



“Automotive Axles Limited
Q2 FY2019 Earnings Conference Call”
November 16, 2018



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Moderator: Ladies and gentlemen, good day and welcome to the Automotive Axles Limited Q2 FY2019 Earnings Conference Call hosted by Batlivala and Karani Securities India Private Limited. 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 phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Shailesh Raja from B&K Securities. Thank you and over to you Sir!

Shailesh Raja: Thank you Aman. Good morning everyone. B&K Securities is happy to host maiden conference call for Automotive Axles Limited. From the management team, we have with us Mr. Thimmaiah, MD and CEO Meritor India and Mr. Muthukumar, President and Whole Time Director, Automotive Axles and Mr. Ranganathan, CFO of Automotive Axles. I would now like to turn the call over to Mr. Thimmaiah for the initial remarks post which we will take up for the Q&A. Please go ahead Sir.

Thimmaiah Napanda: Good morning ladies and gentlemen. I will just a quick introduction about the people who are present from the company side. My name is Thimmaiah. I am responsible for the India business as well as the Australia business and I am the Managing Director for Meritor in India and all the interest of Meritor in India. I will explain how Meritor is selling into Automotive Axles in a while. I have three of my colleagues on the call, Dr. Muthukumar. He is the Whole Time Director and Operations Head and also takes care of export. He is part of my team and he is on the call. Then I have Mr. Ranganathan who is the CFO for Automotive Axles and Renuka she is the strategy and marketing function in the call from the company side.

The way we will run this today is I am going to make a very high level information about the company to start with then I will hand it over to Dr. Muthukumar to talk about the highlights of the last quarter and also product portfolio then Mr. Ranganathan will talk about the financials and then we will open up for question and answer.

This is probably the first time we are hosting this kind of an investor relationship conference for Automotive Axle so I will apologies if we are not up to your expectation. We will take feedback from all of you and we will try to improve going forward if there is any feedback.

To start with let me just talk about the company. Automotive Axle Limited is a joint venture between Meritor Inc., a Detroit based American company into axles and brakes. Meritor is the number one axle manufacturer in the world, independent axle manufacturer in the world and also predominant player in the brakes, both the disc brake and foundation brakes.

Meritor globally has customers mainly into the commercial vehicle segment, industrial and military and we serve almost all the major OEMS across the world and we have presence in North America, South America, across Europe, China, India, Australia and Japan. The other joint venture partner is Bharat Forge Investment, which is led by Mr. Baba Kalyani of Bharat Forge Group. Both the partners own 35% in Automotive Axle and rest of the 30% is owned by the public including the financial institutes. We, Automotive Axles in existence since last 36 years based out of Mysore and we have three manufacturing setup, one is in Mysore which is our mother plant and the biggest. The second one is in Jamshedpur, mainly we do brakes and tag axles there for Tata Motors and then we have in Pantnagar which is mainly catered to Ashok Leyland as our customer.

We also through Meritor joint venture do the aftermarket distribution which is based out of Pune. In terms of product, we do rear axles, rear axle is the drive axle, tag axle, which is a dummy axle, foundation brakes which is the brake drum and brake system and now recently we have launched suspension for the commercial vehicle segment and all these products we do it for commercial vehicles, which includes trucks and buses and also industrial which is wheel loaders, backhoe loaders and multi-axle military applications, which is mainly produced by the OEMs for the military supplies.

We are also covered in terms of the wide variety of products from 7.5 tons GVW vehicle up to 49 tons and we serve in India, we serve almost all OEMs. Our major customer is Ashok Leyland followed by Mahindra, Tata, Daimler, VECV, Caterpillar, and TIL. These are all the customers we serve out of India. We also have export business. Mainly our export business goes into the Meritor companies; however, we also recently won and launched an export business to Volvo in Thailand. Last month we started the production for the Thailand Volvo business, which is a predominant and significant business we are doing.

With this background, now I will hand it over to Dr. Muthukumar and if any one has any questions we will take it during the question and answer session. Muthukumar please.

N. Muthukumar:

Good morning ladies and gentlemen. I will talk to you, I think, Mr. Thimmaiah explained about the base of our company. We have at multiple locations where he said Mysore is Mother plant and Pantnagar and Jamshedpur are other plant. We have more than 2000 employees working in the company and if you look at the market position of us we are number one in axles for independent manufacturer of axles supplies and in terms of brake supplies we are number two, and suspensions we are entering into the market.

Last year for the financial year FY2018 we completed with a revenue of 1558 Crores with an EBITDA of 172 Crores which is 11.11% and a PBT of 128 Crores which is 8.2%. Ranga subsequently will take you through the details of the quarterly results also. Before going

into the financials and all I would like to take you through the product that we offer to the customers. Meritor has been predominantly globally a commercial vehicle and that too with a heavy commercial 12 tons and above, but India being credited with a lot of its acumen, we develop a lot of products and we are right from 4 tons segment, we are in the market now. We have axles and brakes which is used for light vehicles, these are 4 tons vehicle, we call 10x in our nomenclature and we have axles from 11x 120, 160 depending on the axles load capacity and also the crown wheel stent what we say.

