“Federal-Mogul Goetze (India) Limited Q4 FY 2021 Analyst Conference Call”

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MR. VINOD KUMAR HANS – WHOLE-TIME MANAGING DIRECTOR
MR. MANISH CHADHA – CFO & FINANCE DIRECTOR
DR. KHALID IQBAL KHAN – WHOLE-TIME DIRECTOR-LEGAL & COMPANY SECRETARY
MR. RAJESH SINHA – WHOLE-TIME DIRECTOR-OPERATIONS
MR. SUNIT KAPUR – NON-EXECUTIVE DIRECTOR
MR. STEPHEN SHAUN MERRY – NON-EXECUTIVE DIRECTOR
MS. NALINI JOLLY – INDEPENDENT DIRECTOR
MR. K.C. SUNDARESHAN PILLAI – INDEPENDENT DIRECTOR

Moderator: Ladies and gentlemen, Good day and welcome to the Q4 FY 2021 Analyst Conference Call of Federal-Mogul Goetze (India) Limited. As a reminder, all participant lines will be in listen only mode, and there will be an opportunity for you to ask questions after the presentation concludes. If anyone needs assistance during the conference call, please signal an operator by pressing star '*' then zero '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ashish Samal (from Perfect Relations). Thank you, and over to you, sir.

Mr. Ashish Samal: Thank you, Rutuja (Moderator). Good afternoon and thank you for joining us on Federal-Mogul Goetze (India) Limited Quarter Four FY 2021 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) and Company Secretary.

Before we begin, I would like to add that some of the statements to be made in today's discussion maybe 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 would now request Dr. Khalid Iqbal Khan to start the presentation. Over to you, sir.

Dr. Khalid Iqbal Khan: Thank you, Ashish and Good evening everyone. First slide is a forward-looking statement, let's go to the next slide: Next slide is regarding 'Company Overview'. So, we are on 'Company Overview'.

The Company was established in 1954 as a joint venture company with Goetze-Werke of Germany, which was owned by Federal-Mogul LLC. This Company is based out of Gurgaon and it is engaged in manufacture, supply and distribution of automotive components in India as well as internationally. It mainly offers Pistons, Piston Rings, Piston Pins, Valve Seats and Valve Guides. The Company caters to automotive and heavy-duty motorcycles, energy, industrial, power generation, railway and defense industries. This Company manufactures world-class products at its state-of-the-art manufacturing facilities, which are located at Patiala (Punjab), Bangalore, (Karnataka) and Bhiwadi (Rajasthan).Now the Company operates as a subsidiary of Tenneco Inc., post Tenneco's acquisition of Federal-Mogul LLC.

The Company has over 5,000 employees as on 31st March 2021. It has three (3) Manufacturing facilities and two (2) Sales offices, and fourteen (14) Warehouses and the Company has more than thirty (30) OEM customers.

So, as on date, public shareholding is 25%, and 75% is held by promoters. Regarding the OFS, as on 31st March 2021 (there were three offers for sale), the promoter shareholding was 94.91% and then vide notice for offer for sale which was dated 23rd of April 2021, IEH FMGIL Holdings LLC divested 1,10,76,201 equity shares of the Company, which constituted 19.91% of the issued and paid-up share capital of the Company and consequently, the public shareholding of the Company increased to 25%.

The Company has nine (9) Directors on the Board. Three (3) Directors are Independent Directors and one of them is a Woman Director, which is in line with the requirements of the Government. Mr. K.N. Subramaniam is the Chairman and Independent Director; then we have Mr. K.C.S. Pillai as an Independent Director; and Ms. Nalini Jolly, she is Women Director. Mr. Vinod Hans, he is the Managing Director; Manish Chadha is CFO; Mr. Rajesh Sinha is Whole-Time Director; then Khalid Khan is Director Legal; then we have Sunit Kapur as a Non-Executive Director; and Mr. Stephen Shaun Merry also as a Non-Executive Director.

I will now hand it over to Mr. Vinod Hans to take you through the rest of the slides. Over to you, Mr. Hans.

Mr. Vinod Kumar Hans: Thanks Dr. Khalid. Welcome again. Good afternoon. I will cover next couple of slides, mainly on the market and the competitive position of our Company.

