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By online submission

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Stock Code: IGARASHI

Dear Sir,

Subject: Q1 FY 2016-17 Earnings Conference Call Transcript- reg

Ref: Reg. 30(6) of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015

We refer our letter dated 2nd August, 2016, regarding the intimation of Analyst / Institutional Investor Conference Call on the un-audited financial results for the first quarter ended 30th June, 2016 scheduled on 05th August, 2016.

In this regard we herewith enclosed the transcript of the conference call as required under Regulation 30 read with Part A of Schedule III of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.

The said transcript of con-call is also made available on Company's website: www.igarashimotors.com

Kindly take the above information on your records and acknowledge the receipt of the same.

Thanking You.

Yours Faithfully,

For **IGARASHI MOTORS INDIA LIMITED**

P Dinakara Babu
Company Secretary

Encl: as above



“Igarashi Motors India Limited Q1 FY-17 Earnings Conference Call”

August 5, 2016



MANAGEMENT: **MR. P. MUKUND – MANAGING DIRECTOR, IGARASHI MOTORS INDIA LIMITED**
MR. P. DINAKARA BABU – COMPANY SECRETARY & COMPLIANCE OFFICER, IGARASHI MOTORS INDIA LIMITED

MODERATOR: **MR. PRIYA RANJAN – SYSTEMATIX INSTITUTIONAL EQUITIES LIMITED**



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Moderator: Good day, ladies and gentlemen. Welcome to the Igarashi Q1 FY17 Results Conference Call hosted by Systematix Institutional Equities. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal the operator by pressing ‘*’ then ‘0’ on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Priya Ranjan from Systematix Institutional Equities. Thank you and over to you, sir.

Priya Ranjan: This is an extreme pleasure to hosting Mr. Mukund – Managing Director of Igarashi Motors to give his view on the company and as well as to discuss little bit on what is going to happen on the company going forward as well as discussion on the IQ results conference call. So now over to Mr. Mukund for his brief comments so he will start with his views on the company. So many of the participants will be knowing little bit about the company so first we should start with the introduction of the company then we can take it forward for the Q&A.

P. Mukund: Good afternoon, ladies and gentlemen. This is Mukund from Igarashi Motors and I have with me my colleague Mr. Dinakara Babu.

And before we get in to the Q&A I would like to take the opportunity to welcome all of you to this call and also express our gratitude for participating and showing your interest in our company. Over the next few minutes I would like to give a little overview about our company because I believe that we are not very well known in the institutional investor community. Therefore, I would like to spend a few minutes in giving you an idea about the product space that we are in and the market that we address.

We manufacture permanent magnet DC motors and addressing principally the global automotive markets. And while the global automotive market for electric motors is very large and they are large players out of Japan and China we play in a very niche space in what we call as the power train actuation space which principally addresses the engine, the exhaust and the turbo charger areas. And in our scan of the market environments over the last three to four years gives us a clear indication that the market looks pretty good as we see over the next three to five years. Principally being driven out of the automakers looking at features like fuel efficiency and emission control and engine power being critical in nature as they launch power platforms.

And interestingly the space that we play today is in the engine space and progressively over the next 3 to 4 years we will be expanding our play in the emission and the turbo charger space as well. And as you know the emission norms are getting more stringent world over as far as the automotive industry is concerned and this is pretty favorable news for our company. So having



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said these few words as far as the market is concerned I quickly would like to give an overview of what we are doing internally as far as our preparedness is concerned for the future.

See fundamentally we are an engineering company and the automotive industry while it does address the feature of looks, design and so on but broadly if you look at it the functionality and the engineering feature in the tier 1, tier 2, tier 3 space as far as automotive industry is concerned is a kind of a principle lever to decide whether this supplier in that supply chain is going to play for the medium and long term or not. So having recognized this about 10 to 12 years ago we have been honing our abilities in engineering as far as India is concerned and I am very happy and delighted to mention that over the last five years we have been expanding our engineering bandwidth both in terms of the quantum as well as in terms of the depth of technology at the product development and it is our endeavor that since last year we launched this it is our endeavor to look at developing three new products for the space that we play in the automotive industry every year.

And as you know the automotive industry is something where you shake hands with the customer. It takes you about 2 to 3 years before you actually start real business, commercial business in terms of sending bills and invoices.

So that is as far as the product development is concerned which is a principle lever for our positive existence as far as the forward periods go. But as all of us know you develop a product once and generally speaking the lifecycle of our kind of products is between 10 and 12 years. So when you introduce our kind of motor in to the platform it normally takes about three years to get launched and it goes to the peak at between 6 and 8 years and then slowly it starts sliding down over the following four to five years.

So it is a very fair assumption to say that the product life cycle is between 10 and 12 years for our type of motors. But having said that the principle area where we can demonstrate continuously our efficiency is in manufacturing. Because once you develop a design nobody buys the design. In our kind of business people only buy the products. So we have one of the last six to seven years constantly endeavor to increase the width and the depth of our manufacturing in our Chennai plant. And I am happy to inform you that we play in tier 2 no doubt which is in electric motors but we also make sure that we have a wide play in the tier 3, in the tier 4 and the tier 5.

