



“Talbro's Automotive Components Limited Q1 FY25 Earnings Conference Call”

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**MANAGEMENT: MR. ANUJ TALWAR – JOINT MANAGING DIRECTOR,
TALBROS AUTOMOTIVE COMPONENTS LIMITED**

**MR. NAVIN JUNEJA – DIRECTOR & GROUP CFO,
TALBROS AUTOMOTIVE COMPONENTS LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to Talbros Automotive Components Limited Q1 FY25 Earnings Conference Call.

This conference call may contain forward-looking statements about the Company which are based on the beliefs, opinions and expectations of the Company as on the date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict.

As a reminder, all participants 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 “*” and “0” on your touch-tone phone. Please note that this conference has been recorded.

I now hand the conference over to Mr. Anuj Talwar – Joint Managing Director of Talbros Automotive Components Limited. Thank you and over to you, sir.

Anuj Talwar: Thank you. Good afternoon, everybody. A very warm welcome to our Q1 FY25 Earnings Call.

On the call, I am joined by Mr. Navin Juneja – our Director and our Group CFO, as well as SGA, our Investor Relations Advisor Firm. The Results and the Presentation are uploaded on the stock exchange and the Company website.

Let me begin with the industry and the economy overview:

During the last quarter, Auto OEMs reported a volume growth of 10% year-on-year with broad-based growth in almost all the segments. The two-wheeler segment outperformed with a 20% Y-o-Y growth, followed by passenger vehicles with a 6% Y-o-Y growth, and tractors grew 4% during the quarter one. Demand for commercial vehicles was sluggish during the last quarter, which slowed down in demand in both medium and heavy commercial vehicles, and light commercial vehicles also. There are some high levels of inventory today with the dealers.

Demand for CVs is likely to pick up pace post Quarter 2 of this year, with an uptick of infra projects post the monsoon. Replacement demand and mandatory scrapping of older government vehicles expected to support volume in FY25.

Coming to the Company's performance:

During the last year, we received orders over Rs. 1,000 crores during the last quarter in April 24. We received new multi-years orders worth Rs. 1,000 crores from a leading European OEM through our joint venture, Marelli Talbros Chassis Systems Private Limited. A few of these orders are now getting commercialized during the quarter. During the quarter, we have increased our focus on export sales. As well, there have been some external issues faced with exports.

However, we have increased export sales to almost 27% of our total turnover. That's probably the highest ever.

Our gasket division, as you know, is doing a lot of work in the area of the heat shield division. We have a strong order book in the heat shield division from clients like Maruti, Hyundai, and Kia, as well as for the export market. We are the section point for our joint ventures. Our JV with Marelli is expanding its focus on exports and EVs, as well as entering a very large light commercial vehicle manufacturer in Europe.

Our other JV Marugo Rubber is also doing well, and we are looking to add some more product lines in the anti-vibration space. During the quarter, we have focused on cost optimization as well as a good product mix of domestic and export, which has led to an improved EBITDA of 16.5%, an increase of 150 basis points. We aspire to maintain these margins for the full year as well. Although there is a slight slowdown in commercial vehicles, we are hopeful that with other segments we should manage.

Capitalizing on the consistent order inflows from leading OEMs, we anticipate a strong upward trajectory in our business and profitability. Also, our order inflow will help us increase our share with existing customers and new customers across geographies. We are consciously working on increasing our exports from current levels of about 27% to upwards of 30% in the next three years.

To make the most of our growing opportunities in both domestic and global markets, we should maintain our diversified and hedge position as a provider of auto components in various product lines and various segments.

To conclude:

We are pleased with our strong financial results and are optimistic about the future of the automotive industry. We remain committed to innovation, operational excellence, and delivering value to our customers.

Now I request Mr. Navin Juneja, our Group CFO to update you on the financial performance.

Navin Juneja:

Thank you, Anuj. Good afternoon and a warm welcome to all the participants.

Let me begin with the "Financial Overview":

Total revenue for Q1 FY25 stood at Rs. 209 crores, as against Rs. 185 crores in Q1 of FY24, registering a growth of 13% on a YoY basis. EBITDA for Q1 FY25 stood at Rs. 35 crores as against Rs. 28 crores, a growth of 24% on YoY basis. EBITDA margin for Q1 FY25 stood at 16.5% as compared to 15% in the same period of last year. PAT for Q1 FY25 stood at Rs. 20.6 crores, as against Rs. 17.4 crores in Q1 of FY24, a growth of 18% on a YoY basis.

