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By online submission

IMIL/Reg30/Q3/2017

February 13, 2017

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Stock Code: IGARASHI

Dear Sir,

Subject: Q3 FY 2016-17 Earnings Conference Call Transcript- reg
Ref: Reg. 30(6) of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015

We refer to our letter dated 06th February, 2017 regarding the intimation of Analyst / Investor Conference Call on the un-audited financial results of the company for the third quarter ended 31st December, 2016 scheduled on 09th February 2017 at 10.00 A.M (IST)

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 Q3 FY 2017 Earnings Conference Call"

February 09, 2017

ANALYST: MR. PRIYA RANJAN -SYSTEMATIX SHARES & STOCKS LIMITED
MANAGEMENT: MR. P MUKUND – MANAGING DIRECTOR - IGARASHI MOTORS INDIA LIMITED

Moderator: Ladies and gentlemen welcome to the Igarashi Motors Q3 FY'17 Earnings Conference Call hosted by Systematic Shares and Stocks Limited. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask the questions after the presentation concludes. Should you need assistance during the conference call please signal for an 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 Shares and Stocks. Thank you and over to you Mr. Ranjan.

Priya Ranjan: Thank you Lizann. Good morning everyone, it is our pleasure to host Q3 results conference call for Igarashi Motors. From the management side, we have Mr. P.Mukund – Managing Director for Igarashi Motors India Limited. So to begin with probably, he will give a brief overview on the market and growth opportunity coming in for the next 5, 10 minutes then we will start the Q&A session. Over to you Sir.

P. Mukund: Good morning ladies and gentlemen, this is Mukund together with me I have my colleague Mr. Dinakara Babu. First of all, we have to share the interest in our company and participating in this call and if you permit me, I would like to take a few minutes to give an update about a macro scenario and something specific to our business that we have seen over the last week to six months' period and that would probably set the tone for certain questions with regard to the business and the key levers that would be critical as we go forward.

Now as most of you would know since you are analyst and you have been watching the space quite intensely last year was a very good year as far as the total automotive production in the world is concerned. There was a record output from China which was more than 25 million units in the LCV segment and likewise I believe that the US also posted about 17 million plus and Europe posted 15 million plus, overall we hear that it is about 95 million plus that the LCV sales were in 2016 which is a very good news for us, obviously there have been many reasons for us but from our standpoint they we look at it over the next three- to five-year period, the opportunity for us in the spaces that we are playing is as robust as we expected in the beginning of the year and the middle of the year.

And as you all would have observed that China produced a very high quantity of three million vehicles in 2016 December which is a huge run rate so the good news we also have opportunity in China and we are seeing quite a good number of RSQs and enquiries coming in from China as well which is giving us a certain sense of confidence over the medium term in terms of us having certain growth possibilities in the Chinese market as well.

While that is on the high level as far as the market opportunity is concerned, there are two specific phenomenon over the last one year and more intensely in the last six months having intensifying as far as this space is concerned for players who are either in the tier I or the tier II or the tier III, the tier II and tier III like ourselves. The first thing that we are seeing and it is quite evident is that the customer expectation at the car level have always been quite high over the last three to four years and now they are settling down gradually to be tier I, tier II, tier III tier IV I think all of you must have kept yours ears to the ground in terms of the claims that are happening the VW claims, the Kolkata problem and so on and so forth.

So what is happening as far as the characterization of the operations in the supply chain is that quality is being put on top of everything else. If there was a time five years ago when you are at nine parts per million in terms of spill customer used to call you a good supplier. When they setting targets of 3ppm then it came to 1ppm and now they are kind of pushing and nudging the tier I to look at ppb incidences. So its quite clear that level of tolerance of any spill that might happen at any level of the supply chain has gone down dramatically, nobody is willing to tolerate any spill whatsoever which is good because in such a scenario the people who have calibrated themselves well for quality are the people who will probably win over the next medium to the long term, which is an important lever as far as we are concerned to address, we have been working on it for quite a while and we have also intensified that.

And the second part is nothing new. There was always this price pressure in the automotive industry of year-on-year, price reduction and now this is also intensified because of various reasons not just vertical in terms of the cost but even the lateral expenditure that most of the car makers and the tier Is are incurring. So this is real year-on-year price reduction and implementation of the year-on-year price reduction, this is becoming very very real, so broadly if you look at it in summary (a) we have a good growth opportunity (b) we need to keep upgrading ourselves significantly on the quality performance and (c) we need to be very watchful and careful in terms of making sure that we fall in line as far as improving our competitiveness for the price reduction expected by the customers but not out of our pocket.

