



“Talbro's Automotive Components Limited
Q1FY18 Earnings Conference Call”

August 24, 2017





TalbroS Automotive Components Limited
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**MANAGEMENT: MR. ANUJ TALWAR – JOINT MANAGING DIRECTOR TALBROS
AUTOMOTIVE COMPONENTS LIMITED
MR. NAVIN JUNEJA – DIRECTOR AND GROUP CFO**



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Moderator: Ladies and gentlemen, good day and welcome to the Talbro's Automotive Components limited Q1 FY18 Earnings Conference Call. This conference call may contain forward looking statements about the company which are based on the beliefs, opinion, 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 remainder, 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, you may 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 Joint Managing Director of Talbro's Automotive Components Limited. Thank you and over to you, Mr. Talwar.

Anuj Talwar:

Good morning everyone and a very warm welcome to our quarter 1 FY18 Earnings Conference call. On the call today I am joined by Mr. Navin Juneja, our Director and Group CFO, SGA our Investor Relations Advisor from Mumbai.

The results and the presentation are uploaded on the stock exchange and the company website. I hope everyone has had a 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 numbers.

The domestic sales in June 2017 were muted due to liquidation of stock at the dealers' end and OEM withholding inventory in anticipation of GST from July 1, 2017. The CV segment especially was upset tremendously by the whole concept of GST starting July 1st. Lot of the OE players in the CV space stopped inwarding material by the 18th-20th of June. We are very major player in the CV space. However, I would like to share the good news with you that the CV segment now has started showing signs of recovery.

Our business is broadly divided into our standalone business, gaskets and forging, around three joint venture companies Nippon Leakless for gaskets, Magneti Marelli for chassis, and Talbro's Marugo Rubber for rubber components.

To talk to you a little bit about the gasket and the forging business, in the standalone gasket business we continue to dominate the Indian market with a 40% market share domestically. Our largest customers include Bajaj, Tata Cummins, Hero MotoCorp and Volvo Asia.

During Q1FY18 our aftermarket segment under the gasket division saw a major decline with this anticipation of GST which impacted our profitability in that quarter. However, we are now



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witnessing a strong recovery in the last two months and are confident that we should be able to pose a solid comeback in the coming quarters. Regardless of the initial impact, the implementation of the GST is not only positive for the auto sector, but also for our gasket business, and we are very confident that we will capture a larger share in the aftermarket segment as all the unorganized players in this segment will have no option but to just surrender.

We are focused on our OE export business with a large focus going towards Cummins America, GE America and Volvo Mexico; obviously, to mention our ongoing efforts with Turkey and Iraq.

As announced earlier, we have successfully completed the partial strategic disinvestment of our non-core material business and the same was sold to Indian Affiliate of Interface Performance Materials, USA, who are pioneers and leaders of gasket materials worldwide. We have entered into a raw material sourcing agreement with them for various gasket raw materials from the Indian unit.

The company is happy to report that this procurement will commence in the latter half of this financial year. Thereby reducing a lot of our working capital and reducing our dependency on imports. Further our cost sharing initiative which includes the post-coating line is likely to commence production from October to November this year. This will help us in foray of ours into the passenger car segment and we will be now using local steel instead of imported steel in those individual segment.

The good news that I would like to share with you is that our forging division performed well in the quarter and it has been consistently been performing for the last few quarters. We have locked a double digit growth in this quarter. Our progress is to increase our share of business domestically and export.

We have also entered the car segment in the export market by winning a large order from an OEM in the car segment.

We also intend to start manufacturing heavy components in forging and machine; this would further improve our profit and realization.

Coming to the joint ventures, our Magneti Marelli Talbro's which is a 50:50 joint venture with Marelli which is a group company of Talbro's continues its dominance in Maruti where joint success of being part of the Brezza and the Baleno story. Here also we have just been



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nominated to supply chassis components to Jaguar Land Rover which has started now in quarter 3 of this financial year. We are also trying make inroads with Tata motors and other domestic OEMs.

