"Federal-Mogul Goetze (India) Limited Q3 FY21 Results Conference Call"

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MR. MANISH CHADHA – CFO & FINANCE DIRECTOR
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Moderator: Ladies and gentlemen, good day and welcome to the Federal-Mogul Goetze (India) Limited Q3 FY'21 Earnings Conference Call. 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 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 Samat from Perfect Relations. Thank you and over to you, ma'am.

Ms. Mamta Samat: Good evening everyone and thank you for joining us on Federal-Mogul Goetze (India) Limited Q3 FY'21 Earnings Conference Call. Today, we have with us senior management represented by Mr. Vinod Kumar Hans – Managing Director; Mr. Manish Chadha – CFO and Finance Director and Dr. Khalid Khan – Director-Legal and 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 the "Opening Remarks from the Management" after which we will have the forum open for "Interactive Q&A Session."

I will now request "Dr. Khalid Khan to make his Opening Remarks and give an Overview about the Company." Over to you, sir.

Dr. Khalid I Khan: Thank you, Mamta. So, we'll begin with the composition of the Board of Directors. Our Board is headed by an Independent Director who is our Chairman, Mr. K.N. Subramaniam and Mr. Vinod Kumar Hans, Whole-time Managing Director; Manish Chadha, CFO & Finance-Director; Rajesh Sinha is our Director-Operations, Mr. Sunit Kapur is based out of US and he's also on the Board as a Non-Whole-time Director; Mr. Stephen Shaun Marry is a Non-Whole-time Director based out of USA; Ms. Nalini Jolly is our Independent Director and Mr. K.C. Sundareshan Pillai is an Independent Director.

Coming to the "Company's Overview", the Company was established in 1954 as a JV with Goetze-Werke of Germany, which was owned by Federal-Mogul LLC, which used to be one of the leading manufacturers of automotive components in the world. Now, it has been taken over by Tenneco. FMGIL is based in Gurgaon and it is listed on BSE as well as NSE. The Company manufactures world-class products at its state-of-the-art facilities located at Patiala, Bengaluru and Bhiwadi (Rajasthan). FMGIL engages in the manufacture, supply, distribution and export of Automotive Components for two, three and four-wheeler Automobiles in India as well in the international market, and mainly offers Pistons, Piston Rings, Piston Pins, Valve Seats, Valve Guides, and Structural Components. FMGIL now operates as a subsidiary of Tenneco Inc. after Tenneco's acquisition of Federal-Mogul LLC.

Mr. Vinod, over to you. Thank you.

Mr. Vinod Kumar Hans: Thank you, Dr. Khalid. On slide #5 quickly what we believe are the cornerstone from different perspective for the Company from the credit rating we are long term A+, short term A1+. From an R&D side, we have our technology center at Bangalore and Bhiwadi, and these centers are seamlessly integrated into our global technical center and that makes it into a differentiating position vis-à-vis competition in India. Because the similar companies, competition to us do not have such an advantage to have a seamless access and they are operating through joint ventures which have their own firewalls in place for such a seamless support actually.

And then on the market side, we are well diversified into all the segments, whether it is two-wheelers, three wheelers, four wheelers, passenger cars, commercial trucks, railways, defense, some of this will come in, in coming slides and we are supplying close to 40 customers and 30 of them are major OEMs which are listed on this presentation in their different domains actually.

And then on the liquidity side, we are sitting on a very comfortable, strong financial liquidity situation. So, we are ready to take opportunity on the new opportunities in the market. And then all this is possible because we believe that we have very experienced, talented and stable leadership team in Company.

Then on slide #6, quickly to give further details of what Dr. Khalid mentioned, we have little over 5,000 people as of 31st December in our Company. Besides the three manufacturing sites in Patiala, Bangalore and Bhiwadi, we do have five assembly warehouses and 16-plus service centers to cater to our different requirement of OEMs and also aftermarket service points.

In the industry, as I mentioned, we do for automotive, we do heavy duty, motorcycles, energy, industrial power generation, railways, defense. So, in summary, widely distributed.

And then on the presentation on slide #6, we have listed about 30 of these OEM customers which are automotive in their respective domain of two-wheeler, commercial vehicle, passenger vehicle and tractor and you can see that we are supplying to almost everybody.

On slide #7, a little bit of detail on the plants: Patiala is our first plant established in '54 as the JV with the Company as Dr. Khalid explained and then about 20 years later we established in Bangalore plant in '77 and then Bhiwadi plant got established again nearly 20-years later in 1996 for the sinter. All these plants are certified to the latest quality standard as well as the environmental standard as well as the safety standard which are basically IATF 16949, ISO 14001 and ISO 45001.

On the market position, in Piston, we are number two overall, but we are number one in Diesel Pistons. In Piston Rings, we are leadership position number one and the Seats and Guides, we are again number one. So, in summary, we have a leadership position in all the three product lines we have.