We also make largest axles, hub reduction axle and we also have some speciality products. We make axles to the level of 110 axles. Our predominant presence is in the tipper segment in the commercial vehicle even though we make axles for long haul and other ICV specialties. We also make specialty axle called hub reduction axle in India, which is very, very unique, which is used for high tipper application particularly in mining application and we give a premium product, which is well accepted in the market, so we have products for end-to-end of the requirement and we have a dedicated development team, which ensures that we understand each and every application of customers and design a product, which is very, very unique to them which is a cost competitive solution rather than supplying axles we give a cost solution to the customers, which makes them competitive in their business, so the slide shows the entire range of axles from 4 tons to about 110 ton axles. We also make axles, which are very, very economical. It is considered that Meritor axles are always 1% to 1.5% better in fuel efficiency and the axles are around 5% better on the light vehicle. These two are unique features of our axles.

Similarly, for the entire range we also make brakes, which is 3 tons brakes to 4 tons brakes, are available. We also have a global design that is used for India and being present in India we also have a specialty. We know the Indian application into the depth and breadth so we especially design some of the brakes and axles, which takes care of the Indian requirement. Those are the product gentlemen that we have right from light to medium and heavy and may I now request Ranga to take on through the financials.

Ranganathan S:

Very good morning. I am in the slide #4. On the left hand side the quarterly performance has been displayed. Just to highlight revenue for the quarter is 499 Crores as compared to the last year the same quarter about 351 Crores, and the growth is about 42%. EBITDA for the quarter stands at 12% and the same in the last year is about 11.6%. EBIT at 9.5% which is 8.8% last year the same quarter.

When it comes to the whole half-year performance is concerned, we have done about 973 Crores as compared to 679 Crores the same half-year last financial year. The revenue growth is about 43%. EBITDA stands at 12% and the half-year also compared with 10.4%

first half of the last year. EBIT at 9% versus 7.4% in the last year at the end of 2% points as compared to the last year.

Going to the slide #5, a quick outlook of this financial year is concerned, now we are expected to close this financial year somewhere around 1900 Crores and 2018 we did about 1558 Crores and we are expecting around 22% to 25% growth in that period. So, EBITDA at the end of the year we are also expected to call out on 12% and PBT will be at 9%, and we also put some very important points, which might impact our performance. As all of you know the automotive industries and now the commodity price has continued to be a major pressure though we get back the back-to-back commodity increases from our customers, but definitely it has an impact on the percentage when we compute the margins, so that is one of the continuous pressure on getting the EBITDA percentage.

So however, there has been a cost improvement plan and the continuous control of the fixed cost, I think we would be able to manage and do it better. All of you know that we are under capital expansion plan, so the next half-year we might have an additional impact coming up on the interest cost as well as the additional depreciation because of additional fixed asset capitalization. So that will have a slight bearing on the PBIT on the second half of the year. That is broadly about the financial performance.

Slide #6, broadly it gives an outlook of how we have moved from 2012 to 2018-2019 at this moment, so you could see the growth year-on-year what we have seen that probably is self-explanatory unless somebody has specific question we can definitely answer. Our performance has consistently grown more than the revenue side and the EBITDA and PBIT side. Other strategic initiatives, I will ask MD to address it.

Thimmaiah Napanda: One more input I would like to tell is as you can understand the commercial vehicle market is going through a really good times we found the need of expanding because we have won businesses, which needs additional capacity, we are infusing capacity at our Mysore factory at this point of time. Our capacity should go up into the tune of around 25% more and at this point of time, we have full visibility to use that capacity on an ongoing basis unless the market really comes down. So that is one big investment we are doing in Mysore and also we continue to win businesses across all our customers. The Volvo I spoke about is the new business we have won. We are winning with the Tata. We are winning with VECV. We are winning with Ashok Leyland, Mahindra, and all the customers we are taking new businesses. We have also continued to launch new products. In the last four to five years, we have launched at least seven to eight new products into our portfolio and we continue to invest on that. If you can know the new axle rerating legislation is also driving some of the changes into the product required for the market and we are going to bring those products into India and launch with the customers. In terms of expansion, we are also looking into

expanding our footprint not only in Mysore, Jamshedpur, and Pantnagar, we are also probably going to expand and put an additional facility for suspension in Hosur as well as we have a land in Pithampur around 40 acres purchased some years back, we would probably build a factory there depending on how the market is going to turn out to be.

We have one more slide, Ranga do you want to just talk about that slide.

Ranganathan S: The slide is basically talks about how is the revenue growth, which is M&HCV market growth, and probably we are at the market or slightly above the market as far as the growth rate is concerned. So that probably talks about how we are putting our efforts in terms of the grow beyond the market growth.

Thimmaiah Napanda: With this we conclude our presentation and we will open it up for question and answer please.

Moderator: Thank you very much. Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Nikunj Doshi from Bay Capital. Please go ahead.

Nikunj Doshi: Good morning to all of you and thanks for this new initiative for investor relations. First question, just wanted to understand what is the relationship between Automotive Axles and Meritor HVS India? I believe you are routing our sales through that entity?

Thimmaiah Napanda: Meritor MHCVL, we call Meritor Heavy Commercial Vehicle Limited that is a separate legal entity in India. Actually if you know that Automotive Axles is a joint venture between Bharat Forge Investments and Meritor; however, all the product IC is being controlled or provided by Meritor because Meritor has a global leadership into this product range as per the agreement, the entire engineering is being done by Meritor and all the engineering products, engineering activities done by the Meritor entity and also as part of that agreement majority of the sales and marketing activity is also done by that legal entity. So, I do not say 100% depending upon the agreements for product-to-product between the two companies, most of the sales are routed through Meritor HVS because that is how the joint venture agreements have been found.

Nikunj Doshi: So, shall we assume that instead of paying royalty we are paying them and giving them chance to our marketing margins out there?

Thimmaiah Napanda: Yes, partially true, but there is also a portion of royalty is also there.