Coming to our rubber division, Talbro's MarugoRubber industries, we have recently got orders from Daimler, Honda and Isuzu and we continue our dominance with Maruti Suzuki where we have a very large share of business with them.

Ourhose division is still not in the optimum capacity utilization state at the moment; however with initiative with our partners for them to help us by buying back hoses for the Japan market.

Again, I would like to say that despite a muted performance in the quarter, we are confident of achieving our targets set for in the financial year 17-18. Favorable macro economic conditions, a good monsoon, successful implementation of BS4, GST, coupled with a very healthy orderbook across all our divisions will help us achieve our targets for this year.

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

Navin Juneja:

Thank you Anuj. We have reported our financial results as per IND AS for the first time. As per IND AS it does not naturally paint a true picture about the performance of our JV businesses. Therefore, let me give you the detail of each business entity.

In the gasket division, including Nippon Leakless Talbro's, which also is the gasket business, our standalone gasket sales recorded a de-growth of about 8.4% which Anuj just briefly told you earlier, which was largely due to a slowdown in our aftermarket sales in the anticipation of GST and in the last week of June, lots of OEMs stopped taking materials, particularly in the last two days, and an overall de-growth in the commercial vehicle segment. The aftermarket sales were down by about 33% during the first quarter of this FY18. There is a further component by decline in OEM sales by about 4.4%. NLT witnessed a volume growth on account of sales to Honda and Hero. The revenue from standalone gasket business was 62.7 crores and NLT was 11.9 crores for FY18, which segment saw a combined EBITDA of almost 9.2 crores. Coming to the forging division, there was a growth of 16% in the revenues in quarter 1 FY18 on a year-on-year basis, Rs. 17.3 crores in quarter 1 of FY17 to 20.1 crores in quarter 1 of FY18.

We have gained revenue from the execution of new orders which we have received from Germany. Coming back to Magneti Marelli Talbro's Chassis Systems Private Limited, MMT



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saw a 33.4% revenue growth in this quarter because of higher volume. Total portion of the revenue of TACL in quarter 1 FY18 was around 11.4 crores. Improved margin on account of improved volumes we have achieved from the sale of Maruti Suzuki.

Now Talbro's MarugoPrivate Limited, TMR saw an 18.9% revenue growth in the quarter 1 of FY18 over quarter 1 of FY17. Total revenue share attributable to TACL from this business was 4.5 crores.

Now coming to consolidated financial performance of the company for quarter1 of FY18, total income for the quarter as per Indian GAAP was 110.1 crores; however the same as per IND AS is 81.5 crores. The difference is on account of consolidation of shares of revenue for JVCompany which has not been considered in the IND AS. EBITDA as per Indian GAAP was 12.5 crores in this quarter with a margin of 11.3%; However the same as per IND AS is 8.5 crores, which does not include the share of JV.

PAT for the quarter was 3.4 crores as per Indian GAAP and PAT was 2.7 crores in Q1FY18 as per IND AS. The IND AS does not include the dividend income of approximately 72 lakhs received from our JV companies. The PAT margin improved from 2.97% in Q1 FY17 to 3.31% in Q1 FY18. This is all from my side and I would like to open the floor to questions and answers.

Moderator: Thank you sir. Ladies and gentlemen we will now begin with the question and answer session. We take the first question from the line of Jaishree Ram from Karvy Stock Broking. Please go ahead.

Jaishree Ram: Sir my first question is on gaskets. Do you see any increase in share of business with Maruti Suzuki and other major OEMs that have contributed to the growth?

Navin Juneja: Very well thank you. In the revenue side we are not with Maruti, we are just small player in Maruti for gaskets, but we are working very hard for the gasket business in the post-coatingside. So, we are getting a lot of orders too which will be materialized by the end of this year, but we are offering them the new gasket in our post-coating business. And on the Cummins side, we are now getting a huge demand in the new gasket which we have developed for them, MLS gaskets and we are hopeful that the trend will go up quite a bit in the coming quarters on that account.

Jaishree Ram: Can you give us some insights on the heat shield segment?