On slide #9 further I would say split of our business, our capacities I would say are directed to a local 88% of the business, but we do have, I would say, reasonable 12% export as well. So, it's a decent, I would say tangent. Overall we are net exporter, I would say, when we compare our net imports and exports. So, in currency we are net exporter overall. And within the segment, the split is on the light vehicle we are about one-third, on two-wheeler, three-wheeler we are 35%, one-fourth, commercial vehicle we are 12% and what we call EIT is another one-fourth roughly. Having said that, I have to qualify that the way we classify our segment is that because we are supplying to engines, so we say LVs are the light engines, and this would mean equivalent to our passenger vehicle as well as those engines who are common to passenger vehicles but they are kind of supplied on a very small commercial vehicle kind of Tata Ace and those kind of products.

And bi-wheeler is including two-wheeler, which is motorcycle, scooter as well as the three wheeler and CV means the trucks basically, typically 1 tenner onwards and in EIT we are bucketing together traction, industrial, industrial means power generation and then we have these off highway, the JCBs and Caterpillars of the world and then we do railways and defense. So, this is I would say a classification of our segment to give you a perspective.

On slide #10, I would explain for the larger benefit of the audience because this was also kind of a feedback to put couple of slides about these as all our products are exposed to. This slide is taken for our industry actually. So, the way I will explain on this slide is when we talk about electrification, we have to see there is a pure fossil fuel, which is we call IC engine, and then there are hybrid electric and within hybrid electric there are micro, mild and full hybrid, and then there are plug-in hybrid. And then there are pure battery vehicle. So, there, on the slide, we have put an overlap. So, what it means for our kind of products, our kind of products are applied equally on the pure industrial combustion engine, which we are doing and also they are applied on the hybrid vehicles as well. In fact, on the hybrid vehicle, we'll be happy to see this progression, because our content improves and in this area we do have some kind of interface technology to integrate better with the electronic system. So, that gives us a chance to, to become on the front runner position as well as we are quite engaged with this interface technologies actually. So, up to that, our participation is complete. Only in pure battery electric vehicle, our product do not go. So, that is the reason we want to qualify that, when we are hitting these news of electrification, we have to really scan the cloud and see how much is hybrid which is welcome from us from our point of view, and how much is the pure battery which is I would say pure competition from the replacement point of view.

So, in summary, the point we're trying to convey is that, globally, we see that there are still in a single digit percentage of the total vehicle, who are full battery-operated at the moment, they are still in low single digit numbers if I have to say. Having said that, there is a potential for them to increase if there is a technology breakthrough, but we are watching this market carefully, because there is a evolutionary process, and we'll be happy to see a migration in hybrid, that gives us a chance to improve our content. And we'll be waiting for pure battery evolution as well to see how we can make an alternative proposition if that happens.

Having said that, I put another slide again, this is sourced from CRISIL and other research (it's not our slide) just to give you a perspective, what's happening in India, at least at the moment. So, this database coming from the industry mentions that in India still the pure battery vehicle still less than 1% of the total sales. So in two-wheeler, in financial year '20, there were only 152,000 two-wheelers, in buses, there were 600 buses, although these growth number looks fantastic 50% but actually the base is only 400 numbers. So we look at numbers more than the percentage for sure. And then in passenger vehicle, there were 3,400 vehicles according to the database, which got manufactured and this was a decline anyway from the previous year as far as the passenger vehicle is concerned. So, that is one aspect of the database.

Second aspect is, we had this FAME-II incentive release by the Government and then there was a qualification for the states FAME-II to avail the subsidies. So, the database here says that only 1% of the intended I would say coverage or intended participation of nearly 1 million two-wheeler electric got qualified for the FAME and only 600 buses out of 7,000 targeted got qualified for FAME and in passenger vehicle out of 55,000 targeted, 2,300 got qualified for this. And there are real issues in the market for the qualification because this does put a requirement of higher localization requirements and the domestic infrastructure is not adequate at the moment for cells and magnetic motors and controls, manufacturers and there'll be a time to localize for the players to really qualify for this. And above all, battery is a key for electric vehicle, for which the raw material is still a major concern.

So, the point I'm trying to bring home from there is that a) we are watching this carefully; b) at the moment the data on the pure battery electrification and the potential localization is not so much conducive at the moment, but we continue to look at this market should this change in near future due to change in technologies or due to change in different incentive scheme which the Government is announcing every now and then.

Having said that, on slide #12, we also put a perspective, what's happening on the non-battery side, which is globally still more than 90%, and in India, still close to 99% volume. So, here, the key drivers are across the segments of whether two-wheeler or three wheeler, commercial, passenger cars, everybody's looking for a better fuel economy, which means low friction, advanced combustion, and hybridization, which I mentioned in the previous one. So, that is one driver.

And another driver is the less pollution from environment point of view and a thermal management. And then at the same time, there's another driver of durability. Now, the warranty or the minimum replacement or the life basically, they're looking for a couple of lakhs of kilometers, and all these drivers are putting a lot of emphasis on the technology, evolution by the way, and all these drivers we believe are good for us from a business point of view, because, we are the front runner for these as a solution provider, and also, overall for the country, it is good because it reduces pollution on the one side and reduces the fuel bills and then consistency and durability, of course.