And just to define what tier 5 is. Tier 5 is the tuning and that is where the route of the technology as far as manufacturing gets launched. Tier 4 is part, tier 3 is for the assemblies and tier 2 is the final motor that we sell to the customer. So over the last six to seven years we have kind of evolved our business model to after all say good service to our customer is not only includes the product development and the design the right up to tier 5 where the tooling development and the tooling manufacturing is concerned.



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So it is a space that we have decided to play so that we can capture the engineering advantage right through a value chain from Tier 2 to Tier 5. So these are the two opening comments that I wanted to brief to the audience. And Priya Ranjan, with this I had it over to you for the Q&A.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question-and-answer session.

We will take the first question from the line of Mukesh Saraf from Spark Capital. Please go ahead.

Mukesh Saraf: My first question sir if you could kind of give us some sense or comment on the progress on your TPR and Turbocharger Platforms because we do know that on EPC we have kind of already have a very established presence. If you could kind of update on EGR and Turbo Charger Platforms?

P. Mukund: Yeah sure I will. Listen, I would take question one by one, answer close and go on to the next one what is the?

Mukesh Saraf: Yeah so my second question sir is I can just mention my second question also it is more towards if I just see the international players in the motor side, they have kind of been focusing or at least mentioning a lot of focus on the BLDC side. So if you could also comment on where we stand on this BLDC development and what could be the timelines what could be the industry, is the industry also moving towards BLDC how long would it take? That would be my second question.

P. Mukund: Great, okay thanks for these two interesting questions. I think this is something which we have been studying over the last several years. And before I get into the specific answer on the EGR in Turbocharger over the last five years Mukesh we have been mapping the application requirements in the emission exhaust area and the Turbocharger area relative to the engine area that we played. And we find that generally speaking in the emission and the Turbocharger area, the thermal cycle differs from the engine area which means let us hypothetically assume that the engine area has a maximum temperature of 160 degrees centigrade, the emission and the Turbocharger area can witness temperatures as high as 220 degrees centigrade.

Now obviously there are material constraints when you go from 160, 180 degrees centigrade to upwards of 200 degrees centigrade. So what our technology platform has done over the last four years is that we have kind of worked on platform concepts as far as the materials are concerned so that the motor platform that we are developing out of our technology base is from the very beginning suitable for temperatures of up to 220 degrees centigrade which means we are kind of offering a standardized product where a customer could choose that particular motor not only for the engine but for the exhaust as well as the Turbocharger application. So that is what our engineers have been doing on the product development side and I am happy to



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inform you that last year we have launched the first such platform which is flexible for these three application areas.

Now as an extension of this point, in our business it is always very good not to do development as in R&D because you will end up wasting a lot of time and money were you to do development just for R&D purposes. Normally we anchor some of our existing customers or a new customer who is an important player in these spaces and we start engaging with them about three to four years prior to the launch of the product in these spaces. So I am very happy to inform you that over the last two years we have anchored two customers for the EGR application and we have anchored two customers for the Turbocharger application. And it is already available in our report as well and over the last twelve months we have been engaging with their engineering and very positive vibes are being felt by both of us and all going well. In the next year we are going to start looking at launching significant volumes as far as the EGR and the wastegate actuator, for the Turbocharger is concerned.

Now if you ask me to give a very clear idea about the volume next year or year after next I think it is a little too early for me to say that but broadly when we are taking a four-year view or a five year view it is our strategic endeavor to look at 50% of our play in this particular space should be out of the EGR and the Turbocharger business, Mukesh. That is my response to your first question.

Mukesh Saraf:

I just have a follow up on the first one. Is there a risk of EGR itself not taking off because there seem to be a lot of alternative technologies for EGR?

P. Mukund:

True what you say is very true. See at this point in time we are not very sure whether the EGR penetration is going to be 30% or 50% or 70%. But we are certainly interested in the macro market situation but Mukesh you should understand that we play in Tier II and Tier III. See our main anchor as far as the market is concerned is our customer with whom we work on a monthly basis. So if we have let us for instance a customer called Earby Autos Germany is a very large player in this space. Now Earby Engineering comes and spends let us say 100 mandates of engineering time with us and says this is what we are working on the EGR platform and then we would like to see that this product gets launched because we want to reduce the price, reduce the weight increase the torque and so on and so on.

Then you know this gives us the encouragement in terms of saying that they are committing so much time because as you know when you look at a Tier 1 for every dollar that we commit in terms of investment for an electric motor the Tier 1 commits about 6x of our investment for the system. So our drivers are mainly in terms of the field level rather than going by market macro analysis which is important no doubt. But see we play on a niche space so our anchor is fundamentally to work with customer, engage with him and then that gives us a clear



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indication whether he is going to be interested or not. So that is how we have kind of proliferating ourselves into the EGR and the turbo space.

Mukesh Saraf:

Sure, got that.