So quickly as far as these three performance are concerned, what we are doing as a company, I think in the last two conference calls I highlighted that about 18 months ago we had launched three generic platforms and I am very happy to inform that these platforms are shaping up very well and we have added firm enquires from four other customers for these platforms and one very clear indication of that is this financial year and next financial year are compared to an average of about 6% to 7% capex that we would normally do as far as our revenues is concerned we are upping it to about 11% to 12% in this year next year and perhaps we will be at that level in the year after as well. Because reasons are three, the first reason is as I said there is a growth opportunity so we are kind have slated ourselves to add capacity of between 20% and 25% per year from last year. Second because of the increased requirement of quality, we are trying to upgrade the technology level of our machines and we are also going into the next level of operation as far as the manufacturing process is concerned. And the third point is because we are a vertically integrated company of tier II, III, IV and V and we have now been doing a search all over the world in terms of the equipment that is giving us capacities of two or three 'x' of what we currently have for the path making. And I am very happy to inform that we have already ordered such equipment and this is going to give us a significant benefit as far as the quality is concerned, capacity is concerned as well as cost. So that is how we are addressing the three major assessment parameters of the market, the quality requirement, and the price pressures from the customers.

Now quickly coming to the street in terms of how the first nine months have gone as far as our performance is concerned, there is reason for us to feel satisfied that we have been steady, if you take the nine-month period compared to the last year we posted somewhere between 19% to 20% growth as far as the revenue is concerned and the bottom line and the profitability numbers have grown slightly higher than that which is a good indication and as I said earlier that we are working on growth platforms, we are working on standardized platforms for multiple applications not just for the engine but for the engines we exhaust and the turbo chargers when we take a one, two, three year time frame it is a right comment for me to make that it's a good feeling that we feel optimistic about the future.

So with these few comments on the way we look at the market the levers that are being driven by the market and where we are at this point in time I now hand it over to the group for the Q&A. Priya Ranjan.

Priya Ranjan: Ms. Lisann, can you take the question.

Moderator: Sure Sir. Ladies and gentlemen we will now being 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: Yes, Sir, good morning and congratulations on a very good set of numbers Sir. You have already given us a good kind of an in a way nutshell you have explained current situation, just thought I will get some more color on how is the volume growth doing versus any price realizations you have seen because of raw material cost hikes?

P. Mukund: Yes, Mukesh. If I understood your question right, you would like to know how the volume growth has happened and how does it look and what has been the impact of the raw material hike correct?

Mukesh Saraf: Yes, Sir.

P. Mukund: As far as the volume growth is concerned relative to last year our volumes have grown by about 17% and this is slightly better than what we had seen in the last two years and as I said from our standpoint our volume growths will not be very clearly evident quarter to quarter but when I take a two- or three-year timeframe relative to the capacity addition that I have been doing at 20% to 25%, it will come to that level but I cannot give you a guidance focus in terms of when that will happen but the market is available, the capex has been made and the entire process of making sure that the gaps are being bridged will happen so that is as far as volumes are concerned. The market space is available; all the three areas that I have spoken about on the engine, the exhaust and the turbochargers look good relative to the platformization that we are doing Mukesh. And your question No.2 as far as the raw material price movement is concerned, I probably did mentioned in the conference call before last that post 2011 when we had in some cases negative and some cases positive impact of the commodity price variation, my CFO Chandra and our commercial team, they have done a smart job from our business standpoint in terms of we being manufacturers, we do not want to speculate with our customer on commodity price movement with steel, special steel, copper, plastic or aluminium. So about 95% of our business today has the commodity pass through clause with our customers and we operate at two mechanisms and we operate at two timeframe levels, the mechanism is in some cases, there is a 100% pass through up or down by way of credit note or debit note. If the copper price goes up, we send debit note. If the copper price goes down, we send a credit note. The second mechanism that we follow with some customers is with a plus/minus 3% band. So if there is a variation in the copper or the steel price within plus/minus 3% Mukesh then it's the supplier responsibility to absorb. Beyond 3%, we pass it on if it goes up and we give a credit note if it goes down. So that is regarding the mechanism that we follow as far as the raw material is concerned. So far even up to 2017 and probably even up to 2018, we believe there is a reason to see that this mechanism would not work, this will work.

Now regarding the timing is concerned on the implementation, this happens with customers in two ways, one is the adjustment is done in the following quarter and the second is we do it 1st July and 1st January which means it is done on a six monthly lag basis. So we have to do it on a three monthly basis or we do it on a six monthly lag basis. So therefore we insulated ourselves from the commodity movement because as you all know you are all analyst, you are watching the market, you have all seen $2000 copper per tonne, you have also seen $8000 copper per tonne but that is not our business Mukesh.

Mukesh Saraf: Right. So just in continuation to that how are we on our target to increase the non-ETC related business to close to 50% of the revenues?

P. Mukund: Good we are very, see as I said in the last call we have anchored three customers for the Turbocharger Waste Gate applications and the EGR application working quite well. I must say that we have already established the capacity of three million pieces for both those platforms which is going to be peep app in April because it is now through validation February-March and April they are going to get the customers for audit because here we decided to take the call ourselves in terms of not waiting for a customer purchase order, do all the negotiations and doing the admin of the market, the market is there, you know very clearly there is a need for second supplier, you know very clearly that the first supplier has got 70 plus market share so with all these facts, we decided to bite the bullet and the lines are getting ready and peep apps and the validations are going to get launched from February that is end of this month or early next month. On track, when they are going to start getting into significant revenue, the answer to that question I will be able to give you by the middle of this year. As of now I foresee that by calendar year 2018 will be the year when we will see the ramp ups of these to take place. So the plan is on track I do not see any change in what we thought of as our derisking plan and diversification plan as far as the usage of our motors are concerned. Point No.2, our platforms are being developed as generic platform for all three applications, so there is reason for me to move along that path albeit I would like to move a little faster than the way in which it is going on. If that answers your question Mukesh.