Nikunj Doshi: Another thing wanted to understand is we have introduced eight new products as you mentioned, so per vehicle if you assume X to be the selling price, sales value earlier, with new product introduction, what it will become?

Thimmaiah Napanda: I think suspension is the one product which we have introduced which will increase the value of our content per vehicle increase that is going to happen, I think it is going to increase at least by 25% to 30% more. Our content if it is say for example, 8% is our content that will go up to around 12% level because of the suspension. In terms of the other new products I was talking we were not present saying the light commercial within the M&HCV we were not there in the lighter side of the vehicles which is 7.58 tons, 10 tons, 12 tons, over the last few years we have gone back and plugged those products into those gaps what we had and now we cover the entire range from 7.5 tons to 49 tons. This is what we have done on the brake side as well.

Nikunj Doshi: Thanks. I will come back in the queue if I have more questions.

Moderator: Thank you. We will take the next question from the line of Sanjay Shah from KSA Securities. Please go ahead.

Sanjay Shah: Good morning gentlemen. Thanks for a wonderful presentation and coming back on the platform of concall and thanks to B&K also. Sir, my question is regarding the technology what Meritor has and the new technology what is coming in. Can you elaborate on that because this new product and new technology how it is accepted in the decision of you expanding in the footprint at Hosur and Pithampur is towards the new technology?

Thimmaiah Napanda: This expansion is into the capacity. Like for example, Hosur is going to be for our new product, I spoke about the skipper type suspension; however, technology wise, as we are the number one axle and brake maker in the world and we have all the products exist in our worldwide engineering platform; however, India needs very specific application activity. We cannot just bring the product from US and launch it here so all the application work and fine-tuning of that particular platform happens in India and we have an engineering team in Meritor in India to support Automotive Axles on that front. That said, if you talk about we are going to bring in the higher performing products for the market like for example, the new axle rerating has happened over a period of time it will call for a better performing product, number one, BS6 is getting introduced in April 2020 so there is a different kind of products are required which has to be high performing, light weight products are required, so that is the second thing, which we are bringing and launching it with customers. The third one is we are also going to launch the electric axles for e-vehicle. So which is mainly if you see in India also talking a lot of things have been coming up in the e-vehicle platform we Meritor as globally has an e-axle which is going to replace the current axle as you know

the e-vehicle is not going to have engine, gearbox, and transmission, propeller shutter etc., however, one of the technology what we are developing will have an axle, the motor is mounted directly on to the axle and that is going to drive the vehicle, so we are developing a product globally and that product we are intent to bring it to India also. we have been speaking to the OEMs, the prototypes are going to be ready in another few months of time, we are going to use that and launch it in a few of the customers as a trial basis to start with.

Sanjay Shah: Sir, right now what is the royalty percentage we pay to the Meritor for bringing on this technology?

Thimmaiah Napanda: It is different for different products. Depending upon the amount of engineering work is involved for that particular product it is very different. If it is a standard product it is lower, if it is a very special product, new technology it is a little higher.

Sanjay Shah: So every time it varies from product-to-product?

Thimmaiah Napanda: Little bit.

Sanjay Shah: Any benchmark if you can guide us?

Thimmaiah Napanda: I do not know whether I can give you that number or not, but it is as per the industry practice.

Sanjay Shah: I will come back in queue for more questions. Thank you very much.

Moderator: Thank you. The next question is from the line of Pratik Poddar from Reliance Mutual Fund. Please go ahead.

Pratik Poddar: I had a couple of questions; one is could you just talk about how much is your market share in axles and in brakes? You talked about number one position and number two, but a broad quantitative number what will your market share?

Thimmaiah Napanda: On the axial side if you see one of the biggest vehicle manufacturer Tata Motors majority of the axles they make on their own, so which means that much of market is not available; however, we are working with them, we have launched around three new products with Tata Motors and we are supplying axles to them and one of the initiatives we are working on is how do we increase the penetration with Tata Motors. Similarly, Daimler to some extent make their own axles. VECV makes their own axles to some extent. So if I take the captive out, then we have around 70% market share for axles and for brakes we have 30% market share and if we include the captive also into market share calculation we have around 29% market share.

Pratik Poddar: For the axles, right?

Thimmaiah Napanda: On the axle side, yes. If you include even the captive ones which is like the Tata or VECV and Daimler produces the captive, if we include that we have 29% market share and if we take the captive one out because that is not available for the suppliers then we have more than 70% market share on axle and brake we have 30% market share.

Pratik Poddar: Sir, why is that OEMs are doing more of captive and not outsourcing? Is it prevalent globally also?

Thimmaiah Napanda: No. Actually speaking this is historical according to me. Data for example, they used to make even nut and bolt when they started making vehicles, but over a period of time, they are all outsourcing. Like for example, if you see that they used to make engines also by themselves then Tata Cummins came in they started using Cummins Engine. So historically everything was made by OEMs and their stores, slowly they are taking the noncore products for them out of their scope. That is what happened for other OEMs and we believe that in the long run the OEM should decide to concentrate more and more on the vehicle integration, vehicle technology etc., rather than concentrating on the component side. Globally, it is a little different. In the US for example, there is no captive, everything is being outsourced to the people like us and in Europe, some of them are captive, some of them are outsourced, they have their own challenges in terms of factory, existing factory union, etc., so they are difficult for them to outsource. But over a period of time the trend could change and that is what we are seeing across the world.

Pratik Poddar: When it comes to like-to-like axle is it fair enough to say the selling price or the value proposition of our axles would be better other than what a Tata's or some of these captives are doing in-house. Is it fair to say that?

