TENNECO

"Federal-Mogul Goetze (India) Limited Q1 FY-22 Earnings Conference Call"

August 24, 2021

MANAGEMENT: MR. VINOD KUMAR HANS – WHOLE-TIME MANAGING DIRECTOR
MR. MANISH CHADHA – CFO & (FINANCE) DIRECTOR
DR. KHALID IQBAL KHAN – WHOLE-TIME DIRECTOR (LEGAL) & COMPANY SECRETARY

Moderator (Neerav): Ladies and gentlemen, good day and welcome to Federal-Mogul Goetze (India) Limited Q1 FY22 Earnings Conference Call hosted by Perfect Relations 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 Ms. Mamta Sawant from Perfect Relations. Thank you and over to you Ma'am.

Moderator (Mamta): Thank you, Neerav. Good evening everyone and thank you for joining us on Federal-Mogul Goetze (India) Limited Quarter-I FY22 Earnings Conference Call. Today we have with us the senior management represented by Mr. Vinod Kumar Hans – Managing Director; Mr. Manish Chadha – CFO and Finance Director; Dr. Khalid Khan – Director (Legal) & Company Secretary.

Before we begin, I would like to add that some of the statements to be made in today's discussion may be forward looking in nature. We will begin the call with a presentation from the management, after which we will have the forum open for interactive Q&A session.

I will now request Dr. Khalid Khan to start the presentation. Over to you, Sir.

Dr. Khalid Iqbal Khan: Thank you Mamta. Good evening, everyone. Let's go to the second slide, which is about the Company's overview:

The Company was established in 1954 as a joint venture Company and it is one of the leading manufacturers of automobile components. Company is based in Gurgaon (Haryana) and it is engaged in the manufacture, supply, and distribution of automotive components in India and internationally. It mainly offers Pistons, Piston Rings, Piston Pin, Valve Seats and Valve Guides. The Company caters to automotive, heavy-duty motorcycles, energy, industrial power generation, railway, and defense industries.

FMGIL manufacturers world class products at its state-of-the-art manufacturing facility, which are located at Patiala, Bangalore and Bhiwadi. The Company now operates as a subsidiary of Tenneco Inc. post-Tenneco's acquisition of Federal-Mogul LLC.

The Company employs around 5000 employees and it has got three manufacturing sites, two (2) sales offices and thirteen (13) warehouses. It has 30+ OEM customers.

Now, let's come to the shareholding pattern which is as of 31st July 2021:

So, public shareholding is 25%, promoters are holding 75%. In the public shareholding 1.80% is held by mutual fund and 0.13% is held by FIIs and FDI.

Let's go to the next slide. We have on the Board of Directors nine (9) Directors. Three (3) Directors are Independent. Mr. K.N. Subramaniam is the Chairman and Independent Director. And then we have Mr. Sundareshan Pillai who is also an Independent Director. And besides these gentlemen, we have Nalini Jolly, who is an Independent woman Director in terms of requirement of the listing agreement and Companies Act. And then we have Mr. Vinod Hans, he is the Managing Director, myself Whole-Time Director-Legal & Company Secretary. Mr. Manish Chadha is Whole-Time Director-Finance and Chief Financial Officer. Then we have Rajesh Sinha is Whole-Time Director, Sunit Kapur is the Director, Mr. Shaun Merry is a Director. I think that's it from the list of the Board of Directors.

I would now request Mr. Vinod Hans to take it over from here. Mr. Vinod over to you. Thank you so much.

Mr. Vinod Kumar Hans: Thanks, Dr. Khalid. A very good afternoon to everyone. We'll quickly go through the presentation, although most of you joined last time. So, not many changes. So, allow me to go quickly through this.

So, on Slide #6, our competitive strength our credit rating, our long-term A+ and short term A1+.

On the R&D center and global labs. We are very happy that we have a very seamless technology transfer and our R&D center in Bangalore & Bhiwadi, they have a direct access and there is no firewall system on the technology transfers.

With respect to supplies, as Dr. Khalid mentioned we supply to more than 30 odd customers here and within that customer we are nicely segmented between the different segments whether it is passenger vehicle or two-wheeler or commercial, off-highway, industrial so, we will discuss these in the coming slides. So, this diversified segment of course, gives us a little bit leveled performance, because different segments are behaving a little bit differently in the market.

On the liquidity, we still have a pretty good financial liquidity and on the team aspect, very experienced and stable team we have.

On the next slide, on the manufacturing facility as Dr. Khalid mentioned all three facilities we have in Punjab (Patiala), Bhiwadi (Rajasthan) and Bangalore (Karnataka). So, all these facilities are certified to IATF16949 Quality Standard ISO14001 Standard and ISO45001 Standards.

With respect to the OEM market position on the next slide:

We have a leadership position in Piston Ring and Seats and Guides, significantly better than #2 player in Pistons we are overall number two. However, when we strip out between the fuel category and diesel is #1. But overall #2 in Pistons.