P. Mukund:

And on your second question, as far as BLDC is concerned see BLDC has been in our minds and on our technologies desk for the past ten years. There are two principal advantages as far as BLDC is concerned compared to the current conventional brush DC motors and as far as our space is concerned the first big advantage that BLDC can offer is in terms of the electromagnetic interference and the noise. Because today in the automotive industry with so much of electronics getting proliferated when a mechanical device like a motor runs there should not be any electromagnetic interference to the perform what we say the electronics part the sensors and so on. So therefore the pressure is very high from our customers to suppress all the electrical noise that is generated by any mechanical device, Now BLDC offers a very big advantage because there is only electronic commutation. There is no mechanical commutation as far as the motor is concerned. So the incidence of electromagnetic noise generation itself goes down but having said that, today based on the commercial assessment a brush DC motor versus brushless DC motors if you look at the cost the brush DC motor cost 100, brush less cost 300.

So therefore right now the proliferation of BLDC motors in the automotive space has happened in the air-conditioning area because when you get into a car, you switch on the AC and it keeps running. So therefore the air conditioning application, the engine cooling application, the power steering application and the anti-lock braking system for your safety these are the four areas where we see that BLDC has proliferated significantly albeit they cost about 2.5x to 3.5x of the brush DC motor. Now whether they are going to proliferate into application areas where the motor normally dies after the car dies, it is a grey area.

There is a lot of debate that is going in terms of the premium that the industry can pay for BLDC nevertheless from our standpoint we are not waiting for any feedback. We already will have, this is where we are doing R&D not with the customer in mind, but we are trying to look at over the next 24 months our technology desk has taken up an assignment that technically speaking we should be able to go to a customer and say look this was my brush DC motor here we are developing a brush less DC motor as well for that, but the other commercial. Because as you know in our kind of business you start a dialogue today the product gets introduced in two, three, four years' time. So it never happens before that two-year timeframe. So these kind of dialogues we have already started last year and next year we are going to add clear products which we are going to go and offer to our customers in our technology engagement discussions. So this is my response on BLDC and around this time next year I would also have my sell for BLDC motors on my technology group.



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Mukesh Saraf: Okay.

P. Mukund: I hope these responses are good for you on your questions?

Mukesh Saraf: Yes, sir.

Moderator: Thank you. We will take the next question from the line of Mayur Patel from DSP Blackrock. Please go ahead.

Mayur Patel: Sir, just had one question on Agile. So what we understand is Agile has been substantially doing sub assembly till now. And now you have some visibility of doing complete motors for non-engine applications like seats and others. So can you give us some idea about what proportion of our say this year's volume in Agile would be complete motors?

P. Mukund: Mayur the definition is a grey area in terms of complete motors and sub assembly but let me go one level earlier. See the business concept of Agile is that we do not own the IP as far as the product is concerned for all the products that are manufactured in Agile. Agile is a contract manufacturing arm of Igarashi in India where the IP is completely owned by the customer and we are some kind of a BTP that is the Bill to Print or a contract manufacturer. So that is the strategic position as far as the Agile platform is concerned. So that is point number one.

So point number two, Agile is principally addressing the area which we call it as comfort actuators. Because while we see a significant growth opportunity in the power train space for engine emission and turbo chargers, comfort has even bigger the opportunities of comfort actuator motors is quite large but at this point in time, the technology path that we have followed in comfort is a little slow, we are not really brought out any new platforms where we could own the IPs and there are very large players such as Bosch, Brose and Denso and so on. So therefore we have taken a policy decision in terms of looking at being a contract manufacturer to these large guys, and we are part of their make and buy strategy because most of these large guys manufacture in large sizes, large volumes and relatively high cost locations. They like our business model of playing in Tier II and Tier V. So they want to make us a strategic make and buy partner.

So while we will say that it is a complete motor it is not actually a complete motor it has three parts three sub assembly they are made separately and these three sub-assemblies are kind of fitted into each other so that you save logistics cost but at the same time as you know the automotive industry values technology and quality very significantly and going forward, if you were at 9 PPM you were very good and if you were at 1 parts per billion you are not considered very good. So that is the kind of path that we see on the quality as far as the automotive industry is concerned. Therefore our endeavor is to put these entire three sub-assemblies together, test the motor and then separate it and ship it to them.



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So that is what we are doing at this point in time. So my comment or my earlier response to you as it is a grey area, it is still a grey area because we are not feeling the motor and saying go use it as a motor. We test it and then thereafter again we do some more operations to complete the motor, feel it and then use it as a motor. So therefore we will still like to state that we are in the Tier 2.5 I would not even say Tier 2 or Tier 3.

Mayur Patel:

So on an overall basis like whatever rough numbers we had that you did some 30 million units of sub assembly in FY16 with an average relation of around Rs. 90 or so. Is this average realization going to increase substantially or it is likely to remain flattish?

P. Mukund:

Yes, Mayur the endeavor for us as far as contract manufacturing is concerned see these two differences where you own the IP kind of business and there your customer owns the IP and you are a contract manufacturer. There is a certain degree of difference with respect to the commercial protection. When you own the IP you have commercial protection. You do not need to disclose all the calls whereas when you are doing a contract manufacturing it is something which your customer is already doing. So therefore we only need to leverage the cost arbitrage and the depth of manufacturing that we follow in our Indian entity.