Few items mentioned on Slide No. 6: Our credit ratings are good: Long-term, A-plus; Short-term, A1-plus. We have our in-house R&D centers in Bangalore and Bhiwadi, and these technical centers are seamlessly integrated with our global network of technology centers, which means that the whole technology transfer is absolutely seamless, and we don't have intermediary firewalls or separate agreements in that, and that's how our customers view us as a very differentiated Company in this space, because our other competitors mainly have some kind of restriction or some kind of a JV arrangement on technology transfer, which we don't have to go through. And then in terms of the segment, we are well diversified, which will come up in our next slide. And we supply to more than 30 OEMs which came up in slide second of Dr. Khalid.

We have a strong financial liquidity with us, which was also kind of a desired vision from the customers' side as they award the new business to a concentrated one for the Euro VI and other new norms coming. And finally, all this is really delivered by a very highly stable and talented and experienced team.

In terms of further going into the facilities, our facility of Patiala is the oldest one, 1954, we made Piston Pins and Rings out here. Bangalore came up later in 1977, same products in Bangalore as what we do in Patiala. And then Bhiwadi came up in 1996, about 25 years back and Bhiwadi facility is mainly concentrating on the Sintered product, mainly into Valve Seat and Valve Guide which goes into cylinder heads. All these facilities are certified by, all the specifications required on the quality, the ISO and the safety standards.

In terms of our market positioning, in OEM, in India, overall we are #2 in Pistons, but we are #1 in Diesel Piston Rings, we are #1 in Seats and Guide, we are #1 in Indian market with OEMs.

In terms of revenue split, about 86% of the revenue is, I would say, diverted to the domestic consumption and 14% is coming from exports. And we are increasing this pie of export as more programs into the Euro VI give us a global access. That's where we are working towards, and this will come up again in several coming slides and I am sure some of the queries will be directed towards that.

In terms of our segmentation, as I mentioned before, we are pretty widely split with one-third of the business roughly coming from light vehicles. In the light vehicles, I have to qualify that we put passenger vehicle and small commercial vehicle, less than 2.5 tonnes into this category. Then we have about nearly one-fourth of business coming from the two-wheeler, three-wheeler category. The commercial vehicle, I have to qualify, this is the heavy commercial vehicle, this is about 12% of the business. Then we put the rest of our business, which EIT, which is basically tractor, industrial, defense, railways, nearly about 28% of the business.

So, the summary out of this slide is, if you see, 40% of our business is not impacted by electrification in the near future. And if I have to add that nearly about 14% or 15% of the business is also coming from the aftermarket side. So, we have a situation where more than half of the business is, I would say, a little bit protected from electrification because that is the business which is far off from electrification standpoint.

On the next slide, which is the way the technology or whole direction from the OEM is coming in centering around three teams basically. So, there is a need from OEMs and end user to have a better fuel economy, and of course, lower emission, we have to comply with the new emission norms. And then third, of course, is durability or the life, more and more the warranty norms are getting on the increase path, and most of the vehicles are going into a direction where the warranty is running into lakhs of kilometers rather than thousands of kilometers, as earlier.

So, all the three prime drivers have, I would say, direct impact on our product by the way, and we contribute nicely into the three prime drivers, because most of this is coming out of combustion chamber and all three main line products of ours Sinters, Piston and Rings cater to these and all of them have something to contribute into these three themes. So, we are nicely positioned the way the customer behavior is driving the market on one side, and also from the environment and government standpoint the legislation is driving us. So, all these drivers are really pushing us into a direction where we are nicely positioned actually.

I will leave it now to Manish to explain about our strategy on the margin expansion and cash position. Over to you, Manish.

Mr. Manish Chadha: Thanks Vinod, and good afternoon to everyone. So, I think performance focus on margin expansion and cash generation, few strategic actions which we are continuously taking, one is the reduction of operational cost, which includes the fixed cost, reduction and operational efficiency, and through labor efficiency and fab which we are focusing on.

And then on cash perspective and lower capital intensity, improved CAPEX / revenue ratio and expansion of working capital, when you see your financials these are the key drivers which we are considering looking into the growth as well as the cash generation we are taking. And also, looking into the growth opportunity which Vinod already mentioned on the technology front, on the emission norms and then highly on these turbo engines and then increase in production of hybrid vehicle. So, I think we are striving towards creation of cash innovation and shareholders' value with targeted growth opportunities.

Maybe, Vinod, I will request you to take the electrification and then I will go to the financials.

Mr. Vinod Kumar Hans: Thanks, Manish. We put this slide on the electrification since there were several questions last time on the electrification and to clarify. And this slide (Slide no. 12) is coming out of external source which is CRISIL and PwC and all. Basic idea of this slide is to see the landscape of all the powertrain technology, which is pure ICE (Internal Combustion Engine) on one side and then there is a hybrid electric vehicle option, and within that there is a micro, mild and full hybrid. And then we are talking about plug-in hybrids. And then there is landscape for the pure battery electric vehicle.

