



Divgi TorqTransfer Systems

Divgi TorqTransfer Systems Limited

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August 14, 2024

To, BSE Limited, Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai - 400001 BSE Scrip Code – 543812	To, National Stock Exchange of India Limited, "Exchange Plaza" 5th Floor, Plot No. C-1, G Block, Bandra Kurla Complex, Bandra (East), Mumbai – 400051 NSE Scrip Code - DIVGIITTS
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Sub: Transcript of Earnings Call held on August 12, 2024

Ref.: Regulations 30 of the SEBI LODR Regulations

Dear Sir / Madam,

Further to our letter reference no. DTTS/Sec/24-25/44 dated August 01, 2024, pursuant to Regulation 30 and other applicable provisions of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("LODR Regulations"), please find enclosed herewith the transcript of the Earnings Conference Call held on **August 12, 2024**, in respect of the Unaudited Financial Results of the Company for the quarter ended June 30, 2024.

The transcript can also be accessed on the Company's website at the following link:

<https://divgi-tts.com/earning-call-transcripts/>

This is for your information and records.

Thanking you,

For Divgi TorqTransfer Systems Limited

Sanika Nirgude
Company Secretary and Compliance Officer
M. No: A71466

Enclosed: As above



Divgi TorqTransfer Systems Limited
Q1 FY'25 Earnings Conference Call
August 12, 2024

“E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on 12th August 2024 will prevail.”



MANAGEMENT: **MR. JITENDRA DIVGI -- MANAGING DIRECTOR – DIVGI TORQTRANSFER SYSTEMS LIMITED**
MR. HIRENDRA DIVGI – WHOLE TIME DIRECTOR – DIVGI TORQTRANSFER SYSTEMS LIMITED
MR. SUDHIR MIRJANKAR -- CHIEF FINANCIAL OFFICER – DIVGI TORQTRANSFER SYSTEMS LIMITED
MR. DIPAK VANI – CHIEF OPERATING OFFICER – DIVGI TORQTRANSFER SYSTEMS LIMITED

MODERATOR: **MR. ASHUTOSH TIWARI – EQUIRUS SECURITIES PRIVATE LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to Divgi TorqTransfer Systems Limited Q1 FY25 Earnings Conference Call hosted by Equirus Securities. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touch-tone phone. Please note that this conference is being recorded. This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions and expectations of the Company as on date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict.

I now hand the conference over to Mr. Ashutosh Tiwari. Thank you and over to you, sir.

Ashutosh Tiwari: Thanks, Laiba. Good morning, everyone. Welcome to the conference call. From the management side, we have Managing Director, Mr. Jitendra Divgi, Whole-time Director, Mr. Hirendra Divgi, CFO, Mr. Sudhir Mirjankar, and Chief Operating Officer, Mr. Dipak Vani. Without further ado, I hand over the call to Mr. Jitendra Divgi for opening comments, post which we'll follow up with a Q&A session. Over to you, sir.

Jitendra Divgi: Yes. Thank you. A very good morning to everybody and a warm welcome. Thank you for taking the time to come and attend this call and listen to us. Am I clearly audible, please?

Moderator: Yes, sir, you're audible.

Jitendra Divgi: Thank you. So, what I wish to do is talk first about some key developments in this quarter, then address the numbers and what has happened, how we see the current business landscape developing, evolving, what are some of the big trends that we see, talk a little bit about our exports, and then have some concluding remarks. So, I'm very pleased to share with you that this quarter that is under review, we won for the second time in the last three years the Toyota Supplier of the Year Award.

This is a very significant achievement in the area of powertrain systems where we operate. There are not many parts of the world where Toyota sources powertrain components, maybe four or five, and to win that award in a significant region like India is a matter of pride, I think. I think this is a testimonial to our proposition of technology-led solutions, and this award sort of reinforces this and, of course, adds to the stature of the company's brand.

The second, I think, significant development is that we have received formal approval from the letter from the government of Maharashtra for the mega project under the electric vehicle policy. This will offer various incentives like electricity duty exemption for about seven years, 100% exemption from payment of stamp duties, and benefits under the SGST, the state part of the GST, to the extent of our capital investment at our brand-new Shirwal facility that is being readied and, as a matter of fact, is already producing EV products. And the significance of this is something we can touch upon as we go ahead.