Having said that, while all the indicators are positive for us, there is one segment, which is our aftermarket segment by the way, which will get impacted. Because the more durable vehicles out there, it means less business for us in the aftermarket. So that piece of the business is or will get impacted as the evolution comes. But having said that, we have a very different set of actions for the aftermarket side because there, digitization is a huge enabler to take away business from the mushroom players or the roadside players, what we call, and there we are working very aggressively, how to use digitization to improve our market share in the aftermarket business going forward.

Having said that, largely, we are looking at Scrappage policy, which will also have an impact on the aftermarket side. So we are also looking at the final print of scrappage policy when it comes. So again, scrappage policy is a huge advantage on one side for us on the OEM business side, but this is a disadvantage on the aftermarket side, the slide which we are showing on 12, but then, we are waiting for the fine print to see, but we have more to gain from this scrappage policy.

With this, I will ask Manish to take over on the financial piece of the business.

Mr. Manish Chadha: Thank you, Vinod. Good evening everyone. So slide #13, the key initiative to build FMGIL stronger. So, initiatives around performance, focus, margin expansion and cash generation. We've taken initiative to reduce operational costs, when we say operational costs, we are targeting labor cost, continuous focus to bring productivity and also operational efficiency to build the cost down. Spend lower capital intensity, we are improving CAPEX-revenue ratio and also working on working capital to have the liquidity available with the Company so that we can grab the opportunities in the market which are coming from this non-chain and highly loaded pins, which are attracting in the market.

On the growth side, Vinod already covered on the growth opportunity in business, stringent emission norms and then increased popularity of turbo engine, highly loaded engine to cope up with the emission regulation and he has already touched on the mid hybrid vehicle increase in the production.

So, I think overall, these are the key initiatives which FMGIL is targeting which will help optimizing the shareholders value.

Slide #14, there are customer awards and recognition. It is based on performance, appreciation and quality award. So we have award from Ashok Leyland, Fiat, Ford. I think from most of the OEMs, FMGIL has got award on the qualities as well as supplies and also on the performance.

Slide #15 on Financial Results for the Quarter ended 31st December 2020. The revenue is Rs. 3,562 million which is up by 28% from the previous year. And Company also reported a net profit after tax of Rs. 331 million. The third quarter EBIT improved to Rs.409 million versus Rs.102 million in prior year and EBIT percentage of revenues 11.5% versus 3.6% in the prior year which means 8% better than the similar quarter of the last year. Operational EBITDA 18% Rs.34 million, up by Rs. 310 million versus prior year which is better by almost 6% from the prior year. As we already mentioned, key initiative taken on cash. We have solid liquidity. We have Rs.1,057 million cash available as on 31st December. We have generated cash of Rs. 277 million for the quarter and YTD it is Rs. 570 million cash we generated.

This is a financial slide, “Key Parameters.” You can see revenue for the quarter, last quarter and the previous year same quarter, revenues up by almost 28% and 27% as compared to the last year and last quarter. Operational performance EBITDA which is 18% better from the previous quarter by 4%, and from the previous year it is 6% and same you will see in the profit after tax; it is 9.3% better by 7% from the last year and better by almost 4.5% from the previous quarter of the same year.

These are the pie charts or I would say a graphical presentation of the financial information. You can see the growth and revenue, you will see the EBITDA improvement. Similar in the PBT, PAT and EPS, I think it is a good quarter overall from operational performance perspective, mainly led by volumes and activity.

I think with this, I will hand it over to Dr. Khalid Khan for to take it forward.

Dr. Khalid I Khan: Thank you so much, Manish. Regarding the shareholding pattern, our promoters are holding 74.98%. Federal Mogul Germany is holding 14.93%, Federal Mogul Mauritius is holding 60.05% and the IEH who acted in concert with the acquirer is holding 19.93% right now, public holding is from FII category it is 0.01% and others are holding 5.08%.

Next slide is on the update on the offer for sale. So, after our open offer, we had three offers for sale, which were not very successful actually. And that was due to the impact of COVID and negative market sentiments. And, in fact, we never had an opportunity to have personal and physical interaction with our investors because of COVID. So COVID impacted the success of OFS actually. So right now, IEH FMGIL Holdings LLC (IEH) is holding 19.93% and in the open offer the holding was 21.83%. So, you can see that in all the three offers for sale, there is not much reduction in the holding of IEH. So since we have already completed one year which was the time given as per SEBI regulations, we have applied for extension of time for another one year. So, we hope to get the extension and we hope to come out with more offers for sale and hopefully, we will reduce this holding and bring back the public shareholding to 25% which is the minimum requirement.

Last slide is on our “CSR Initiatives.” So, the Company is involved in various CSR activities. The allocated budget for the year is Rs.1.98 crores and majority of the budget has already been spent on CSR activities. So we are hoping that by end of this year, we'll spend the entire amount.