Thimmaiah Napanda: As a technology leader in the world, we definitely would say that.

Pratik Poddar: Understood. Sir, just one question, you talked about new axle rerating will also drive the growth. Could you just specify how much would be the value growth for the new axle?

Thimmaiah Napanda: At this point, I do not think, I can put a value. The reason is still the market and the OEMs are trying to understand what it means. That has come so sudden they are still trying to use the existing products to meet the new requirement. It is going to take some more time to really understand whether these components in the vehicles with a higher rating whether that is okay to the end customer or not. I think we need some more time to assess that; however, we are trying to bring the new products and we are already talking to the OEMs to bring and replace the existing ones with a higher capacity axles.

Pratik Poddar: Sir, but some of the OEs have already got ARAI approval if my understanding not wrong and they are supplying the new vehicles with the new axle loads, right?

Thimmaiah Napanda: Yes, correct and that is what they are doing is that is an interim they have gone ahead with the existing subsystems. They have not changed it. So that is what we believe that when it goes, ultimately customers should require higher power and that is one. Second thing is with the infrastructure improving the speed of the vehicle going up, increasing and also the productivity of the truck is going to go up, the end customer will start asking for higher value trucks, which means that it has to generate more power so as it has to cover more mileage, it has to give a very high productive truck and for that probably we do not mind paying more and that is the time when everybody will start looking for higher performing vehicles which also drive into higher performing subsystems that is why we are going to be ready with that kind of a product.

Pratik Poddar: Sir, in one of your opening comments you talked about you continuing improving business from the VECV, Volvo, AL, Mahindra and Tata's does that mean your market share is improving and the captives are not outsourcing? Is that the reason why you are winning market share or it is basically from competition?

Thimmaiah Napanda: I think it is both, I would say. Not competition, because our competition you know, as you said that if we take the captive out, we are more than 70%, so more than that I would say that it is a combination of everything. We have improved our market share almost by around, it used to be around 20% say five years back and now I can say that we are at around 28% to 29%. So year-on-year we are able to improve our market share through a combination of all the things. We have improved our market share. We used to be around 20% say five years back and now I can say that we are at around 28% to 29%, so we are year-on-year we are able to improve our market share through a combination of all the things.

Pratik Poddar: Okay some market share gain from your competitors and others is basically they see it in the business to you as captives are outsourcing that to you, right?

Thimmaiah Napanda: Yes true.

Pratik Poddar: Sir, incrementally if I were to see the pace of since you added 70% share now captives really have to give a lot of businesses to you, for you to grow, right?

Thimmaiah Napanda: Yes that is true. Take for example, we used to have zero penetration with Tata Motors, now I can say that we have around 3% to 4% penetration, so that is what we will continue to do. Increase the penetration with captive OEMs.

Pratik Poddar: Understood. Sir one last question and I will jump back into the queue. For suspensions, you talked about your content will increase by 25% once suspensions come in, can you just give me the absolute level, what is today, your absolute content per vehicle to judge how much can the suspension increase by?

Thimmaiah Napanda: I do not have a readymade answer. The reason is it is different for different vehicle segment because for a lower vehicle, lower tonnage vehicles it should be high and higher tonnage vehicle it would be high. And also it depends upon whether it is a solo axle or a single axle or a tandem axle, or a hub reduction axle. So it is very, very different. Maybe I will come back with a little more concrete answer during our next call.

Pratik Poddar: Great. What kind of suspensions are we making and who is our competition over here?

Thimmaiah Napanda: This is called slipper type suspension. Mainly if you see currently most of the rigid trucks are being used, which is called as a bell crank suspension, we are trying to replace the bell crank suspension with a slipper type suspension. It is like a leaf spring bracket combination suspension. What we are trying to do is a very, very innovative product, significant benefit in terms of tyre wear reduction, maintenance reduction, etc., Competition is all suspension people are the competitors. You know it is Hendrickson, it is Jamuna, it is all the people who make the leaf spring and mostly these suspensions are made by the OEMs themselves so we are working with the OEM to make them outsource this to us and we were successful with our biggest customer, so I think that will progress with our customers as well going forward.

Pratik Poddar: Sir, my understanding was Jamna Auto has a 90% to 95% market share when it comes to these spring leaf suspensions, so is it market share gains or this slipper type suspensions are basically market share gains?

Thimmaiah Napanda: I think if I know well, Jamna Auto supplies the springs, so even for our axle we will probably continue to buy the spring from people like Jamuna or somebody. We are not going to make the leaf springs. We are going to give the overall technology and buy the leaf springs and supply to the OEMs. So it is a total system we are going to give.

Pratik Poddar: Earlier this was all in-house, so basically the OEs were buying the leaf spring, now it is you who will buy the leaf spring and make the entire solution and then sell it out, right?

Thimmaiah Napanda: Something like that yes.

Pratik Poddar: And Sir just one last question. Just going back to the brakes you talked about 30% market share for brakes my understanding is a bit limited over here, but even in brakes is there a captive element or there is no captive element.

Thimmaiah Napanda: There is no captive element in brakes. In India the commercial vehicle brakes there are only two people supplying, M&HCV. One is us and second is our competitor. Our competitor has around 65+ kind of share and we have around 30%+ kind of a share.

Pratik Poddar: I will get back into the question queue. Thank you so much, Sir. All the best.

Moderator: Thank you. The next question is from the line of Bharat Seth from Quest Investments. Please go ahead.

Bharat Seth: Thank you Sir. Taking the cue from the previous question, this suspension in the next three four years in your holistic approach if you have how big revenue contributor you would look for?