Mukesh Saraf: Absolutely Sir. Just one more if I am… I see that the depreciation in this quarter has gone up while the capex, if I just look at the first half numbers, capex was not very significant in the first half as well so what could have driven this depreciation to this level because you are now only going to scale up capex significantly?

P. Mukund: Yes, Mukesh this is a combination of a two factors one is because of ICAI because in the previous year the depreciation was on some shift norm and in the last year I believe there was a change where wherever you are depreciating something on ex-shift basis we need it to depreciate it on a 1.5 ex-shift basis this is what my experts tell me. So it is mainly because of some ICAI guidelines that is one and there will be a trickle impact because of the additional capex that we are now bringing in because this year and next year as I said some 6%-7% capex will be we will want to go up to between 10% or 11% of our revenue as capex in preparation for the capacity increase and the volumes. So this particular number is because of ICAI, it is not because of capex.

Mukesh Saraf: Okay and so employee cost also will go up significantly given that you double shift if I may assume that is what it is so would you see employee cost go up in line with this?

P. Mukund: Mukesh our endeavor is to look at two elements one is the absolute element, the second is the percentage of sales. Because at the end of the day what we work on is the… what is my material cost as the percentage of sales and what is my value at cost which includes employee cost and all the overheads and so on. So from that standpoint I do not see any reason as to if we are able to go on the growth path I do not see this cost going up as a percentage of sales. But in absolute terms, it needs to go up you cannot squeeze the most precious asset that I have and expect qualitative growth and performance.

Mukesh Saraf: Right, thanks a lot Sir, thanks for patiently answering and all the best.

P. Mukund: Pleasure Mukesh.

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

Sanjay Shah: Good morning Sir and thanks for a nice understanding about the company. Sir can you share with us the market size of our products that we are catering to especially automotive and even non-automotive?

P. Mukund: Hello Sanjay, good morning. Thanks for this question, I think this is a I will only take part of your question if you permit me because I do not want to make a comment on the non-automotive because we are not really strategizing as far as the non-automotive is concerned up until now to start spending substantial strategic managerial and financial resources. So I would like to talk about the automotive part, I have explained this earlier what keeps giving us a great degree of comfort everyday when we people wakeup is because of the stress that we play in electric motors and automotives. It might be at the cost of repetition many people know that when it is a market where an average world car in the early 2000s had something like 10 to 15 electric motors per car which has now gone up to above 35 motors per car so you can imagine how the market size of this electric motor industry in the automotive is growing up Sanjay. Now that is not very fully relevant to us because we operate on two platforms, one platform is an IP-related platform where we have a niche place in the powertrain torque actuator motor segment which as I have been telling is for the engine exhaust and the turbocharger and there in the engine we have about 40% of the world market and we have very insignificant market share in the turbo charger and the EGR space and that is where like Mukesh asked earlier when are you going to increase the pie of these two applications in your sales pie, it is going on, so on that space alone if you look at it, we are operating at a level of 24 -25 million motors per year and the market size is upwards of 200 million Sanjay. That is on our IP space of the powertrain actuator segment and that is why from our side we have tried to pull in all our expertise and experiences and our information that we got from customers to platformize the products and that is going on pretty well. So we do not want to say that we will play only in 30% of the 200 million or 25% of the 200 million, we want to be available to play in the entire 200 million space. So that is as far as our space is concerned. Now quickly moving into other areas, which is a very, very exciting area, but at the same time there are many players the competition is intense, the demand-supply is very high and that is on the comfort area Sanjay. I would not be wrong if I say that the total market size in the automotive area for comfort applications identified on the body and internal to the compartment would be like six to seven hundred million motors per year. Six to seven hundred million I am just if I were to qualify the statement, number looks very big, so I would like to qualify this particular statement, the world average for windows just the windows, the world average is somewhere between seven to eight if you take the window movement and door lock. So like in the beginning I mentioned that 95 million vehicles are being produced and you take an average of seven to eight but if I imagine what is the size of the market just as far as the window and the door is concerned, now I am not even bringing in seats, I am not even brining in roofs, I am not even bringing in various other comfort aides that you have which are motorized as far as the luxury and semi-luxury cars are concerned Sanjay. So market size is not an issue Sanjay. That gives you a flavor of what the size is like.

Sanjay Shah: Right Sir. Sir who is our top five customers we are catering to and percentage wise sales breakup if you can give to us?