On the next slide on the revenue mix nearly 14% of our revenue is coming from export and 86% from domestics, having said this, in this quarter the needle moved a little bit more towards the export side. So, we did a 15% and this needle we believe that we will continue to move forward and we are looking to increase our export pie overall, in the business. And there will be some significant event may be next year, which we'll discuss during the Q&A sessions.

With respect to revenue split by segment as I mentioned that we are nicely split into the segment. So, in passenger vehicle and light commercial vehicle we have exposure of nearly 1/3rd, 36%. On a two-wheeler we have exposure of about 1/4th, 24%. Commercial vehicle trucks 12% and the rest of the segment, which is tractor, energy and industrial, off-highway which is nearly 28%.

So, if you have to see how we have segmented vis-à-vis the electrification challenge which we reference. So, two ways to look into that, you can see from a segment perspective 40% of our business which is industrial, off-highway and also commercial vehicle is largely insulated from electrification. Having said that, there will be in commercial vehicle a small portion of the city buses, which will go on for electrification and within the remaining 60% of the business, into the cities again roughly about 2/3rd of that business will have a more tendency to get electrified rather than the rural where we use a lot of light commercial vehicle up to 2.5 per tonnes.

On the next slide, it's again like we showed in last call also that there is overall drive from the customer to look at the better fuel economy and low emission guided by the Government and durability again I would say more from expectation from customer point of view and in all the three solutions or these drivers of the new engines, we have a role to play. So, our components, whether Piston, Piston Rings or Seats and Guides are nicely answering all these three drivers which are driving evolution for the engines.

On Slide #11, this is more on the focus side and Manish will discuss more during the Q&A session, but our focus is of course to reduce operational costs, we are working on a lower capital intensity options and again some of this we will discuss during the Q&A session. And of course, we are looking at the growth opportunities where, we are looking at for example, a new emission norms coming in, which will give us another push, increase popularity of turbo engines is another I would say area, which is pretty good for us for growth and begin, electrification transition build a mild orbit vehicle is again offer us huge growth opportunity because our revenue content in hybrid vehicles goes up.

Having said that, for a short-term basis our number one priority of the financial perspective is on the commodity inflation recoveries from our customers as well as some of these recoveries, we are passing on in terms of pricing increase to lower our end-users in the aftermarket.

On the next slide, the Slide #12, again on electrification. This is a slide from Crisil. So, the idea of showing this slide is when we are discussing about electrification, so, except for a battery electrified vehicle, which is on the right-hand side, which is using only electric motor as a propulsion system is a threat to us with all other forms, which are micro hybrids or mild hybrids or plug-in hybrids, they all use internal combustion engines and we have a full participation, to all these variants except for pure battery vehicles.

So, with that, I will now hand over to Manish Chadha our CFO to run you through the financials. Over to you Manish.

Mr. Manish Chadha: Thank you Vinod. Good evening, everyone. So, let us go straight through the financial results for quarter ended June 2021:

Our total revenue for this quarter is INR 3207 million, which is 230% better than the previous year corresponding quarter as well as and it is 15% lower from the previous quarter which is March '21 quarter. We are down by 15% on the previous quarter March '21. We are better than the market, industry was down from the previous quarter maybe by 20%, 25% and it has an impact of COVID even in the current quarter June quarter in April, May period which we have OEM shutdown during that period. Our operational EBITDA is 11% in the current quarter as compared to the previous year minus 38.3. Previous year is not comparable because last year in the same quarter, we were having serious lockdowns and plant shutdowns during that last year, but at the same time, we have done good in this current year and with operationally EBITDA of 11%. Previous quarter we were 16% again, in the current quarter we are disturbed by the activity level because of the COVID second wave, so results are affected by that but we have done better than the industry in the top line as well as we have done operational EBITDA of 11% which has some impact of material cost increase and time lag of recovery from the customer.

In the subsequent slide, you can see the graphical information, the revenue is up by 230% from the previous year and 15% lower and you can clearly see the operational EBITDA -38% to +11% this year and in the previous quarter March 21. 5% to 11% if we split one-off we are from 16% to 11%. EPS continues to improve in the current quarter with the volume coming in, we started generating significant profitability on that and profit before taxes is 4% as against -1% and -53% in the last year and PAT is also affected with the positive profitability.

On the financial result overview high points, if you see, as I mentioned revenue of INR 3207 million, revenue growth from the corresponding quarter a year 230% and last year as I already mentioned, it has impact of COVID and from the previous quarter March '21 we are down by 15% whereas market is down by 20%, 25% we have done better in both OEM as well as export, Vinod already mentioned about that. Operation performance we have already discussed that we are 11% as against -38% from the previous year. The net profit after taxes is 100 million for this quarter and the cash generated INR 106 million for the quarter and which Vinod has run you through over key initiatives applied working capital as mentioned and also lower capital intensity. So, it is a result of all the effort we are generating cash and the total cash availabilities INR 1402 million by the end of the quarter one.