Now coming to the “Division Wise Performance”:

In the Gasket division, for Q1 FY25, our gasket sale was Rs. 132.7 crores, as against Rs. 121.8 crores in Q1 of FY24, a growth of 9%. This segment saw EBITDA of 21.2% in Q1 of FY25 versus Rs. 16.6 crores in FY24, a growth of 28% on a YoY basis.

Now coming to our “Forgings Division”:

The revenue in Q1 FY25 grew by 21% to Rs. 76.5 crores as against Rs. 63.5 crores in Q1 FY24 with a growth of 21%. EBITDA in Q1 of FY25 grew by 19% to Rs. 13.4 crores as against Rs. 11.3 crores in Q1 of FY24.

Now coming to our JVs:

First, I will talk about “Magnetic Talbros Chassis System Private Limited”:

Revenue for Q1 FY25 stood at Rs. 69 crores versus Rs. 56.8 crores in Q1 FY24, registering a growth of 21% on a YoY basis. EBITDA stood at Rs. 9.9 crores as against Rs. 7 crores in Q1 FY24, a growth of 42% on a YoY basis. Now, for Talbros Marugo Private Limited, revenue stood at Rs. 31.3 crores in Q1 FY25 versus Rs. 30 crores in Q1 FY24, registering a growth of 4% on a YoY basis. EBITDA stood at Rs. 2.8 crores and remained flattish as compared to Q1 FY24.

Here I want to add that there was some price increase pending with our major customers for last 8 to 9 months. That price increase has been received by the Company in the last weeks, which we did in this period also, which was not accounted in the results, which you will see in the second quarter.

As we look into the future, we are optimistic about the sustained growth prospects in the automotive industry. We as a Company have taken significant steps to capitalize on this opportunity. Opportunity with significant investment have been made in new technology, capacity expansion, product portfolio, diversification, customer-based expansion, and entering new markets. We are well-positioned to achieve our targets, and we believe that our margins are sustainable in the long term.

This is all from our side and now I would like to open the floor to question and answer. Thank you.

Moderator:

Thank you very much. We will now begin the question-and-answer session. Our first question is from the line of Jyoti Singh from Arihant Capital Markets Limited. Please go ahead.

Jyoti Singh:

So, if you can highlight on the employee expenses side, that has increased significantly in this quarter. And also on the EV side, what are future expectations as we have increased targeting, a

certain increase in the revenue mix. So, if you can highlight the new product that we started supplying and also as a future expectation from the industry?

Navin Juneja: Yes, first, I will talk about the salary increase. As you are aware, at the end of every financial year, the increase is due to the employees. We had given 10% salary increase. And in this quarter, one-time expense of performance incentive, which is about 70 to 80 lakhs, has also been debited. So, this is one time, in the subsequent quarter, it will not be there. So, that is the reason for the salary increase. It happens first quarter of every year if they achieve the target. Now second about the EV, we are quite buoyant about the EV and we have received these very, very decent orders from the EV segment. In fact, if you see, in the last year, my EV contribution was 3% of our total revenue. In this quarter, we have achieved 3.3%. Going forward, we are committed to achieving a target of 12% of our total revenue, and orders are in hand. Some are going to come in the next three months, but some EV launches are being delayed by three to six months, so the effect you can't, you will see over a period of time, you will definitely see the effect. It will grow, definitely grow. Orders are there. In fact, we are closing some very big new orders also on that. But I think we will give you news sometime in October on that.

Jyoti Singh: So, if you can highlight if it is possible if we haven't signed the NDA, so like from which OEM we are getting the order on the EV side?

Navin Juneja: European car and some Indian car manufacturer also, but I can't disclose the name because we have signed the NDAs with it.

Anuj Talwar: It is for only EV vehicles.

Jyoti Singh: So, sir, in European there is a low penetration on the EV side. So, what, we are getting good demand on that side?

Navin Juneja: So, these are new product launches they are doing. They are converting their ICE engines into EV vehicles. And the Company has a tie-up with the Indian OEM also. They are setting up also a new plant here. So, it's for that. These are the new vehicles they are launching. I think it will be a very, very major OEM.

Moderator: Thank you. Our next question is from the line of Kuber Chauhan from Anand Rathi. Please go ahead.

Kuber Chauhan: So, questions from my side, what is the CV segment as a percentage of revenue? How much it contributes?

Anuj Talwar: About 23%.

Kuber Chauhan: And how much was the reduction in this quarter as you said that the demand was sluggish?