So therefore the transparency that is required in terms of commercial in terms of contract manufacturing is quite high. Therefore having said that the endeavor for us is to look for products where the unit price realization constantly keeps going up. This was our endeavor over the last three to four years and if you see Page 1, 2, 3 years forward I would imagine that the average realization we will be taking it to upwards of 150 and perhaps if things work out very well I would like to take it up to upwards of even Rs. 180. But the margins would be not as good as the ones where you own the IP you know.

Mayur Patel:

Got it. So it would always be slightly lower than our standalone Igarashi Motors margins?

P. Mukund:

Correct.

Moderator:

Thank you. We will take the next question from the line of Ashish Rathie from Infina Finance. Please go ahead.

Ashish Rathie:

Sir, just we were going to your Annual Report last years and you had written that you know the company has been taking significant engineering investments towards customer programs and have initiated three key projects which will be launched in calendar year 2016. Could you elaborate on this what are these projects and what is the status on them right now?

P. Mukund:

Sure thanks Ashish for this question I think it is a very relevant question. This is something which we need to address every month when we do our internal reviews. But before that I would like to give you an idea as to what we have been doing since the year before last. See in our kind of business like I said earlier when Mukesh asked me the question, see we need to



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create capacities about 2.5 to 3 years ahead of when your actual business starts rolling out. So since last year we have been adding capacity at the rate of about 25% of what we were doing every year and that is something that is going to continue over the next one to three years.

So obviously when we add capacity we do not add generic capacity we add capacity based on certain programs that we launch. So the status of the three new programs that we are launching is one program is going to be dedicated to both the EGR and the Wastegate application which is what gives us the confidence that over the next two, three years we will be increasing our play both in the emission, exhaust area as well as in the Wastegate and other area. So that is going very well and the first million capacities will be up and about by the end of this calendar year itself so the customers can start buying from us from the next financial year. So that is as far as the program for the EGR and the Wastegate actuator is concerned.

The second platform that we have already launched last year is a very interesting program and that is a program where my engineering team has developed the lowest weight and the lowest CT that is the volume motor for this application flexibly which can be used for the engine, the emission and the Turbocharger and this is the stake one of the global leader company Continental. So that line has been ready and it is already approved. And there are two large OEMs one from Europe and one from USA both of them have come and approved our lines. So the initial trickle of this sales would start from end of this financial year and we expect the ramp up to take place from the end of 2017. So that is the second program.

The third program is with one of our existing large customers because normally we move on generations. So we had the generation one, two, three going on and the fourth generation was launched last year. So that is something called the M4 generation with one of our customers the fourth generation one. And even this will start serious delivery from next financial year. So these are the three programs that we have launched all these three are different customers. Like for example if I were to take the customers names it is like Bosch, Continental, Pierburg, Hella, (Inaudible 28:46) and Helical. So these three programs basically would be addressing these five customers that I just mentioned.

Ashish Rathi:

Okay and also in your opening remarks you mentioned three new products to be developed each year as the target. Sir, what is these three new products you are talking about like for this year what will be and what is in mind next year?

P. Mukund:

See what we are doing as a strategy, as a technology strategy since I mentioned earlier that for the company of our size while the opportunity available in the market is very high there is a lot of investment both in terms of engineering competence, time as well as money is concerned. So two years ago we took a decision that we would like to develop a genetic platform of a particular package of a motor and in that we can offer three or four performances and it can go for a let us say a Suzuki engine, it can go for a BMW engine or it can go for a GM engine.



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So from that standpoint we are kind of creating a packet size which is say x which is common, but you will have length which may be a y1, y2, y3 which can go from 30-millimeter long to let us say 50-millimeter long. So our basic idea is that to have these genetic platforms and from these genetic platforms look at three products variants which can address different engine sizes.

Ashish Rathi:

Okay sir a follow up on the BLDC part. Sir, how much money are we investing in this when you said that we are doing R&D over the next 24 months?

P. Mukund:

Yeah this year and next year we have allocated a \$1million in BLDC not that it will all be spent but then we are going to spend this in a very calibrated manner because see it is a very interesting area. It is a very interesting area and it has been on the desk of all the Tier 1s for the last ten years. But there are two challenges as far as BLDC is concerned one of them I have already mentioned this was the commercial challenge. The second big challenge which is there in BLDC is Ashish, there is not yet a proven electronic PCB and the circuitry which can work without any disturbances 220 degrees centigrade because the environment where we are operating are normally at about 160 to 220 degrees centigrade.

Now there is a challenge technical challenge. So we are trying to go from the conventional PCBS to ceramic materials. Now ceramic materials have temperature withstanding ability upwards of 220 degrees C. And then we are also going in for the electronic component like resistance capacitors and there are Japanese companies which have developed these which can withstand high temperatures as well. But again you know it is a challenge to get them introduced and get the customer accept this. So these are the two challenges which are actually on the technology desk for the conversions from a brush DC motor to a brush less DC motor. But it is only a question of time now whether it is going to take three years, four years, five years I really do not know but I do not want to miss the bus.