P. Mukund: See predominantly a very significant portion of our business was, is, and will be to German tier I, somehow we have been able to create a good DNA in terms of working well both at the application and the technology for product development and at the process in manufacturing level. So we are working with customers like Bosch, we are working with customers like Continental, we are working with customers like Pierburg, we are working with customers like Hella, and we are also working with some smaller customers in Germany, two or three of them, I would like to take names as and when they come a little more firm. So broadly if you look at it 70% to 75% of our business will be German OEMs but the sales will not be all to Europe, we will have a spread as of now to answer your question I am going one step further Sanjay in our sales mix 40% of our revenues in the first three quarters and probably for the end of the year will come from the American geographies, the North and South America, 23% to 24% of our revenue will come from the Chinese geographies, 30% of our revenue will come from the European geographies. So that is how the sales mix. So I think I have answered your question in terms of the geography will be our customer headquarters, who will be the customers, and what is our sales mix as we see it now and as we see it over the next three to six months Sanjay.

Sanjay Shah: Yes, I very much appreciate Sir. And my last question is regarding other expenses, which is going up, can you elaborate on that which are these other expenses are?

P. Mukund: Sanjay there is one thing Sanjay because you know that as per government regulation we have this CSR expenditure, it so happened that we could not spread this CRS expenditure uniformly so we are contributing to a noble cause like the cancer society and we are contributing to Bala Janaagraha, which is in terms of educating the under privileged so the expenses that we incur towards the corporate social responsibility guidelines happened in the last quarter Sanjay.

Sanjay Shah: Thank you Sir for answering my question.

Moderator: We will take the next question from the line of Nikunj Doshi from Bay Capital. Please go ahead.

Nikunj Doshi: Just wanted to understand we have a small stake in JV with Bosch so what is the plan there on that front?

P. Mukund: Nikunj, Bosch is one of our best and most cherished relationships that we have built over the last 15 years from India and I think the our leadership team from India has been concerning that and I would like to answer your question in a slightly more elaborate session because we have four kinds of relationships with Bosch, one is we are a plain vanilla IPO and supplier where we develop the motors to their application the IP is completely owned by us and then we do concurrent evaluation and assessment for launching their project, so we are a plain vanilla supplier where the IP is owned by us that is the relationship No.1 that we started and it is going on pretty well. The second relationship that we started was to be a contract manufacturer for them and contract manufacturer in the sense, we built two trains so that relationship is also going on well and the third relationship that we have with them is that they had some cost problems for some of their products and since we have a fairly lean manufacturing cost structure, their leadership came to us and suddenly they could look at a make and buy strategy in the sense they make something in-house there is cost and we also did a same product for them, we put in very little money most of the financial burden has been taken over by them only the managerial burden is with us so we call it contract management. And the fourth one is that we have a joint venture with them, which started about 10 years ago. Now with these four platforms are relationships with Bosch we are in a like situation as far as they are concerned, no doubt about it but to specifically answer your question on the JV, now the JV was principally setup for many reasons no doubt but two principal reasons, the first reason was that when Bosch as a large company wanted to come to India they had the option of coming by themselves or they had an option of coming with some partner who could probably help them on accounts of time, cost and they have to play in the same domain and at the same time, they could also be a potential supplier for them. And that is how they identified us. So now that is continuing to be the process but the requirement of capital for various reasons kept going up and we also needed to invest a significant amount of money in our system to take care of being a supplier, contract manager, and contract manufacturer. So step by step by step as the capitals going up, our stake in their joint venture kept coming down and the joint venture still continues at this point in time but in terms of significant flow of revenue due in the joint venture from the joint venture was not and will not be a very big amount as much as it is from the flow of business globally from Bosch. So like in your community I am sorry I am taking a very contextual example, in your community you might want to understand our business a little more you might want to understand little more about the management to build a relationship it does not mean that you will put in your money okay.

Nikunj Doshi: Okay and another point is Sir I think there was some sort of restructuring at the group level so can you throw some light on that?

P. Mukund: Yes, Nikunj I think this discussions are going on, I think they have announced in public domain that here in India we have two entities one entity is named Agile, which is actually the contract manufacturing arm and the other entity is what we are taking about the Igarashi Motors India Limited, the listed company and the strategic idea was to merge the contract manufacturing company which is with the shareholders into the listed company and this discussions are going on which is a merger process and obviously I think this is going to be a once in a life time kind of a event for this company because once you do the merger you cannot do anything else otherwise it has to be in the positive interest of everybody especially minority shareholders and public shareholders to whom as a company our board made it very clear that you are our principal stakeholder for our future while I would put our customer and of the public shareholders. So keeping that in mind discussions are going on progressing positively and at an appropriate time, this unification will happen Nikunj.

Nikunj Doshi: Okay. Sir but just wanted to understand it bit more because see I think promoter holding is almost like 75% and if this merger happens, then promoter holding will go beyond 75% and again you will have to come up with some offer to dilute your holding so any thoughts on that?

P. Mukund: Nikunj I would appreciate if you can wait for the actual because nothing will happen without things being put up in the public domain but there is one hint I would like to give you that we have a private equity investor who is not a promoter in the unlisted company. If that answers your question.

Nikunj Doshi: Yes, I got that point. Okay.

