SONA COMSTAR

Date: 29th January, 2025

BSE Ltd. Regd. Office: Floor - 25, Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai-400 001.	**National Stock Exchange of India Ltd.** Listing Deptt., Exchange Plaza, Bandra Kurla Complex, Bandra (East), Mumbai - 400 051
BSE Scrip Code: 543300	NSE Scrip: SONACOMS

Subject: - Transcript of Investor Call pertaining to Financial Results for quarter and nine months ended on 31st December, 2024

Dear Sir / Madam,

Pursuant to Regulation 30 read with Schedule III of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed herewith the transcript of the Investor Call held on Thursday, 23rd January, 2024 on the financial results of the Company for the quarter and nine months ended on 31st December, 2024.

The transcript will also available on the website of the Company at https://sonacomstar.com/investor/investor-presentations

This is for your information and further dissemination.

Thanking you,
For Sona BLW Precision Forgings Limited

Ajay Pratap Singh
Digitally signed by Ajay Pratap Singh
Date: 2025.01.29 09:55:03 +05'30'

Ajay Pratap Singh
Group General Counsel, Company Secretary and Compliance Officer

Enclosed as above;

SONA BLW Precision Forgings Ltd. (Sona Comstar)

Q3 FY25 Earnings Conference Call Transcript

January 23, 2025

The webcast recording and the presentation referred to in this transcript are available on the website of the Company and can be accessed through the following link:

https://sonacomstar.com/investor/investor-presentations

Moderator: Good afternoon, ladies and gentlemen. Thank you, and welcome to Sona Comstar's Q3 FY25 earnings group conference call. Please note that all participant lines are in the listen-only mode as of now. There will be an opportunity for you to ask questions after the presentation concludes. Please note that this call is being recorded. We request that you place your lines on mute except when asking a question.

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Some of the statements by the management team in today's conference call may be forward-looking in nature, and we request you to refer to the disclaimer in the earnings presentation for further details. The management will also not be taking any specific customer-related questions or confirming or denying any customer names or relationships due to confidentiality reasons. Please refrain from naming any customer in your questions.

Now, I'll hand over the floor to Mr. Kapil Singh, Head of Consumer and Digital Commerce Research, India, and Lead Autos Analyst at Nomura. Kapil, please go ahead.

Kapil Singh: Thanks, Linda. Good day, everyone. To take us through the Q3 FY25 results and to answer your questions, we have the management team of Sona Comstar with us. I will just introduce them quickly. We have Mr. Vivek Vikram Singh, MD & Group CEO; Mr. Praveen Chakrapani Rao, Group CTO; Mr. Sat Mohan Gupta, CEO of Motor Business; Mr. Vikram Verma, CEO of Driveline Business; Mr. Rohit Nanda, Group CFO; Mr. Amit Mishra, Head - Investor Relations; and Mr. Pratik Sachan, GM - Corporate Strategy and Investor Relations. Now, I hand over the call to Vivek for the opening remarks and the presentation, over to you.

Vivek Vikram Singh: Thank you, Kapil, and welcome everyone to the earnings call for Q3, which was a decent quarter despite us achieving our highest-ever net profit, highest-ever EV revenue and highest-ever EV revenue share. So as has always been our policy when talking to our owners - our shareholders, we will let the bad news take the escalator so we will begin with the challenges.

First, demand in Europe continues to remain weak, and we do not anticipate any imminent reversal of these trends. Second, both the off-highway market in the US and the commercial vehicle market in India also continued to show weakness, resulting in a production decline last quarter; given our significant market share in both of these segments, sales of our differential gears and differential assemblies have been negatively impacted. We hope this trend at least can reverse in the coming quarters. Third, there was an inventory buildup in North America at the customers' end during the first half of the year for multiple reasons, which has been followed by a fairly sharp reduction in inventory in the last couple of months and that has affected our performance this quarter.

Apart from these macro factors, one of our largest customers is transitioning a major model to an upgraded and redesigned version. Now, this change, although positive in the medium term, is expected to adversely affect our supplies to this customer in January and February. This is due to the typical cycle of reducing inventory of the outgoing model before gradually increasing production sharply for the new model. So, while we expect the supply schedules to normalize by March; 4th quarter will likely be weak because of these disruptions in the first two months.