- Navin Juneja:** There was no reduction, but the growth was not that because we supplied some new parts also, there was no reduction, I think.
- Anuj Talwar:** There is no reduction, there is a slight increase only in our contribution by CVs. Actually what came down was the tractor segment. Tractor now picked up this year. So, there is no reduction.
- Navin Juneja:** But the growth we are expecting was not there. That is the only thing.
- Kuber Chauhan:** I have also seen that there is a slight reduction in gross margin as well. It was 56% and right now it is 53%. Was it due to some commodity prices increase or what is the cost?
- Navin Juneja:** No, it is not commodity prices. It's contribution it can be. Product mix also sometimes. Sometimes we have launched the price increase and not been received in this quarter, with coming in a subsequent quarter. So, it can be because of that. Don't worry. It's hardly marginally here.
- Anuj Talwar:** You see the EBITDA was up by 24% over last quarter last year.
- Navin Juneja:** Higher EBITDA for the Company.
- Anuj Talwar:** So, it's just a timing issue of let's say due to pricing, the customer and all that, nothing else.
- Kuber Chauhan:** Okay, and when you were speaking about Rs. 1000 crore order, so have we got an incremental order this quarter or is it has been straight over Rs. 1000 crore order?
- Navin Juneja:** Yes, we have received some small orders, but we have announced when the amount is substantial, we group it together. When the amount becomes substantial, we will announce it. Definitely, we are getting orders.
- Kuber Chauhan:** And what is the execution rate of such orders? If you can just or in terms of value, if you can...?
- Anuj Talwar:** The full order book is about Rs. 2000 crores. These are over 5 to 7 years. So, let's say Rs. 155 crores, Rs. 150 crores, then go to 190, then 220, like that.
- Navin Juneja:** Suppose last year 10% was commercialized, this year again 40% will commercialize, next year balance will commercialize, step by step it goes on. Sometimes order has been started but the vehicle launch has been delayed by 3 months, 6 months so we can't commercialize.
- Kuber Chauhan:** And what is the target for this sort of execution? As you said 40% will be commercialized, I am not asking about a specific number but just a range if you can specify?
- Anuj Talwar:** No, it started. See, they've got different divisions because of the many plants. So, it is very difficult to bifurcate and net-net you divide it by 5-7 years, and for that, Rs. 150 crore per annum will come. It will come easily.

- Kuber Chauhan:** You mean Rs. 150 crore per year, right? Or further it would get executed.
- Navin Juneja:** Yes.
- Anuj Talwar:** Yes
- Moderator:** Thank you. Our next question is from the line of Yash from Equitree Capital. Please go ahead.
- Yash:** So, my first question is, what is the status with the M&M as of now? As in last quarter, you had mentioned you are developing some heat shield for them.
- Anuj Talwar:** Who, Mahindra & Mahindra?
- Yash:** Yes, correct.
- Navin Juneja:** Yes, I think the plant has started, the soft launch has been started for the plant and we have set up a new plant for that in Chakan area, Pune. Plant has started production, but I think the small batches are started. I think the major impetus will come from September onwards you can see the major commercial will take place. Already orders will receive, we are getting new orders, it is under dyes are being made. Development is going on.
- Yash:** Understood. And sir my second question is, in last concall, you had mentioned something about developing motors for batteries. So, could you throw some more light on it?
- Anuj Talwar:** Not motors or batteries. We are working on a product. We make bushes for electric motors, bushes for foreign business. That's about, Rs. 15 – Rs. 20 crores per annum approximately and we are working with some new components for the batteries, but that will have better clarification after Quarter 2.
- Yash:** Okay, got it. And my last question is, what's the update on the Pune facility that was about to commence in July-August?
- Navin Juneja:** Yes, as I have just mentioned the Pune plant facility has been machine has started, installation has started. We have started some production also, but I think all the machines will be by September. But in the first phase, the machine will be installed, which I think the good volume will start coming up to Rs. 3 crores per month. Volume will come from October onwards from that plant. And it will go up to Rs. 5 crores in the last quarter.
- Moderator:** Thank you. Next question is from the line of Aakash Javeri from Time & Tide Advisors. Please go ahead.
- Aakash Javeri:** My first question is, so Marugo Talbro's which saw growth of about 21% in revenues and 42% in EBITDA, could you elaborate on what were the utilization levels like? Was there some operating leverage at play and is this growth something that we can target going forward as well?

Navin Juneja: You're talking about Marugo? Marugo is basically primarily I think 75% to 80% is the supplier to Maruti okay, for anti-vibration and hoses and I think this year growth will be around 15% because the Maruti projections are based basically on Maruti only. And of course, there is an EBITDA improvement that you can see. Going forward, I just mentioned in the brief call that there was a price increase pending. Now we have received that also. So, at the end of 6 months, you can see a substantial EBITDA improvement. And going forward, it should be double digit EBITDA for us. And we are adding some new products, the effect of which you can see in next year, not this year.