The message out of this slide is that all these technologies will co-exist for long time actually, before we migrate to a pure electric battery, the way the media is propagating. And if you see the middle line, just to clarify, our product will be relevant for the pure ICE, of course. And then we have our participation in micro, mild and full hybrid, as well as plug-in hybrid. In fact, with the hybrid vehicles, the relevance of our components is there in its IC Engine in all the form of hybrid vehicle, even the plug-in hybrids. Only in the pure electric motor driven vehicle, we don't participate with these product lines what we have. So, in summary, I would say that the way we are progressing, the natural progression, the relevance of our components will remain, except for the pure electric motor driven propositions.

Over to you, Manish, for the financials.

Mr. Manish Chadha: Thanks, Vinod. So, maybe I will quickly run you through the quarter and its financials. So, the current quarter, March 2021, was really good. Revenue of Rs. 3,709 million - Up by 61.1% versus prior year, because of the low base, last year it was impacted due to COVID, but at the same time, it is one of the best quarter from the top line perspective for the Company. So, the Company grew by 61% top-line, whereas the weighted average industry growth according to the Company segment exposure from the previous year is approx 45%.

Operational profit EBITDA without exceptional item is Rs. 602 million, which is 16% of the revenue, up by Rs. 332 million versus the prior year. As a percent of revenue, this quarter is 16% versus 11.5% in the previous year.

There is an exceptional item of Rs. 428 million which is 11.4% of the quarter revenue, which has negatively impacted the EBITDA and profitability. The retirement case, the provision which we have created due to the Supreme Court order, but at the same time, we are pursuing the legal recourse on that, so it's a provision only.

And then the net profit after tax for the quarter is Rs. 70 million negative. The total cash balance by the end of the quarter/FY is Rs. 1,296 million and also we have generated cash of Rs. 240 million in the quarter four. So, you can see on the chart on the subsequent slide, revenue grew by 60%, EBITDA from previous year, if we exclude one-off, has grown by 123%. EPS is negative with this exceptional item, but if you exclude that it is positive 4.49%. Then similarly PBT without exceptional is positive. The only exception in this quarter is this retirement case, which we have already mentioned.

The next slide, you can see the financial results for the full year. The top-line has grown up by 2% whereas if you see the full year, in the automobile industry, the revenue in Light Vehicle is down by 11%, Mid & Heavy Vehicle industry down by 22%; two/three-wheelers down by 15% and Tractor was up by 27%, despite that, your Company has grown by 2%, which is mainly driven by the market share up in OEs, and also there is a substantial increase in the export sales for the Company.

Operational performance EBITDA is Rs. 1,253 million, 11.3% of the revenue, which is in line with last year, 11.6%. From exceptional items, again, I have already mentioned, this is retirement case and then the net profit after tax for the year is Rs. 8 million, which is impacted by the exceptional item. And then cash Rs. 1,296 million, which is up from the previous year by Rs. 810 million. Which you can see, we have substantial action which we already discussed in the slide, the strategic ones, the cash generation and also the fixed cost reduction which are the key drivers, which we will continue doing on that.

Maybe, over to Khalid for more brief about the retirement case in Bangalore.

Dr. Khalid Iqbal Khan: Thank you, Manish. So, on the retirement age case, the model standing orders of the State of Karnataka specified the retirement age as 58 years before 23rd July 2017, when the government modified the standing orders to enhance the retirement age from 58 years to 60 years. Model standing orders provided an option, or still provide an option, to companies to have the specified retirement age or such other age as may be agreed between the employer and the workmen, by any agreement, settlement or award, which may be binding on the employer and workmen, under any law for the time being in force. The employment contract of workmen at Bangalore provides for retirement age at 58 years, which is binding on workmen, and is deemed to be an agreement between the Company and workmen.

On 30 May 2012, the Deputy Labor Commissioner, allowed the enhancement of the retirement age from 58 years to 60 years, on an application filed by the rival Workmen Union. The Company went for appeal, and at the end, the Supreme Court has given an unfavorable order on 13th May, 2021. The net impact of the order on the Company could be approximately Rs. 42.75 crores. The Company has considered a provision of the complete amount in its books towards any such liability based on Generally Accepted Accounting Principles. The Company has filed a review petition before the Hon'ble Supreme Court against this said order on 15th of June, 2021 and we are hoping that it will be listed soon. Based on the legal advice obtained, the Company's review petition has merit, and the estimate of the liability may undergo a revision based on the outcome of the legal process.