And finally, also we announced last week a very large significant order in the core segment of our business from an existing customer for the development and supply of a four-wheel drive transfer case product for their global pickup truck program. It's a multi-year contract that, as per the indications that have come from the customer, has a life cycle of about seven years, and based on the volume projections that they have given for capacity planning, has a life cycle revenue of about slightly over INR800 crores. The SOP is in the second half of FY27, so that's about two years from now.

So coming to the numbers, Q1 FY25, as our results have been uploaded, and I'm sure all of you, many of you, have had a chance to review the numbers. So compared to the same period last year, the numbers were lower, and this has been caused primarily by two factors. One is lower offtake in our transfer case business, but also a little bit of continuing disappointment in our EV sales.

And we'll talk about what this trend means and what are we doing to address it. So we foresee that this, before we come out of these headwinds, you know, there will be a little bit of continuation through Q2, but we are expecting the business to pick up and stabilize from H2, so that's from October. Why do I say that?

This growth from Q3 will be driven by exports, where we have already started shipments, and our terms are X-hour warehouses in North America, where we have two warehouses, and there are three significant contracts that are under execution. Our customers in the EV business are bringing in new platforms and models, so there is some hope that there will be an uptick in the EV business, not as much as we would like, but certainly significantly more than what we have seen till now. Two of our transfer case contracts ran into serious headwinds, one at MG Motors, and the second one was on the defense side for various reasons.

They have not revived in the first half, so we see some of that beginning to happen actually starting this month and next month, and then going on through to March. So that is another contribution. Significantly also, many of you must be tracking that Mahindra is going to be launching the five-door Thar Roxx, which is a significant upgrade from the three-door Thar.

This is the five-door model, and we are the exclusive four-wheel drive transfer case supplier on this, what we think is quite a spectacular model. It is widely expected to be another blockbuster product for Mahindra. The market in this day and age is a little unpredictable as to how the uptake for four-wheel drive will go, but typically we know that in the immediate wake of announcements and introduction, there is normally a search for the high-end models, so that also we expect some contribution for that.

I will come to the exports later on in this discussion, because we are also seeing markets opening up in Southeast Asia and China. Just a quick word about our Shirwal facility and the new-age battery electric vehicles. Those of you who watch the space are aware that the numbers continue to disappoint in the battery electric vehicle, and perhaps the industry as a whole has underestimated the impact of how the consumer community is perceiving range and availability of charging infrastructure and everything associated with that.

Also, the technology life cycles here are pretty short, and it requires the entire supply chain to be pretty agile and fast in execution. But I'm happy to say that because we have the technology for product and manufacturing and the capacities in place, we believe that we have the readiness. We have several programs underway both at a systems level and at a component kit level to de-risk the uncertainty and the ambiguity that comes with this uncertainty or unpredictability.

What is most heartening is that we have successfully used our capability to make inroads into the three-wheeler segment and also the last-mile commercial truck side where, of course, the vehicle product is a four-wheeler. So it's not limited to just passenger cars, but we have been able to widen our development and market success in what is perceived to be the more competitive segments of three-wheelers and last-mile four-wheeler commercial applications. So this is an evolving space.

It needs to be watched continuously. I would say on the side of good news, despite all the disappointment in the numbers our performance in terms of execution continues to be quite spectacular. Recent report cards show that we are always above the 90% scorecard, the marks that are awarded to us and that I think is something we need to sustain as we go forward. So the technology, the management of technology, the quality of execution continues to remain world-class.

I want to take a moment and some time to talk about what all this means for the business, because obviously you guys who are investors analysts looking at us, I'm sure are going to have a wide range of questions and it's important that we sort of anticipate and address this area. Watchers of this automotive sector know that this industry is going through a substantial shift driven by the shift from internal combustion engines to some form of electrification.

Automotive companies are offering customers a wide variety of powertrain technologies that include electrification, biofuel is being talked about certainly CNG is there and a lot of this is governed by government policies on emission or you could say fuel efficiency norms that are progressively tightening since they were introduced in 2017. And we have some visibility of the direction in which they are going from till 2032 and then from 2032 to 2037.