Aakash Javeri: And at the same time, Marugo Rubber was more or less flat. So, could you explain what happened there?

Anuj Talwar: So, it's a flat Maruti. And they have a shutdown in June for a week. And we supply the Maruti big time from this Company.

Navin Juneja: Around 80% goes directly and indirectly to Maruti.

Aakash Javeri: Another question was, is the 16% EBITDA margin like the new normal for us? And is it fair to assume that we would possibly have heightened freight costs because of the Red Sea issue? So, once that normalizes, we could see some improvement in margins?

Navin Juneja: I think we should talk about around 16.5%. In some quarter, it can be 16.7%. Some quarter, it can be 16.25, depending on the product mix because the situation is very fluid. Sometimes the prices go up and the customer will take 6 months, 9 months to give us. Sometimes if it is not much, they can avoid that also. So, we keep on fighting with them on that front. So, I think for one year, I think we should look at 16.5% around the world. Sure.

Aakash Javeri: And just one last clarification, our PAT growth was slower than our EBITDA growth. Is it right to understand that other than higher depreciation due to CAPEX, some portion of this is also because of the discontinuation of NLK?

Navin Juneja: No, standalone NLK doesn't come into picture. The profits of joint venture are share of JV profit only. It's not benefiting turnover or anything else, number one. And no, it's not like that. Because under the IND AS, the topline is only for standalone business. JV's only share of profit from JV comes. That's all.

Moderator: Thank you. Our next question is from the line of Viraj Mehta from Wisdom Advisors. Please go ahead.

Viraj Mehta: So, sir my question was on the products front. So, what are the new products the Company is specifically venturing into as mentioned in the presentation for gaskets and forgings?

Anuj Talwar : New products?

- Viraj Mehta:** Yes.
- Anuj Talwar:** So, in gaskets, we are working on large gasket for heavy duty applications, we are working on some plastic components for EV, plastic gaskets for EV. We are working on some transportation gaskets for electric vehicles, new heat shield for Tata Motors, Mahindra's. And in forging, we are working on very heavy components now for excavators and the construction of highway equipment.
- Viraj Mehta:** And on the technology front, is the Company focusing on any technology advancements in order to stay ahead of the industry standards?
- Anuj Talwar:** Yes, we are. We have got two joint venture partners. One is Marelli and one is Marugo. And we have a technical partner called Sanwa for heat shield. So, that's an ongoing basis. And also, we are working on some focus towards EV application as well. So, yes, that is all ongoing.
- Moderator:** Thank you. Our next question is from the line of Payal Shah from Billion Securities. Please go ahead.
- Payal Shah:** I just have one question. Can you provide details of the order book under each segment and what is the expected timeline to complete these orders?
- Anuj Talwar:** Madam, that will be very difficult.
- Navin Juneja:** I can send it to you through Deven, our IR Advisor, but at present it's not ready with me, readily available to me.
- Anuj Talwar:** These orders are across segments, across product lines, across divisions. So, it is very difficult to decipher it on the call, but we can have SGA send it to you.
- Moderator:** Thank you. Our next question is from the line of Ashish Rao from ZK Securities. Please go ahead.
- Ashish Rao:** So, I have a couple of questions. So, the first is what kind of EBITDA margins are we currently making in our export business? And do we see this improving with the global situation is improving?
- Navin Juneja:** So, EBITDA margin is generally 2% more than the domestic business, so it depends on the customer to customer. Sometimes it is 16%, sometimes 18%, in some cases 19% also. It depends on customers to customers. It's not fixed. Number two, it's so far our customers are there, their offtake is already there. Basically, we are more in agri off-loader construction equipment. The majority of export is there in that segment, which is doing okay. We are not facing any major downfall going forward, no. Plus we are developing new parts. A lot of parts are new. 25% of the parts are new parts. So, we don't see any issue in that.