But the good news is that the factors affecting our current sales performance are temporary in nature. And as I said to our team, if you are not losing share of wallet with our customers and our customers are not losing market share, there is absolutely no reason to worry. And in fact, it is an opportunity for improving product design or increasing our share of wallet with that customer. We expect to regain the lost revenues of January and February within the next two quarters itself. We also continue strong progress on our strategic priority of electrification, achieving our highest-ever EV revenue and EV revenue share during this quarter.

Additionally, we won a new program to supply differential assemblies for one of our existing customers, new and first look fairly exciting EV models in India. We also received a second product order in the sensors and software vertical and successfully commercialized a new product - Zone Monitoring Sensors. We've also made a significant technological breakthrough by developing a 180-degree field of view device using short-range radar sensors. Which Praveen will talk about later. But in short, our journey of pivoting NOVELIC from a radar services business to a diversified sensor product company is going quite well.

We are pleased to announce that our board has approved an investment in ClearMotion Incorporated. This is a company that is truly revolutionizing the in-cabin experience for passenger vehicles with its fully active suspension technology this is a game changer as we see it. This investment will further strengthen our partnership with ClearMotion benefiting us both as an investor and as a supplier. We also continue to grow a share of business with existing customers and are adding new customers and new products and we are very happy to report that we have further increased our global market share in both differential gears as well as starter motors in 2024.

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Now, coming to the numbers of the quarter, revenue grew by 12%, while EBITDA and net profit increased by 3% and 14%, respectively. Our margins declined compared to last year due to adverse product and geographic mix while still staying in a range of 27%. And amidst what I'd call an inordinate amount of media coverage and noise about an EV slowdown, our BEV revenue grew by an incredible 48% in absolute terms to the highest ever 329 crores, and our BEV revenue share has increased to an all-time high of 39%.

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Coming to the nine-month figures, we've increased our revenue, EBITDA and PAT by 17%, 13% and 19% respectively. And since this is the end of the calendar year, we got our global market shares calculated. Our starter market share has improved from 4.2% to 4.4%. As Europe and the US markets, where we have higher market shares, have grown faster than Asia. And coming to the bigger one, it is a matter of great pride, and I congratulate Vikram and his team that our global market share in differential gears has grown from 8.1% last year to 8.8% now. As some of you may remember, at the end of 2019, this market share was 4.5% and despite most automotive volume growth coming out of China, where we have a negligible share, well as of now, and several new competitors have emerged from India and China. Despite all this, we have nearly doubled our market share in these five years, and we intend to keep going from strength to strength and keep expanding this market share all over the world.

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Coming to electrification, our BEV revenue has increased from 28% in the first nine months of FY24 to 36% for nine months FY25. In revenue terms, this has grown by 52% to ₹9.3 billion. This growth, I mean, if you compare it with the non-BEV revenue growth is 10 times is the BEV growth. This is because our EV traction motors and EV differential assemblies both have been the fastest growing segments for us this year. We also continue to build on our EV orderbook and in Q3, we've added one new EV program.

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So, this is a new EV order from an existing customer, an Indian legacy OEM, and we will be supplying the differential assemblies for their upcoming electric car models, which we feel should do well in the Indian market.

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With this new win and the other new non-EV orders, our net order book has increased slightly over the previous quarter to 232 billion and the proportion of EVs in the order book stands at 76% at the end of Q3.

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With this, we come to our fourth KRA, diversification. The weak demand in Europe in the first nine months means that the revenue share from hybrid and micro-hybrid has been lower than in the previous year. The trend of increasing electrification and decreasing ice dependence continues unabated for us, and this year, we've seen the ice-dependent revenue shrink to less than 10%.

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Geographically, North America continues to be our largest end market at 43% and this is despite the negative impact of inventory reduction that I spoke about earlier. The European market has been impacted by weak demand and our revenue from this region has declined from 26% to 23%. India remains our second largest market, and the revenue share also remains stable at 28%. In the market mix, it's fairly visible the weakness in commercial vehicle demand, which has resulted in our share of revenue declining from 14% to 10%, which is quite a shift in the first nine months. In the product mix, the fastest growing segments for us this year, as I already mentioned, have been EV traction motors and EV differential assemblies, followed by differential gears, which is reflected in the change in the product mix. We also made a small but exciting beginning with our advanced suspension motors starting serial production and becoming 0.2% of our nine-month revenue. Three years from now, we expect this product to be one of our leading revenue contributors.