Moderator: Thank you. We will take the next question from the line of Kripa Shankar from Spark Capital. Please go ahead.

Kripa Shankar: Sir I had one question, just wanted to understand how is the penetration of brushless DC motor and the overall DC motor markets shaping up and where would you peg the penetration of these motors right now and say five years from now and an allied question on that is how are our efforts progressing for developing an in-house brush less DC motors and what kind of investments do we foresee for the development?

P. Mukund: Very relevant question Kripa Shankar and thanks for asking this question. Now let me give you a, first before I get into the technical and the market characteristic of BLDC, let me give you the commercial characteristic of the BLDC. Now to make a comparison between the brush DC motor and brush less DC motor, if a brush DC motor costs 100 brush less DC motor costs somewhere between 250 to 500 and the principal reason being the cost of electronics. Because where you have mechanical commutation and when you have a brush-driven motor there the drive and the control is done by the electronic circuit so unless and until the cost of electronics comes down to make the brush less DC motor less than 1.25 times the brush DC motor the penetration level is only going to be in select applications where the duty cycle is continuous, it means where the motor will die before the car drives. So the applications like so are your air-conditioner. For example, as soon as you get into your car if our car is air conditioned, we switch the A/C on. So there the motor will die before the car dies or if you take the window regulator or you take the central door lock unless there is a kid, who is doing that nobody else is going to put the window up and down 1000 times a day, so from that stand point all these window motors if you do not have any manufacturing defect or any fundamental quality problem when the car is scraped it will be scraped with the motor. So because of the gap in the pricing and the application nature we see that HVAC blowers, heating ventilation, air-conditioner blowers, engine cooling fan, condenser cooling fan, electronic power steering, anti-lock breaking systems, these are all the areas where penetration of brush less DC motor is taking place. Now we are not playing in that space. So that is as far as the market is concerned. Now quickly coming to the question that you asked, that I have an internal target, my internal target is that by 2019-2020 I want one of our every three RSQs that are coming to me should be for BLDC motors. Whether I accept this or I do not accept it because like it happens in any other industry the cost of electronics forever is not going to be too extra as what it is now, it is going to keep coming down like you saw in the computer industry, in the telecommunication industry and so on so with that in mind I would like to have the 2019-2020 one of the three RSQs to be BLDC. For that, last year we have started three partners and I am investing a million dollars between last year and this year to do some work on BLDC which is going to allow me to go to the customer and tell them that for the applications that I am currently making, here as a toy maybe, but here I got a brush less version. Whether you use it or do not use it I do not know because we understand these torque actuator motors and comfort applications very well, my engineers understand that. Today I have a team of about 50 engineers 25 of them working on R&D and 6 of them working on BLDC so they understand these applications very well so they are now looking at it in terms of what if I were to look at BLDC motor for these application. There are constraints okay. For example, in my application I go to a temperature of 220 degrees and at the moment there is no PC board, there are no electronic components as a family which can satisfy the temperature level of 220 degrees unless and until completely they are parted and insulated from the environment of the engine. But nevertheless we are going forward because that is where we understand, so this is our approach, and by next year I will next year in the sense I am talking about end of calendar year 2017 I will have five samples for BLDC for my application Kripa Shankar. So that is the way we are going, now if you are going to ask me a question, how much revenues going to get translated I do not want to bother about it now.

Kripa Shankar: Right got it. Probably a little early to talk about it right now.

P. Mukund: Its early or late does not matter but what is right to talk about it in terms of how organically you are going to develop as far as the brush less DC drive and controller is concerned for any motor, and Kripa Shankar if you are able to do that and understand that for an application it does not matter so much for you in terms of getting to know how to design or modify that for other application. For example, if I know how to design a motor for an engine, it is quite easy for my engineers to know how to design a motor for a window or for a steering. Like so Kripa Shankar if I have answered your question.

Kripa Shankar: Absolutely Sir, thank you very much.

Moderator: Thank you. We will take the next question from the line of Jayveer Parakh from Sunidhi Securities. Please go ahead.

Jayveer Parakh: Good morning and congratulation on a good set of numbers. I just had a question regarding capital expenditure, you mentioned that you will do 10% to 11% which translate to roughly about 60 Crore per year going back current revenue, just wanted to understand what is the capacity increase that the 60 Crore spend will drive and what is the revenue that we can estimate on this capex?