So, in Gurgaon, we have several programs where we are working. We have a school by the name ‘Ghar Anagana’ which is sponsored by us, we are bearing all the costs, Training Mechanic Program, Vidya Life Centre, Vidya NIOS Bridge Courses, then NIOS Open School at IIT Delhi, Prayas, Infrastructure Improvement in Delhi School, SOS Children Village-Education of 40 Children at Faridabad. In Patiala also, we are doing several CSR projects. So we donated uniform to deaf and blind students for summer and winter season-248 children at Patiala and we are involved with the SOS Children's village at Patiala, then we did renovation and facelift of Patiala School, then additional work at OPD Dispensary, SOS Children's Village, there is education of 45 children in SOS Village. In Bhiwadi, we are setting up a production unit of Silai centre. And we are running a Silay Centre in Bhiwadi. In Bangalore, we are setting up a Training Workshop and Silai Centre at remand home at Bangalore, Silai Center at Manav Charities, SOS Children's Village-Education of 45 children and then supply of Masks and Sanitizers to Police Officials.

This is on the CSR activities. There is one more slide actually. So for us our contribution to CSR, we have been awarded Corona Warrior Awards from Bhiwadi Manufacturers Association. And then we got Corona Warrior Appreciation Certificate from Labor, Factories & Boilers Inspection Department, Government of Rajasthan, which is a very good appreciation for us for whatever little we are doing to the community at large. Thank you so much. Over to Ashish and Mamta.

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 Srinivas Baratam from Kriscore. Please go ahead.

Mr. Srinivas Baratam: My first question is actually to Vinod. You had mentioned something that's on slide 12, the improvement and durability, and also with the Scrappage policy, there could be an impact on the aftermarket business of FMGIL. Just to get a correct perspective, what is the business mix of aftermarket? My understanding is it's about 10% or less. So will the increase in durability actually impact the business in anyway? Will we not see some offset from pricing improvement if you supply a product that's more durable?

Mr. Vinod Kumar Hans: Thanks, Srinivas. Sorry, I should have clarified that our business is 85% I would say oriented towards OEM and 15% little less towards aftermarket. So the point I was trying to bring home with these two was that on one side, these drivers are helping us to improve the potential on the 85% of the business, but this 85% of the business which is increasing, so that is a potential increase, 14% is a challenge. So overall, we are in a much better situation, for example, the Scrappage policy will help in getting new trucks on the road or new vehicle on the road which is welcome business for 85% of our business. But then those trucks which are out or vehicle which are out, will also get out of our replacement zone. So, that's why I'm saying, for 85% of the business this is a key driver, but on less than 15%, it is a challenge. I don't know whether I'm able to answer that.**Srinivas Baratam:** That's a good perspective, Vinod, but purely, if you improve the durability of a product, would the price points and therefore the margins for you not also improve at the same time?

Mr. Vinod Kumar Hans: Absolutely. That's what I'm saying that all these drivers, which are either coming from the Government side whether in form of new emission norms, or expectations of, I would say, new millenniums to have a completely durable long-standing cars, and then on the fuel economy, all these drivers are asking for new technology on the board. And we are very happy with this movement because this improves our competitiveness, a) and b) our ability to push the new price point and improve the content for us in the vehicle.

Mr. Srinivas Baratam: So essentially, improvement, durability may not actually end up harming you, it may even benefit you in that sense?

Mr. Vinod Kumar Hans: Absolutely.

Mr. Srinivas Baratam: I had one question for Manish as well. The performance is very good, and you've implemented a lot of cost reduction programs and therefore the numbers reflect what you've achieved. Just wanted to understand, to what extent is this sustainable and therefore can we see that the profitability and the margins would continue… of course, provided the volumes continue, and based on what we're seeing now in the market, the volumes seem to be sustaining, so, given the sustenance of the volumes will be see the cost reductions resulting in continued benefits at the margin levels?

Mr. Vinod Kumar Hans: Thanks, Srini. I think the quarter financials are all sustainable profits given the volumes and activity level. There isn't any exceptional one-off item in this current quarter. So, I would say it's pure operational, the initiative and action we have already initiated, and as I mentioned, it is a continuous effort which we're making.

Moderator: Thank you. The next question is from Saket Kapoor from Kapoor & Company. Please go ahead.

Mr. Saket Kapoor: So just to harp in over the point of our earlier speaker, how is the business environment? When we last spoke to you were exemplary, while in the tone that best times were there for the industry? So, where are we in midst of the business environment? And what factors are enabling you to believe that there is a good continuity of the same? And the utilization levels for the plant and product?