So beyond the realm of EVs, we are tracking the emergence of what are being called strong hybrids that make use of technology components and modules from battery electric vehicles. There has been a lot of buzz these last two, three years, but we are beginning to see with the introduction of hybrids from the eminent Japanese OEMs the rise of hybrids in the Indian market. So consequently there is a lot of dilemma as people look at the industry and the

accompanying uncertainty and ambiguity of what exactly is going to happen between EVs and hybrids. Our view is that this is an evolving space

Infrastructure is going to continue to improve. OEMs are making - are hedging all the bets. They are investing in battery electric vehicles, but also looking at hybrids across the industry and therefore companies such as ours that are in the powertrain space need to be you could say a step ahead of some of these trends. And I'm happy to say that sense of anticipation in our Company is beginning to pay off.

What we do know is that the smart thing to do is to look at this whole space as a multi-path approach to electrification or you can call it carbon neutrality and as we go towards the next decade and beyond. What is interesting is that the core technologies of whether it's batteries, motors, inverters, controllers, transmissions this base technology is common across these multiple options towards electrification or carbon neutrality. And our view is that the OEMs have recognized this trend and they are working in this direction. And as somebody who is pursuing the positioning of a technology leader in this, it is obviously critical that we are either abreast of this trend or maybe even a step ahead of this.

So our approach is to leverage our technical knowledge of drivetrain solutions and the longstanding Tier 1 relationship that we have with our OEMs and sort of be prepared for opportunities that are going to arise in this area. So one of the consequences of this is that the work that is going on in India on automatics will now have to morph and evolve into hybrids because the CAFE norms that are coming in post 2027 will compel OEMs to hedge their bets both with ICE and battery electric vehicles and the only way you can do that is by having strong hybrids in your portfolio.

And to have strong hybrids the technology of choice we believe is going to be the dedicated hybrid transmission which in one self not only gives you the advantage of an automatic transmission, but it's sort of a double whammy also delivers pretty spectacular improvement in fuel efficiency. So we are pushing in that direction and this I think is the major you could say outcome or upshot of the events that we have seen in the last I would say 6 months to a year and as this quarter has concluded clearly the developments point to this direction.

So your Company has this focus on what is needed for the industry, what's relevant, a future-oriented technology for future readiness. And I think by innovatively leveraging both this as well as our longstanding Tier 1 relationship with OEM, we are pretty confident that we will continue to contribute to the transformation of the mobility landscape in the country. Those of you who probably had the opportunity to come for AGM were able to see that beyond just what I am saying that we actually had a pretty impressive exhibit display of products and developments that are going on in this space.

We have and I won't go too much into this detail, but what we were able to showcase was a product development in about 20 areas. And so the point is that we have enough irons in the fire as they say to be able to handle this uncertainty and ambiguity that one sees in this industry. I think we are also pragmatic that as you look at technology, you need to keep an eye on capacity utilization and face the challenges that we are seeing there as this transition happens.

On the component business in the area of legacy transmission we've seen a good uptick. It has provided a crucial sort of stopgap solution in the current upheaval that is going on. In addition, as I remarked earlier, we are beginning to see our exports pick up. We are working with three of the world's largest transmission Tier 1s, two from North America, but who also have a very strong presence in Europe and one is a Japanese Tier 1 of global renown which is actually the largest in the world when it comes to transmissions.

And we currently have significant awards and we are also engaged in negotiations for more business. So right now what we have has a life cycle revenue of well over INR200 crores and increasing. So you can continue to watch this space as it evolves. As part of this, I'm pleased to share with you that we sort of reclaimed our, what we thought was a strong position in China, which we had lost, due to the geopolitical winds blowing in the wrong direction. And I'm happy that starting later this year, we will be back to shipping almost 20,000 units of this particular product or part to China.

This has enabled us to now pursue other opportunities, both in China and Southeast Asia, Thailand specifically. And we are guardedly optimistic that this particular family of parts that we're exporting to China will see growth in the next few months, at least in terms of additional awards. So, I think for FY '25, exports should be at least 15% of our revenue.

And in FY '26, as we begin to see businesses that have been awarded and are under development come to production fruition, we will see that percentage go well beyond 20%. In conclusion, I wish to state that given our firm commitment to our vision of becoming a world-class Indian brand in automotive drivetrain systems and components, the Company is continuously achieving, its technology milestones while keeping focus on growth, even if, the last quarter and we've seen since January some amount of headwinds. I think it's important that we continuously share as best as we can our developments and achievements in technology development, and hopefully you will see some of this manifesting in growth in the very near future.