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Navin Juneja: The heat shield segment is ongoing as we have always been stating that we are profiting the OEMs also educating them about the benefits of BSVI entering the country and a lot of Indian vehicles will require heat shields for the better heat management. Our TA partners were here the whole of last week visiting all the OEMs and trying to educate them about this particular new product line, which is a surety, it is going to happen.

Anuj Talwar: And we are receiving a very good response from the export market. We have already starting exports to Volvo Mexico for heat shields, we are supplying to Daimler in India, we are supplying to Volvo axels in India. Now it is just a matter of entering the car segment. And as Mr. Juneja explained to you we will enter the car segment both in the gasket front with post-coating as well as heat shields as well.

Jaishree Ram: Okay. Sir, for this quarter how much revenue did it generate?

Anuj Talwar: Which the TalbroS heat shield or gaskets, what are we talking about?

Jaishree Ram: Heat shield.

Anuj Talwar: Heat shield record is very premature.

Navin Juneja: Hardly 1 – 2 crores in the quarter.

Anuj Talwar: I have mentioned to you that this is a futuristic product. It is for something that the BS VI has come on board, see it is for the future, for the heat management.

Navin Juneja: It takes time for the approval etc., we are in the process of closing good business with Toyota on heat shield also.

Anuj Talwar: But having said that, like I said earlier as well, it is our gasket business. Leave aside the aftermarket part of it, but our OE gasket is getting a large share of business with the current players and also new players because we are BS IV ready. A lot of our competition within the country is not BS IV ready and we were the first to work very closely with the OEMs to get ready for BS IV and not only that, we are also working on BS VI. But this is a major technological advantage we have over our competition.

Moderator: Thank you. The next question is from the line of Mr. Ritesh Bafna, who is an individual investor. Please go ahead.



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Ritesh Bafna: Sir, for the first time we are given some 20/20 vision. So, I would like to know how confident are we to achieve them and what are our plans to reach there?

Anuj Talwar: Well, we at the management are confident of reaching those numbers and as we have stated in the past as well that if all our divisions today, if I talk about the gasket business, gasket business is BS IV ready, BS IV compliant, BS VI ready, we are working in a very big way to change our product mix towards more exports, more OE exports, that has given us a good opportunity now, especially in the US market and Iran market and Turkey market. As you can see we have also done a bit of a strategic disinvestment in our materials plant, to increase our margin by using local material and not imported material and we are also looking on entering the passenger car segment. Forging business has turned a corner. It now has double digit growth for the last few quarters if you look at it. We are also getting huge orders from the European car makers. The three joint ventures are also on their own path of takeoff, especially the Marelli and the Marugo joint venture because we are heavily into the Maruti Suzuki and so you know all the divisions put together whatever happens; so we are very confident; however if tomorrow another note ban happens or a North Korea issue happens or anything happens, I cannot comment that, but we are very confident that we will achieve these numbers.

Navin Juneja: This is the vision of our management and we are working towards these results and if the economic scenario remains like the way it is, or if it improves further, we should achieve these numbers. If something falters or if something goes beyond our control, that factor you have to consider.

Ritesh Bafna: Okay sir. That gives us some confidence. My other question will be what are the major orders that we have in our pipeline?

Anuj Talwar: Yes before I come to answer question. Also our OEMs that we deal with, it all talks about a favorable next several quarters because of the good monsoon, the 7th pay commission, we are talking about with the GST implemented, it will benefit for sure. Regarding new orders, we are working in our gasket business with Cummins, we are working with General Electric USA, we are working with Maruti Suzuki we have already secured orders from them, Honda Motors. In our forging business we are working with Musashi Automobile orders. We are working with Honda Motorcycles, tier I suppliers of vehicles and motorcycles to get huge orders from them. We are working very closely with them. We are also working very closely with them another European car manufacturer for exports. In our JVs Magneti Marelli and Marugo; we are



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working with Maruti, Tata, Daimler, Honda, Isuzu, and Jaguar. So, we are going all out to get more orders, more SOPs from current customers and newer customers.

Ritesh Bafna: Okay. Great job. One more last question. What are we doing to bring our debt numbers down?