Mr. Vinod Kumar Hans: I think you can imagine majority of our business is oriented towards how these OEMs or the market performs and then it has a reflection on us actually. So, two clear initiatives, of course, we are improving our market share we believe as this technology is progressing, b) from the larger market perspective, we believe that best is yet to come. Whether this best is yet to come will be there two quarters or three quarters, that could be a question, largely depending upon if there's any supply chain bottlenecks like some of the semiconductors issue you might have heard in the media or I hope there is no kind of Indian variant of the COVID mutation. So, these are a couple of, I would say items, which may bring some change if at all if they come. But by and large the factor, which is making it more sustainable from our perspective is largely that this continued long pent up demand for the vehicle pure from a mindset point of view. Earlier, we had an impression that those people who have to buy a vehicle, they will buy and the pent up demand will be satiated after one or two quarters, but we see that this whole COVID is extended in a better way in the sense that still people are not comfortable taking public transport or Olas or Ubers of the world. So, we believe that there will be continued demand for personal mobility till the time there is a definite level of permanent cure or vaccination. And you can imagine in India, the vaccination will take its own time actually. So, to cut it short, we believe that our initial impression is that there will be a pent up demand and it will just get satiated and go. We think no, I think it's going to prolong. How many quarters is a question mark?

Mr. Saket Kapoor: Since we are getting the business from the OEM and they have the business plans for acting for more than a quarter or so, so, what kind of utilization levels are we looking going forward? That was my short point.

Mr. Vinod Kumar Hans: On the utilization, I will leave it to Manish to answer, he is handy with this; however, from a market perspective overall from the segment, and you might have noticed that there is still a reasonable demand in the passenger vehicles, maybe at least 20 models are still on the waiting time, there is also weightlifting all the tractors at least. On the trucks actually, it is still much lower than 2018 or 2019 level at the moment, but we still see a continued traction, but at a slow pace. But we believe that probably the announcement made in the budget, if it really hits on the ground quickly, then we will have a continued demand on the heavy trucks and off highway. Having said that, two-wheeler is a little bit of a mixed signal with a little bit of softening. That's our view of overall market. If you see with respect to utilization, may be Manish, if you could take up this question?

Mr. Manish Chadha: I think it's a good question. The Company had about average of 90%-95% capacity utilization in the different value streams. And as I already mentioned, we are continuously working on the productivity improvement which in-build the capacity and also CAPEX for the capacity enhancement. So, I mean, we are keeping a close eye, we are making all the efforts on the productivity, and also doing the CAPEX, looking into the market, especially after the COVID and the opportunity we see in the market.

Mr. Saket Kapoor: Manish, what has been the CAPEX for these nine months? And you have articulated about this fixed cost reduction part in the slide also. So, if you could quantify how much have flown into the bottom line and what are we expecting in terms of reduction in the fixed cost part or whatever metrics you are working?

Mr. Manish Chadha: So, as on today, we have spent CAPEX for these nine months almost Rs.1,444 crores. And when you talk about the fixed cost, if you see our fixed cost is lower, mainly labor cost from the last year to the quarter 1.5% and YTD almost 2%. But at the same time, if we see compare with labor cost, we still see a scope in the labor costs and productivity which we are targeting. And also some administrative costs and the fixed costs, we have reduced maybe 0.2%-5% in administrative costs. And when I talk about operational efficiency, we are targeting year-on-year on operational performance improvement, maybe one to two percentage points. And we are successfully achieving it, and that's why you're seeing that in the bottom line. And still we are working on the same lines on that, and we still see a scope of improvement.

Mr. Saket Kapoor: Khalid sir, as you have articulated that you are looking for an extension. I would like to understand as investors what is exactly the overhang? And how are we working out to get this through? I can understand that the business environment were not at all conducive over a period of the last nine months. But now and going forward also, sir, what is going to be the roadmap? And how is the way going to be? Definitely the market scenarios will be positive and negative. But whenever investors invest, they want a larger horizon. They think about long-term, they don't invest for one quarter, two quarters or a year and there also you are selling 19%. So what story are you going to pitch to your investor for urning them to invest, please tell us about that?

Dr. Khalid I Khan: Actually, first thing is that we have applied for extension of time. And we are hopeful because we came out with three offers for sale which were not successful due to the known reasons, which they call COVID impact and the negative market sentiment. And you can see our performance which is improving with more or less consistent, right. And we hope that will continue with the same pattern of growth right. Now, since COVID is almost over, hopefully, just keeping the fingers crossed, we can definitely connect with more investors, right, we can have more meetings. So, the problem or the limitation of having personal meetings face-to-face meetings, that is not there. So, to have better interaction and convince our investors they can invest in offers for sale.

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

Mr. Lakshmi Narayan: A couple of questions. What is your exposure to passenger car because you classify something as EIT and also LV, right. So, if you can just help me understand that part?

Mr. Vinod Kumar Hans: LV for us is the light engines, and since we supply engine there are few variants of these passenger vehicles which are also used on a light truck, which is less than 1-tonner. So, for us, that's the reason we classify like that. To make it simple, I would say one-third of our business is oriented towards pure passenger vehicles.

Mr. Lakshmi Narayan: How much is towards cars?

Mr. Vinod Kumar Hans: One-third of the business, and we have about 25% towards two-wheeler and three wheeler, so, three wheeler is also part of this component, maybe 90% of 25% is two-wheelers in that actually. And then, as I said that EIT, which is again one-third of our business, in EIT, we are bucketing tractors, power gensets because again some of the tractor engines are also using gensets actually. So tractors, and then you have these gensets, whether you talk about players like Kirloskar or Cummins, those kind of people, and then we have off highway where you have these JCBs and those kind of players and a portion of this is also on the railways and those kind of applications.

