“Talbros Automotive Components Limited Q4 FY18 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Talbros Automotive Components Limited Q4 FY18 Earnings Conference Call. This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions and expectations of the company as on date of this call. These statements are not the guarantees 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 telephone. 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 Limited. Thank you and over to you, Mr. Talwar.

Anuj Talwar: Good afternoon, everyone, a very warm welcome to our quarter 4 FY18 Earnings Call. On the call today, I am joined by Mr. Navin Juneja – our Director and Group CFO, SGA our Investor Relations Advisors from Mumbai. The results and the presentations are uploaded on the Stock Exchange and the Company Website. I hope everyone have had a chance to look at it. Let me quickly give you a run up on our performance till date, post that Mr. Juneja will take you through the financial performance of the company. We are extremely pleased with our performance for FY18 and not to mention a stellar performance by Talbros automotive in quarter 4 on last financial year. This has been a historic year in terms of profitability and we are excited about the coming financial year as well. I see a lot of buoyancy in the auto industry. A lot of the OEMs that I have been talking to, interacting with seem very bullish over the next 2 years at least.

2018, was a record breaking year for the Indian automotive industry. The Indian automotive industry overtook Germany to become the fourth largest auto maker in the world. I have recently at the Maruti conference in Abu Dhabi, while they were talking about how India is now number four in the world and made 3.2 million cars last year and it's on route to make about 6 million cars at 2024-2025 and 10 million cars at 2030. We will very soon be in the world's third largest car maker, just behind China and the US. BS-IV emission norms on March and April and was established very well across the industry and now we are getting ready for the BS-VI challenge which will get implemented from April 2020 onwards. I am happy to announce the Talbros Automotive successfully launched in the BS-IV product line and it is working right now aggressively to launch BS-VI as well, with all the car makers and the commercial vehicles and the two-wheeler two-wheeler makers in the country.

The commercial vehicle demand is growing very strongly and will likely to sustain since the road construction mining activity are picking in fast pace. The performance was mainly backed by good monsoons, pro farmer policies, aid by the central government, ban on over loading of vehicles and the new tracking policy of the commercial vehicles. The auto industry is seeing positive effect after GST. The worst is over, future look very bright. During this year, we focus on getting new orders which helped off in turning around our forging division and our joint venture with Magneti Marelli Talbros. Our business is broadly divided into a standalone

business- Gaskets and forging and three joint ventures with partnership of global auto leaders the gasket, suspension and rubber.

In our standalone business, our gasket business we continue to hold a 40% of the Indian market share in terms of gaskets. Our focus on OE export business for our gasket business which is the direction that I have been talking for quite some time right now. We have secured orders from Cummins Global, Zetor Tractors – Czech Republic and a very large non-automotive conglomerate in Austria.

Our other business initiatives for cost saving such as installation of the post coating line, the localization of raw materials, etc which are on track the benefits of which will be seen in the coming quarters. We are still in the process of developing heat shields for the Indian car market. However, we are already supplying to commercial vehicles like Volvo and Daimler about 5 crores to 6 crores per annum. However, good news is that since the Indian automotive players are little bit slow to adopt the heat shield technology which is basically products which manages heat, noise and vibration. We have changed the strategy, now we are moving towards meeting global OEM customers and offering them this product. In fact, about 2 weeks back I was in the US to meet with Cummins to talk about its product line and then my team also went to a very large car maker in the UK, where they spoke about this product line. It seems positive, so it is just matter of time to get some good orders in this segment as well.

The forging business performs exceedingly well this financial year. Our focus on the domestic OEM has also started playing out for us**.** We started our supplies for orders to a big German car maker. We also secured orders from a very large domestic OEM player which is roughly about 35 crores per annum. We are in the process of receiving an order from another very large European car maker, so which is positive for us because now our forging business is not only on agri and off road and commercial vehicle but also started itssupplies to an export OEM passenger car segment as well. We are also in a talk with Honda, JL Auto to just commission orders worth about 12 crores to 15 crores per annum. So, the order book and forging is very healthy and we do not see any slowdown in this particular segment as well. One more thing I would like to add is that we looking to move into higher weightage parts. And one of the orders mentioned previously will help us in this regard. We have already plan for installation of a higher tonnage plant and are confident to grow this business exponentially.

Coming to the joint ventures, with Magneti Marelli we have a 50-50 joint venture with Magneti Chassis Systems, Milano, a Fiat Group Company and Talbros to design and develop complete chassis for the OEMs. We have recently secured a large order from Maruti Suzuki for their control arm assemblies for the front suspension for their voluminous car called Alto with the revenue of about 24 crores per annum. We have also successfully started our suppliers to large European car maker for a suspension component. Also, the good news out here is as we mentioned you earlier like the Bajaj product for which we have made the entire front suspension there are per product size of about Rs. 6,500. We have seen some traction in those particular

segments and in the Bajaj Quadricycle takes off, then the JV would start flying. The JV has started delivering as per the promises made and looking at better quarters to come.