Navin Juneja: We are doing two things. We are trying to work towards localization. The more we are localized the more we will save the working capital. My working capital cycle will come down and my stocking will come down. That is number one. Number two I am working towards utilizing our surplus cash to reduce debt. Thirdly, I will reduce my interest cost. All these three factors will contribute towards bringing the debt down and you can see from the FY18 first quarter results, my interest cost has come down substantially as compared to FY17. It has been coming down for the last two quarters and in this quarter it has come down to 3.4 crores of standalone basis, and 3.5 as compared to 4.4 same period last year. So, approximately 90 lakhs in fact.

Moderator: Thank you. Next question is from the line of Apurva Mehta from KSA Shares and Securities. Please go ahead.

Apurva Mehta: Sir, my question is you know this broad base what you have targeted of 675 to 725 crores in terms of turnover by 2020. Can you broadly breakup the sales? What will be gasket, what will be forging and other JVs? If you can break it up?

Navin Juneja: Yes I can do that for you. I can give you broadly. We are targeting approximately 375 crores from gasket and 140 – 150 crores forging, and 140 – 150 crores again for MMT, we can take 50% from my share and approximately 70 crores from Talbro's Marugo and approximately 130 from Nippon Leakless. Our shares should be worth around this.

Apurva Mehta: Okay. And sir, this year what is our target for forging? We did first quarter around 20 crores. So, can we reach around 90 – 100 crores this year?

Navin Juneja: We should be touching 90 crores easily. I am quite hopeful we will touch 90 crores.

Apurva Mehta: And sir, can you broadly tell us what will be the aftermarket after the GST coming in? What will happen to our aftermarket sales and what are the advantages in the GST?

Navin Juneja: The advantages what I see in the aftermarket is whatever the business we lost, 80% of that business I will recover in the balance 9 months. Now, aftermarket still is recovering, because all my tier one distributors are under GST. The dealers who are there in very small towns still



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they are trying to work towards GST. They are not implemented 100%. They have not come back in the mainstream 100% and a lot of people down the line have old stocks. I think within the next six months, not immediately, six months everyone will fall in line because the inventory has vanished etc., and all the players who have not fallen inline, like duplicate players, like the small players etc., they will vanish. I was just talking to some dealer in Guwahati, first he said he has not taken any GST because he thought that he will escape by putting small funds of 40 lakhs etc., but when the local transporter buys from the dealer they want the GST because they were able to get the benefit of that. If he is not able to provide no one will buy from him. So, again he has started applying for GST. So this is the impact that will happen and everyone will fall in line.

Apurva Mehta: So, basically they are not accepting by themselves, but by force they are now committed to accept the GST goods.

Navin Juneja: That is if he wants to get the benefit of GST.

Moderator: Thank you. Next question is from the line of Sunil Kothari from Unique Investments. Please go ahead.

Sunil Kothari: What are the reasons or different factors by which you are objective is to achieve EBITDA margin of 13% or 14% by 2020? What is happening at the end of which, where you are hopeful of improving your margin?

Navin Juneja: Sir, EBITDA is a combination of two or three factors. One is increasing top-line of course. Secondly is the localization program that we are working on that and import substitution, we will save some money on that too. And the third factor is my post-coating. Post-coating, heat shield business and export business, existing aftermarket I will convert pre-coated to post-coating without telling the customers because you cannot find the difference and they are one and the same plan. We are now working in our forging division because the order book is more than my capacity as on today. I am talking about those businesses which have low margins. So, I am choosing business with higher margin so it will increase EBITDA. So these are the four or five sectors which we are concentrating to increase EBITDA.

Anuj Talwar: Also just to add, even in our gasket business our shift is moving towards exports. This is something that we have been talking to you about for a long time and now a lot of action has been taking place getting export orders from OEMs.



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Navin Juneja: We have also launched as the OE price increases, because we gone for conversion increase of about 15% in the OEMs after more than ten years and we have just launched the price increases with all the OEMs from the point of commercial. We will definitely get something out of that.