So, from reward and recognition: we have won the award from Fiat, best supplier quality award and good quality performance in 2020, Mahindra and Mahindra and also General Motors. So, we have these awards and recognition from the customer.

Now, I will hand it over to Dr. Khalid Khan for CSR activities and he will take the call from there. Dr. Khalid Khan.

Dr. Khalid Iqbal Khan: Thank you Manish. So, during the quarter we worked on our CSR projects and considering the COVID situation, it was our priority also. The Bangalore plant created ten (10) beds ICU ward by contributing two ventilators and ten (10) electrical digital medical beds at Railway Wheel Factory Hospital. And this is going to benefit 18,000 members of the community in and around Yelahanka where we have our plant.

In addition to this initiative, the Company, in collaboration with another local biotech Company, erected an oxygen generating plant at Bhiwadi, which is capable of providing 24 hours oxygen to 35 beds CSP. These are the major initiatives undertaken by the Company relating to CSR projects. Thank you so much, over to Ashish and Mamta.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Saket Kapoor from Kapoor and Company. Please go ahead.

Mr. Saket Kapoor: Sir, if you look in the light of the second COVID wave that was at its peak during the first quarter, in light of that, if you could explain how our numbers and the utilization levels have shaped up for the quarter, that would give us some more color.

Mr. Manish Chadha: Thank you, I will take this, this is Manish, I will take this question. So, as I mentioned and your question is also that there was a COVID impact during this current quarter. So, our capacity utilization is somewhere varying between 70% to 90% in the different value stream. So, we have almost I would say average 75% to 80% capacity utilization.

Mr. Vinod Kumar Hans: So, just to add to since you asked how did we do about the industry. So, the number we have from the industry is for example, if you take a passenger car or utility vehicle and roll of it together and we are comparing quarter-to-quarter basis, because last quarter is not a right quarter to compare. So, we see overall drop of 26% of course, by related to shut down and some of this was the semiconductors and the commercial vehicle was further impacted being a heavy consumer of season, so, they were dropped of 52% on a quarter-to-quarter basis. And a two-wheeler or three-wheeler combination was nearly 35%. Tractor was one, segment the drop was minimum, but it was still -16%.

So, just to give you a flavor, if you would really put our numbers together and go for these kind of exposure. So, the overall industry, the way we are exposed was down by more than 30% actually, 31-32%. So, against that our drop is 15%. So, that's a pretty good performance from our perspective, because we continue to map this vis-à-vis the industry and having said that of course, we have aftermarket and export business which saves us from fluctuation. So, even if we skip out those numbers, we still performed better than the industries. I hope that answers your question.

Mr. Saket Kapoor: Sir, since our business is totally based, most probably related to the OEM part of their production lineup. They also took outages because of the COVID being very relevant in that quarter. So, how are things shaping up going ahead and what is the outlook from your OEM partners?

Mr. Vinod Kumar Hans: So, on a high level if you see the outlook say for this quarter, we are already seven weeks into this quarter, if you have to put up very high level numbers this quarter from a demand perspective, obviously higher from our customers, is nearly 85% to 90% of the first quarter, means, which was January to March Qtr. for this year, which was the peak. So, the market has recovered somewhere between 85% to 90%, however our OEM continues to claim that the end demand atleast in the light vehicle and tractors is much more and we are not able to produce because of the semiconductor shortages. So, just now supply chain bottleneck coming in at least mostly on the passenger vehicle side. The two-wheeler is by and large from our overall demand perspective is pretty much muted, it is not revising the way the passenger car or the tractor has revived which are operating nearly +90% level of the best quarter in this 2021.

Mr. Saket Kapoor: Sir, if we take this raw material to our revenue percentage that has remained constant, so did we took any price hike because of the inflationary trends in the commodity and sir if we take your raw material basket, if you could give the split up between and out of the total revenue, how much is after sales that is converting, so that would have a higher margin in compared to the other component?

Mr. Vinod Hans: I will ask Manish to answer that.

Mr. Manish Chadha: Thanks Vinod. So, you rightly pointed out that raw metal prices are up from the previous year in the double digit and we can see that impact in the profitability also and we do have a contract with OEM customers for material escalation and it has time lag for recovery from the customer. For example, we have recovered maybe 20%, 30% for raw material price increase in the current quarter and then we have a time lag of six months to one year, but we will recover say 80% to 90% of raw material price increase from the customers. Aftermarket, we have increased prices from the last years by 5% to 6% from the previous year. And we are looking into the market how it is behaving and it will continue to increase to recover the prices from the end customer. As regards the export and aftermarket sale it is 1/3 of total FMG revenue and aftermarket sale is somewhere around 16% of the total revenue.

Mr. Saket Kapoor: Right. And two small points, firstly on the CAPEX what has been the CAPEX plan for this year, and if you could give us some understanding how the cash flow has been for this quarter and I'll come in the queue sir.