Thank you and over to you Ashish.

Mr. Ashish Samal: So, we can start with the Q&A session, Rutuja.

Moderator: Thank you very much. We will now begin the Question & Answer session. The first question is from the line of Mr. Saket Kapoor from Kapoor & Company. Please go ahead.

Mr. Saket Kapoor: Firstly, on this case part of the story. Khalid sir, if you could explain in brief once more, where have we gone wrong, sir, that resulted in this provision?

Dr. Khalid Iqbal Khan: Mr. Saket Kapoor, we have not gone wrong. So, we have solid legal grounds to put up our case, and we had legal opinions which supported our contention. So, it was a very strong case, but somehow the courts were pro-employee. That's how we got this unfavorable order. Otherwise, based on merit, we have engaged Advocate Mukul Rohatgi for our review petition, and even his opinion is that it's a very good case. And I don't know why courts were so pro-employees in this case. But we are still fighting, and we will go till the last stage. After review petition, we will go for a curative petition also.

Mr. Saket Kapoor: Now coming to the operational part, Sir, this quarter-on-quarter we have seen this raw material as a percentage of sales going up significantly. So, this is all the impact about the steel prices and other components and how were the market received, whether we have gone for any price hike, or whether there will be a compression in margins going forward?

Mr. Manish Chadha: Thanks, Mr. Kapoor. So, you have rightly pointed out that raw material cost has gone up from the previous quarter, and you rightly pointed out that material prices have gone up to the tune of 10% to 15%, so that is one of the reasons and secondly, from quarter-to-quarter basis, if you can see, in the last quarter of December, there is a decrease in finished good and WIP inventory, and whereas in this current quarter, it is an increase, which has also an impact on raw material cost. But if you combine both of these, you can see the raw material costs is almost the same. Now, coming back to the recovery portion, so we have escalators with 70% customer of OE / OES business, but it has a time lag to six months to one year to pass on or recover those from retail increase and decrease. So, this process, as I mentioned, there will be a time lag and we will be recovering these material price increases.

Mr. Saket Kapoor: And Sir, especially this first half, April, May, June was impacted by the severe COVID-19 Wave 2. So, if you could give some color on how our production lines shaped up and how those are deals impacted? Because I think your oxygen shortage and industrial oxygen, and all must have also affected. And since our OEMs have also taken curtailment in their production, how have the utilization level fared? And Sir, we have also seen this increase in employee cost quarter-on-quarter, is it just commensurate with the increase in sales or any other component into it? And sir, also, you please explain the seasonality part of our business which you have, I think in the last call also you have explained.

Mr. Manish Chadha: Okay. From operational capacity utilization and labor costs perspective, so you have seen that your Company has taken very flexible approach. The second half you have seen it was up, and even in January to March you can see that the revenue is almost high to Rs. 370 crores, maybe I would say 90% to 95% capacity utilization in the different value streams. And then even we have to follow the COVID norms, so I think we are lucky to have permanent employees, which could have less impacted the operation and we were able to supply this high demand in the second half. But at the same time, we have to take care of the COVID norms, and we have to spend on overtime to this permanent labor. And I think that's also impacted the labor cost for the quarter. So, I think from April to June also there were COVID impacts, and we have to adjust ourselves according to industry. And we have made ourselves flexible and at the same time, we have to make a balanced approach in running the operation as well as on the health safety and also on the cost perspective. So, we are working towards that.

Mr. Saket Kapoor: Sir, I missed your part on the utilization level, the line was disrupted, could you repeat?

Mr. Manish Chadha: So, January to March quarter is one of the best quarters, and we have hit 90% to 95% of capacity utilization in the different value streams, within the product mix what we have.

Mr. Saket Kapoor: And now with this COVID impact, there has been a reduction, that has been factored in the production?

Mr. Manish Chadha: Definitely.

Mr. Vinod Kumar Hans: Let me pitch in here, Mr. Kapoor, to answer your question on the seasonality and also the running quarter, I mean, the quarter ended June, I guess that was your question. So, I would say, our seasonality is more to do with how the larger OEM market outplays actually. Plus, then we do have aftermarket business, we do have a reasonable export business, which is, I would say, with respect to seasonality a little bit even, if I have to say. So, as such, we don't view ourselves as seasonality, but normally, going by the way the market goes in the OEM, the quarter ending March is normally the best quarter, because that being the financial year end. And also, somewhere in between this quarter of festive season, we see more sales than others. So, these are the two times where a little bit of seasonality catches up. But again, I have to be little bit cautious now with this COVID coming in, the seasonalities are getting even blurred actually. So, the seasonality is more to do with the now COVID how the waves are behaving actually.