Sunil Kothari: What is the loss of gasket replacement market in terms of numbers?

Navin Juneja: It is approximately 6 crores to 6.5 crores.

Sunil Kothari: And we are confident to recoup those things?

Navin Juneja: Sir 80% should be recovered. 100% I cannot say, but I will see that 80% should be recovered.

Sunil Kothari: And sir, after this GST aftermarket at large for auto component market and for you also, what is the basic major change that you see for the next two or three years? Will it all be unorganized with small players or how will it change?

Navin Juneja: First of all 100% I cannot guarantee something, but what I am saying is that in the long run, maybe after nine months, six months, seven months, eight months, this unorganized players will be reduced to minimal, but they will not vanish. I can say that if they are 40% then 10% will remaining and everybody will fall in line. If all this falls in line then we have to go to shops and organized sector will grow, because, I just gave this number earlier because even the small transporter who buys he wants the invoice. Because he wants to get the GST benefit for his business. So, he has to buy from the organized player only who will provide him with the GST bill. I hope so because in India of course there are organized sectors and organized workshops, but there are small businesses also, and workshops also. Previously they used to work on cash basis, but because 28% is a huge amount in any invoice they want to take the benefit of that and that I foresee.

Sunil Kothari: One last point sir, do you see any change on the ground in the segment of LCV or heavy vehicles, are you seeing any recovery?

Anuj Talwar: See the first quarter was very bad for the CV space, they were down by almost about 22%. But having said that we should share a live example with you. I was in the Cummins conference on Friday last week. They are very confident to supply for the larger engines like Tata Motors, so there is going to be recovery in a large manner. We should also realize that you know the inventory at the dealers' ends are pretty much now dried up and they have to start. Your travel time between cities has been reduced. There are no more tolls and there will be more wear and



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tear, more transportation, more buying is going to happen. So, it is just a matter of time. We are anyway seeing a large OE demand in all our businesses actually. Of course, in all our companies last month, July, we got very good numbers in all divisions. And August is better than July at least at the OE space.

Moderator: Thank you. Next question is from the line of Jaishree Ram from Karvy Stock. Please go ahead.

Jaishree Ram: I just wanted to understand is there any price difference between a normal gasket and a post-coated gasket?

Navin Juneja: Gasket is a generalized word. There are five or six types of gaskets. One is rubberized gasket made of rubber. One is soft gasket made of paper. One is gasket made of steel. One is gasket made of rubberized steel. Post-coating is to replace the rubberized steel which we buy at present to buy the steel and then we coat wherever required. It is that.

Jaishree Ram: So, this is done for what purpose Sir, this coating?

Anuj Talwar: To eliminate the cost. You work with local steel from India Hindalco and you just coat when required where required. Earlier on you imported rubber coated steel. Rubber coated steel from Germany and Japan. This is a new technology.

Navin Juneja: And this is Multi Layered steel. There are two or three layers of steel with the rubber coated thread inside. Every engine is different, one is four bore, six bore, the usage is different.

Jaishree Ram: So, sir this coated gasket is catering to which segment in the automobiles?

Navin Juneja: All segments, but primarily in the commercial vehicles.

Moderator: Thank you. Next question is from the line of Sachit Shetty who is an individual investor. Please go ahead.

Sachit Shetty: Sir, at present your gasket share market is 40% as you said rightly. Sir, how much do you want to see it increased in 2020? How much do you want to increase that market share?

Navin Juneja: See, there are three ways in which we need to increase our share, one is export. Anuj just told you. Our focus is to double our export in the next two years, that is number one. Number two is we are adding heat shields. It will give us revenue. We are targeting revenue of 20 crores from heat shield business. Third is post-coating. We are not in passenger vehicles. We are



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nowhere near there, but post-coating, we have become competitive to our competitors and we will enter the car segment. These are the three areas which we foresee, plus the demand is there plus we are adding more OEMs like Ashok Leyland which we are minimal but with our focus we are now getting huge RFQ from there. We have four or five segments which will contribute towards earning these revenues.