Thimmaiah Napanda: As of now we are still as I said, it is a very initial period, it could probably contribute to around, we will be growing in the rest of the businesses as well. So, it could be around say 5% or so, between 5% and 10% I would say.

Bharat Seth: In the initial remark you mentioned some of the better efficiency, BS6 and heavy and light weight so with BS6 how do we see the opportunity for our share because the typical OE, which were manufacturing in-house, do you think that they will start outsourcing more exiting also?

Thimmaiah Napanda: I think that is what we wish and also we work towards that. I think we are also seeing that happening. Some of the product ranges we are now supplying to Tata for example this is an high efficiency product, so we believe that in the long run that is what will happen and our initiatives are towards that how can we penetrate more with the customers who are making their access in-house.

Bharat Seth: This Auto Inc., who are our major competitor in axles?

Thimmaiah Napanda: In axles we have a company called Dana an American axles. These are the two people who are direct competitor and they are also the global competitors.

Bharat Seth: In brake side there are only you said HCV two player, one is the Belgium based company.

Thimmaiah Napanda: Yes, Brakes India limited.

Bharat Seth: Sir, who do we see market also in overall with the change in the norms which are coming more of efficiency per content per vehicle which is currently 5% going up in the next five years, in longer-term phase.

Thimmaiah Napanda: Brakes if you see the content is increasing substantially the reason is if you really see the India majority we should have a four-wheeled vehicle, the only two set of rear wheels now that is called as 4x2 now you have 6x2 then 8x2 then 10x2 now the OEMs are trying to launch 12x2 and trailer is also getting increased, which means when the number of wheels increases on a truck the brake also increases, so earlier our benchmark was for example, around five brakes on an average I am just saying per vehicle, now that is going to around now seven brakes per vehicle because the number of wheels on the truck is getting increased substantially.

Bharat Seth: That is I mean increase in the tonnage of the vehicle?

Thimmaiah Napanda: Yes tonnage of the vehicle and also they are increasing the number of axles. If you see an old vehicle earlier we used to only have one rear axle, now if you see that 10x2, there are three axles in the rear, so all the 10x2 vehicle for example, it will have 10 brakes per vehicle.

Moderator: Thank you Mr. Seth. The next question is from the line of Sachin Trivedi from UTI Mutual Fund. Please go ahead.

Sachin Trivedi: Thanks for the opportunity. Thanks for this call. Just one question is with respect to the exports, so what is our current exports to and our future understanding basically with respect to our parents, which all can we do and export on independent basis to third party countries, if you can elaborate what is our understanding there and which all territories we do exports to?

Thimmaiah Napanda: At this point of time, we are around 5% and we are targeting to grow it to around 10%. Mostly we supply the systems and subsystems to our parent company which is Meritor; however, as I said that we are also now started supplying to Volvo in Thailand directly, for which we need an approval from Meritor because we are supposed to be the only India only territory, but like Thailand we got an approval that is not I do not see a problem, but we have continued to work on these how do we penetrate with outside India customers as well and our target customers would be mostly the Asians, the Japanese OEMs in Thailand, Malaysia and Indonesia, Japan, etc.

Sachin Trivedi: So, this Thailand opportunity has already got approval from Meritor or yet to get approval?

- Thimmaiah Napanda:** We already have the approval. We just started supplying from this month actually.
- Sachin Trivedi:** How big would be our order book in this business?
- Thimmaiah Napanda:** It seems to be very good actually. Thailand is a steady market. This Volvo they have replaced its axle with our axle, they used to have so there is a running product we have just replacing our competition and then we are getting it. It is a good market.
- Sachin Trivedi:** Just one last question on this, so if I were to understand this is a recurring type of order, this is not just one of testing order?
- Thimmaiah Napanda:** That is right, in our case, whatever business we win that is a recurring order. It will go for years, five years, 10 years, every year.
- Sachin Trivedi:** So, this can take our exports from 5% to 10% or will we have to take more initiatives to take it to 10%?
- Thimmaiah Napanda:** This Volvo would take to 10% but that is still one of our focus areas, how do we increase our export business of ours.
- Sachin Trivedi:** Okay. I will join back the queue. Thank you Sir.
- Moderator:** Thank you. The next question is from the line of Navin Matta from Bajaj Alliance. Please go ahead.
- Navin Matta:** Good afternoon Sir. Thank you very much for this opportunity. I have a question basically on this BS6 migration. How do you see the content for us would it increase, you have mentioned about it in buses but if you can give some more colour?
- Thimmaiah Napanda:** I do not think the content would increase substantially because what OEMs are looking for in the BS6 is a higher performing product with a lightweight. In our terminology, the gear ratios will change to give more efficiency into the BS6 vehicle, so this is I do not think so content will increase for us, but our value could increase little bit but this is our technology will keep us ahead of the competition and also increase our penetration.
- Navin Matta:** Secondly Sir, how do you think about the cycle per se given that FY2020 is potentially see some prebuy and then where the demand will open post that, Sir how are you seeing the next couple of years for the cycle?
- Thimmaiah Napanda:** Our assessment says that the market should be very good for the next 18 months or so till the BS6 implementation is going to happen because of the prebuy and definitely there

would be some kind of an impact will be there. How much nobody knows post BS6 implementation; however, we also are banking on the scrapping policy which would implemented by then to offset some of the drop.

Navin Matta: Sir, in this context, I think, you had mentioned about getting more share of business from the OEMs who are doing captively as of now, just to get more sense on this so basically what is happening there is those guys are not putting up any fresh investment, but they are not like shutting down their axle facility. That has not happened right?