So, just to give you a perspective, as Manish said, that in the beginning our growth for January to March was say about 60- 61% against the average weighted the way we are exposed to segment about 45%. So, which means we are still doing better than the market from a seasonality point of view. Similarly, the numbers for the vehicles, they are still getting combined, but our understanding is that during this quarter of April to June, the light vehicles are down by nearly 29% to 30%, the commercial vehicles are down by 49%, and the two wheelers are down by nearly 30% plus, 35%. Tractors are still doing okay, but they are still down for the first time by (-8%) actually. So, if you put all these numbers together, just to give you a number, it comes to nearly 30%, 33% kind of a number. So, that's a drop and accordingly we also dropped. But I can only tell you that our drop in this quarter was much lower than the market.

Mr. Saket Kapoor: So, this comparative data is Q-on-Q, or you are comparing with last year, sir?

Mr. Vinod Kumar Hans: No, I am comparing quarter-to-quarter, last year is not relevant.

Mr. Saket Kapoor: It was an exception last year, so you are comparing March versus June in production numbers?

Mr. Vinod Kumar Hans: Perfect. So, internally we are now, as I said, since you mentioned about the seasonality, internally we are benchmarking ourselves on a quarter-to-quarter basis. Comparison with the previous year does not give much, I would say, internal fuel to us actually, if you ask me. So, all this data which I mentioned to you regarding the industry was based on a quarter, and it basically impacted by COVID. So, ballpark, COVID impacted the industry by one-third going by quarter-to-quarter basis. But probably the way we are segmented, the way we are into the market, probably our number would look better.

Mr. Saket Kapoor: And definitely the month of July is looking optimistic.

Mr. Vinod Kumar Hans: Absolutely. July, again, there is a better traction. But I have to caution that it is not at the same level what we saw in the first quarter run rate actually, it is still on a catch up mode. Particularly on the commercial vehicle, you might have heard that most of the commercial vehicles, if I have to name a few, Ashok Leyland, Eicher, they are still not working full month actually, they are working only partially. And also, you might have heard a lot of news about semi-conductor shortage, so that is also impacting. So, definitely this quarter we are expecting a better traction and it is visible in the schedule. But in terms of whether it is at the same rate of the first quarter of the year, which is January to March, no, it is still below that.

Moderator: Thank you. The next question is from the line of Kiran V. from Modi Fincap. Please go ahead.

Mr. Kiran V.: My question is, what is the market share of our Company in the segments which we deal into? I must have missed it.

Mr. Vinod Kumar Hans: Our market share, I mentioned in the slide our market position. So, easy one is the Sintered where we are into the Seats and Guides, we are more than one-third market share, that's very clear number one. In Piston Rings, we are again number one, and here probably we are talking about 35% to 40% kind of range. And in Piston we are looking at probably 25% to 30% market share range.

Mr. Kiran V.: Sir, any reason why Company is not giving dividend?

Mr. Manish Chadha: So, from dividend perspective, I think we have sufficient cash in place, but at the same time the Company is preserving cash or keeping cash I think to have long-term and short-term initiatives from availing the growth opportunity. As Vinod mentioned on market, we expect 2021-22, there will be substantial growth in the domestic market. And at the same time now, global customers are making base in India, and we want to better place in the market. And there are some investments in place, and also this global customer need, the sustainability of the customer considering the global cash situation there, they are looking for cash positive locally. And also, there are technology upgradation as market is moving towards heavy engine and turbo engine. So, I think considering that, we will be requiring cash. But at the same time, I think now we have a better idea about the investments on these technologies and the short-term one. So, maybe we will have a review this year on dividend.

Mr. Kiran V.: Sir, on the BSE website, promoter holding is not updated. It is showing 94%, is it so?

Dr. Khalid Iqbal Khan: We need to check, because we have informed already from time to time, and it should have been updated. We need to take it up with the stock exchange. We will touch base with them.

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

Mr. Saket Kapoor: Sir, I was coming to this current liability rising significantly to Rs. 23 crores, if you could explain what could be the reason for that?

Mr. Manish Chadha: So, it is linked to the statutory payment. If you see, our sales from the previous quarter has gone up by Rs. 128 crores, and you can link the GST payable to that, so it is pertaining to that, nothing more than that.