As I remarked earlier, I'm very pleased that we have 20 very solid projects that are underway. They include opportunities in the legacy products, manual transmissions, four-wheel drive, but also in the hybrid automatic and battery electric vehicle space, including, I might add, the pursuit of a dedicated hybrid solution for strong hybrids. Our best forecast on this technology is that we will see strong hybrids in India in 2027 beyond just Toyota and Maruti, who are currently the exclusive providers of this feature in India's automotive industry.

And we are looking forward to Divgi-TTS being one of the suppliers from 2027 onwards. That is our vision, that's our goal, and we'll keep you apprised of our progress as we go along quarter-by-quarter in the near future. So that concludes my remarks.

I'm going to hand over the call and the proceedings to my colleague Sudhir, and after which we will open the call for questions-and-answers, and I'm sure you guys will have questions to ask in this call. So with that, Sudhir, can you take over the proceedings?

Sudhir Mirjankar: Thank you. Good morning, everybody. Coming to Q1 FY '25 performance, total income for Q1 FY '25 stood at INR59.4 crores as compared to INR61.6 crores in Q1 of FY '24, lower by 4% on an year-on-year basis due to reduced offtake in core business segment, that is transfer case, which was impacted. However, it was compensated by EV and component business.

Talking about the revenue mix, the transfer case business has seen a degrowth of 25% on year-on-year basis. This is largely due to lower pickup in units from major OEM due to the launch of low-cost variant without four-wheel drive. We are exploring global opportunities with existing as well as new customers on their upcoming platforms.

Our EV transmission business did exceptionally well and has grown by 10x on year-on-year basis. Although it was expected to be more than this, but due to the industry-wide slowdown in EV, it remains flat on quarter-on-quarter basis. It is expected to pick up in coming months on the back of new launches and restoration of subsidy scheme under FAME III.

The component business has seen uptake in this quarter, grown by 57% year-on-year basis. It will continue to grow further on the back of strong domestic order book and top-notch technology for manual transmission components and systems. EBITDA for Q1 FY '25 stood at INR13.9 crores as against INR17.8 crores in Q1 FY '24, a year-on-year degrowth of 22%. Due to the change in product mix along with increased cost of Shirwal plant impacted the operating profitability of the company.

EBITDA margin for the quarter stood at 23.4%. Profit after tax for Q1 FY '25 was INR5.96 crores as against INR10.4 crores in Q1 FY '24, a year-on-year degrowth of 43%. It was impacted majorly due to the lower volumes along with increased operating cost dragged the overall profitability.

PAT margin for the quarter stood at 10%. However, for the like-to-like comparison, if we adjust one-time supplementary income of INR2.61 crores which got accounted in Q1 FY '24 against the price increase of the units sold in FY'23, the total income reported was flat in Q1 FY '25. For more details request you to please refer slide number seven. So that's all from me. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Mahesh Bendre from LIC Mutual Fund. Please go ahead.

Mahesh Bendre: Good morning, sir. Thank you so much for the opportunity. Sir, on export side, last year I think revenue contribution has come down to 1% of our sales which was a very high number two or three years back. Over the last 12 months, we received many orders on export side. What is the current order book in terms of exports which we are going to deliver over a period of time?

Jitendra Divgi:

Thank you, Mahesh. If I take the current pricing we have and the RFQ volumes, the annualized value of the current orders under execution is about INR80 crores. Now, volumes is something none of us is able to control but that is the extent of recovery that our organization has done because you have to remember that two-thirds of our business was impacted by Russia, what was going on in Russia and China and about one-third from the US and to some extent it was Korea also that was going through life cycle changes. We are currently on models like the most popular US models like the Ford F-150 and the Chrysler Jeep Rubicon which are one-of-a-kind unique models in the US that sell very well.

Plus, as I mentioned, this INR78 crores to INR80 crores did not include the business we have just won from China. It is essentially reclaiming what we were already doing and we are expecting the China business to come in the second half of this year, because that is a product that is already tooled up and developed.