So that is the reason as a Board we have allocated a million dollars to be spent between last year and this year and we are going about it in a very calibrated manner that we have an anchor customer we are not talking to the customer right now but with the anchor customers when we do only our home development, after the home development and once we have validated it, then we go and offer it to the customer that gives us certain degree of confidence that we are talking to the right supplier as far as the power technology is concerned. This is the approach that we are following and that is the reason why we are making this investment, Ashish.

Ashish Rathi:

Sir, but these investments the amount which you are saying couple of million dollars sounds quite miniscule I mean compared to what the large players would possibly be investing in this technology so?



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P. Mukund: Ashish, I think no from our standpoint I think as you know we make \$2, \$3, \$3.5 motors and we have realized that what normally people classify as things which require \$10 million and \$20 million and so on they were all big firms I mean they sound very attractive okay. But from our standpoint we are coming from Tier 5, we are on the street.

Ashish Rath: No, I understand that. Sir, what I am trying to come to is basically with our customer what we are trying to develop this BLDC that is our anchor customer, anchor partner in this program, so who will be like you know owning the IP once it is done and who will be?

P. Mukund: Of course it will be us. But one thing you must understand Ashish is that I may be a little technical but for whatever it is worth, I must make this statement. See the moment you develop a brushless DC motor then the brushless DC motor the drive and the control is done by electronics. Now when you have an electronics and when the customer system is also the engine management system is all going through electronics right, so therefore your electronic should be able to talk to the electronics of the customer system.

So it is not a pure mechanical device, mechanical actuation device, it is an electronic device. So therefore it is very important to engage with the customer right from the beginning where you own the IP of the driver and the controller for the motor but that IP is of no consequence if the system electronics is not calibrated to talk to your motor electronics. So that is the reason why we have two anchor customers now. While we have not articulated it to them clearly that we are benchmarking you or anchoring you but we have already started engaging with about three or four BLDC engineers in that company.

Ashish Rath: Right sir, fine.

P. Mukund: But it is a medium term to a long term situation. My view based on playing in this space for the last two-and-a-half decades is that the brush DC motor growth will not be tampered for at least another five to seven years as I see it. And fundamentally arising out of these two challenges (a) commercial challenge and (b) environment challenge with regard to the feasibility of the electronics functioning with no problems at 200-degree centigrade plus.

Ashish Rath: Okay and sir lastly if you could help us understand how has the quarter been for Agile in terms of numbers?

P. Mukund: Quarter has been good maybe we can have a separate discussion. I thought this call was mainly for the IMIL view and the performance. But overall I think even the comfort area is doing pretty well. As I said the decision that we have taken to play both in the power train area and the comfort area is fundamentally because we want to play in those spaces where the market grows at a delta higher than what we would like to grow at.



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Ashish Rathi: Obviously we understand there is a likely consolidation of the two entities going ahead so we would be interested in understanding how the performance has been for this Agile part as well.

P. Mukund: Understand.

Moderator: Thank you. The next question is from the line of Sudhir Kedia from ASK Investment. Please go ahead.

Sudhir Kedia: Sir, my question is you mentioned that EGR and Turbocharger can be 50% of your total sales in three to four years, have I heard it right or I have missed something?

P. Mukund: Is it Sudhir?

Sudhir Kedia: Sir, in the call you had mentioned that in four to five years 50% of your total sales will come from EGR and Turbocharger. Have I heard it right or I have missed something?

P. Mukund: Yeah is it Sudhir Kedia?

Sudhir Kedia: Yes sir, Sudhir.

P. Mukund: Hi Sudhir yes. Yeah you have heard it right. In terms of our endeavor is see once we are making the products that we are making flexible for all these three applications it becomes easy for us to proliferate into the EGR and the Turbocharger areas. So our idea is that going forward for exhaust applications and Wastegate and Turbocharger applications strategically our endeavor is to de-risk the applications. So from a strategic standpoint we are looking at 50-50 on the three spaces, 54 engines where we are the undisputed leader as far as the world is concerned, we have about 40% of the world market. And on the others we want to grow, these are the two areas where we want to grow. Now Sudhir.

Sudhir Kedia: It is mainly is contributing how much today?

P. Mukund: 5%.

Sudhir Kedia: 5% of your total sales?

P. Mukund: Correct.

Sudhir Kedia: Sir and your engine application motors should grow at a 10% to 12% at the minimum?

P. Mukund: Yes.

Sudhir Kedia: Okay sir thank you understood.