Mr. Saket Kapoor: And Sir, you were explaining about the dividend part of the story. So, going forward, can we look at dividend distribution policy being articulated by the Board so that, that would give us investors an idea of how the dividend payout would be going forward? That should be the better way to address your shareholders.

Mr. Manish Chadha: So, dividend policy is already there on the website. What I was trying to tell is that we have cash usage plans in short-term as well as a long-term. So, you can see the market is growing, the environmental norms are there and then India is becoming a global hub, and we do have an investment to put in place to increase capacity to supply to those global customers, right? And also from technology perspective, the market is moving towards heavy loaded engines, and we are in touch with our global partners and in the market. So, I think there is a balanced approach and what I mentioned is that definitely now we have idea about this forthcoming investment in short-term and long-term. So, may be this is a time to relook into the dividend again, whether we can pay dividend in short-term or not. That's what I mentioned.

Mr. Vinod Kumar Hans: May be a little bit of a background Mr. Kapoor. May be I will pitch in here. I think I explained in the last call also, so, about four years back, may be four or five years back when this whole transition was happening, from Euro IV to Euro VI and a lot of global projects which you see some of these are now getting active in India, which are also linked with Euro VI. There the companies were very clear that sustainability was one of the decision-making factor for awarding a business, besides cost and quality and others. And also because of the time pressure, most of the OEMs they had this dual or multiple source policy. But because of the time pressure, because Euro IV to Euro VI, two cycle jump in 36 months was never performed. So, they selected only one supplier for the time being. So, they were very clear that sustainability is one of the key deciding parameters for selection. And the companies were a little bit worried, globally we still have some challenge on the leverage, and that was what they did not want to see also in the local company. And there was a very clear plan to show to them how sustainable were we, and there was a clear path also shown to them that we should become debt free by the time the Euro VI comes in. And I am very happy that the plan we made in front of customers to get their confidence came right actually. And what Manish is now saying that now we have a visibility, we have achieved a certain level, we have got the customer confidence, we have now visibility of how much turbo and other would require an investment. So, that will give us now a good gut feel or estimate where we can take a step back and see, okay, now we can revisit our dividend policy and quantum.

Mr. Saket Kapoor: Going forward by the pillars which you are getting from your OEM production cycle and all, we are already running at the highest capacity over the last few quarters, if I am not wrong. So, are we looking for any further debottlenecking or what is the way forward, how is the current year is shaping up and whether we are augmenting any further CAPEX going forward? Last year, Sir, there has been a movement I think so in the cash, purchase of plant and property to the tune of Rs. 48 crores, where has that money gone into and capital work-in-progress, if you could explain?

Mr. Vinod Kumar Hans: So, I will let Manish answer with this specific numbers, but just to comfort you that your Company has a backup of global in terms of capacity. So, even if there is a spike in local, we have our global plant to support us, we have plant in Turkey, Poland, some of these products are dual approved. So, we have that kind of a plan or contingency plan, but at the same time, you would know that importing is not a competitive situation anymore. So, we without landing up into a situation we have we have to massively import, we are continuously looking at expansion here. And some of these expansion is transfer of assets by the way. So, may be Manish can give some broad idea about last year and this year as well, in terms of numbers.

Mr. Manish Chadha: So, I think we had invested almost Rs. 47 crores this year, that is for own capacity enhancement as well as on renovation and modernization of the plant and machinery. Some of the plans got delayed because of COVID and all, and we do have a good plan for this year, I would say, 2021-22 on the capacity enhancement. And as I mentioned, we touched 90% to 95%, with this we put the CAPEX for this year almost Rs. 47 crores, and we are also increasing over capacity for the next coming year. As I mentioned, we see growth opportunities.

Moderator: Thank you. The next question is from the line of Mr. Shashank Kanodia from ICICI Securities. Please go ahead.

Mr. Shashank Kanodia: Sir, just wanted to check, with Tenneco as our new promoter, have we kind of heard anything from them given there can be any consolidation in Indian business because they also manufacture shock absorbers, door system in India? So, is there a possibility that any new revenue streams get accumulated in our Company?

Mr. Manish Chadha: Maybe I will take that. So, thanks for the question. So, there is no as such plans for consolidation in India or even globally, these all segments are running separately.

Mr. Shashank Kanodia: Okay. So, Sir, from Tenneco perspective there can be no new revenue stream to us, right?

Mr. Manish Chadha: Well, I think we have the technology availability, as Vinod mentioned. And then also from the point of view of customer, they look at a bigger supplier with total Tenneco.