P. Mukund: Parakh I will give you a flavor before I actually go into the specific numbers, see normally in our case we invest capex “X” today for let us say a capacity of 3 or 3.5 million motors per year now this gets translated into no revenue in year one, limited revenue in year two, about 50% revenue in year three and about 75% to 85% revenue which is in year four. So that is how our capex rise is normally is in terms of capacity. Now we are quite full in terms of the space is concerned over here and the infrastructure as far as our zone is concerned, so I am very happy to inform you that Chandra has worked out in November last year we have acquired about 130,000 sq. feet. For infrastructure where we are going to put up all the new lines. So the capital expenditure nature will be in two forms, the capital expenditure nature will be firs in terms of acquiring an infrastructure which is going to make sure that more and more customers come to us and look at making all the tier IV, tier V, tier III and tier II under one roof. This is our intention. Then second part of the capex is in terms of the equipment, so far we have been having a certain technology grade at our parts level, tooling level, and our assembly let us call it generation three. Now we are going to generation four, and when we go to generation four, there are certain advantages that we will get, the advantage that we will get is that while your investment for capacity goes up marginally you will see that your technology level, your quality level goes up certainly and your value at cost per piece goes down, so therefore my manufacturing engineers and my process engineers in the last one and a half years have been visiting Japan, Taiwan, and China and looking at how we can go to the next or perhaps one generation even beyond in brushless, in tools, in assembly line equipment and automation is concerned. So these are all good investments for the future, that is the reason why I made a very general statement that from about 6%-7% of revenue we have been spending as capex I expect in the next two years will be more like 9%-10%-11%-12% Parakh. So if that gives you a flavor, now do not ask me to get into specific numbers as what this line would cost, what that capacity would cost and so on, I think my people over here my techno commercial team and Chandra's team are working very closely into all the numbers because what is going to drive our investment is going to be the technology quality no doubt from my side but from my commercial board side and my CFO side, this guy is asking me just two questions, you tell me what is the investment for capacity related to what we were doing earlier and tell me what is going to be the manufacturing cost per piece when you are at optimal capacity, as long as these two questions are in his favor, as you know now we do not have a constraint for investing now, we are luckily he has a good cash deposit with him and we want to make sure that this money is utilized appropriately to make sure that we grow but at the same time we make sure that our technology, quality and commercial strategy is in place Parakh.

Jayveer Parakh: Right, and Sir where is the confidence coming in for growth that you were doing an elevated capex program?

P. Mukund: The confidence is coming from the street, I am not going into the market and I say like in the couple of meetings earlier people ask what about this technology for EGR if it goes away what happens and so on, see we are companies which are driven to work with customers, you know almost every day I have somebody from my sales team, somebody from my engineering team or somebody from my program team or myself sitting with customers. So when we are sitting with customers we would like to be on the street with the customers and these are all projects where you do not go to a market and buy it off say industrial, supermarket store or shelf or whatever it is it is something that you need to engage because you get specked into their order specification. And second in the last meeting I did announced that we have setup a joint venture with one of the top notch engineers in the space of powertrain actuators who recently retired from General Motors and he gets along very famously with us, so his company and our company are into a technical co-operation partnership, it is our company drive. Every two months, he spends two to three weeks with us and my engineers keep spending time with them, so there what we do is our action is not based on any general information because at the end of the day I spend in T-V,T-IV,T-III and T-II, we bite the bullet, we do not tell the customer you got to pay for this, you got to pay for that, we want to get into business, we go and tell the customer look I want to ask him. That is there the confidence is coming from Parakh.

Jayveer Parakh: Okay thank you.

Moderator: Thank you. We will take the next question from the line of Kumar Saumya from Wealth Managers India Pvt. Ltd. please go ahead.

Kumar Saumya: Good morning, Sir my first question was regarding the question asked earlier if we were to break out the sales in terms of like top three customers, top customers, and top five customers what will be the proportion like?

P. Mukund: See always we will have top three customers contributing to two-thirds or more of our sales Saumya why because while the customer is the name Bosch or customer is the name Continental but if you take Bosch we are doing business in 14 geographical locations of Bosch and each one is an independent business unit. So as I said our top three customers will be… see our focus is in terms of being a significant supplier in that particular space that we play to all our customers I do not want to be tale supplier.

Kumar Saumya: So Sir for one customer likes Bosch so we are supplying them to multiple geography or particular geography?

P. Mukund: See when you take Bosch I am supplying to about five locations of Bosch, three of them are in China, four of them are in North and South America, three of them are in Europe, there is one in India also which is coming up and there is one in Korea. So likewise if you take Continental I supply to Juarez in Mexico, I supply to Bebra in Germany and we supply Wuhu in China and probably we might supply to either Bangalore or Delhi depending on what happens so this is how the entire trend happens. See what happens in our kind of business is that while we are talking off platforms, the platform is not something that has been organically devised by our engineers and our team. The platform is a concept which is trickling down from tier I and above. So when they create a platform for a particular engine unit let us say, they create a platform for an exhaust unit or a platform for a throttle body unit, so they do the entire development in let us say the R&D center in Saalbau in Frankfurt and from Frankfurt they send it out to the Mexican geography, American geography, German geography, and the Chinese geography that is how this industry actually plays its development game.

Kumar Saumya: And Sir like you said you are going to supply to Bosch and Continental in India so do we expect the penetration in Indian markets from Igarashi Motors?

P. Mukund: Yes, but it is not going to be something that is going to be of strategic significance up to maybe the next three or four years, principal reason being that the world adds one India and one in every year

Saumya, because today what is our LCV production I do not have the numbers but Mukesh you can help me I think it is around 3.5 million, so if it is around 3.5 million, the world is been adding somewhere around 4 to 5 million LCVs every year over the last four years.