Mr. Lakshmi Narayan: In terms of, petrol versus diesel, right, is there a differentiation in the type of piston rings, on the pistons you actually use? And if so, is there a way to look at in that manner also?

Mr. Vinod Kumar Hans: It's very easy, if you see our slide, we have bucketed these two segments together. So all the CV and all the EIT, if you see, is all diesel, that's very simple. So nearly 40% is pure diesel, because all the trucks and all the tractors are diesel and all the industrial genset and all. So that's a diesel simple, 100% of these two are diesel, and then when you look at light vehicle, what we call a passenger vehicle, there is a distribution of 80:20, that's in line with the market, so 80% gasoline and 20% diesel. To answer your second question, yes, the content or the technology for diesel and gasoline is very different in terms of revenue. Just to give you a number, for a same car, the diesel could be three times in terms of revenue as compared to the gasoline for our components. And ours is one of the critical components for the diesel and that's the reason you normally see that diesel cars are generally more expensive than the gasoline.

Mr. Lakshmi Narayan: Because of this BS VI, was there a step up? I think the rings that are required are much more sophisticated, there is a change, right. How much of that coming off your incremental sales will be attributed to the component cost increase driven by the design change of BS VI?

Mr. Vinod Kumar Hans: I'm not sure that I've understood your question, right. So, all the three segments basically, if you have to see the commercial vehicle, two-wheeler and light vehicle, which means two-third of the business has just progressed to Euro VI from 1st of April 2020.

Mr. Lakshmi Narayan: My question is that whether this BS VI resulted in increased component presence, content per vehicle went up because of BS VI?

Mr. Vinod Kumar Hans: Sure, it has increased and that's one of the reasons you see somewhat better performance, as I mentioned that today if you have to simplify the whole thing, aftermarket is operating on the non-Euro VI and the segment like tractor and industrial is still operating on a non-segment side. So, we have a situation like maybe nearly 40%, 45% of our business is legacy, Euro 1, 2, 3, 4 business and then 60% is Euro VI. That 50% or 55% of the business is definitely on improved cost as well as improved margin as well. Having said that, to quantify that, India is still in the evolution part of Euro VI. So, most of our OEMs have at the moment picked up lightly loaded engines, because the time was too short to jump from Euro IV to Euro VI, it was jumping off to cycle in three years' time. So, in that way, most of the OEMs have picked up lightly loaded, I should not say a word like easy to adopt, straightforward things, so that they don't miss the bus. What it means for us is, it is worth incremental for sure, which is welcome, but I believe the way the market matures, they will move to turbo and highly loaded engines, which will require in my opinion a much more differentiated and value add technology. So we believe that this is a revolutionary path and the OEMs will now progress towards higher loaded engines. And once these highways, building, and the infrastructure is there, we see heavy trucks which we'll use, I would say, a little differentiated technology within the Euro VI actually.

Mr. Lakshmi Narayan: One last question on the export side, I just want to understand what is the strategy for export, is export important for the parent or is it important to you, what do you export, and what's the plan there for the next couple of years?

Mr. Vinod Kumar Hans: By and large, you can appreciate any export as welcome from the Indian standpoint. And having said that, we have to first satiate the domestic market as well. But at the same time, you see the good part, what's happening with Euro VI and all is once this whole manufacturing process and everything is mature, then what the Euro VI does for India is, it puts you at a global map at equal parity. So, our possibilities of export gets increased, because the kind of products we're making here, or we will make in future ones, as I said that, in the second round, the technology may mature to a highly loaded engine, our export possibility will improve, whether we supply to the OEMs and they export or we export directly.

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

Mr. Arun: My question is to Dr. Khalid. Once you've done three offer for sale and using the exchange platform and have not been successful, the fact is that so many IPOs are coming and so many things are happening, we see the last calendar year average IPO application has been more than 1 million, and even in this current year, we are finding nearly 3 lakhs application for issue. So if you're not able to extend platform, why don't you do offer for sale to public rather than getting a limited platform where many people are not familiar, and only the people who are in stock exchange, broker can connect, they are believable. But there are more DEMAT account holders as opposed to the active traders. So have you been able to think on these kind of dimensions?

Dr. Khalid I Khan: Thank you for this question. It's a very good question. So just to inform you, there is a lot of discussion and different, different options are being considered by the acquirer and a person acting in concert which is IEH FMGI Holdings LLC. They're trying to explore the best options available. And it all depends on how we get the approval and what relaxations we get from SEBI. So, all the options are being explored right now.

Mr. Arun: I have seen like some of the things which have been done, other companies which were forced to come down to 75% is rights shareholding only to the non-promoter. So, like the fact is that there is additional money comes in the Company, so that's done by marathon, there are things once a certain level is reached, people have given bonuses to make it happen. So, SEBI will give you only time, or is it going to give restriction or you're hoping that such dimension has been given to such other companies, so you're also hopeful for similar?