Sachit Shetty: Okay. Sir how much is your market share presently in the forging sector?

Navin Juneja: In forging you cannot really capture any market share, because forging is a huge number in the country.

Sachit Shetty: Yes huge number of competitors are there.

Navin Juneja: We are not in the level of big boys like Bharat Borge. We are in present capacity like 10,000, 6,000 and 15,000. With my maximum capacity of 1600 tons and in that range we are now one of the best.

Anuj Talwar: See in north India like we mentioned to you, we are one of the better forging suppliers in the north belt in that range.

Navin Juneja: I cant be expected to give you a market share with forging. Forging can be 8,000 to 10,000 crores industry. It is defense forging, it is windmill, it is automotives, it is railways, light forging, it is too large to even capture it.

Sachit Shetty: Okay. Sir my last question is do you have any CAPEX for the next two years? How much you represent the CAPEX in the region?

Navin Juneja: I can give you the CAPEX for this year. This year we are looking at a CAPEX of about 8 – 10 crores in our gasket division and 6 crores in our forging division.

Sachit Shetty: Forging how much sir?

Navin Juneja: 6 – 7 crores in the forging division. And by JVs the CAPEX of around 2.5 – 3 crores between MMT, Magneti Marelli and Marugo there is a CAPEX of 2 crores and in my joint venture NLK there is a CAPEX of 1 – 2 crores.

Sachit Shetty: So in total 20 crores?



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- Navin Juneja:** Yes. Overall for this year.
- Sachit Shetty:** Is this the CAPEX for every year or only this year?
- Navin Juneja:** This is for this year. I can say next year also the CAPEX will be there and the forging has to go from 90 crores this year to 150 crores. Our vision is there for 150 crores in the next two years, of course the CAPEX will be there, but how much it will be we are not sure of that. Because as and when the demand comes we will decide which press to buy, 1,000, 2,000, 2,500, we are not sure. This year end 90 crores business this is our CAPEX format.
- Moderator:** Thank you. We take the next question from the line of Sunil Kothari from Unique Investments. Please go ahead.
- Sunil Kothari:** Sir sorry of repetition, but your objective to reach some goal by 2020. What type of CAPEX is required for the next two to three years?
- Navin Juneja:** Of course the numbers are there. The CAPEX will be required. Over a period of three years I should say, in our proportionate share of JV, I should not take 100%. The CAPEX should be 30 – 40 crores minimum.
- Moderator:** Thank you. Next question is from the line of Kalpesh Shah who is an individual investor. Please go ahead.
- Kalpesh Shah:** In May we have received a large order for supply forging to German luxury car for Volkswagen company. Do we have supply in this quarter?
- Navin Juneja:** It is BMW. In the June quarter no supply was there. We have started supplying in this quarter.
- Kalpesh Shah:** In this quarter? So how much we need to supply in this current year?
- Navin Juneja:** We are hopeful that about 15 – 18 crores business will come from this in this financial year.
- Kalpesh Shah:** And are we hoping to get a big order from Volkswagen, have we received that sir?
- Navin Juneja:** Not Volkswagen. It is BMW. We have always been saying we won an order in our forging business from BMW and with another car maker for our Magneti Marelli Talbro's chassis system, and Jaguar Land Rover. We have never mentioned Volkswagen.



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Moderator: Thank you. Well that was the last question. I would now hand the floor over to Mr. Anuj Talwar for his closing comments.

Anuj Talwar: Thank you so much for your time and thank you for doing the call. I hope we were able to answer all your questions. If there are any queries, you can get in touch with SGA and I will be happy to address all your queries. And at the same time we are very confident that whatever losses that have happened or lost ground that has happened, we will make it up in the coming quarters as all the macroeconomic conditions are very favorable towards this.

Navin Juneja: We are committed to work towards achieving our visions. We are committed. Let us see how all goes. Thank you.

Anuj Talwar: Thank you.

Moderator: Thank you very much ladies and gentlemen on behalf of Talbro's Automotive Components Limited. This concludes this conference call. Thank you for joining us. You may now disconnect your lines.