Coming to Marugo Rubber joint venture here we manufacture out here anti-vibration products, rubber components and hoses. The Hoses division has witnessed improved volumes from Maruti Suzuki.. We have also started supplying hoses to Marugo Rubber Japan. All I will have to say is that favorable macro-economic conditions, stabilization post GST, coupled with healthy order books within each business segment helped us achieve our numbers for the year till date. Benchmarking the quarter 4 performance which was a stellar quarter for us, we as an organization would try to achieve the same in the coming quarters. Now, I request Mr. Navin Juneja to update you on the operational and financial performance in the company. Navin, over to you.

Navin Juneja: Thank you Anuj. Now, coming to the financial performance of the company, in the gasket division including Nippon Leakless Talbros, first I would talk about that. For the quarter and the last quarter ended March 31st, our standalone gasket sales recorded a growth of about 15.38% on the back of growth in the commercial vehicle segment and also two-wheeler growth remained very strong during the quarter. Post implementation of GST and in order to match the landed cost to our distributor, the selling price in the after-market were reduced by 8% to 10%. Our joint venture, NLK also witnessed a volume growth on account of sales to HMSI and Hero Motor Corp. The revenue from the standalone gasket business was 75.5 crores and Nippon Leakless was 11.8 crores for the Q42018. This segment saw a combined EBITDA of almost 12.3 crores. The revenue from the standalone gasket business for the year was about 285.09 crores and Nippon Leakless was 47.2 crores i.e our share. This segment also saw a combined EBITDA of almost of 46 crores.

Now, coming to the forging division, there was a 99.1% growth in the revenue in Q4FY18 on a Y-o-Y basis from 18.69 crores in Q4FY17 to Rs. 37.21 crores in Q4FY18. On a yearly basis the revenue grew by 59.6% from Rs. 70.56 crores in FY17 to 112.63 crores in FY18. In this business we have gained from lower fuel charges and the execution of new orders which Anuj just spoke about.

Coming to the Magneti Marelli Talbros Chassis System Private Limited, MMT saw a 22.8% revenue growth in this quarter because of higher volumes. Total portion of revenue to TACL in Q4 FY18 was around 16.4 crores. On a yearly basis the revenue of the company grew by 27% from 42.9 crores in FY17 to 54.5 crores in FY18. Improved margins on account of increased volumes, this volume growth came from sale to Maruti Suzuki for their two flagship models namely Brezza and Baleno where we are single source.

Now, coming to our joint venture Talbros Marugo Rubber Private Limited, TMR saw a 36.8% revenue growth in Q4FY18 over Q4FY17 total revenue share attributable to TACL was Rs. 5.7 crores. On a yearly basis, the revenue has grown by 32.2% from Rs. 15.4 crores in FY17 to 20.4

crores in FY18. Here in TMR the good news is that the company has turned around in Q4 to the positive PBT and the PAT.

Coming to the consolidated financial performance of our company for Q4 FY18, total income for this quarter as per Indian GAAP was 148.8 crores. However, the same as for Ind AS is 112.2 crores , the difference is on account of consolidation of share of revenue from the JVs. EBITDA as per Indian GAAP was Rs. 19.4 crores this quarter with the margin of 13.04%. However, the same as per Ind AS is Rs. 14.9 crores which does not include the share of our JVs.

PAT for the quarter were Rs. 8.6 crores as per Indian GAAP and it was 7.6 crores as per Ind AS. The adjusted PAT margin improved from 5.5% in Q3 of FY18 to 6.9% in Q4 of FY18. For the full financial year FY18 the total income for FY18 as per Indian GAAP was 526.2 crores however the same as per Ind AS is 399.3 crores. The difference is on account of consolidation of the shares of revenue from the JVs. EBITDA as per Indian GAAP was 65 crores with the margin of 12.35%, however the same as per Ind AS is 47.1 crores with the margin of 12% which does not include the share of JV. Adjusted PAT of FY18 was Rs. 24.9 crores as per Indian GAAP and the adjusted PAT was at 20.7 crores as per Ind AS. The PAT has been adjusted for an exceptional gain on account of sale of the asset.

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

Moderator: Thank you. Ladies and gentlemen, we will now begin with the question-answer session. We take the next question it is from the line of Arun Agarwal from Kotak Securities. Please go ahead.

Arun Agarwal: Sir, my question is on the forging business. We spoke about few orders that we had received in the past and in recent times and we are also looking at some orders. So, could you just give us some details on the BMW order that when did we start executing that? How much would we have done in FY18 the BMW order?

Navin Juneja: We started the supply from the month of July of FY last year 2017 and last year we did about 20 crores plus.

Arun Agarwal: And in 2019 how much we are expecting?

Navin Juneja: it should be down 26 crores-27 crores.

Arun Agarwal: Sorry?

Navin Juneja: Around 25 crores-26 crores.

Arun Agarwal: Should be in FY19, right?

Navin Juneja: Yes, definitely.

Arun Agarwal: And on the Dana Spicer plant order have we, when we are going to start that supplying for that?