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- P. Mukund:** You know these are the products that we started since 2005, 2006 but there are some products which are also on the sunset part of the lifecycle, Sudhir.
- Sudhir Kedia:** Right, and sir one more thing. As we go forward our realization you said is \$2 to \$3 per motor, what are the chances that this realization will increase from here?
- P. Mukund:** See as far as the power train actuator space is concerned our endeavor is not to drive and increase in realization as far as the motors are concerned because on the other side as I said, see the platform that we have introduced where we are filed several feature patents as well, is something where we have brought down the weight of the motor, running motors which is 200 grams, we have brought it down to 110 grams. So therefore what we will probably drive in this area is not to increase the unit price realization but we want to make sure that the rate at which our cost that is our material cost and the manufacturing cost goes down is higher than the rate at which our price will go down.
- So that is what their benchmarking because of this technology and IP ownership that we have. But fundamentally we have to accept the fact that the market is always driving for four clear parameters in this space. Now the market wants the same performance for a lower weight, market wants the same performance for a lower volume, market wants the same performance for an ampere of current consumed and the market wants lower cost per performance. So these are the four triggers as far as the technology desk is concerned for these applications. And when you are driving these three the lever that you need to work on is the rate at which your cost goes down should be higher than the rate at which your unit price realization goes down. So that is the way in which we are driving our strategy.
- Sudhir Kedia:** So on terms of engine application you are suggesting that your realization for motors should be going down from \$2 to \$3 but?
- P. Mukund:** No, when I say going down I am not talking about going down drastically. I think overall we would imagine that if you take a four-five year view, on a four-five year view we are looking at the realization going down due to technical reasons by somewhere between 2% to 2.5% per year.
- Sudhir Kedia:** And sir so your Turbocharger and EGR application motors realization will be in a similar range or would be higher?
- P. Mukund:** Initially it will start by being a little higher but my view because we play only in this space we do not know pretty much about anything else other than this space but my view is that there will be an equilibrium that will happen as you go forward because we are kind of platforming our product for any of these three applications. So you cannot go and tell a customer saying because it is being used in emission you have got to pay me a 10% premium.



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Sudhir Kedia:

Correct. Sir, you also suggested that your costs will go down at a higher rate versus your realization so obviously in terms of percentage margins, margins should be higher but in terms of absolute EBITDA per unit would it be higher or would it be lower?

P. Mukund:

That is not the strategy, because see if you realize I think the margins that we are posting for the kind of space that we play in are above average. Now the reach that we went through over the last three years and if I was in your shoes I think the first question that I would ask is in terms of why are we not growing the volume and the top line as fast as the market allows us. So the answer to this question is that since year before last I have started adding capacity at the rate of 25% per year and it will take a year or two before we start realizing that.

So our endeavor now having got the technical attention of our customers having got a preference point with respect to being a preferred supplier to these applications to our customers, at this point in time I think the challenge which is on my desk as a team which is running this company is to make sure that we grow faster than what we have been growing at.

So that is the reason why I have started adding capacity based on certain platforms at about 20% to 25% per year. So therefore in absolute value if you look at it, all these numbers be it your PAT, be it your EPS, be it your EBITDA, be it your returns and so on that we are trying to maintain at a fairly high level above average level or even possibly look at making it a little better. But in terms of the absolute the margins if we look at it, the margins I think we are already at above average. So if you expect that we need to push to improve this I think it is being a little too ambitious, it may happen for the next one or two quarters I do not know, I cannot comment on that now. But our idea is to make sure that my top line in terms of volume the real volume grows to the level at which we are adding the capacity, Sudhir.

Moderator:

Thank you. We will take the next question from the line of Dhruv Bhatia from AUM Advisors. Please go ahead.

Dhruv Bhatia:

Two questions. One was regarding the market for the actuators and the EGR and Turbocharger sort of ambitions that we have, where do you see the current market and given the plan that you have, where do you see this business you know you mentioned some time back 50% but from an absolute standpoint where do you see this business is going over the next three to four years?

P. Mukund:

While I did mention earlier that there is a helicopter view as far as the market is concerned and there is an analyst view as far as the market is concerned. Now our principal drive as far as our strategy based on what our customers ask us to do. Now without taking names there is one cost side monopoly player as far as these applications are concerned out of China. And he is somebody who is making upwards of 25 or even 30 million motors for these two applications



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on an annual basis. And there is a very intense demand going forward for these motors which are basically addressing these two applications.

Now where our strategy and our comments are coming from is, my current customers who are using the motors from those suppliers and the new customers who are not yet my customers but are using the motors from the Chinese suppliers are coming to me to be a second source.

Now they want us to be a second source not at 10%, 15% they want us to be a second source with about 33% of their share. So that evidence from the market and from my customer is what is driving our investment in terms of the technology, investment in terms of the capital also because I cannot answer this question completely because we have not engaged a market research company or we have not engaged somebody who can give us a lateral view. We are going fundamentally on the business through talking to customers and listening to all these guys in terms of what the market is, what their main pressure points are, why are they coming to us for EGR, why are they coming to us for Wastegate. Like one customer out of Europe came to us and said we are looking at a potential of 12 million motors over four years for the Wastegate Turbocharger application.

This came to us two years ago. So we pushed back we said we are not yet ready for this application because in our kind of business it is very important that you understand the applications completely well before you end up developing a motor for them because we are not a catalogue product. Every single product that we sell is customized for an application and for a specific customer. So having said that, we have got these enquiries two years ago. So they have been telling us to look at we said look 12 million is too big for us to enter into this, we would like to look at setting up a capacity for 1 million to start with.