Mr. Manish Chadha: So, CAPEX we are going to spend substantial CAPEX in the current year with the market growing and overall as Vinod was mentioning market itself shaping up and we can see the market overall growth between 15% to 20% from the previous year, if the things remain stable, COVID third wave is a risk and then semiconductor, is another challenge but if everything remains good, then we are expecting market to grow between 15% to 20%. And our CAPEX would be better than the previous two years and we are also adding capacities and Vinod was mentioning in the export side that, we are bringing the business to OEM which has export also from here. So, we are adding capacities also, in that perspective in the global business for the OEMs. And the CAPEX amounts will be substantially better than the last two years.

Mr. Saket Kapoor: Sir, could you quantify for the benefit of the investors, what is the amount and what is the percentage by which the capability would be enhanced and when would that get commercialized?

Mr. Manish Chadha: So, if you ask me the CAPEX amount would be somewhere around between Rs. 80-90Cr. That's what we are planning and then for the capacity point of view of in that capacity value, the volume will come in the full year maybe by 22-23. And some portion in 2024 but we are talking about somewhere around 8% to 9% of the capacity increase.

Moderator: Thank you very much. The next question is from line of Lakshmi Narayan from ICICI Prudential Mutual Fund. Please go ahead.

Mr. Lakshmi Narayan: How strong is the order book for two-wheelers for us, do we have visibility for the next three, four years, how does it work?

Mr. Vinod Kumar Hans: So, our understanding is overall we see that next three to four years the ICE engine motorcycles will remain flat or maybe they will degrow by 2-3% and overall there will be a growth of course in the two-wheeler segment but the growth will be taken over by electric bikes section. So, this will give a ballpark figure say about we are talking anything between 23 or 44 million kind of markets between two & three-wheeler and at the moment, we see that several electric players we see capacity renovation of about 3 to 4 million, that's the visibility we have.

Mr. Lakshmi Narayan: Sorry, sir I didn't get, there is some background noise, I could gather you.

Mr. Vinod Kumar Hans: So, when we talk about the electric bike capacities and when we talk about other, so, we see a capacity of roughly about 3 to 4 million of two-wheeler in the electric category, which means in next I would say till 2025 there could be about 3 to 4 million of the total bike getting electrified, which is roughly about 15% of the market. I hope that answers your question.

Mr. Lakshmi Narayan: Okay, now when you're putting capacity it is how fungible it is between the various types or how does one understand that, because you have multiple products and multiple categories right?

Mr. Vinod Kumar Hans: So, over the past in three wheelers, we have been careful that, to give a broad idea, the capacity is completely fungible between gasoline system for two-wheeler, three-wheeler, or a passenger car. So, it's not a big difference so that our capacities are not dedicated to a particular segment, so that has been our efforts. Similarly, on the other side with Euro-VI norms coming in and thanks to these type of vehicles like Thar, Safaris which is 2 liters plus kind of categories. So, we are trying to see the commercial vehicle and a tractor kind of segment they can be fungible. So, this is how we are trying to resetting our capacities, so that if there is a I would say a tractor and I would say a commercial vehicle behave in a different manner our capacities are taken care of that.

Mr. Lakshmi Narayan: Got it. So, on the two-wheeler you are saying that at least the current volume which will translate your order book will be maintained at least for the next three years. So, won't be any drop in that in order some from two-wheelers?

Mr. Vinod Kumar Hans: That's what we estimate that there will not be any growth in this category for us by large, while we say that I have to also defend that with this new bike coming in we are entering new customers also. So, we have added two customers of two-wheelers whom we were not supplying and happily, they have chosen us for the export model. So, we are trying to within that market at least extend our ways with customers at least on the higher account of motorcycles.

Mr. Lakshmi Narayan: So, did I hear that you added two new customers in two-wheelers last quarter, did I hear that?

Mr. Vinod Kumar Hans: That's right.

Mr. Lakshmi Narayan: Okay. And how seasonal are your quarters like Q1, Q2, Q3, Q4 in general in a steady state right. How seasonal it is?

Mr. Vinod Kumar Hans: So, I don't know these last seven or eight quarters we have lost the sense of season, but by and large we have seen that the quarter of January to March is always the best and a quarter which is typical September, October, November time that zone where there is a festive season, so, that is also very close and I would say April to few quarters normally is the lowest quarter.

Mr. Lakshmi Narayan: Okay. And you could get only 80% to 90% of the price escalation that to prolonged over a period of a year right, is it always the case that you can actually catch up only 80% to 90% of the price raw material increase and why is it so prolonged in general like one year is too long and of course, during that time the prices may also come down. So, how do you handle this volatility and why are you unable to capture the entire raw material increase?