Navin Juneja: We are already in the development stage. I think it will start in a slow pace from next month onwards and by the year end it will gradually have a lot part numbers as they will pick up the pace. And this year out of 35 we should be doing around 15 crores-20 crores.

Arun Agarwal: 20 crores in FY19?

Navin Juneja: Yes.

Arun Agarwal: That is the sort of revenues you are looking from this business in the fiscal year?

Navin Juneja: Yes, this business.

Arun Agarwal: And sir, could you also just give a bit more details about one of the other big European order that you are looking at ?

Navin Juneja: So again, it is the same product that we supply to BMW. But I cannot disclose the name of the customer at present. So, I think the order should be …

Anuj Talwar: About 10 crores to 15 crores.

Navin Juneja: Yes, it was the same product line and the volume, the revenue will be around 8 to 10 crores per annum.

Arun Agarwal: And sir, What were the margins in the forging divisions during Q4 ?

Navin Juneja: Fourth quarter margin was 13% plus in forging business.

Arun Agarwal: And for the full year ?

Navin Juneja: Full year it was around 11.65%.

Arun Agarwal: And sir, could you also help us on the CAPEX because I think there was an additional CAPEX that was required for this Dana Spicer plant as well. So, how much was it?

Navin Juneja: In forging we are now talking about 5 crores CAPEX excluding the bigger press i.e 2,500 tonne press. Maybe in a couple of months we will finalize the CAPEX of that press.

Arun Agarwal: And our overall CAPEX for the entity, I mean given our share of business, what will it be ?

Navin Juneja: On the standalone basis, gasket is looking for 12 crores and forging 5 crores without large press**,** hence about 17 crores. Magneti Marelli looking of 5 crores ,Marugo Rubber, 3 crores and Nippon Leakless around 4 crores. This will be the total investment.

Arun Agarwal: This is our share of investment, right?

Navin Juneja: No, this is not our share, this is 100%.

Arun Agarwal: This is 100% share you are talking about.

Navin Juneja: Yes, JV's I am talking of 100%.

Arun Agarwal: And sir, just one last question, other expense seems to have increased significantly on a year-on-year basis this quarter. So, any specific one-off that because from on a consolidated basis it increased from 17 crores to 22 crores, so that is a 32% increase on the similar revenue growth, sir.

Navin Juneja: What is similar revenue growth? On a console basis for year you are talking about?

Arun Agarwal: No, for the quarter.

Navin Juneja: On account of power and fuel, packing,, job work charges etc . Everything is included in Other expenses.. So, basically in forging business we have do a lot of expenses because we do not have a high tonnage press. Here, we give our raw material and get it processed from outside through hammer and then machine inside. Maybe theres an increase on that account also, Plus, last year for 2 months heat treatment plant was under maintenance. So, we did a lot of heat treatment from outside in the month of July, August last year. So, may be onetime effect of that for the full year.. If you compare it with the last quarter, it is still in line

Moderator: Thank you. We take the next question from the line of Shikha Mehta from Equitree Capital. Please go ahead.

Shikha Mehta: Sir, enquiring about the other comprehensive income which is below the PAT for the year and for the quarter, what exactly would that be?

Navin Juneja: The other comprehensive includes the income valuation of the strategic investments the company has made.. The company is having 20% equity in our holding company Talbros International Private Limited which holds 90% equity of our group company QH Talbros which hold 37% equity in TACL and company also hold directly 5% equity in our manufacturing company QH Talbros and it holds, I think 0.5% equity in our T&T Motors. So, it is the value chain effect of that only nothing else. Suppose the share price of the holding company Talbros International they own 20% TACL holds and the holding company own 37% in TACL. The

share price of TACL moves on here to there. So, the value chain also moves from here to there, it is the effect of that only.

Shikha Mehta: And sir, what is the reason for the difference in the PAT in Ind AS and Indian GAAP?

Navin Juneja: The major difference is the dividend income. On standalone basis the dividend income is part of other income but in consolidation it is not there. They exclude from there and put full PAT of the JV below. This is the major difference. Maybe there are some small entries of lease, etc. that is immaterial. Major is only dividend income. Last year we had dividend income more than 3 crores form JV.

Shikha Mehta: And could you throw some light on other working capital cycle?

Navin Juneja: . Sorry, I do not have the data right now. You can put a mail to SGA for the same

Moderator: Thank you. We take the next question from the line of Keyur Shah from Emkay Global. Please go ahead.

Keyur Shah: Sir, you have turned around successfully on hoses business and what kind of growth what you see going ahead?

Navin Juneja: The history of the company as a whole grows on its topline of 40 crores.. Next year we are looking at a topline of 52 crores. On the hoses side, on standalone basis PAT is positive but going forward we see a PAT of around for the year about 2 crores plus in this company.

Keyur Shah: Even the whole business will come live ?

Anuj Talwar: Our whole business is not positive as yet. But I think third quarter it should be at a cash breakeven level. By the end of next year i.ein that last quarter of next year it should be net break even.