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So, before this video is played, I want to say that there are only a few times in a career that one comes across truly game-changing technologies in companies that are run by passionate people and when we met ClearMotion four years ago, we knew this was one such company and we must work together to bring this product to the world. We must do everything we can to do this and get it done. And four years of engineering and development work later, we are further cementing our relationship in them with us investing $4 million in this current fundraising round.

Pratik, if you could play the video, so people can get an idea of the product.

So, as you can see, the front car is the one that has the ClearMotion active suspension installed, while the second car does not. And you can see what happens to those Jenga blocks inside that vehicle. So, this is a technology that makes the in-cabin experience almost as if you were in a private jet. This is because of the active valve that you can see on the lower left-hand side to which we are a significant contributor. So, in ClearMotion's current fundraising round, we are investing 4 million. Their fully active suspension technology, which is controlled by a BLDC motor and controller-based actuator, has a latency that is five times lower than any other currently available alternative in the suspension board, which to the non-technical ones means it is a five times faster response rate. This active suspension system is built on the software-centric electrohydraulic core, which is that Activalve, which includes controlled software, a processor and an electric motor, all of which is supplied by Sona Comstar. This technology has been successfully commercialized and is already in production in China and is being supplied to the Nio ET9. Initially, the deployment is expected to be in the premium car segment, specifically the E segment and above, which represents, I would say, a total addressable market of nearly $14 billion. We anticipate that this technology will progressively be deployed in higher and higher volume segments and as both a supplier and an investor in ClearMotion, we are fairly well positioned to benefit from this change and development. So with this, I hand over the reins to our Group CTO, Praveen, to update us on our technology updates. Over to you, Praveen.

Praveen Rao: Thank you, Vivek. Good evening, ladies and gentlemen. I'm happy to take you through the third-quarter technology updates.

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What you see here is our technology roadmap. As mentioned by Vivek, we commercialized one product and added two new products, future products to our technology roadmap. If you look at the top right corner, the zone monitoring sensor, it is truly a revolutionary product that gets us firmly into the industrial segment. These sensors whose purpose is to alert and protect people operating in potentially unsafe or hazardous work environments. This could also be used in factory floors where people work in proximity with robots and AGVs. This product opens opportunities in the industrial domain where several use cases exist today. The use of this product will enhance existing safety measures like barriers or, in some cases, even replace them. The second product that I'm going to talk about is the limited-slip differential, which you see on the left side, or LSD for short. LSD has significant use cases in low traction surfaces, cornering and high torque situations. This product brings together our deep expertise in differential assembly while newly developed capabilities in clutches to offer the next-generation product to our customers. The third product is the gearbox for EVTOLs or Electric Vertical Takeoff and Landing. The market for EVTOLs is evolving globally and India is playing a very important role in building them with indigenous technologies and using the local ecosystem. Given that the EVTOLs transport people, the safety and reliability of every subsystem are critical. Therefore, EVTOLs are designed and tested in the most stringent conditions and certified by DGCA. Sona Comstar started working on the design and development of gearbox for EVTOLs with our expertise in gear technology, material science, thermal management and structural engineering. This product will enable Sona Comstar to play an active role in the future EVTOLs and drone space.

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The next one is the point about the new product that is a 180-degree field of view short range sensors. NOVELIC acquisition brought us capability in the millimeter wave radar sensors, and we are proud to announce another major breakthrough with this product, the 180-degree field of view short rate sensors. The diagram indicates the use case where a typical passenger car would use four ultrasonic sensors when you do a reverse parking, this unique sensor, just one sensor will replace that, you don't need to drill holes in the bumper and you know, it performs much better function. It also has additional capabilities like kick-sensing tailgate or door protection. Additional use cases are parking support and collision warning, which opens up use cases in affordable PVs as well as two-wheelers.

With this I hand over to Rohit for the financial portions. Thank you.

Rohit Nanda: Thank you, Praveen. A good day to you all. It's my pleasure to share our third quarter and nine-month results for FY25 with you.

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We'll start with the Q3 performance. During the quarter gone by, our aggregate revenue has grown by 12% to 868 crores; in comparison with this, the underlying light vehicle market in North America, Europe and India, which are the three largest markets for us, grew only by 1%. Our BEV revenue continued to show solid growth; in this quarter, the growth was 48% in BEV revenue. It grew to 329 crores and constituted 39% of our Q3 sales. Our EBITDA adjusted for ESOP cost grew by 3% to 240 crores. EBITDA margin was lower by 2.3% compared to the same quarter last year and that's largely attributable to the change in product mix. A profit after tax should be seen after adjusting for exceptional expenses which were incurred on diligence work for certain inorganic opportunities. Compared like to like, our PAT grew by 17%, to 160 crores. The margin was higher by 60 basis points, thanks to the net finance income generated from investment of QIP proceeds.