Mr. Vinod Kumar Hans: So, historically we have to review these contracts…so if you take a scenario which is say four or five years back, our 60% business was with OEMS through escalator with our customers. So, today, that figure is about 80% to 90%. However, the customers we have this cycle, either a six (6) months or a twelve (12) months. So, some of the customers we have a six-month cycle for example, from 1st of April a new price will kick in and then 1st of October, the new price will kick in. But in some other customer, we have a little prolonged escalator say 1st of April or 1st of October. We are making an effort to reach out to the customers because this window is pretty long vis-à-vis the fluctuation in the market we are seeing. So, in some cases customers are of course agreeing for adjusting the cycle a little earlier. And that is what we are making an effort, but your question is valid with the kind of fluctuation in the market, or six months to one year, contract is pretty much long.

Mr. Lakshmi Narayan: And what are you aiming at, because I hear that a lot of companies are using a lot of conversation and getting to customer, making them understand and what efforts you are taking in to ensure that, it's a one-off and then just elongation of one year compressed, I am sure you are doing it, can you just elaborate a bit on that?

Mr. Vinod Kumar Hans: So, it was a little bit I would say persuasion process and we have been able to make inroads with some of our customers, strategic customers, where we have been able to push and get the cycle curtailed down. Secondly, there are other low-hanging fruit added and some of the other methods where these contracts will take change, take a little bit time for example how soon we get recovery. So, there are those levers where the customers are giving some kind of relief while we write down which we believe is an opposite**.** If we compared for example with a typical a sheet metal-based supplier, of course the kind of fluctuation and the kind of exposure typical these kind of companies are nearly 70% material cost. So, for them the OEMs have gone ahead and gone for a quarterly even in few cases where the ceiling is extensively used even a six-week package. So, I have to admit that we are somehow in the second group. So, once the group gets addressed with the escalator, so the customer will take us into the second row. So, that's how customers are picking up the group of suppliers in that sense, they still believe that our exposure to this commodity is less severe than some of the other as I mentioned. But having said that again, not to repeat once we have suppliers getting just in the second row there I have no reason why we shouldn't get a priority.

Moderator: Thank you. The next question is from the line of Jatin Nayak from ICICI Mutual Fund. Please go ahead.

Mr. Jatin Nayak: Sir my first question was, out of this 24% of two-wheelers to three-wheelers segmentation of revenue, which you've indicated in your presentation, how much is domestic and how much is exports?

Mr. Vinod Kumar Hans: So, Jatin I will try to answer in a different way, out of this 24% exposure, we have a pretty good exposure in aftermarket, out of this 24% okay. Our aftermarket business is coming 70% from a two-wheeler side. So, total 16% of the Aftermarket is business as Manish mentioned within that

70% is coming from the two-wheeler. So, I hope that answers your question that we are not in a stress mode within that and within that 24% I would say about 5% to 8% is via exports.

Mr. Jatin Nayak: Okay. And sir you indicated that you acquired two new OEMs, are they Indian OEMs for the export markets or…?

Mr. Vinod Kumar Hans: They are Indian OEMs.

Mr. Jatin Nayak: They are Indian OEMs and you have got new orders from them for the bikes which they export?

Mr. Vinod Kumar Hans: Correct. Of course, they will make it domestic also but this is intended for export.

Mr. Jatin Nayak: Okay. So, after the acquisition of these two OEMs as your clients now, are you catering to all OEMs on the two-wheeler side?

Mr. Vinod Kumar Hans: So, if you see in our slide, which we have mentioned to the customer, the last slide. So, I don't know if there's any other two-wheeler manufacturer who is left, whom we are not supplying so you have to….

Mr. Jatin Nayak: Sure. So, with after actually seeing ramp up with the new OEMs which you have acquired in this quarter yet you expect that over the next three to four years, your two-wheeler segment will not grow, because there's electric bikes actually picking up?

Mr. Vinod Kumar Hans: That's right.

Mr. Jatin Nayak: Okay. Also sir, next question was the CAPEX which you've indicated 80, 90 crores which segment, this CAPEX is predominantly going to come in, which category is it for which customer class?

Mr. Vinod Kumar Hans: Manish would you take this question?

Mr. Manish Chadha: So, Vinod thanks. So, this CAPEX is mainly in LV and commercial. So, we are talking more on Ford Puma who is a global customer.

Mr. Jatin Nayak: Okay. Sir next, is there any other new product or something in addition to Piston, Piston Rings, Valve Seats and Guides which we make, any new products that we are working on, which could probably come up and increase our content which we offer either in the aftermarket or to the OEM side?

Mr. Vinod Kumar Hans: No, there is no plan to diversify it into a new product category.

Mr. Jatin Nayak: Sure. And just one last question from my side on the domestic OEM side, you said even if you exclude aftermarket in exports, you've done better than the industry, can you give some color which segment you've done better, is there some new model or something which has come exclusively to you or any other more color on your market share gains for the quarter?