Navin Juneja: The anti-vibration business is positive, very positive. The whole business which is in a lot of traction now as in the coming quarters we will receive some new orders from Maruti Suzuki which are all in the pipeline. And we are pretty sure that by Q3 as Navin mentioned, our hoses line will also breakeven, so we should have some good profits in this financial year combined.

Moderator: Thank you. We take the next question from the line of Jaishree Ram from Karvy Stock. Please go ahead.

Jaishree Ram: My first question is, can you throw some light on the strategic raw material sourcing you mentioned about, I mean how much of EBITDA margin expansion you are expecting from that?

Anuj Talwar: So, we are working on 2 avenues and Navin will talk little bit more details on the percentage sharing. We have tied up with our partners in the US. There we are making local material in

India which is to import earlier. So, given example our gasket business our imports are roughly about 70 odd crores per annum of which one company's interface which is 40 odd crores. Going forward with the localization strategy has been placed by July-August of this year we should see in this full, in this financial year about 5 crores to 7 crores of localize material. So, automatically 40 odd become about 33-34, that is number one. Number 2, we worked in a new technology called post coated gasket, where we buy local steel from the Hindalco or ESSAR or whatever and we quote the gasket on it. So, we have just successfully commissioned with TATA Motors in this particular product line, there are two parts where I can do with TATA Motors and going forward we trying to convert for imported raw material content to local material content. But going forward the next couple of years maybe on a neutralistic basis I would say about Rs. 15 crores by 2021 we should localize. Navin you want to add on to that?

Jaishree Ram: How much you said, sorry?16 crores?

Navin Junja: 16 crores-16 crores plus. Yes, I think last year we did about +70 crores imported material it should come down by minimum 10 crores to 12 crores this year and going forward 15 crores-20 crores.

Anju Talwar: That is the target.

Jaishree Ram: And how much would be your operating cash flows for FY18?

Navin Junja: It is about 40 crores approximately.

Jaishree Ram: And any comments on the tax rate for this quarter, I mean it seems a little lower?

Navin Junja: In this quarter means, in the last quarter?

Jaishree Ram: Yes, for Q4.

Navin Junja: Yes, because we got the approval from R&D. We had the approval from the government. We had a R&D center in gasket first of all. We had the approval from the R&D authorities. But we applied to the tax authorities DSIDC something like that. We applied to them and we got the approval till 2020. So, we took the benefit of that.

Jaishree Ram: So, what would be your tax rate approximate, effective tax rate ?

Navin Junja: Approximately going, this is only it is, last quarter was accumulative effect of this year and last year also. And going forward it will have an effect of about Rs. 50 lakh to Rs. 60 lakhs p.a.Plus going forward in this coming year my tax from JV will also come down because they are all below 250 crores. That tax will come down by 6% approximately.

Jaishree Ram: And regarding your forging segment you have estimated about 35 crores and 12 crores, it is about 47 crores. So, how much of it is going to be recognized this year ?

Navin Junja: Last year we grew at 111 crores. We are targeting a turnover of 140 crores plus in this fiscal year.

Jaishree Ram: For FY19, right?

Navin Junja: Yes.

Anuj Talwar: The order book is there, we have to execute it.

Navin Junja: \Everything takes time.Development, getting the equipment, approval, etc.

Moderator: Thank you. We take the next question from the line of Sunil Kothari from Unique Investment. Please go ahead.

Sunil Kothari: Sir, 2-3 things. What will be tax rate standalone for 2018-2019,?

Navin Junja: It should be around 28%.

Sunil Kothari: And you said JV will be at a lower rate because ?

Navin Junja: Yes, because, this financial year the effective tax has gone down by 5%.

Sunil Kothari: And sir, will you give margins for all the 3 JVS ? And, what is our outlook looking forward ?

Navin Junja: Last year, if you talk about JVs, Nippon Leakless had an EBITDA of 20.28% last year and Magneti Marelli has EBITDA of 7.9%, Marugo has an EBITDA of 7.79%.

Sunil Kothari: do you see current year improvement in any margin?

Navin Juneja: Magneti Marelli we should go up by about 9% and Marugo should be around 9% to 10% EBITDA and NLK will remain around between 19.5-20%

Anuj Talwar: May be Navin you can share with them the Q4 EBITDAs to get a picture what really happened in the best quarter in this financial year for the JVs better idea.

Navin Juneja: Last quarter my Marugo Rubber was 9.72% already and my Magneti Marelli was 8.6% and Nippon was 20%.

Anuj Talwar: So, it is a good, Sunil ji it is a good benchmark.

Sunil Kothari: Anuj ji, in your opening remarks you mentioned about some 40 crores local order in forging division. What exactly is that ?

Anuj Talwar: So, we have already mentioned we cannot name the company at present. We already mentioned these companies are MNC companies.

Navin Juneja: One is the leading two-wheeler maker and one is the leading commercial vehicle Tier-1 supplier.

Anuj Talwar: In western region.

Sunil Kothari: So, presentation talks about 35 crores and 12 crores, this is another 40 crores?