So this year what we are doing is we are setting up a capacity for 1 million in a flexible line so that we do not commit ourselves to an investment and the investment sleeps for two or three years. So this is where our drive is coming from. It is not coming from any market research or some advisory board telling us what to do in these applications, Dhruv.

Dhruv Bhatia:

Alright, sir but these Chinese suppliers just now with 30 million motors capacity what sense do you have like a 70%, 80% market share?

P. Mukund:

For these applications?

Dhruv Bhatia:

Yes, for these motors.

P. Mukund:

I do not know what the global market share will be because we are very focused with respect to working with customers and but my imagination would be of the level that you mentioned, not less than that.



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Dhruv Bhatia:

Okay.

P. Mukund:

And it is prudent for any car industry any auto industry player be it in the Tier 1 or in the Tier 2 to be a part of this dual sourcing strategy. Because monopoly in the automotive industry is very dangerous for everybody. So quite normally when a customer comes to me and says that this is a new platform that we want to develop with you around first round of discussions there is one question from my side in terms of asking them am I the first supplier or the second supplier. If I am the first who is the second you are thinking of and when are you going to start? If I am the second tell me who is the first?

Dhruv Bhatia:

Okay sir the second question was more of the you know whole Igarashi relationships and in terms of you know your whole business chain where do you see their involvement in terms of sales, in terms of technology, IPs development process and you know any management input as well?

P. Mukund:

I think it is a very valid question. Let me take it layer by layer. First one is let us say transaction. Whatever we are doing now see we have offices in Mexico, we have offices in North America, we have offices in Europe, Hong Kong, Japan and Shanghai. Now these are people where we have our representatives in the application engineering, the logistic space, the commercial space, the customer relation space and so on.

So on the same time zone in the same language, they are the people who actually front line deal with the customers because while no business normally is awarded to a company without the audit and the certification of the plant which is going to produce but the customer relationships, the inventory management, logistics management, application engineering is all done by our Igarashi group global regional offices.

So that is how the transaction is being done. So that is a great value that we have at this point in time, like we do not have to wake up in the midnight if there was a call from somebody either from logistics or somebody from Mexico or from America. So that is the first big advantage that we have as far as the Igarashi Group is concerned. The second for the transaction that we are doing now, all technology, all manufacturing, all tooling we are absolutely self-sufficient. In fact there is some learning that we are passing on to our parents in Japan and China as well. based on our experiences for the benefit for them in the Japanese and the Chinese markets. Now having said that, in Igarashi Japan there is a basket of eight products that are being developed which are futuristic products.

I may take the liberty to even talk about these applications. These are like electric vacuum pumps, electric oil pumps, electric water pumps, and then there are certain specific new generation applications with the Japanese car makers are thinking of people like Mazda, people



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like Toyota they are all working on. So hell of a lot of development on these products is taking place in Japan albeit a little futuristic. It will be the likes of beyond 2020 for us.

But then we are going to be present for the next I do not know how many decades. So that is the kind of technology value that we see and our team participates every quarter in this common global meetings and we get exposed to all these. So now starting this year I have started taking some of these new generation technology products and putting them on my technology desk in India so that is the second big value that we have.

Now the third I think fundamental value as far as business is concerned and let me very honest about it. When I go to a customer in Europe or I go to a customer in America and I say that we are part of a global group a family company in Igarashi which they are manufacturing footprint in Japan, China and India the door opens very fast and broadly for these kind of products that we produce the factories of the world are China and we in India. And any customer when he wants to place let us say over a four or five year period he wants to place a \$100 million order, he does not want to put all his eggs in one basket.

So what we do now is that if I am the lead, I take 70% of the business volume and the Chinese volume we say okay for 2018, 2019 we will do it out of a Chinese block. It gives a great degree of comfort to the customer not necessarily to look at a large second supplier. So these are the four principal advantages that we have with Igarashi besides the fact that we are dealing in motor business we have got a complete 70 years in three years' time.

Dhruv Bhatia:

Okay, but the sales ultimately made by IMI is directly to your Tier 1 suppliers or does Igarashi some local companies sort of intermediate that process?

P. Mukund:

No, the technical relationship and the manufacturing relationship is all directly between the plant and the customer. But from the commercial standpoint the purchase orders are placed on these regional offices who in turn place it on the company in India. And this is all related party arm's length so finally I think for our products we decide the ultimate price to the customer and the mark up for all the services that our offices do in various regions we take the decision here, our pricing committee in India takes the decision.

Moderator:

Thank you. We will take the next question from the line of Priya Ranjan from Systematix Institutional Equities. Please go ahead.

Priya Ranjan:

Sir, just one question on the growth part on particularly the coming new programs. So when can we see the ramp up of the volume from the new programs which we are trying to target and which we already have in our basket?

