to Maruti but with Cummins is coming with a new engine next year and we the main supplier are already preparing the PPAP lot for that and we have received very huge schedules for them for '16-'17 . .
- Anuj Talwar:** But what I would like to add here Navin is that our joint venture companies Magneti Marelli and Marugo Rubber...
- Navin Juneja:** In the JV companies we have been awarded all the new businesses in the control arm that are the new Swift, new Ritz they call YRA, YBA, YSD
- Navin Juneja:** And through the Marugo Rubber joint venture we have supplied intercooler hoses and anti-vibration products for the new diesel-engine model of the Celerio.
- Vikas Rajpal:** Okay. So we would be participating in incremental growth...
- Navin Juneja:** Yes.
- Vikas Rajpal:** And sir, any new product, any new thought, because we have two product lines so are we planning any new products for incremental...
- Navin Juneja:** We have just started heat shield. We want to focus on the heat shield for next two-three years. It is a beautiful new product line for us. We are focusing on our joint ventures with Marugo Rubber, Magneti Marelli, etc
- Vikas Rajpal:** So can we expect 15%-20% kind of growth coming?
- Navin Juneja:** Yes we should see 12%-15% minimum growth for the company.
- Moderator:** Thank you. The next question is from the line of Raghunandan from Quant Capital. Please go ahead.
- Raghunandan:** Two queries basically any thought on debt reduction and secondly, over the medium term what kind of dividend payout are you looking out to?
- Navin Juneja:** On your first question debt reduction, because the company has to grow we cannot reduce the debt. Debt might increase a little bit during the year because of various reasons,. We are hoping as a percentage it will come down every year that I can guarantee. As regards to dividend, it depends on the profit of the company. If the profit remains in the same way, then there is growth which we are looking forward to and hence, dividend over a period of time will increase.. We have seen that the

operational profit has gone up for last year we are increasing the dividend. We are very-very investor friendly promoters.

Raghunandan: Sure sir. And sir like internally do we have any target on the ROCE sir?

Navin Juneja: Return on capital employed?

Raghunandan: Yes sir.

Navin Juneja: Yes, 20% target is there.

Raghunandan: Sure and any time line sir?

Navin Juneja: Another three years.

Moderator: Thank you. The next question is from the line of Apoorva Agarwal who is an Investor. Please go ahead.

Apoorva Agarwal: I wanted to know about JV that was about the export business so but about the Indian business of the three JV that we have would you see the number as a growth percentage on that if you can throw some light on that?

Anuj Talwar: If you look at Magneti Marelli about 50% of our business comes from Maruti Suzuki and basically that company is growing at about 11%-12% and as I highlighted earlier as well we have one secured order for all the new variants. Magneti Marelli joint venture can look at a growth of about 25% to 30% and at the same time I am also waiting for the Bajaj quadricycle to start and that is something which is going to make this joint venture go to next level. But if I look at the next three years Magneti Marelli is expected to grow at about 30%-31%, Nippon Leakless which is basically supplying gaskets to Honda scooters and Hero MotoCorp should grow at about 15% and Marugo Rubber should double very quickly. hence, the next CAGR should be about 95%-96% till the year '17.

Apoorva Agarwal: Okay. So that was a great set of numbers that I can see...

Anuj Talwar: We have helped Maruti localize on their production with Marugo joint venture and there have been hoses. These are parts being supplied early from Japan and are now being supplied from India so it is just matter of getting a go-ahead, which we get every month.

- Apoorva Agarwal:** So we look at a very good growth percentage there so sir on that growth percentage will you throw some light on the margins that we are looking at.
- Navin Juneja:** Nippon Leakless EBITDA level is 20% approximately, it will remain at that level and Marugo Rubber going forward within the next three years EBITDA should be 15% and Magneti Marelli should be 8% to 9% as the sheet metal business EBITDA levels are always lower.
- Moderator:** Thank you. As there are no questions from the participants, I now hand the conference call over the management for their closing comments.
- Anuj Talwar:** Given the initiative that we have taken in the company by going asbestos-free we are now targeting the export market. Exports for us is the way forward. We want to increase our export exposure from about 19% today to about 25% going forward to increase our margins. A lot of emphasis has also been put into revamping our aftermarket team in India to show a growth of about 15% to 20%. In addition, with the commercial vehicle showing good signs of recovery led by mining and infrastructure opening up, we expect our company to grow at about 12% to 15% this coming financial year and as Navin has already pointed, we expect betterment in EBITDA margins of almost about 0.5% as we have told last year. And we are looking at a pretty positive upstream in the auto industry for the next three years, we can target about a 15% growth over the course of next two years to three years. Navin you want to add something you can?
- Navin Juneja:** No, Anuj, you have explained everything. I think what we have told you earlier we are very-very bullish on auto component industry and recently you must have heard that Honda is planning to put up a huge manufacturing facility in Gujarat for export all over the world and we will be part of that growth story also.
- Anuj Talwar:** Yes.
- Navin Juneja:** Thank you.
- Moderator:** Thank you very much member of the management. Ladies and gentlemen on behalf of Talbros Automotive Components Limited that concludes this conference call.