Mr. Shashank Kanodia: Okay. So, Sir, second bit to it is that has there been any communication from Tenneco regarding data sourcing from India through Federal-Mogul for its, let's say, global supply chain?

Mr. Vinod Kumar Hans: I think there are two portions, since you mentioned about the revenue stream. So, we think that there's still a lot of headroom available within this value stream, particularly the Euro VI and the Euro VII which will be coming in 2027, will give us further, I would say, incision or tentacles into the global network. And we see already a result of that happening. So, it is driven by two sides. One, our customers are driving it, particularly the global ones, some of you might have heard the names who will be making engines there and then exporting it, it's now happening with at least four or five of these global companies. I won't name them, but I think they have already given this indication in the media and it's already happening.

So, just to give you a scale, last year because of these already transitions which is happening, our export moved from 11% to 14%, the needle moved. And this needle is moving continuously in that direction actually. I think in this financial year, there will be further uptake as these global engines will start getting exported from India, that is one. And secondly, we also get a direct component shipment possibility because the platforms are emerging now. So, although globally both OEMs and the supplier they sit back and see what is the best way to look into, and they have to always hedge between logistics and import duty and those costs vis-à-vis the cost of competitiveness coming from India. So, case to case basis, we take a joint call with our customers. But answering your question, these are the two broad, I would say, value streams which will give us a good exposure on either a deemed export or a direct export.

Mr. Shashank Kanodia: So, these are all your individual efforts, right. So, per say there is no support from Tenneco in augmenting…

Mr. Vinod Kumar Hans: No, let me qualify. Any global program or global platform decisions, they are all happening with a clear theme of local and global. For example, our local Indian arm of the OEM and the global, they are sitting together and similarly we are sitting together within Tenneco and Federal-Mogul. So, it is a combined effort. It cannot be a local decision by, say, Ford of India or PSA of India and they take a local call. So, they always team up with the global counterpart and we team up with global competence. It's always a global decision and ultimately of course, the whole decision criteria is how to serve the customer in a competitive and, I would say, logistically best way actually.

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

Mr. Lakshmi Narayan: Thank you. Sir, if we just look at Tenneco Global, there are four divisions: Powertrain, Performance Solutions, Clean Air and Motorparts. Is it right to say that our Company rolls up into the powertrain division of Tenneco?

Mr. Vinod Kumar Hans: I should qualify, our company rolls up into the powertrain segment. But I have to also qualify a little bit if that is unclear. See, there is a business of aftermarket which we do, which we kind of coordinate with our motor parts colleague. But the revenue definitely rolls up into the powertrain. And we are subset of Tenneco powertrain, if we have to qualify that.

Mr. Lakshmi Narayan: Got it. And sir, last year any new logos we won in the domestic OEM or any new platforms you want to highlight?

Mr. Vinod Kumar Hans: I am not sure whether customer will allow us to specify that, because some of the customers they are not stock exchange listed, they have not gone public. But I already mentioned some of the names during these discussions and we have some of these new platforms. But I am happy to report that whatever global names you are hearing in the market, where they have a plan to ship either from Hosur, Chennai or from Sanand or from Bangalore, we are with them actually.

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

Mr. Nitin Gandhi: Sir, can you share what are our export ambitions or targets for next one or two, three years?

Mr. Vinod Kumar Hans: I think it will be difficult to put a target. As I mentioned, our whole progression will depend upon how these global platform or export of the engines or how we distribute this business between the local subsidiaries and for the common platform. So, how these platforms evolve finally will decide our export. But I can only tell you, it will be a good increase in the slice, what one can show. And all will depend upon how these platforms are received globally actually. You might have heard that there is a lot of drive for these customers to ship engines from here. And to that extent, as Manish already mentioned, that against the last year CAPEX, our CAPEX this year will be significantly more, even if we are in middle of second or third wave or whatever you can call. But our expansion this year will be much higher than what we saw last year. And most of this expansion is going into this direction what you mentioned actually. So, they are mainly directed towards export actually.

Mr. Nitin Gandhi: We are having cash on hand of approximately Rs. 1.3 billion we will be generating cash flow of approximately Rs. 2.5 billion in coming years and going one or two years. So, whatever CAPEX we are planning, we must be planning significantly above Rs. 5 billion, that's what I am trying to confirm.

Mr. Vinod Kumar Hans: Manish can answer better, I don't have these maps.