P. Mukund:

Short term guidance Priya Ranjan, normally we have not been given but I think I owe it you to give a view in terms of how we would like to look at it. As I said whole year when I was



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responding to other people that the capacity addition at 25% per year has started from last year whereas the filling up of the capacity is going to take place from next year and or the year after beginning or middle of next year is something which as we go forward we will know that. But our endeavor is to get from a see we have been growing the topline at about 10%, 12% per year and we took the opportunity of this slower growth of the topline to make sure that our margins grow at twice that. Now I think we want to bring in to equilibrium.

So when we bring into equilibrium I would imagine that there will be visibility of that from this year itself if you take the first quarter. In the first quarter itself we elected to our growth of about 12% in volume last year first quarter our growth has been about 17% in volume. So the visibility is already there and we are going to drive in this path only. So having said that I do not want to commit a number in terms of quarter-on-quarter how it will be but as you go forward it is our endeavor to go upwards of 20% as far as the volume is concerned.

Because the market does offer the opportunity and our constraints basically will be in terms of how secure are we with regard to the investment. Because when we make an investment call Priya Ranjan, we make an investment call not just to play in tier 2 but we go right up to tier 5. And that is when you own the entire investment up to tier 5 is when your customer respects you and you have a certain power which I may say to a degree a pricing power.

Because at some point in time in this kind of industries when you do not have what you call is the pricing power then your margins can never grow. So with respect to it whether you grow at topline at 20% or 30% or 40%. So what at this point in time we do not want to lose at the cost of trying to grow fast is the quality of our growth, Priya Ranjan.

P. Mukund: If there are no more questions I think thank you very much for the interest gentlemen and for the questions. I hope I have satisfactorily answered all the questions.

Priya Ranjan: So there are few more questions. But we will take one last question, sir.

P. Mukund: Sure, go ahead.

Moderator: We will take the next question from the line of Abhishek Trivedi from Kitara Capital. Please go ahead.

Abhishek Trivedi: Sir, just one question from my part. I just wanted to know as to how are things shaping up as far as the Bosch JV is concerned and what is the roadmap like for this JV?

P. Mukund: See as far as Bosch is concerned you know that Bosch is very big. So they are the largest player as far as this space is concerned and in electric motors for automotive they will be upwards of \$5 billion worldwide. So they went through some challenges as far as the joint venture is concerned due to the projections of the Indian market back in 2007-08 where



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actually belied by the reality. So in 2007 and 2008 when the forecast of the Indian market was there it was like the car market is going to grow at between 12% to 15% per year. And that did not happen. So they went through certain challenges but then Bosch is completely committed because Bosch is a very long term company and the two new plants that they have put up over the last 7 to 8 years was one in Brazil and one in India.

So which was happening in Brazil they have decided to go slow on Brazil but India they are packing up. So they have added a huge investment in India and I am quite bullish about the future of India fundamentally rising out of two things. One is their parent Bosch is great and second see we had come a long way Abhishek, with regard to the cost structure in India compared to even China. There have been many advantages tailwinds in our favor at a macro level because 6 to 7 years ago an MMD used to be Rs. 5. Today an MMD is about Rs. 10. And 6 to 7 years ago a person on the shop of manufacturing motors used to cost about \$200 to \$220 in China, today it is doubled whereas India remains almost same in dollar terms. The third thing is availability of people in China is going down drastically. Therefore the investments capacity in China is going up due to automation requirements.

And the fourth one is the market in China from 3 million vehicles in 2001 has gone to about 22 million vehicles now. So these are kind of tailwinds for people to look at manufacturers in countries like Vietnam, Thailand may be India and so on. So that way I think the joint venture with Bosch on is on the right radar. And they have also looking at new products being introduced. Earlier the idea was to look at Indian markets and the idea was to look at some not very new generation technologies. Since last year they have started putting a newer generation technology products also in the joint venture.

But the view that we should take as far as the joint venture is concerned should be a longer term view than Ind-AS like ours, Abhishek.

Abhishek Trivedi:

So we are still hold the auction of increasing our stake from the current 10% stake which we hold in the JV or how is it like?

P. Mukund:

Yeah, we have the option but whether we should do it or not is something which we need to debate in our board. Because see at this point in time we have known as I mean very calming means it is a very internal statement that I am making. See we at one point in time we have Bosch has 0% as our customer when he was under 5% when he became a very important customer. Now I think we have several other customers who are also working with us. And we are behind some and some of them are not Bosch. So it is a very nice situation to be in. So where would you go and try to increase your play at a strategic joint venture level then you have the opportunity of growing the business without being a daily partner.



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Moderator: Thank you. Ladies and gentlemen, due to time constraints that was the last question. I would now like to hand the conference over to Mr. Priya Ranjan for his closing comments.

Priya Ranjan: Thanks for the management team particularly Mr. Mukund sir and Dinakara Babu for taking time out for this maiden quarterly call. So hope to have more in future. Thank you, sir. Thanks a lot. And thanks a lot for all the participants.

P. Mukund: Thanks to everybody. Thanks for your attention.

Moderator: Thank you, members of the management team. Ladies and gentlemen, on behalf of Systematix Institutional Equities, that concludes this conference. Thank you for joining us and you may now disconnect your lines.