Mr. Vinod Kumar Hans: So a larger gain is coming from, you might have seen, some of the OEMs. Not be fair on my part to pinpoint particular model, but you can see there's a lot of our excitement with some of the new models where waiting time in some of our customers is about 8/9/10 months and some of these models are doing pretty good. They became these options and we are participating very nicely in these models and of course, most of the Euro-VI is progressing is bringing additional market share to us. Fortunately, just to give you a reference that although, if you take six months prior view the diesel was going really down and out, but now suddenly if you see the current I would say portfolio, you will see these vehicles are bang on coming back and whether you name

Toyota, Innova, you are referring to Harrier or Safari's or MG Hector or Thar and those kind of vehicles, which are pretty much there on the wait list and all of them are diesel. So, frankly we were expecting such a good shift, and most of these vehicles are running only on diesel and this is bringing a lot of benefit to us, when we claim that we have done better than the market. #A: they are sitting on the higher side of the passenger car market and #B: the content value of the diesel is more and there you see our revenue significantly better, I should not say the drop in revenue from a quarter-to-quarter is much lower than the industry when you talk about the numbers, I hope I am able to explain that.

Moderator: Thank you very much. The next question is from the line of Shreyansh Mehta from Shree Capital Services Ltd. Please go ahead.

Mr. Shreyansh Mehta: I have a couple of questions, if you can kindly help me. I heard that you have a CAPEX plan of about 70, 80 crores coming up over the next two years. Can you give some understanding about which of the three manufacturing facilities that we have, what amount is likely to be spent out of this CAPEX?

Mr. Manish Chadha: So, basically, what I mentioned 70 to 80 crore for this current year and it is in both the location Patiala and Bangalore for Piston and Piston Rings, major contributes for both these product.

Mr. Shreyansh Mehta: Okay. And if you can also help me for understanding what percentage of our revenue comes from which of this three manufacturing location, in some kind of share can you give some broad understanding please?

Mr. Manish Chadha: So, we have two products mainly Piston and Piston Ring which is combined and we have Valve Seats and Guide. So, in the total business Valve Seats and Guides is 12% and Piston and Piston Rings is almost 88% of the total revenue. I hope it's helpful.

Mr. Shreyansh Mehta: Definitely it's helpful, but if you want to bifurcate the revenue from manufacturing locations perspective, so?

Mr. Vinod Kumar Hans: So, on this let me answer this, out of 12% which Manish mentioned is coming from Bhiwadi which is a dedicated for Seats and Guides business and the remaining 88% is evenly split between Patiala and Bangalore.

Mr. Shreyansh Mehta: Okay. And about cash that we have on balance sheet, you mentioned that it's about 142 crores as on end of this quarter and you have some CAPEX coming up, any understanding about dividend payments, which will start happening to the shareholders in coming times?

Mr. Manish Chadha: So, let me take this question. So, we have this cash available, but at the same time as I mentioned, we have to spend Rs. 80 crores, almost Rs. 70, Rs.80 crore of CAPEX and also we have the growth opportunities which we are talking about 15% to 20% for the current year and also there was COVID uncertainties. So, for this year as of now, we have a short term requirement of the cash and in the short term time we are not looking into the dividend but at the same time on a longer picture, though we want to preserve cash for any opportunities which is coming from environmental changes, environmental norms and talk about this turbo loaded engine and all but, at the same time we are reviewing our dividend situation based on the situation we are in, so, as of now 21-22 we have this growth opportunities or even top line we see growth should be 15% to 20% and we have CAPEX involved into this, but at the same time we are reviewing the dividend strategy with the available cash.

Mr. Shreyansh Mehta: I understand, and did I get it right when you say 15% to 20% growth that is the top line which you're talking about and will there be an equivalent upside in the bottom line or will that be much more?

Mr. Manish Chadha: So, this 15% and 20% growth is opportunities depending on the COVID because we hear about third wave and all those disturbance, which is a risk, but at the same time and we are talking about the top line growth, on the bottom line growth we already discussed about the MCS portion where we have six months, one year contractual time lag which we are trying to expedite and we will have the recovery maybe in the next year for these escalators. So, to that extent, that will be challenged, but on the other hand we are continuously working on working capital, fixed cost reduction and all. So, we are striving for that, but the risk is that MCS recovery for the 15% to 20% growth.

Mr. Shreyansh Mehta: I understand, just last question if you can kindly help, there have been on and off, discussion not exactly at the Company level, but in the media and all, that there may be some kind of consolidation of operations from this manufacturing facilities at different places. And there may also be some kind of monetization of some surplus land, etc. in Bengaluru. Any understanding can you share anything on this please?

Mr. Manish Chadha: We have absolutely no idea about that. And there is no plan as such from the Company side on all those things, which we have already mentioned.

Moderator: Thank you. The next question is from line of Nitin Gandhi from KIFS Trade Capital. Please go ahead.

Mr. Nitin Gandhi: In continuation of previous discussion, do we see any trade for maintaining 11% EBITDA margin over 20% growth which we are envisaging this year and quarter one, is it generally 20%, 22% of the whole year or it's less than?