Mr. Manish Chadha: No, no, no. So, I think what we are saying, we have CAPEX capacity enhancement for current year and next year. But at the same time, we were talking about the technology upgradation and so on, heavy load equation and turbo engine which we have an idea. And also, we have mentioned that we have an idea, and now we can look into, sit back and look into deciding the dividend distribution amount. So, we are not saying that there will be a CAPEX for Rs. 5 billion, what we are saying is that there will be CAPEX which should be more than the last year. And it is towards the capacity enhancement and mainly towards the export, whether direct export or deemed export, that’s what Vinod is trying to tell.

Mr. Nitin Gandhi: No, I understand that was with reference to the dividend question somebody had asked. I am just trying to understand how the Company aspires with Tenneco coming in and global platform coming in, that next big step which Company needs to take now. Because we are already operating at peak levels, right, 90%, 95%, so there's not much scope for within existing revenue.

Mr. Manish Chadha: At the same time, we have also talked about that we will be increasing the capacity. There is a scope of supplying to the global customers or mainly in export, and also we are talking about that there are in future market is moving towards technology upgradation, and there will be CAPEX required. But at the same time, in next one or two year we don't see that. And we need to start looking into the market and be ready for those CAPEX. But at the same time, we have to be also cautious on spending the cash and also we have to see the payback and all. But we are not saying that we will be spending Rs. 5 billion in CAPEX.

Mr. Nitin Gandhi: No, this may be spread over three years, not immediately.

Mr. Manish Chadha: So, you need working capital, you need CAPEX for any capacity increase. So, there will be working capital increase as well, apart from the CAPEX.

Mr. Vinod Kumar Hans: So, this is not a yearly event, so every quarter as more and more machines and all these keep coming in, I think I have to little bit qualify that figure of 95% which you saw in Q1, may not be there in Q2, Q3, Q4, we are much more in terms of capacity better placed actually if I have to say.

Mr. Nitin Gandhi: Yeah, you also said there are some tie-ups because of the parent sourcing from other units in Turkey and all.

Mr. Vinod Kumar Hans: Yeah, that I was referring if there's a spike in the market, which we don't foresee. What I am trying to say that I was trying to answer that question or that apprehension that we are already at 95%, what will happen if the market goes up? So, I was answering to that question. So, the market takes a jump of 25%, 30%, we do have these kind of support systems globally. But what I also qualify that we are not waiting for that to happen, our effort will be to do 100% local and import minimum.

Mr. Nitin Gandhi: Okay. So, can you share something on sustainable margins on EBITDA? Are we saying that mid-double-digit 14%, 15% can remain sustainable? Assuming Q4 of the last year becomes a normal, may be one or two quarters later?

Mr. Manish Chadha: So, I think 14% to 15% is sustainable margin, considering the volume. I think, in a normal scenario, if there is no abnormality due to the COVID, I think that can be easily achieved.

Mr. Nitin Gandhi: I am not sure, but a little odd question. What is the peak revenue possible with the tie-up of parent and other thing, till which we need not worry about the CAPEX? Can it be Rs. 2,500 crores or double of our existing or can be much better?

Mr. Manish Chadha: So, I think I have already answered, January to March quarter is 90% to 95%, so you the capacities without CAPEX where we are as on today.

Moderator: Thank you. Ladies and gentlemen, this was the last question for today. I would now like to hand the conference over to Mr. Vinod Kumar Hans for closing comments.

Mr. Vinod Kumar Hans: Thank you. So, thanks again for joining this call. I have to concede that we may not be able to answer very specific quantified values which were put in, but we tried to give kind of a picture from the way we see it and how we performed during the last quarter. Overall, I had to do it in a summing up way that the effort we made during last three or four year to go in to this path are giving us the desired result. And over last three or four quarter, even in the current quarter, we see that our performance that we benchmarked with the local market is definitely better. And we hope that with the actions we are in place and with our global support, we continue to go in that direction. And the question on dividend policy which comes up again and again, and Manish said that probably once we complete this cycle, we will be in a good position to really take a step and review that and come back to you with a better clarity.

Having said that, we are continuously watching how this COVID scenario plays. We will have to do a little bit of short-term adjustment with respect to our plans, but our long-term, mid-term plans are not changing by the way. There could be one or two quarters of change on the timing perspective. But we are hopeful that the way our OEMs are positioning themselves into the market and the way more clarity is coming on, on their plans with respect to next five or six years, engines which we are developing with them, vis-à-vis the electrification cloud, I would say, a better clarity is emerging. And we will try to share this clarity in coming calls as we go forward. Thank you very much again for joining.

Moderator: Thank you. On behalf of Federal-Mogul Goetze (India) Limited, we conclude this conference. Thank you for joining us. And you may now disconnect your lines.

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