Navin Juneja: No, there is one of 35 crores and one of 12 crores. 35 crores will not be there full year. It will be 15 crores-16 crores-17 crores this year. 7 crores-8 crores this years and going forward it will be full 2019-2020.

Anuj Talwar: So, that is why this year we are planning about 140 odd crores in forging going up to 110. Orders are a little bit more but like it will take time to execute and validations, so we are happy with 140 crores this year.

Moderator: Thank you. Next question is from the line of Ankit Merchant from SMC Global. Please go ahead.

Ankit Merchant: I had a doubt related to your market share in gaskets. Right now, it is 40% of the Indian market. So, when you say 40%, how much is it for CV, for two-wheelers and for the passenger vehicles?

Anuj Talwar: So, if you look at our domestic OEM breakup, I would say roughly about 45% in terms of the CV space, about 38% to 40% two-wheeler space, agri is about 15% to 16% and the balance in the others in the domestic space. But if you look at the gasket industry in India along with our joint venture which is gasket being 285-odd, JV being 120-odd, we are actually 50% of India. Standalone we are 40% but of added JV we are about 50%. And here I like to add to you a few pointers in our gasket business. In the commercial vehicle space in India we were earlier about a 55% market space within the CV space. We are now up to 65% and the reason is that with the technology called post-coated gaskets from Sanwa, we started getting the head gasket business from Tata Motors also. So, we have been single source with the Volvo Eicher across all gaskets, we have been a single source with Tata cummins with all gaskets. In Tata Motors, we were more stronger in the mid-level gaskets but now the head gasket is an area which is the prime in the prestige product we just got entry with that. So, I think last year financial ending our market share was about 65% in this CV space. Our market share would be about 70% is the agri space and 25% market share in the two-wheeler space. So, we are a leader by a long stretch as compared to the competition in the domestic OEM business. So this will be the breakup.

Ankit Merchant: And for the passenger vehicles, if I heard rightly it is around 15% you said?

Anuj Talwar: No, it is not. It is all others. Passenger vehicle would be about 4% to 5% and then we got certain industrial gaskets and all that stuff. So, passenger vehicle is a little bit small, it is only 5%.

Ankit Merchant: So, what are your plans related to passenger vehicles? Do you wish to penetrate into this particular segment in the gaskets. As I heard in your opening commentary that you want to get into passenger vehicles with BS-VI but not getting any traction as such?

Anuj Talwar: No, with BS-VI, I said that we are working very closely with the CV manufactures, tractor and two-wheelers for the BS-VI. Our focus in the domestic business today for gasket is to maintain our leadership position in CV, two-wheelers, HCVs and trucks and at the same time definitely flood with the passenger vehicle business, passenger vehicle business today is very fragmented. So, if the 3 million cars in the country I would assume that the gasket industry size of those two-wheeler and cars and all most than 150 crores-160 crores for gasket. And there are 10-12 players already in that space. And a lot of the Tier-1s are there like for example Honda has got Donga so barrier to entry is also high so our barrier to entry is our strategies to be very strong in the CV, Agri, and in the two-wheeler space, however, we constantly talk to two-wheeler makers. We are doing something with Maruti Suzuki, it is increasing also but the focus is going to be in our body structure side.

Ankit Merchant: Just few numbers I wanted for the forging division what was the utilization?

Navin Juneja: It is about 70%.

Ankit Merchant: And with your order book, right now. So, it would be safe to assume that your utilization could go pass near about 80%-85% in next year?

Navin Juneja: It should go about 5% plus as we are putting in new machines also for that.

Ankit Merchant: So in the balance sheet when we talk about the other equity investments ?

Ankit Merchant: It is basically your investments into joint ventures, right?

Navin Juneja: No, two type of investments in my balance sheet. One is joint, JV investment and other is strategic investment. Strategic investment value changes quarter-by-quarter depend on the valuation of those companies.

Ankit Merchant: And which could be those companies, if you could?

Navin Juneja: I just explained in the earlier call. We have strategic investment in 3 companies. We have 20% shares in the holding company of the group i.e Talbros International Private Limited, which holds 90% equity of our other manufacturing company QH Talbros Private Limited. It holds, I

think 15% equity of T&T Motors, our dealership business and it holds 37% and now going forward it will be 40% equity of Talbros Automotive, okay. And the valuation of these companies all changes quarter-by-quarter on the basis of their results and their projections, etc. So, the valuation changes according to that.

Moderator: Thank you. Next question is from the line of Harsha M from Photon Infotech Please go ahead.

Harsha M: So, I think you have mentioned your utilization in 4 units. Can you just tell me the peak revenue that you can do with the current capacity in each of the segments in gaskets, forgings, MMT and all the other JVs also?

Navin Juneja: So, gasket we talked about 12 crores CAPEX for this year, we are working towards the total capacity of 30 crores per month in gasket. Coming to the forging, we are now talking about 5 crores CAPEX excluding the bigger press i.e 2,500 tonne press.. With this CAPEX and the way we are doing outsourcing, etc., we should be able to have a capacity of around 13 crores per month in forging and the MMT with the CAPEX of 5 crores we should be able to do a business around 12 crores to 13 crores per month. And Marugo Rubber we are talking about a CAPEX of about 3 crores this year which we will have a capacity, the business can go up to in the anti-vibration it will and whole business it can go up to 70 crores per annum and with our third JV of Nippon Leakless with the investment of 3 crores-4 crores, they can have a business of 12 crores per month like that capacity will be created to that extent.