The answer to your question, Mahesh, is that since we are going to see in the second half of this year, the numbers indicate that we will be about 15% for this year, but also next year there is some growth in the domestic business and so the full year, our forecast is that exports will be at least 20%.

So that is where we are headed. We have in the past mentioned that we have quoted on export business worth more than INR500 crores and a lot of that is in stages of discussion and in the process of being brought into the scope of the business of the company. Most of this, I would say more than 90%, is in the area of four-wheel drive and it is a combination of new products plus China resourcing that is going on in the United States.

So much of the business is running a business in the US and the change essentially we are being brought on to replace Chinese suppliers. Now, this is a consequence of the current geopolitical climate in the world, but the fact remains that the OEMs in the United States, and we know this from conversations we are having with decision makers there in North America.

That they would like to see Indian sourcing increase because India enjoys an extremely favorable import duty regime in the United States. Chinese products currently suffer from a 25% penalty duty against us. So that is one of the reasons why we are seeing quite a surge in inquiries from the US that we are in the process of processing and executing. So hopefully that answers your question.

Mahesh Bendre:

Sure, sir. And sir, in terms of domestic exports, you mentioned about the growth, but domestic I think export, domestic business was around INR250 crores last year. So what kind of growth we anticipate over the next 2 years, maybe this year, next year?

Jitendra Divgi:

Yes. See, you know, the nature of our business, most of our products, I mean, even the components are highly engineered. So if the numbers don't come, because we have, it's not that we are in a reactionary phase, okay. We know that we have to strive for a well-balanced portfolio. This is not, this is something that we are very acutely aware of. And therefore, the necessary efforts have been underway.

But it just takes a little bit of time to bring that to fruition. Remember that in the EV space, we are India's largest EV transmission maker with our own designs. And given the relative infancy of the electric vehicle industry and market in India, I think that is quite creditable. So it takes time because we have to work.

The OEM has other suppliers to bring on board, validate the vehicle, develop its marketing distribution, take advantage of any subsidy schemes that may be there from the government of India. So that is underway. So we, I think in the short term, next quarter or two quarters, it's very difficult to, give a forecast because of the sheer fluidity of the situation.

I wish I had a better crystal ball with which to give you a number. But what we can tell is that we are not short of ideas and solutions. We are sitting with technology and we have the investments in place. But certainly, as I look at 26 and 27, it's a little easier to see that, this will go to fruition. Hopefully, in the next few weeks, we should be able to make a few more announcements on new awards in the EV space.

And based on that, I am quite optimistic that we will be able to deliver in FY '26 on the foundation of the development accomplishments of this financial year, at least a 20% growth. And the work we are doing, this new transfer case award will then kick in the following year. And as the whole EV space consolidates, I'm pretty confident that that growth will continue.

One takeaway that I think I would not be unreasonable in stating is that the more complexity that there is in the industry, the greater the role for a tier 1, because it is impossible for an OEM in India to manage a complex portfolio of legacy transmissions and the new type of transmission configurations that will be coming in the industry in the next 2 years to 3 years. It is impossible. And therefore, the dependence on a proactive tier 1 is only going to increase.

So that requires exactly the approach that we are taking advanced R&D, advanced investment in capability to take advantage of these opportunities that will be arising. And it is because of this, we are confident that as we address these headwinds and take the lessons out of these developments, the approach of, this multipath approach to electrification will bear fruit as we go ahead.

There is one more additional point I must say. This complexity of the industry is not just limited to India. It is the world over. So the big tier ones, you can go research the sort of evolving news and developments that are going on. Each and every big tier one in the world who is, in excess of \$10 billion, \$15 billion in revenue is facing horrific challenges. Many of them are slashing headcount, in an unprecedented manner.

And so that is an indication of what is going on. The OEMs obviously are worried on two things. One is the supply chain security. And secondly, with this uncertainty, whether the cost of, tier 1 aggregates is going to get affected. And increasingly they are looking to India. So this is another trend that we are noticing.

Mahesh Bendre:

So sir, at least 8%, 10% growth is expected in domestic business this year, next year?

Jitendra Divgi: I would say for next year it will be even more than that. This year it's a little difficult to predict because as I said, how the whole, this new 5-door Thar, how that market will evolve, it's very difficult to predict. But certainly next year, why 8%, 10%? I would hazard a 20% increase for next year, FY '26.