Mr. Manish Chadha: So, let me take this question. So, if you see, Vinod did mention that last seven to eight quarters, because of the COVID we were not talking about seasonality, but only general April to June is always a lower quarter as compared to full year. So, this year trend, yes, 20% to 23% is the number and we are talking about a 15% to 20% growth over last year. So, you're right, it is 20% to 23% and maintaining 11% profitability, we don't see challenge if we achieve this volume, which we are talking about. In the current quarter also we have the time lag of recovery. So, if we will achieve this volume, we will definitely strive for better EBITDA with the action Vinod did mention, but we don't see 11% is a challenge considering the efforts and the volume which you are talking about.

Mr. Nitin Gandhi: So, you will keep generating significant cash flow. So, in fact, if you see whatever cash on hand, because you will be generating approximately 150 crore cash flow for FY23 also?

Mr. Manish Chadha: So, as I mentioned, if you see your cash generation is mainly we are focusing more on working capital reduction, which means inventory reduction, vendor days increased, debtors. So, we have reached up to the level of minimum inventory. And at the same time now I'm talking about 15% to 20% volume growth for year 21-22. And also we are talking about CAPEX almost about 80 crore so that's why we are saying this year, we would see, now for the next nine months, we would see increase in working capital, we will see CAPEX spend. So, the next nine months we would not be generating as much as cash, we will be generating cash from the business but at the same time they will be invest to be done in this financial year.

Mr. Nitin Gandhi: That's why I am saying, so whatever cash you are generating over next nine months was sufficient enough to meet your CAPEX. So, existing cash anyway you will continue end of every quarter to be maintaining 125, 140 crores cash.

Mr. Manish Chadha: So, that's what I said, we want to be more cautious in this current financial year we have uncertainty of COVID and all, we are not still country or globally or worldwide we have more pass through, we want to ensure there should not be any uncertainties in the business, we should have sufficient cash, we have opportunity to become a global customer base in India for this, if global business is shifting to India and we want to ensure that we would be the first choice with our financial viabilities and we would be able to handle all situation in these uncertainties. And, as I already mentioned after this one year definitely we are looking for our dividend policy with the surplus cash that's what I did mention in my earlier communication.

Mr. Nitin Gandhi: No issues. But, COVID uncertainty there are nothing big plans or anything, is there any something which Tenneco is likely to help us because of outsourcing that advantage India manufacture something, can you share on that if anything is happening?

Mr. Manish Chadha: I will give it to Vinod.

Mr. Vinod Kumar Hans: So, just answered your question, Manish mentioned about the working capital and also preparation for some of the global business that has shifted, so to qualify that larger arrangement, our global customer if say for example, if you are making engine here. So, now production from Europe to here. So, we are going into a kind of I would say four party discussions like one party is of course Goetze another is local global customer here, and then there is global headquarter and our production based in those countries. Obviously, there is a transition process into that and it's the four parties arrangement and largely there is a conversion that India is able to get the confidence particularly with the Euro-VI coming, and product getting made they are all now at the same global acceptance level. So, then these transitions will see the phase one and phase two mainly on higher which Manish mentioned for 23, 24. So a larger CAPEX is directly towards rearranging the whole global footprint. And for that we have to keep the cash, should not become a bothering**.** Second is even if you talk about the domestic market, we are pretty much excited about the way, the post COVID the whole market has shifted there for example from a 10 lakhs car to about 18 to 20 lakh cars, so we can imagine that this will happen. Similarly, we are also excited on a commercial truck also, typically for example a 6-meter box engine thus is getting more traction today than what even the OEMs were ….**Inaudible….** So, all this is also good news for us.

Moderator: Thank you. The next question is from line of Lakshmi Narayan from ICICI Mutual Fund. Please go ahead.

Mr. Lakshmi Narayan: So, if I just look at your profitability. If I just go back to FY18, FY19, etc., your first quarter gross margins were well higher in FY20, or even in FY19. And of course, EBITDA margin also consequently was higher. So, can this help us understand as to what is the band of margins you like to operate. And whether as an organization you focus on conversion margin, or gross margin or EBITDA margin, and what band you want to actually focus on how do you measure your out performance, etc. I just want to understand how the firm looks at margin bands and which margin you actually take into consideration?

Mr. Manish Chadha: Thanks for your question. So, you're right, if we talk about 18-19, our margins were somewhere around 15% to 16%. It has actually mainly driven by the volumes so first of all, we were we not in the volume where we were in 18-19. And with this current year growth, which we are talking about, we will be at the level of 18-19 of volume if everything goes well and the market forecast which we are looking for. Having said that, we are monitoring ourselves more on EBITDA percentage and we are hardly having any interest, we monitor our operational profitability and also look into the SG&A separately. So, ideally we would like to have this 15% to 16% EBITDA which we were achieving in 18-19, 14%-15% we were achieving . So, now, actually, the major delta if you see is this MCS cost which has gone up by double digits. I'm saying double digit but this is somewhere around 30%, 35% increase from the previous year.

Mr. Lakshmi Narayan: Material cost right?