Harsha M: And within this Marugo, how much capacity do you have in the hoses and vibration?

Navin Juneja: Hoses is about, anti-vibration is full. Anti-vibration we have a capacity around 50 crores and hoses we have capacity of 20 crores already with us per annum.

Harsha M: So, if you are making around 11.72% margin in Q4 in Marugo ?

Navin Juneja: Marugo is 9.72.

Harsha M: 9.72 in Q4?

Navin Juneja: For the quarter.

Navin Juneja: For the quarter it is 9.72. Last quarter it is 9.72%.

Harsha M: So, that means and you are making some losses in hoses. So, how much can anti-vibration is doing? Is it doing 15%?

Navin Juneja:

Navin Juneja: It is not 15% but 12% to 13%. But it will cross 12%-15% next year.

Harsha M: And finally, I think you have earlier alluded to the Bajaj QUTE investment. So, how much are you actually invested in that and is it whatever you have invested is it just lying idle or is it being utilized ?

Navin Juneja: Look basically, some tools are there which are lying idle and not idle. They have paid for the tools. There is no problem in that. We have robot and presses which have been utilized for other business. And for your information just want to tell you because we have received a letter from the CEO of Bajaj they are looking for 25,000 QUTEs in this year. 25,000 vehicles they are looking for this year. We already supplied 1,500 sets for them and I think from next quarter they look like more 4,000 sets.

Harsha M: So, I mean per unit, per QUTE realization, I think you mentioned around Rs. 6,000, right?

Navin Juneja: 6,500 plus.

Harsha M: I mean, if you have to get this order, I think you will have to compensate from the existing capacity and lose out on the existing capacity ?

Navin Juneja: We already putting CAPEX in this because of the volume of business of Maruti Suzuki is going in a big way. We recently, we have been told that Suzuki plant in Gujarat whose present capacity is 2,50,000 vehicles per annum. The increase in the capacity to 3,50,000 from September and from January to 5,00,000 units per annum. So, Magneti Marelli is on the process. We already have a depot there. But now we are going ahead with assembling facility from September onwards in Gujarat. To take care of that a small CAPEX will be made there and will, already will adding machine for that. Machines are common, presses are common, it is not special press for Bajaj. It is a tonnage pressare there. You can make that those components from any press, any same tonnage press.

Anuj Talwar: We will not lose business.. Magneti Marelli Talbros we are 100% OEM company. So, we have to supply with the schedules that are given by the OEMs.

Navin Juneja: With a single source.

Anuj Talwar: We are single source and lot of the components like Brezza, Vitara, Baleno, then the Tata motors

Navin Juneja: Tata Nexa, Nexa platform we are the single source.

Anuj Talwar: So, it is a good top of the game.

Harsha M: Just final question. I think within forgings, if we just look at the forgings revenues until FY17. I think prior to getting these orders you are doing a stable revenue kind of 60 crores to 70 crores. So, I mean what are you exactly doing in this 60 crores to 70 crores and who are the customers here?

Navin Juneja: 60 crores to 70 crores are customers is basically Musashi is our old customer locally in Bawal itself, supply gears to Honda. Plus my export customer Dana, Carraro, GKN they are my old customers.

Harsha M: And I mean are these repeatable orders?

Navin Juneja: They are in a long-term contracts.

Anuj Talwar: They are long terms contractual OE business, long term. It is not like, it is only for the life time no it is long term for the life cycle of the vehicle or the truck or the tractor. Not only that with these customers our strategy is not just to stop here. With the same customer do more parts, do higher value-added parts, do high weight parts and the good thing about forging is unlike our gasket business the validation is much longer because that product is going into the engine. Here the validation is much faster.

Moderator: Thank you. We take the next question from the line of Jaishree Ram from Karvy Stock. Please go ahead.

Jaishree Ram: I just missed out on one number. When you giving out the market share for two-wheelers how much did you say it was?

Navin Juneja: 85%. Except TVS and Royal Enfield, we are there and little bit of Yamaha. That is all.

Anuj Talwar: With us and our JV we are single source to Bajaj, Hero then Honda Motor Scooters India.

Navin Juneja: And I say 25%-30% of Yamaha also we have with us.

Jaishree Ram: And like how you gave some guidance for forging? Can you also give some guidance for gaskets standalone as to how much you expect revenues to go up to during FY19 and 2020?

Anuj Talwar: So, we did about 280 odd last year and looking about 325 this year and about 375 next year.

Jaishree Ram: How much next year?

Anuj Talwar: 325 and then bidding about 373.

Navin Juneja: This is our internal target.

Moderator: Thank you. We take the next question from the line of Sunil Kothari from Unique Investment. Please go ahead.