Thimmaiah Napanda: Correct. They are not shutting down their axle facility for sure. I do not want to comment on that but I want to tell as generally it is where they want to invest in technology, whether they want to invest into axles or engines or something else or they want to invest into electrical vehicles or high end vehicles what the customers would require. That would make the final decisions for them whether they want to continue to invest into R&D of these components or it is better to buy from an expert.

Navin Matta: Sir, if I take about, if volumes or if the cycle were to turn downwards, it would so happen that these guys they would feed into their own captive capacities initially, which could mean that there would be another need to be independent, is that something that you will look into?

Thimmaiah Napanda: Sorry I did not understand. Can you please repeat?

Navin Matta: Sir, I was saying that in case there is a demand slowdown in that case what will happen is basically in relation the demand would actually first cater to the tractor axle manufacturers which would actually mean that there would be a higher negative impact on the import guys?

Thimmaiah Napanda: Yes and no. Yes, is theoretically you are right, but if you really see some of the programs we are launching it as an independent unique parts, so for them to duplicate it is not so easy. In our system, if you see that any new axle to be launched it takes at least two years for anybody to launch it, so in that way it is not that one-to-one replacement most of the cases.

Navin Matta: Lastly Sir, we have done really well in terms of our margin expansion over the last couple of years, so just wanted to understand how do you see it going forward, what is the trajectory and any indicative targets that you may have?

Thimmaiah Napanda: Our endeavor is to continue to work on margin expansion. We are doing a lot of work on engineering side, in purchasing side, to see what all we need to do and we will continue to work and as a management our target is to continue to expand. At this point of time, I do

not think we can share a number but we will continue to work and try to repeat the performance of the last few years.

Navin Matta: Thank you so much.

Moderator: Thank you. The next question is from the line of Vinay Sarthy from Anand Rathi. Please go ahead.

Vinay Sarthy: Thank you Sir. Just have a question, could you help me understand the market size of brakes and suspension and the ECV market?

Thimmaiah Napanda: At this point of time, in our segment where we play 7.5-tonner and above is around 450000 vehicle market. Now it depends upon axle for example, rear axle there are some cases, there is one axle, some cases there are two axles which is a tandem axle, we call, then normally we multiply by 1.2 to get into an axle, which is like 450000 into 1.2 will give you the number of axle market and number of brakes we normally multiply that by 5.5 to 5.6, number of vehicle into 5.5 will give you the number of brakes.

Vinay Sarthy: Sir, how different is your realization between a 12-ton and axle or an 6x2 vis-à-vis a 10x2, what is the difference in the realization and what calls for the difference if you can help me understand?

Thimmaiah Napanda: Realization let us say 4x2 in 8-tonner is a smaller axle, smaller vehicles smaller axle. Say 10x2 for example will be a bigger axle. In our term, we call it as one we call it as an RS120 or RS13x and the other is 160, the size is different, the rates are different, products are different, so I just will give a rough estimation, so for a 8-tonner to 10x2 the value could be double.

Vinay Sarthy: What will be the average realization for an 8x2 vehicle axle?

Thimmaiah Napanda: The price information, I do not think I will be able to give because it is as I said it is so different, the scopes are different, some customers take the total bracketry, some does not take with total bracketry so some takes with the entire wheel and assembly and some do not. So it is very, very different for different customers and product lines.

Vinay Sarthy: Sir, on your suspension, so you talked about the entry about suspension, could you help us understand Sir, what is that you will be making in suspension and how you are complementary to Jamna Auto and not competitor if you can help me understand again?

Thimmaiah Napanda: Jamna Auto mainly they are into leaf spring manufacturer, we are not going to make springs. Our fore is going to be the technology which means the design development we

will do it then in the bracket equal amount of value wise, if you see that whatever the spring value equal amount of value exist in the various kind of brackets, and bushes and bearings and those kind of things. That is our core. We will do engineering, design and do all the assembly activities, mostly buy all the components and do some of the bracketry, machining etc., we will do, and we will do it as a total system, kit and give it to the OEMs and we will complement because we will buy the leaf spring from people like Jamna or anybody else.

Vinay Sarthy: Do you sense any export opportunity in this business for you?

Thimmaiah Napanda: At this point of time, we are the first one to launch the slipper type suspension in the Meritor system in India so we want to, yes, there is definitely an opportunity, but we want to see how the product performs, work for a year or two, stabilise it and then you go back and start working and to see that if there is an export market. At this point of time, it is lot of time and resource required, bandwidth is required. We want to prove the product first before we take it to the global market.

Vinay Sarthy: Thanks a lot.

Moderator: Thank you. We have the next question from the line of Ashwini Kumar from Reliance Mutual Fund. Please go ahead.

Ashwini Kumar: Good afternoon. Two things; one this company has been trying exports for a very long time, and they have been exporting gear sets rather than complete axles in the past. What would it take for you to really become a complete axle supplier because I understand your cost structure, your quality is Meritor quality and cost structure must be really beneficial, so despite Meritor having plants at many locations, you would have some opportunity to expand in the higher end axles as well. So what is your response to this.

Thimmaiah Napanda: Little bit of departure is the Volvo Thailand program what I spoke about which is going to substantially increase and also we are working with them to take additional business from them. That is one thing. That is what exactly you said the direction is that what has happened and we have won the business. We have started the production this month. Back to any other market say Europe or US one of the challenge we have is the weight of the product is very high and the logistic cost number one is very high. Number two, we have Meritor present in all those markets and the market is very volatile and you know the customer wants that customization to be done locally. That is the reason we ship housings and drive shafts from here in a dismantled condition and assembly is being done by Meritor factories across the world because there is so much of changes happen in the requirement then it becomes very difficult to cater with this kind of a lead time.