Mr. Manish Chadha: Yes, material costs increase. And we have already mentioned that we will be recovering in overall year-to-year basis 80%, 90% of the total material costs increase, but not in this year, some portion that we will be tying to the next year. And over and above we are adding operational productivity into this, so answering your question in a perfect word, yes we are striving for 15% to 16% but it has different elements in that, one is definitely the activity level volumes, which are major portions where you can absorb your fixed costs. And even during COVID period we have gone through, we are looking into our fixed costs. And we have reduced that and it is a continuous exercise for us. The another thing is this material costs increase, which is very substantial from the previous year even for 18-19 perspective, and we have a recovery plan. And we also have to keep in mind, there was a caution on 80%, 90% recovery, we have 1/3 of the business is export and after market where the recovery market though we have increase the prices, but it will not be one-to-one with raw material prices, it has to also look into the market sentiment. So, answering your question, yes, we monitor our performance EBITDA percentage and ideally, we would be in the range of 15% to 16% depending on the volume as well as, now the challenge for this year is material cost.

Mr. Vinod Kumar Hans: I will just add to this, if we check out only this quarter we clearly have growth on an average term base actually. So, when this happens, although overall quarter you may see the drop is 15%, but we are not able to get the efficiency. So, imagine for some day we are not able to check that accounts, we are not able to get the salary. And then there is a restart and cost related …..(Inaudible).

Mr. Lakshmi Narayan: Sorry, your voice is not clear can you just repeat the last two, or three sentences?

Mr. Vinod Kumar Hans: So, what I am trying to say is, during these the last quarter we have to also consider that out of 13 weeks, we also had nearly 7 to 10 days of shutdown. So, when a shutdown happens, it brings a different type of cost which is not recovered, for example during those 10 days we did not reduce salaries of officers. So, during those 10 days the whole shutdown the premises and all it has its own cost actually. So yes, the material was a larger portion, where we were not able to achieve the number which Manish mentioned 16% odd but also for this quarter, we hit by 7 to 10 days of operation where we could not recover our fixed cost. So, has it been average 15% every day running operations, and then probably the results would have been a little different. But imagine that we have nearly week to 10 days of inactivity. I hope I was able to explain this**.**

Mr. Lakshmi Narayan: It’s very helpful. Last quarter we took a provision in terms of employee retirement. So, that is behind us, is there any anything else we need to think about anything that is going to recur or that is like completely provision for?

Dr. Khalid Iqbal Khan: Yes, we have already created the required provision for that.

Mr. Lakshmi Narayan: So, there’s nothing additional that would come later on right?

Dr. Khalid Iqbal Khan: Yes, we are not envisaging anything additional.

Mr. Lakshmi Narayan: And in terms of your export, can you just help us understand how is the order book, what is the mix of the exports between various categories of vehicles or is it supplying to the OEM directly or you’re supplying to your group companies, where it gets fitted in and how strong is the order book and you’re also talking about expanding your capacity for the sake of exports. So, can you dwell a bit deeper on the exports of these front, that will be helpful. Thank you.

Mr. Vinod Kumar Hans: So, basically it is in all the category which you refer to predominantly it is even shift between the shipping direct to the OEM export customer or dealing to our intercompany on shipping. So, for example we do have a unit in Thailand, where our Thai Company will take material from us and they will assemble and they will do a local supplies to some of these pickup trucks manufacturers, so with that I’m giving you an idea of which category you’re talking about, you’re talking about 2.5 liter to 3 liter kind of pickup trucks and those kind of engines obviously that constitute a significant proportion of that, another significant portion is we supply to our aftermarket in U.S., which I would say a mid-sized engines. And we also export pretty much a two-wheeler kind of Piston, which I remember I mentioned in 5% to 8% of the two-wheeler category, which I mentioned in the earlier question. So, even those small Pistons are also going to directly to the customer. So, pretty much spread between I would say aftermarket in America two-wheeler type of Pistons in Europe, also, kind of 2.5-to-3-liter engine. And having said that, we also do export of some of our global tractor manufactures also. Pretty much widely spread across the segment.

Mr. Lakshmi Narayan: So, when you say export is around, 15%, and in that 15% almost somewhere half of it is actually two-wheeler related exports?

Mr. Vinod Kumar Hans: I would say 80% of the export is on the higher side of engine.

Mr. Lakshmi Narayan: Okay. So, the balance is essentially two-wheelers, maybe 20% of your exports is two-wheelers?

Mr. Vinod Kumar Hans: Maybe even less.

Mr. Lakshmi Narayan: Okay, and how large is your tractor portfolio?

Mr. Vinod Kumar Hans: So, tractor overall is roughly about 12% or 13% of our business. And we are supplying to almost all truck manufacturers .

Mr. Lakshmi Narayan: Thank you Sir. It was very helpful.

Moderator: Thank you very much. Ladies and gentlemen, that would be the last question for today. On behalf of Federal-Mogul Goetze (India) Limited that concludes this conference. Thank you for joining us. You may now disconnect your line. Thank you.

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