Sunil Kothari: Would you talk something more about how we are preparing for ourselves for next phase of growth?

Anuj Talwar: So, let us talk about gasket business. As we have already mentioned you that we have along with joint venture we bought a 50% market share in India. But at the same time how we are planning in the gasket business says that we are moving more towards in the domestic space. We are moving more towards with the post-coating technology and trying to tap more customers in that particular phase, number one. Number two, we are trying to work, we have strengthen our aftermarket team. We are making our plant more independent to cater with the aftermarket requirements and the needs. Third and the most important part is the push on the export side of gasket. We were working very closely with Cummins Global, Zetor Tractors, large car maker in Europe Cummins and Polaris in the US. I was in the US about 10 old days back. We also have 2 exclusive agents appointed for us. One agent is looking after the current aftermarket business of the US. One is only focusing on Cummins and export the big growth driver for us going forward. I know we have been talking about this for some time and it does take time in gasket because there is validation and although we have won some good business from these customers, but they have to put a gasket in the engine and validate it. So, I am very hopeful that our export strategy will definitely pan out. Fourth, heat shield which has not given much success in the Indian market. So, we change our strategy, it is okay fine. Let us go meet the big boys of Europe and big boys of America and let us start proposing our technology. Our technology is fabulous along with Sanwa. It is light weighted it is got better heat management systems and a lot of the OEMs the across the board have been very impressed with our technology. I am very positive in the coming quarter maybe quater1 or quarter 2. We will have more clarity on this particular area as well. Lastly, as you all know that the BS-VI engine come in to BS-IV is almost 50% more complicated than the BS-IV engine. So, it is all about sensor, all about electronics, it is all about talking to the interface, talking to the electronic control unit. We are working on a very large projects with one current Indian OEM which is a new product which I cannot give the names let us just put this way it is a gasket with some electronic component. That is also in the pipeline and that is going to happen sooner than later. Coming to forging, as Navin already mentioned we have secured orders from global OEMs, we secure order from domestic OEM whenever getting traction from the two-wheeler industry in India. We are getting traction from a heavier components within our current customers. So, forging at 112 to 140 odd is definitely not a problem at all and going forward we will be touching good numbers soon 170 crore to 180 crores easily in the forging business. The order book is very much there. With our 3 joint ventures with Nippon Leakless, we have already mentioned you that this is a conservative company basically catering only to Honda Motor Scooter India, Hero Motor Corp and Honda Cars. So, this company will also go with the same rate as the industry grows. They are not overly excited to get 30-40 customers like we are in Talbros Group but that is their strategy, that is their mantra or Honda we will cater to Honda only. The 2 JVs, Marelli and Marugo have done exceptionally well. You are seeing a growth of 30% quarter-over-quarter here with our dominance with Maruti Suzuki, Baleno, the Brezza they are in one large order with the European carmaker for suspension. The growth rate is intact out here. In fact, we as the management have a few areas should decide where you want to expand next. For example, in Marelli, Gujarat we have to go. There is no option because in the Suzuki conference, Maruti very clearly said that, look your

future will come from Gujarat. So, they might take Gurgaon and Maruti to be about a million cars. But the future will come from Gujarat. So, we already setting up an assembly unit in Gujarat which earlier a warehouse July, August operation will start for assembly. We got to go there. In Bajaj QUTEs starts even if they do 15,000-20,000-25,000 car a year which reality to cater to that we have to start thinking by do it through Faridabad, do it through Aurangabad. We do not know as yet, there is a lot of changes that happened in the pipeline. We were also talking to another car maker which we look into set up a shop in Chennai and they are, we talk to them as well but that is not in our guidance. That is not happening on Magneti Marelli. Coming to Marugo, if we see this company going to about 75 crores in a short term because it picked up good orders like Marelli and Brezza, Baleno now talking about Daimler, Isuzu. We have started successful buy backs with japan which was a big headache for us earlier as how to move the Japanese quality standard and all that stuff we manage now. Also the hose business we are getting a lot of traction because there were some failures of Maruti in the last 2 to 3 months they were on the media. And we are just learning from competition is getting more and more traction out there. So, all I can say is whatever guidance that we have given you we were definitely meet that guidance. And also, luck is also favoring the automotive industry because automotive industry demand is actually buoyant. It is really there. I. myself went to so many vendor meets in the last 3 months whether it is Cummins, whether it is Volvo, whether it is Daimler, whether it is Hero or whether it is Bajaj they are talking about solid numbers over the next 8 quarters going forward. So, I think Navin if I missed out something you can add but I think.

Navin Juneja: You have covered everything.

Sunil Kothari: What will be your major focus for current year and next year? What is the major challenges which you want to overcome? Where you can do more cost reductions some improvement on year?

Navin Juneja: That is an ongoing exercise. We are working on Cost reduction exercises since last year itself.. It has started giving results on the cost reduction, localization of material and today the thing is we have to feed the orders of more than our capacity that is a challenge for us. Little bit challenge in increasing the commodity prices but we are able to recover from the customer. So not to worry. We have launched our price increases including conversion increases to all OEMs and we will start getting the results from that also.