Ashwini Kumar: Sir, second in India for example in Tata Motors overall if we look at them, they have 21500 odd vehicles in the segment where you are very strong, what would it take them to really change and become an important customer for you and second in terms of import localization, are there any other products which you can supply to defence, adjacent to what you are doing as of now to defence in the vehicle component category where either the trucks are being imported, you could localise some parts for them. Is there any other application besides what you have mentioned in suspension? That is all. Thank you.

Thimmaiah Napanda: We are looking into two different things. One is the axle for the defense. For example, today if you see that most of the OEMs started making these multi-axle defense vehicle for which we are and we will continue to pursue to get the axle, these multi-axle for defense and second is the government is also coming up with an independent suspension product for the defense vehicles. Meritor has got an independent suspension technology in the US so whenever the customers that the defense wants these independent suspension, we would be one of the top players to introduce these independent suspension into the defense market. I think that is on the defense side.

Ashwini Kumar: The Tata Motors part basically because it is one of the large manufacturers and as a dominant share and the company has been trying for a long period of time to break into Tata Motors, they have their own independent captive thing, and with let us say in the next few years, what would change the stance of Tata Motors to outsource it from not 100% from Automotive Axles, but let us say what would change this equation, they have begun to outsource? What would be the compulsion technologically with solution which you can provide which they cannot do internally in your opinion?

Thimmaiah Napanda: Say for example, it is all about we as a Meritor globally like any of us people like us, our competitor as well, they continue to invest into the upgradation of the product. Say for example, we are doing a lot of work to upgrade the products from existing to the next level to lightweight to improve the performance, also improve the fuel efficiency etc., again the same thing Tata Motors kind of people they also need to do that investment in engineering. Now it is their call whether how long they want to invest into these kind of engineering work for Axle or is it better to take it out from the OEMs. One of the deterrent is of course the price. They expect the pricing to be equal to their costs, so that is one of the biggest barrier and at some point of time they would realise they cannot just look into their, their internal cost should be the price, but there is a value in not investing and diverting their resource into something else than axles or that kind of a product. I think that is going to be the point; however, as I said that we got a lot of new RFQs, we started getting from people like them and we have won couple of programs, like say for example, Tata's Ultra series, most of the axles we are going to supply.

- Ashwini Kumar:** Thank you. Wish you the very best.
- Moderator:** Thank you. We have the follow up question from the line of Pratik Poddar from Reliance Mutual Fund. Please go ahead. Since there is no response from the line, we will move to the next question that is from the line of Nikhil Oswal from Stallion Asset. Please go ahead.
- Nikhil Oswal:** Good afternoon Sir. Congratulations on a good set of numbers. Most of my questions are answered, but the only question I have is regarding capex. Sir you just mentioned about the new capacity coming, additional capacity of around 25% in Mysore, so what would be the capex for that and how would you fund that capex with debt or internal accrual because we have nearly a zero debt company so how would you go about it?
- Ranganathan. S:** Overall investment is close to about 250 to 300 Crores that range and the capacity is mainly coming up in Mysore, but we are also expanding capacities at Jamshedpur and the Pantnagar plant, so close to 300 Crores, the major portion will come in Mysore being the mother plant, being the only manufacture of the axle plant, so that is how we serve the clients.
- Nikhil Oswal:** But Sir, it will be from internal accruals or you will be going for debt?
- Ranganathan. S:** I think it is 50:50. Close to about 50% comes from internal accrual and balance 50% will be borrowing.
- Nikhil Oswal:** Can you please give me the capacity utilisation of each plant like the Jamshedpur and Mysore?
- Ranganathan. S:** Today we are utilizing more than 100%. We are working seven days, so it is more and I would say that we are at capacity?
- Nikhil Oswal:** So, all three plants, are utilizing at more than 100%?
- Ranganathan. S:** Correct at this point of time, yes.
- Nikhil Oswal:** Thank you. That is all from my side.
- Moderator:** Thank you. The next question is from the line of Ayush Mittal from Mittal & Company. Please go ahead.
- Ayush Mittal:** Good afternoon Sir. It is a follow up question from the previous question what would be the current capacity and what will be our utilisation currently and by when do you expect the capacity expansion to go on stream?

Thimmaiah Napanda: We are talking about taking our axle capacity to around 20000 level, brake to around 120000 level.

Ayush Mittal: 20000 level per month, I believe.

Thimmaiah Napanda: Yes correct.

Ayush Mittal: What is the capacity currently?

Thimmaiah Napanda: Currently we have around 14500.

Anand Dama: 14500 and what would be our utilisation? I believe we are already running on peak utilisation?

Thimmaiah Napanda: As I said, we are running in more than capacity because we are working all seven days three shifts.

Ayush Mittal: Will this expansion happen to 20000 tons?

Thimmaiah Napanda: Sorry, when?

Ayush Mittal: By when will this expansion?

Thimmaiah Napanda: We plan to do it by February.

Ayush Mittal: Second thing if I look at your financial, I see that the depreciation charge that we take is very high when we compare to the gross block that we have. For FY2018 our depreciation was almost 40-odd Crores on a net block of 110-odd Crores?