- Ashish Rao:** And my second question is, what are the sales for the heat shields during the last quarter? What are the growth drivers for the gasket demand to improve overtime?
- Navin Juneja:** Yes, if you see this division, we anticipate a growth of (+15%) in this financial year. Out of which, I think the heat shield this year will be around Rs. 50 crore plus. Rs. 50 to Rs. 60 crore will be heat shield. Balance will be gasket. So, we are getting good traction in both sides.
- Moderator:** Thank you. Our next question is from the line of Atul Daga from Daga Securities. Please go ahead.
- Atul Daga:** I just have one question. What are our capacity utilizations in all of our segments?
- Navin Juneja:** Our gasket and heat shield division, we are around 88%. In forging, we are around 85% and from Marelli, we are around 72%. In TMR, Marugo, they are two divisions. In anti-vibration, it's 85 and hoses is around 90%.
- Moderator:** Thank you. Our next question is from the line of Uttam from Morcha Network Capital Limited.
- Uttam:** Yes, so as we mentioned, the growth from CV was very subdued. So, was it across all clients in CV like was an industry phenomenon or is it was particular to some of the clients?
- Anuj Talwar:** It's an industry phenomenon. VE slow, Tata slow, Kaveri slow, Volvo slow it will inch up in Quarter 2.
- Navin Juneja:** We are adding new products. We are not going to suffer much on that account.
- Uttam:** And also to one of the participants you mentioned, our dependence for MTCS and TMR is highly on Maruti. So, are you looking to further diversify, because it is a very high percentage?
- Navin Juneja:** No, this dependence on Maruti is only due to division. Talbro's Marugo, number one. Marugo is a Japanese Company, and they supply to Suzuki there. It is import substitution. We brought it here. So, don't worry, we are adding, we have other customers also, but their scale is not very high. Of course, we are having a target to bring down the share of Maruti in a couple of years, don't worry. But Maruti will do well, but I'm hopeful because Maruti is setting up a new plant in Kharkhoda near Sonipat, they are putting a plant in Sanand also, so Maruti is not going to go anywhere.
- Uttam:** Okay, and just last question, as you mentioned, in the last conference call, you mentioned about some issues with the performance of Marugo because we were shifting, so are those issues sorted now?

- Navin Juneja:** No, 90% issue have been resolved, there are some manpower issues still, manpower is a little high, it should have been lower. We are working on that. I think within one quarter, that issue will also be resolved. Other issues are resolved.
- Uttam:** So, the subdued performance is because of both the reasons of Maruti and the shift, right?
- Navin Juneja:** The subdued performance is also one of the reasons. June, you know that Maruti shut down. Number three, the price increase pending with Maruti has now been received. It belongs to that period. It's a decent sum. You can see the reflection of that in this quarter, do not worry.
- Uttam:** And also, we can see great performance from MTCS and highly improved margin like I think 200 basis point improvement in the margin. So, are these stable margins for MTCS going forward or it was not some of one-off?
- Navin Juneja:** No, it's not one-off.
- Moderator:** Thank you. Our next question is from the line of Jyoti Singh from Arihant Capital. Please go ahead.
- Jyoti Singh:** Sir, just wanted to ask on the commodity prices side, what are you and how we are doing on that side?
- Navin Juneja:** So, commodity prices I think is more or less not very volatile, number one, but exchange is volatile. Of course we are importing also, and especially in the gasket division and in Marugo, we import a lot of stuff. But you know how Dollar, Yen and Euro is moving. Of course, that pressure is on us and of course we recover from all customers, but it will take some time. So, to that extent, till then we need to bear that. Otherwise generally prices are not very much. It's okay.
- Jyoti Singh:** Just one clarification on the Marugo side, how much EBITDA we are doing and what are expectations going forward?
- Navin Juneja:** Our expectation is by next 3 years it should be around 13% to 14% EBITDA. See the EBITDA at the end of the year, don't see for this quarter, please. I request you. It will improve. You will see the improved EBITDA in the coming quarters.
- Moderator:** Thank you. Our next question is from the line of Yug Modi from AB Capital. Please go ahead.
- Yug Modi:** How are we looking to utilize the Rs. 80 crores received through the stakes sale of Nippon?
- Navin Juneja:** That Rs. 80 crore out of which we paid capital gain tax, and the balance left was Rs. 65 crores. That Rs. 65 crores, we have put in the FDs which is carrying an average interest of 8%, okay? And this money will be used, number one, if we come out with a big project. We are talking about, we will take out some money out of that. We are looking for some TA, JV etc. that work

is parallel going on. If that matures, the money will be utilized there. For normal operations, we want to use the money we are generating from the system.

Yug Modi: Lastly sir, are we looking at any major CAPEX in the coming few quarters?

Navin Juneja: It depends on the orders. We are working on some orders where we require some decent CAPEX, not major, not Rs. 100 crore CAPEX, maybe Rs. 20 to Rs. 30 crore CAPEX in one day. We are working on that. Let things mature and we'll come to you.

Moderator: Thank you. Ladies and gentlemen, that was the last question for the day. I now hand the conference over to the management for closing comments.

Anuj Talwar: Thank you so much everybody for joining the call. We have had a good quarter. We also anticipate our future quarters to be good and our margins to be also sustaining around 16% and plus. Thank you so much. Bye.

Moderator: Thank you. On behalf of Talbro's Automotive Components Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.