Dr. Khalid I Khan: Arun, as I said, various options are under consideration right now. You gave a very good suggestion. Thank you for that.

Moderator: Thank you. The next question is from the line of Srinivas Baratam from Kriscore Financial Advisors. Please go ahead.

Mr. Srinivas Baratam: Vinod, if you recall, even during previous investor call I had asked you about the PLIs. At that point, you had said that the OEMs are still reviewing and nothing has been discussed with you yet. Can you throw any further light on that?

Mr. Vinod Kumar Hans: So, sub-formal in that direction, but still, I would say it is not the policy for auto components and other, if you have reached to a stage where there are active decisions happening because starting mainly with electronics components, because right now there is a semiconductor and all those what you've heard, so on those front there are a few I would say discussions which according to us are reaching to some kind of decision level. For us, I would guess it will take some more time for category of component like us actually.

Moderator: Thank you. The next question is from the line of Atul Agarwal, individual investor, please go ahead.

Mr. Atul Agarwal: My question has already been answered, but I would like to clarify that when do you expect SEBI order to come and then to give you the required thing, that you are saying that one year extension? And secondly, when can we expect the next OFS

Dr. Khalid I Khan: It's difficult to predict when we will get the approval from SEBI. We hope that we'll get soon and sooner is better as you know. And once we have the SEBI approval, definitely will come out with offer for sale at the right time.

Moderator: Thank you. The next question is on the line of Saket Kapoor from Kapoor & Company. Please go ahead.

Mr. Saket Kapoor: Dr. Khalid, you are trying to explain that as of now there will be no offer for sale until and unless we get an extension or a feedback from SEBI, this is what the status is?

Dr. Khalid I Khan: Yeah, absolutely correct.

Mr. Saket Kapoor: First approval and then there will be the timeline up to which they will extend it and then we have to plan the same sir, that is what the case?

Mr. Vinod Kumar Hans: Right. I think there is no other option also. Only option are on hand so far.

Mr. Saket Kapoor: What have been the cash accrual for these nine months?

Mr. Manish Chadha: The cash accrual for nine months was almost Rs.570 million, which I covered in my slide #15.

Mr. Saket Kapoor: Our susceptibility to the raw material price fluctuation, how have we taken charge of the same? What kinds of price hikes have happened over the last two quarters?

Mr. Manish Chadha: So, you already seen that raw material prices has increased over last year, so maybe for example, aluminum is up by 14% and also nickel, copper, it is all up from the previous year. And Company is having escalator contracts with all the major OEMs which will cover majority of the exposure. And also we are exploring in aftermarket to increase the prices so that we can cover that exposure also. So answering your question, there are escalation in the raw material prices, we have escalator contracts with customers, which are coming to the exposure and we are good from the recovery point of view from the customers.

Mr. Saket Kapoor: So that is with a lag effect sir?

Mr. Manish Chadha: Yes, there is a three to six months depending on the contract we have with the customers.

Mr. Vinod Kumar Hans: Just to add, of course, this whole commodity and also premium phase because the freight lines or the logistics costs have gone up in general, because you have seen the blockages on the ports and all. So, these are the two things which we are monitoring very closely. And, as Manish said that the majority of the portion of the business, we have this escalator with the customers and there will be a lag of course for that. And, we'll have to see on the other part where we are directly exposed to the market. So, it's very simple, some portion of this we will have to absorb, some portion we will have to pass on to the end user for sure actually, the pain has to be divided nicely. So, we are waiting for that situation, but I would say yes, it's a challenge, it's a situation we're watching, but at the same time we are in a good situation through our contracts with the OEMs.

Some of the OEMs are also participating in some way because some of the increase in the demand is also from their side actually.

Mr. Saket Kapoor: My short point is, inflationary trend has been happening from August onwards. So, on the revenue front and also on the raw material procurement, the inflationary trend must have happened even for the December quarter. So, I just wanted to have an understanding whether we have taken any price hike or how have we compensated for the rise in the raw material prices?

Mr. Vinod Kumar Hans: Maybe Manish can answer, but by and large the result will show whatever discussion we have taken in that way.

Mr. Manish Chadha: Answering your question, yes, there was a price hike in the raw material prices. And in the current quarter, we could recover 50% of the hike from the customers and balance we will recover wherever we have contracts maybe and balance we will cover in the subsequent lag time. I hope I have answered your query.

Mr. Saket Kapoor: Yes, sir, I was only looking for how much have been the absorption and balance, the lag effects when will it come?

Mr. Manish Chadha: Answering your question we have recovered 50%, but at the same time, there is a time lag, but as Vinod mentioned where we have a direct exposure with the customer for example in aftermarket and export, we need to see the market scenario and then we are evaluating and we can absorb the cost from the end customer also. So, we are evaluating the situation, there is a time lag and there is a recovery also and it is a continuous watch.

Mr. Saket Kapoor: As to the EV story, which you have already explained, hypothetically, if EV story culminates into something bigger, how do we start this piston part of the story for our Company, things are in nascent stage today on ground, but how is this product going to gel with a pure EV play say a few years from now as had been the thrust by all major OEMs also?