Ranganathan. S: Probably one could be the reason that earlier we were actually I am talking about the year before, not all the assets have been fully utilised. For the last about three to four quarters or one year I see that it is 100% on three shifts fully is running at the moment. So that is the main reason for it.

Ayush Mittal: But it has been at this high rate for the last two to three years, I believe and if I calculate the date, it is as high as 30%, which we have not seen in any of the other company?

Ranganathan. S: That is the standard it goes, so there is no specific reason for the higher depreciation here. I got your point. I will probably come back to you with the specific reasons. We do not see any abnormalities compared to the market so that the depreciation is being charged as per the other standards, so only change we had were earlier running at two shifts and some of

the machines are not running, now we have every machines are running in three shifts. We are running at a willful capacity, so that is one difference that the depreciation rates have gone up, but other than that I think there is no kind of change in the methods of depreciation what we have done. So anyhow I take your point, I will come back to you.

Ayush Mittal: Sir, any comments that you can give about the market in the near term that we are seeing. Are you seeing any slow down in the market from the commercial vehicle segment in the near term?

Ranganathan. S: If you compare to month-over-month, there could be variation, but otherwise like for example, last month for example, October production was very high, so November they are little bit slowing the production of OEM perspective, sales also a little, month to month there could be a variation, but I do not see if you take a quarter or a full year personally we do not see any slow down happening. It will be a growth for sure.

Ayush Mittal: And one more thing I have seen in your annual report is a highlight on upgrading of technology wherein you are trying to incorporate robotics and all those things to increase your efficiency, can you tell us more about this what all things are you doing and what will be the effect on our profitability going forward for us?

Thimmaiah Napanda: Actually as I said that the technology and our technology R&D centre those are all part of the Meritor so Meritor is investing a significant amount of money in India on upgrading and building a new R&D lab in Mysore, so that is part of Meritor but that will support Automotive Axles so there is a significant upgradation of our R&D lab is happening. We have exhausted the time, if it is okay with the last two questions.

Ayush Mittal: Thank you.

Moderator: Thank you. We will take the next question from the line of Nishant Vass from ICICI Securities. Please go ahead.

Nishant Vass: Thank you for the opportunity. Sir, my first question is on market share. You had earlier alluded to the fact that over the last few years, you have improved your axle market share from a 20% to around 29% currently on an overall basis. Now I just want if I did the deduction, because you have highlighted on the captive being a large portion is it a fair assumption that our market share of AL is close to 80% to 85%?

Thimmaiah Napanda: Yes, we said it is around 75% to 80% it should come.

Nishant Vass: So, then the delta in market share is largely dependent on the AL's increase in market share, is that a fairly assessment also?

Thimmaiah Napanda: Sorry come again.

Nishant Vass: AL over the last four to five years has significantly improved its market share in the domestic market, so our increase in market share is a large share of that is dependent on the AL's increase in market share?

Thimmaiah Napanda: True, not only that and also penetration has increase with Mahindra, with VECV, Tata also. Yes, one of the reasons is AL's increase in market share, but also the second increase is also our penetration has increased with other customers.

Nishant Vass: Sir, this market share question and the whole thought on captive now if I have to ask you how much of this is also going to be contingent on you wanting to significantly invest in near customer locations for likes of Tata for them to be considering say for example, change of market share or change of captive from moving to how much of that would require you to further invest on capacity, plant location capacity?

Thimmaiah Napanda: On axle side, I do not think. For example, we will invest unless we get the business, if I say for Tata, otherwise we will supply Tata from Mysore or the other factories.

Nishant Vass: Right because I am coming from the fact that industry is going into a massive change in BS6 so I am presuming you would have given out a really hard proposition to Tata to kind of go into when they are going into the next new regime to kind of consider you as a higher share of business, so if this is fructifying you would be probably seeing something happening right now, right?

Thimmaiah Napanda: On the footprint side, that is what I said, we will probably build a new factory in the middle of India, which is probably Pithampur we have a land and that is our plan is to cater all the regions from there, elastically it is easier for north and east, and also to the Central India. So that is what our plan is and that is the reason we are building and expanding, of course we are expanding Mysore, but also the next expansion is going to be Pithampur which should cater all the regions.

Nishant Vass: Sir my last question is on brakes. On market share per se, this 30% market share is it again spread out across customers or is it very AL heavy as a market share and others are relatively lesser?

Thimmaiah Napanda: Our market share of AL as well as Tata Motors. We have a significant market share with Tata Motors also.

Nishant Vass: So we can assume that both the large players you are around 30% at least?

Thimmaiah Napanda: Correct.

Nishant Vass: Thanks a lot.

Moderator: Thank you. Ladies and gentlemen due to time constraints that would be the last question. I would now like to hand the conference over to Mr. Shailesh Raja for closing comments. Thank you and over to you Sir!

Shailesh Raja: Thank you very much. On behalf of B&K Securities we would like to thank all the participants and also would like to thank the management of Automotive Axles Limited for giving us the opportunity to host the conference call. Mr. Thimmaiah would you like to add any closing comments.

Thimmaiah Napanda: I think we have answered a lot of questions. We hope to the satisfaction of all of you. Thank you very much for participating. I also thank B&K for organizing this on our behalf and thank you and we will try to improvise going forward and one more thing we also have discussed is we will have these investor conferences every quarter after the board meeting and we will try to keep you posted on what is happening with our industry and with our company so that you have a complete information about our company.

Shailesh Raja: Thanks Sir. We could close now.

Moderator: Thank you very much. Ladies and gentlemen on behalf of Batlivala & Karani Securities that concludes this conference. Thank you for joining us. You may now disconnect your lines.