Mahesh Bendre: Sure. Thank you so much, sir.

Moderator: Thank you very much. The next question is from the line of Ashutosh Tiwari from Equirus Securities Pvt Ltd. Please go ahead.

Ashutosh Tiwari: Sir, have you started supplying initial quantity for Thar five-door? Can you give some color on that?

Jitendra Divgi: Yes. The product is developed. Mahindra wouldn't be announcing August 15th as the launch date if we were not ready.

Ashutosh Tiwari: So in that case, can you see an uptick in this transfer case from Q2?

Jitendra Divgi: You know, that combined with Mahindra also exports some of its legacy products and the renewed marketing efforts on the Scorpio N, I would hope that those numbers are high, but I would be a little reluctant to put a finger on the growth rate given the sheer unpredictability of the marketplace.

What we know from the past is certain trends that happen and that when a new product is introduced, it does, in the wake of the announcement and the launch, there is a surge towards the higher end of the range. And it's the higher end, of course, that people want all the trappings with the purchases they are making. So we have seen that.

We saw that with the three-door also back in 2021. And I think Mahindra has very astutely given much more in the five-door. So it is not just the three-door Thar with five doors. That's not what it is. It is positioned quite differently. And in terms of refinement and everything, the four-wheel drive transfer case for the five-door Thar is not the same for the three-door. It is significantly more refined for speed and for durability. So that much we know. So let us see now what happens.

Ashutosh Tiwari: Okay. And secondly, on this long-range EV transmission where we are right now, which you supply for low-range right now, Tata and all, what is the progress out there and then from where we can start supplying?

Jitendra Divgi: Yes. So on the EV, we have -- at the time the investment program started, the priority was on the low end because understandably the pricing was more competitive. So the imperative to indigenize and cut costs by moving away from sources in China was more acute. And therefore, that was the priority given by the customer to us, and which is what we successfully executed.

Surprisingly, the market actually moved more towards the higher end, which was the Nexon and all its trim levels, but also the higher end on the Punch model. And these share the same transmission. As we've maintained in the past, our contract includes that as well. So our

development now is that we have successfully developed that product. It has -- the NVH results for that are extremely encouraging, I would say quite spectacular. And that product is under development right now.

So the answer to your question is yes. This development will further consolidate and strengthen our positioning because what it will complete is the full suite of transmission products from 10 kilowatt on a three-wheeler to 125 kilowatt on India's most premium electric vehicle that offers a 500 kilometer range, which is the Tata Curvv.

Ashutosh Tiwari: So can we expect that from next year we'll start supplying for this?

Jitendra Divgi: Yes, very much. Our goal is to try and have the tail end of this year catch some of it, but that may be difficult. But certainly next year we'll see the benefit of this product.

Ashutosh Tiwari: Okay. And also on this component side, you mentioned INR78 crores is the annual business right now. And China will over and above this?

Jitendra Divgi: Yes, China and Thailand.

Ashutosh Tiwari: China and Thailand. So China and Thailand, we already have received the business or we expect to receive in the second half?

Jitendra Divgi: China, we have actually received the order. And when we -- initially China discontinued the business from 18 months ago, because of what was happening between India and China. We had diverted some of the capacity to other businesses at the time. So we are a little -- actually we are being told to capacitize for 30,000 to 35,000 units a month.

But right now the capacity available for that particular product is to the extent of about 20,000 because we need to keep some buffer on this unpredictable Indian market where our customers of many, many decades are dependent on us for the complete transfer case. So it's very interesting. The component we make for our own transfer cases is exactly what we turn around and export to China. So that's the nature of the market.

The Chinese supplier that we are displacing also supplies a lot to Thailand. And the advantage we now have is that we can simply turn around and also pursue this opportunity in Thailand, where, mind you, India enjoys a free trade agreement with ASEAN, of which Thailand is the biggest automobile producer.

And in the past, we have used this free trade agreement to actually export complete transfer cases to Ford in Thailand between 2006 and 2013 when we were a JV with BorgWarner. So we understand Thailand very well and efforts are underway. We have quoted on the parts. We're talking to the buyers there. Our sales people are making calls on them. This breakthrough we have got in China is a tremendous tactical victory because now that gives us a calling card with which to go and pursue, intensify the pursuit of business in Thailand. I hope that was clear.