Kumar Saumya: Sir one more question, if you were to breakup the volume across geography, so how will be that volume breakup across geography say namely…

P. Mukund: See as I mentioned in the beginning to responding to earlier question, I think I do not know it was probably Mukesh's or I am not sure, but 40% goes to North and South American geographies, 3% goes to the Chinese geography, 30% goes to European geography, and 10% goes little bit to India, Korea and so on.

Kumar Saumya: Okay Sir, I thought it was revenue breakup. Sorry.

P. Mukund: Anyway revenues and volumes are linked Saumya.

Kumar Saumya: Sir one more thing, if we look at Mabuchi numbers the per unit realization that they have is very low compared to what we have, so if you could explain a little over why there is so much difference between the per unit utilization realization over there?

P. Mukund: See I hold Mabuchi and Johnson and they click in very high regard as far as DC motors are concerned because we are talking about what, we as a group we are talking about 100 million motors and key subassemblies for a year achieved, Mabuchi might be talking about two billion per year, so traditionally worked on those very small motors, which go in mirror movements, which go in for the audio in olden days all cars used to have this cassette recorder and they used to have the CD and they used to have motor, so Mabuchi used to make the small motor which vary in cost 40 cents to maybe a dollar, a dollar and 50 cents that is why you find that their average unit size realization will be one dollar or downwards, but it does not mean that they are not selling 5-6-7-8-10 dollar products, they are selling, the volumes that they do for the sub one dollar product is very very high. Therefore, their average unit size realization is below a dollar, when you look at the entire product mix. So what we can probably, when you say we are going to compare as with Mabuchi or Johnson because Mabuchi today is a multibillion dollar company, Johnson may be is a four five-billion-dollar company I do not know I could be wrong by some numbers but they are to be so you can slice off that portion like the powertrain area of Mabuchi and then that would be probably an April to April comparison, company to company, there is no comparison Saumya.

Kumar Saumya: Okay so that was it. Thank you.

Moderator: We will take the next question from the line of Apurva Mehta from KSA Shares and Securities. Please go ahead.

Apurva Mehta: Hi Sir, good morning Sir. Congrats on great set of numbers. Sir just wanted to know about the IP part and in Igarashi what amount will be IP and what amount will be contractual?

P. Mukund: Apurva 100% is IP in Igarashi, when I say 100% give it a benefit of the single digit percentage, realize it to 100 because there are some parts for strategic reasons where we are doing bill to print but fundamentally the platforms that we are developing although we are doing co-development with customers and so on in powertrains we used to have this co-developments with certain covenants and the covenants used to say that for three years they cannot buy from anybody else and three years we cannot sell to anybody else. Now they become fairly matured, so therefore I think the technology is completely belonging to us when we tell the customer look if you pay for the tooling and except the tooling cost then all restriction that you can have is that we will not use your tooling for any other customer so therefore that is why I was answering your colleague earlier saying we have decided to bite the bullet saying even the customer normally you would take tooling cost on the customer but we have decided that we will not take the tooling cost because that gives me a flexibility to sell that product which is our own design to any customer.

Apurva Mehta: Okay great. And Sir what will be the product lifecycle of our motor because previously we knew that it was like seven-year cycle, but…?

P. Mukund: No, Apurva I think it is a very fair question, we started our play in this space in 2002 normally and since 2002 till now we have launched about 28 variants and out of that four variants are dead, so on an average it will be very fair for me to say that up until now since penetration of this applications took place the product lifecycle varies between 9 to 11 years but we are not resting on that, what we are also seeing is that once you are able to give a good solution to the customer by downsizing, down-weighting, and down-costing, they are trying to crash the lifecycle from 9 to 11 years to 6 to 7 years. But over the next three four years once the platform has been proven, I do not see the life cycle going below 6-7 years Apurva.

Apurva Mehta: Okay that great is Sir. Sir and you are going to merge your company which is fully contractual manufacturing so will you have different margin structures in that company IP must be having little bit more margin than the contractual one definitely?

P. Mukund: That is true. But Apurva I think you said also realize that, see an electric motor I mean I have to be candid I cannot say that an electric motor is a high technology product, they are like your idly, dosas, market is huge, so therefore I think we have to try and leverage what gives you the manufacturing economies of scale because if you take an IP product for me once I cut a cheque and for that to get into my normalized EBITDA, IP takes four years Apurva. But in contract manufacturing it takes two years, these are complimentary you cannot say this or that, so these are complimentary businesses so I would imagine that you know you should let your heart to good for it and let your head to what is good for it.

Apurva Mehta: Okay and Sir can you give the ballpark number of what will be the R&D cost what we are incurring to develop these motors over next two three years down the line, what will be your, it will be incrementally growing or it will stabilize at some level?