Mr. Vinod Kumar Hans: Again, qualify for one more time for a better understanding, we are actively engaged in the electrification towards the hybridization point of view because as I said is a value add for us. We have real curtains from the pure battery side, okay. And there also we are actively engaged. And you can imagine that, we would be working with OEMs who are launching new engines in 2024 and 2025. So, you can imagine that we work nearly 36 months, had a launch actually. So, whenever these discussions happen, I would say real on the ground situation visible to us than what you see in the media. I don't know how to explain. For example, we know in two-wheelers, the total capacity for the time being till 2025 which the OEMs are putting, I'm talking about OEM is 3 million, which is 10%, so, which means our traditional OEM are still looking at 90% till 2025. And that's the reason we are working for a new engine with them. Having said that, we are watching closely is, who are the non-OEM players who can be a game changer in electrification of the two-wheeler. If there are new guys coming, if tomorrow Apple launches a car, that is where probably it is unknown area for us to really estimate. But by and large, you can imagine that India will be somehow from our understanding in the graph much later in globe, and you know that the lead would be China, because Government, might behind this, there's a battery, minds available with them, and what not. So, they have the condition for that. And you can imagine that in China, we have operations, which is three times bigger than India. So, from there we have a lot of guidance available

Moderator: Thank you. The next question is from the line of Arun, who's an individual investor, please go ahead.

Mr. Arun: The question is to Manish. Given the fact the uncertainty on the mobility in the electric vehicles side, how do you plan to utilize cash you're accruing -- is there a thought that that you don't have immediate CAPEX plan, and given you have good credit rating, does it make sense to dilute your return on equity by getting that cash in the balance sheet?

Mr. Manish Chadha: During the presentation, Vinod did mention that the market is moving towards turbo engine and highly loaded engine and this will change the total scenario of the CAPEX even in the Euro-VI. So, we are generating cash and also we are looking into the opportunity especially after COVID for the capacity enhancement and also looking into the opportunities which we will build the highly loaded engine and the turbo engine. So, we will utilize this cash and also this will have overall with a global business when the global player comes to India, they look into the financial viability of the customers. So, I think this is the right time to make balance of capacity and has an opportunity on the emission norms and also exploring the business with the new customers. So, that's the plan from the cash perspective.

Mr. Arun: What kind of estimate you have like this plan to takeoff, what are the kinds of positive effects you are thinking, may happen in three year, four years, doesn't matter?

Mr. Manish Chadha: I cannot comment on the CAPEX and I think as Vinod mentioned, we have China market which will give us on highly loaded engine and turbo engine. So, I think we are looking into a market and then only we can confirm looking into the CAPEX mode.

Mr. Arun: But what about the local capacity?

Mr. Vinod Kumar Hans: We can give you a guess that, depend upon the market evolution for sure. But we have good chance that our efforts which were historically available with you, maybe there's a good chance to improve upon those CAPEX numbers. Because we believe that the market the way it is going and it continues to mature, we have a better chance to use that actually. That's one of the reasons of conservation of cash as Manish said.

Moderator: Thank you very much. We'll take that as the last question. I would now like to hand the conference back to the management team for closing comments.

Dr. Khalid Iqbal Khan: One thing I would like to clarify. Regarding the offer for sale, we have approached three for two things basically. There is a cooling off period of 12 weeks after each OFS. So, we have requested SEBI to relax that condition for us so that we go ahead with OFS as per our assessment and evaluation of the market situation. Secondly, there is 2% overall restriction on open market mechanism sale. So, we have requested for permission to sell any number of shares through the open market mechanism. So, these are the main things for which we have approached SEBI for approval.

Mr. Vinod Kumar Hans: Thanks first of all for your time to take our call. And I think key points, which you might have absorbed on the OFS areas where we are trying to work out a solution, and as all of you are advised that the situation is pretty good in the market and that is quite conducive which unfortunately for us in time, if you have to say about the whole event, but it seems like a better time and the Company, you can imagine is working closely with the acquirer in person in concert to find a really good way and we are working with SEBI to really work out in a positive way, some of the relaxations we can obtain. So that's on the ownership part. And on the market side so far, we think it's pretty good and some of the markets side whether on the passenger car and tractor is historic to the 2018 level. Remember 2018 was best year for the auto companies and auto components. But, we believe that probably the current run rate is going to definitely exceed that. And also, we are quickly going to dive board to see the possibilities for the next wave of improvement in Euro-VI as we said, with those drivers, and of course, on the cost cutting and opportunities on those side, it is a never-ending exercise for us. Overall, we had a belief that we will be emerging as a strong player after this and we are even more confident that we are strongly aggressive on progressing on the top. With that summary, I would like to conclude and thank you again for joining this call.

Thank you.

Mr. Manish Chadha: Thank you.

Dr. Khalid Iqbal Khan: Thank you.

Moderator: Thank you very much. On behalf of Federal-Mogul Goetze (India) Limited, that concludes the conference. Thank you for joining us. Ladies and gentlemen, you may now disconnect your lines.

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