Ashutosh Tiwari: Yes, but this China business of 20,000 per month and initially what you can supply could be worth how much in terms of crores per month?

Jitendra Divgi: We are expecting overall China to the tune of about INR4 crores to INR6 crores, depending on how quickly they bring us on for the second half of the year.

Ashutosh Tiwari: Per month?

Jitendra Divgi: No, over the six-month period.

Ashutosh Tiwari: But at peak, how much is this?

Jitendra Divgi: Yes, I can tell you the total potential between Thailand and China is in excess of INR50 crores. Just with this commodity, just with this family of parts.

Ashutosh Tiwari: And only China, how much it would be?

Jitendra Divgi: China will be more than 50% of this.

Moderator: The next question is from the line of Karan Kokane from PGIM India Mutual Fund. Next question is from the line of Kunal Shah from Nova Capital.

Kunal Shah: So I want to ask regarding the hybrid side, is there any prototype for the hybrid right now?

Jitendra Divgi : Could you repeat the question?

Kunal Shah: So I wanted to ask regarding the hybrid side, is there any prototype for the hybrid?

Jitendra Divgi: No, not right now. We are in the process of configuring the right specifications with a couple of OEMs because when we look at hybrids, given the amount of development investment that is needed, it is extremely important that you architecture the proposal very carefully, taking into consideration the way the customers' needs will evolve.

And we also need to look at their complete portfolio because it's not possible -- I mean, it would be unwise to just have a model approach. It's a little smarter to do a family of models, a better still, you know, a range of platforms so that the OEM has a better strategy with which to control the cost of the technology. That is what is underway.

What we do know right now, I wouldn't hazard a guess as to when exactly the prototypes will happen. But let me answer the question in another way so that you have an appreciation of the sense of urgency that is needed, both at our end and at the end of the OEM. The new CAFE-III norms are kicking in April of 2027 or thereabouts. And there is a significant tightening of the fuel efficiency and therefore the carbon dioxide emission norms.

And our belief, this is our belief, that to rely only on battery electric vehicles and pure ICE models would be a little risky for the OEM. It's the strong hybrid solution that actually solves the problem of these emission norms and quite decisively. We know that from sort of the initial calculations that we've been able to do.

So the sense we have is that at least one OEM would like a strong hybrid solution on the ground selling in the market sometime in 2027. So if that is to happen, gentlemen, ladies and gentlemen, the prototypes are going to have to happen, I would say before next June, July.

Kunal Shah: Okay. And my second question was regarding EV transmissions. I wanted to know where are we right now? Are we talking with any customers, EV transmissions?

Jitendra Divgi: Yes, EV transmissions maybe you missed the background and context of our company. We already have I would say three EV transmission designs tooled up and in manufacturing supply for the Tata Tiago, Tigor, Punch and the E-Jeeto at Mahindra. And we have a three-wheeler under development right now. Plus, we have the higher-end transmission for the 125-kilowatt version that will go on the Nexon and Curve.

Kunal Shah: Okay. And are we talking with new customers or new units for it?

Jitendra Divgi: With new customers obviously, we have NDS, so I can't reveal all that. But I can tell you that with many customers they want to build the transmission in-house but they have come to us looking for help on complete like a kit of parts.

So, a transmission has four geared elements in it and they would like to buy all four as a kit from one supplier like us, so that on the noise, vibration, harshness front they have just one person responsible to go to. And in this context, we are talking not only to Indian OEMs, but multinationals as well. And some of the largest inquiries we are working on are from Japanese and American OEMs.

Kunal Shah: Okay. Thank you.

Jitendra Divgi: I just want to clarify that when I say we are talking it doesn't mean, it means we've got inquiries and we have quoted on the business and the negotiations are in an advanced stage. But we live in a competitive world and we know that we are not the only people. There is competition for this business.

Kunal Shah: Okay. Thank you. Good luck.

Moderator: Thank you very much. The next question is from the line of Harini Muthukumar from Sundaram Alternate Assets Limited. Please go ahead.