P. Mukund: Apurva what happens is that when we make an investment for the platform so as I told you again we are I could call our company as a middleclass technology company not a hi-tech company, so therefore the R&D work that happens, that R&D work normally happens to go to the street, we do not do fundamental R&D like the academic research center, so that we get it from Japan and get it from customers and so on, so therefore whatever the R&D we incur, the R&D cost gets bundled into the platform investment that we are doing. For example I am taking a 25 millimeter platform and I am investing 40 Crores on the 25 millimeter platform for a capacity of let us say five million pieces per year, increases, so out of that 40 Crores I might have for product and for process and for prototype spent about 10%, so that goes into that product itself, so we have not done R&D separately, the only R&D that I am actually incurring is for BLDC like our colleague asked a little earlier about BLDC, Kripa Shankar asked about BLDC, so BLDC without a customer just for product and R&D we are investing a million dollars.

Apruva Mehta: Okay. Sir another question, what on the technology front, what Igarashi is helping us on the front but can you share something like that or it is not there Igarashi itself, Igarashi Japan or Igarashi US may be sharing some technology part for us or how it works?

P. Mukund: See as I said we have organically developed competence in certain application spaces so likewise Igarashi Japan has organically developed competence in some new generation applications which are like electric operating oil pump, electric vacuum pump so these are all applications which are going to be probably useful not only for internal combustion engines, they are also for electric vehicles. So where we are the role that we have defined among ourselves to play is that here we do fundamental R&D and basic R&D for new applications, for long-term we do it in Japan or where we have to come to the street, we do it in India, either we manufacture in India or China or wherever you manufacture, because I wanted to make sure my engineers are on their feet as far their engineering is concerned on the application and with the customers. So the reliance, what is the nature reliance on each other, it is on a required basis but it is not on a life and death basis. If that answers your question.

Apurva Mehta: Okay. And Sir can you show some sense that today if the average car is taking 35 motors what is going down the line in three years' time what are your estimates of number of motors in a car going to maybe 45-50 what is your estimate?

P. Mukund: Apurva you are asking me a question like let us go and see a Salman Khan…so I will definitely answer …

Apurva Mehta: No but you are in this market you know you are getting RSQs you are getting RSQ for 2018-2019…

P. Mukund: Whatever RSQs that I am getting I get for my domain, I am not getting RSQs for so let us say some under the hood application or under the suspension application, for the hydraulic pump application kind of stuff but to satisfy you if I have heard what the people from European market say and when we travel some of the people who bought new BMWs they took me to the rear side of their car and opened the dicky and said look I have got two motors in the dicky so if that be the case it might be fair for me to make a statement that you take off the low cost cars, if you look into semi-luxury, luxury and super luxury, the average range will be between 50 and 80. And just to give you a number one of my friends told me that he drives a BMW 5 in Germany and he had some specific orders, he heard it as 120 motors.

Apurva Mehta: Huge opportunity in that comfort area is also there?

P. Mukund: Yes, see you know very well where you have an opportunity, see for us we are manufacturer, if we could see an opportunity, we will have to invest if we a rupee, we will have to get revenue of Rs 3 in third or fourth year, so it took 15 years to learn to make money. We do not want to lose that. My CFO has taken 15 years to know how to make money. I mean that is the trade that we have to keep with us now.

Apurva Mehta: We know that. Thanks a lot.

Priya Ranjan: Next question is from myself, as we have seen gross margin going up quarter-on-quarter as well let us say 300 basis points or so, so any reason why I mean such a huge jump in gross margin?

P. Mukund: To my desire I would like it to go down.

Priya Ranjan: Yes, ……

P. Mukund: Yes, I would like it to go down and at the same time I would like the top line to grow faster, but with all what is happening all over the world it is very good for us keep our feet grounded and I must admit that the I think all of you know you are all analyst so you have your feet and ears all to the ground, the automotive industry is a treacherous industry with regard to price. So there is a way in which we have to address this, if you are on top of it, we are taking the risk all ourselves, so we want to make sure that we remain above average as far as the returns are concerned before we start stepping the accelerator on growth. Now what is above average in my view above average is above 18, My team and all you people are kind that we are posting above average now, now I will have to look at it in terms of the sustainability of that, now if I need to really step up on the growth our board, our commercial team, we are all discussing in terms of what kind of price drops we need to work on the customer to incentivize them to give them a bigger share. So this debate continuously it goes on. Yes, to answer your question I have a problem of growing at a much lower rate than what the market opportunity is and that is being reflected by gross margins going up which probably is not the right approach for a company got a good market. So we re-calibrating that just few quarters Priya Ranjan, we will fall in line.

Priya Ranjan: Yes, but it always keep us surprising upward and the margin has always been surprising for many quarters.

P. Mukund: Do not worry life is a cyclical so some day we will also surprise you negatively.

Priya Ranjan: Hopefully, not but it is a business cycle, so we can always have, but I think Sir we can conclude the call we have other con call as well from the other site as well.

P. Mukund: So thank you very much for patience for all of you who stayed on. If it was too much of motor talk my apologies but I thought the questions are very relevant and I owed it to the intelligent analyst community to give the answer to the best of my ability. So thank you very much for your patience.

Priya Ranjan: Thank you Sir.

Moderator: Thank you, ladies and gentlemen with that we conclude today's conference call, thank you all for joining you and us may disconnect your lines now.