Moderator: Thank you. We take the next question from the line of Balakrishnan Nath from Spark Capital. Please go ahead.

Balakrishnan Nath: My questions are on the forgings business. What is your order book on the forging business currently?

Navin Juneja: Currently it should be around 160 crores.

Balakrishnan Nath: And if I were to look at your numbers over the past three years, 2016-2017 you were between 60 odd crores and 70 odd crores of revenue which is now moved to 110 crores in this fiscal or the fiscal that just concluded. So, what did you attribute the traction of that incremental 40 crores to what was the orders that kind of grow the revenue uptick?

Navin Juneja: If you talk about the forging, last year we did about 20 crores of BMW this year we will do about, 25 plus this year. And some new orders we have received recently from through Musashi and JL Auto that will give us a good revenue this year. And thirdly, we have won a huge order from that Indian OEMs in Western belt of 35 crores that will give us a good order, I think that was start commercializing this year. It will give you good traction this year also and going forward next year also.

Balakrishnan Nath: So, this Indian order that you are referring to was 35 crores, is that a multi-year continuing contract? Or is it only for this year?

Navin Juneja: No, continuing contract.

Anuj Talwar: Contractual.

Balakrishnan Nath: But is there a size that you can put to it?

Anuj Talwar: So, let us say over the course of 7 to 8 years, no problem because it is a lifespan of vehicles.

Navin Juneja: For the commercial vehicles for India.

Anuj Talwar: Also, what happens is that like the, whenever they launch new models there will be a lifespan for new models also. So, it is not that going to die out after certain time, no. It will continue.

Balakrishnan Nath: And my next question was on your JVs. So, if you could give us some color in terms of, while your outline what you will, what you are gunning for in terms of performance when your gaskets and your forgings business for 2019 and 2020? Could you give us some trajectory in terms of how you expect revenues to pan out across your 3 JVs?

Anuj Talwar: Like we already mentioned you earlier like, if you look at Talbros Marugo Rubber and look at Magneti Talbros these two joint ventures are associated with the passenger car segment. Earlier someone ask me in the call that why you not there in the passenger car segment in gasket. But I was focused through these 2 joint ventures which are technology names one from Italy being an €8 billion company and the other being €15 billion company in Japan. We are fully intensive Maruti Suzuki and Tata Motors. So, these 2 companies have grown at about 25% to 30% quarter-on-quarter last 7-8 quarters. Going forward Magneti Marelli, should end up doing about 125 crores-130 crores in this financial year and then looking to about 160 to 170 moving up. Sure, Marugo Rubber also close at about 40 crores last year and we are looking at about 50 crores to

60 crores this year and then 70 crores. We do not see a problem at all. We got the right order book. We are in the sunrise for Maruti like Baleno, Brezza, Vitara. We are in the right model with Magneti Marelli we have just won the order for the Alto which will start sometime next year by June that is very voluminous order also about 24 odd crores. With Marugo, we are constantly getting new business in Maruti and Tata and Daimler. So, I do not see a problem at all out there. And our third generic, was Nippon Leakless. This is a company which is going to grow as I mentioned to you earlier with the same trajectory led by HMSI and Hero Motor Corp because this company supplies to reach to players 59.34 only. And as and how this transforms in grow in that direction. So, all in all, if I combine all we are looking at a North of 15% growth this year as well.

Navin Juneja: (+15%).

Balakrishnan Nath: And if I can just chip in with one last question. This will be more of a clarification, there was a comment that you are making about supplying a product to Bajaj at about Rs. 6,500 a set. What was that you were referring to? Was that part of Magneti Marelli?

Anuj Talwar: Absolutely. It is a part of Magneti Marelli Talbros. It is the front suspension of Bajaj, the QUTE, Quadracycle. So, just to give you an idea historically power per component price and Magneti Talbros was Rs. 1,000. And with this but the scope with this is much larger. We can do a, b, c, d, e, f products, right now we only being a and b products. So, for the first time we commissioned a product, let us say category c called a front axle is about Rs. 6,500. So, this should start very soon.

Navin Juneja: Just talked to our CEO in the morning. They have received confirm schedule for this year of 26,000 vehicle set. And the first quarter they already supplied 1,500 and next quarter they are demanding 5,000 sets.

Balakrishnan Nath: So, this is entirely from Bajaj, right?

Navin Juneja: Yes, entirely Bajaj.

Moderator: Thank you. Well, that seems to be the last question. I would now like to hand the conference over to Mr. Talwar for his closing comments.

Anuj Talwar: Thank you everybody for participating on our call. I think, I hope we will be able to answer all your questions. I would like to end the call in a positive note that quarter 4 is the benchmarking for us. The Indian automotive industry is very buoyant. I think we are in the right place and the right time and it should be a good couple of years for us. All the best. Thank you.

Moderator: Thank you. Ladies and gentlemen, on behalf of Talbros Automotive Components Limited, that concludes this conference. Thank you for joining and you may disconnect your lines now.