Harini Muthukumar: Good afternoon, sir. Thank you for the opportunity. Firstly, I would want to check the status on, I know that MG has been disappointing and that's one reason why we have a downfall in our base business. But do we see that coming with JSW , MG, all the tie-ups? Where do we see things going forward? Is there a revival over there? Or is the business locked?

Jitendra Divgi: Yes, certainly. We, I think MG is here to stay long term. There's no doubt about that. They have an outstanding lineup of products. And we are in talks with them for a whole wide range of products including four-wheel drive. And the current we have assurance from their management that the current whatever inventories that we have, we will work towards liquidating that as they take their cluster program forward.

We have the solutions for the next generation vehicles also. But we are all, so on the four-wheel drive front, we have I think a demonstrated track record of having done some real spectacular work for them. It's on the EV side that the situation is a little more competitive in the sense that we are not the only people.

In four-wheel drive, we pretty much have exclusivity of that business. On the EV side, there's a lot more competition but also the opportunity space is much bigger. We have the advantage of having on our transmissions practically 100% localization, which is a very compelling advantage for our OEMs.

So if not immediately because as they bring in new EV models to shorten the time to market they're likely to take advantage of their mature supply chains and capacities they have available in China. But as we go down into as they evolve their business there is plenty of opportunity there. We are highly regarded at MG right from the Managing Director and the Chief Technology Officer the Purchasing Management. So we are well-known and we want to work hard and retain that positioning there.

Harini Muthukumar:

Understood. Got it, sir. Thanks for that. Secondly, I understand that DCT was one product that we had in our product pipeline and the existing players in DCT have tie-ups with their suppliers and by 2026-2027, we were targeting. So other than DCT, do we have any other technology that we're working on the automatic side?

Jitendra Divgi:

Sure, I can answer that. I'll tell you what has happened. The strategy for automatics was based on the premise that ICEs would coexist with battery electric vehicles. Battery electric vehicles have zero emission. So if a significant proportion of your portfolio is battery electric vehicles, you can continue to sell ICE because the way that the norms are calculated for emission and carbon dioxide, I don't know if you are familiar with this method it's called CAFE that's the acronym C-A-F-E, Corporate Average Fuel Efficiency. So if a significant proportion of your portfolio that you're selling is battery electric vehicles and completely emission-free, you have a certain advantage in the way you can sell your ICE products.

But if the BEV off day, for whatever reason doesn't happen then it becomes very difficult to meet the CAFE norm. And that is something we see as a serious threat developing on the horizon. And our concern is that if that were to happen the automatic sustainability would be seriously threatened by these tightening emission norms.

So we therefore believe that a more prudent product development strategy is to deliver a hybrid automatic or an automatic hybrid, whichever way you put it that gives the OEM not only the convenience of an automatic but is a double whammy and delivers a considerable improvement in fuel efficiency. So that is the modification and course correction we are now doing. Whether you want to call it strong hybrid or automatics it's a matter of semantics.

But the point is that you want to give the convenience of an automatic with significant fuel efficiency improvement. And that, I think is going to be the name of the game now when it comes to automatics. I hope that was clear.

Harini Muthukumar: Got it, sir. Yes, sure. And any thoughts on if DCT could generate into orders? Are we in talks? Where are we with the DCT technology actually turning into revenues at all?

Jitendra Divgi: As I said, the automatic will morph into a hybrid solution now and we are looking to '26, '27. I mean, we'll have to be ready with the product by end of '26 and to have the sales in calendar '27, which will then be a FY28 .

Harini Muthukumar: Got it. Sure. Thanks.

Moderator: Thank you very much. Ladies and gentlemen, that was the last question for today's call. I would now like to hand the conference over to the management for closing comments.

Jitendra Divgi: Yes. So once again, I want to thank all the people who joined this call. I think we endeavor to update our investor community in all earnestness and sincerity. We have constraints given regulations, semi-regulations but I hope this session was helpful. You are free to always come and call on us. We always enjoy, I think explaining things at our facilities.

As I said, during the AGM, we had an excellent display that was shown and the assurance I can give you is a lot of what you have heard from us today. If you visit us, you will actually see those products and hopefully your understanding will be a little more nuanced and supported by actually seeing some of these products. So I look forward to these interactions quarter by quarter and look forward to sharing more exciting updates with all of you. So once again, thank you very much for this opportunity.

Moderator: On behalf of Equirus Securities Private Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.