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Moving on to the nine months performance, during the nine-month period, our revenue growth was 17%. The revenue number was 2,686 crores, compared to the underlying growth of only 2% in the key markets of North America, Europe and India. The BEV revenue growth for nine-month period was 52% and the number was 929 crores, and it was 36% of our total sales. EBITDA adjusted for the higher ESOP cost, grew by 15% to 763 crores. Our adjusted EBITDA margin is lower by 30 basis points compared to the nine-month period last year. And that's mainly on account of product mix, despite having a favorable operating leverage and lower input cost. Our profit after tax adjusted for exceptional expenses grew by 23% to 467 crores. Adjusted PAT margin was higher by about 70 basis points and that's mainly due to higher net finance income. The adjustment to profit after tax represents the cost incurred in relation to the diligence work for various acquisitions.

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This brings us to the last slide which is on the key ratios. I'll just talk about the key highlights here. So, on the improvement side of working capital and fixed asset turnovers have improved to 5.1 and 3.8 times respectively. Net Debt to EBITDA went further negative due to QIP fundraise in the earlier quarter and cash is needed for the quarter. Our return on capital employed and return on equity have seen a dip consequent to the QIP funds raised during the quarter but is expected to start improving once the funds are deployed and the new acquisition grows over the next few years. With this, we've come to the end of our Q3 earnings presentation, and I'll now hand the proceedings back to the Nomura team for Q&A.

Moderator: We will now open the floor for the Q&A session. If you wish to raise the question, please use the raise hand function located at the bottom right of the Webex page. We will unmute your line and prompt you to up or you may also submit a question via Q&A chat box addressing to all panelists. Please be reminded to keep your questions for a maximum of two questions. If you have more questions, please return to the queue. Thank you.

Ok. We have the first question from Jay Kale. Hi Jay, your line is open. Please go ahead with your question.

Jay Kale: Congratulations for your investment in your technological advance customer like Clearmotion. My first question is basically, you know, Vivek, you mentioned that your BEV revenue growth of course, has been strong, but you also mentioned about inventory correction at your customer end. So are you seeing a case of a few BEV models of your customers are actually faring lower than even your customer's expectations and hence the transition of your stated order book to revenues could be lower than expected going forward. And in the current context, do you still believe your revenues to double in a three years' time frame which historically has been your track record, of course X of any acquisitions and the railway acquisition. How do you see that? That's my first question. I have a couple of more here. Oh, Vivek. your voice is not audible. Is it only me or for everyone?

Vivek Vikram Singh: Sorry, I was on mute. I said, yeah, that was many questions in one. So let me take them point by point. So yes, you're right that we have doubled every three years so far. But that does include inorganic. It doesn't, it's not exclusive because if you look at the history when we became Sona Comstar, we did acquire Comstar part of the business and that's how also some part of the growth comes from there as well. On your orderbook question, we don't see any major challenges because like I said, this is why the construct that we have is a net orderbook of 10 years. So even if a program gets delayed out, let's say by 6 months to nine months or even a year, the size of the orderbook does not change, the shape may change. And it is significant from a shareholder perspective that how soon does it translate into revenue but not the total quantum. To your point about BEV sales slowing, actually, that is one of the things that I found fairly puzzling. I think people are familiar with that line, I quote that line 'pratyaksh ko praman ki avashyakta nahi hoti', but this is one of those cases for five quarters where I have seen that "Pratyaksh hone ke bawajud praman ki avashyakta padti hai". Even after 52% growth, EV is the part that gets the most questions. I think if you look at the data of EV sales even in India, by the way, or overall, it is far, far, far faster growing than the ice part. Actually, if I were to look at this quarter and say how much our EV revenue has grown and if I take out the EV growth, actually, we would have declined year on year because the ice part of it is actually what is under challenge. So, we don't, still don't see that much challenge. Yes, there are program delays, but they don't change the overall orderbook size. You had another couple of questions in there which I might not have answered. So which ones did I miss?

Jay Kale: No, I think largely you've, you've covered most of them. I just had one or two more. I just so you also did mention that of course, you're not supplying to Chinese as much till now, right. So, if you could just, you know, elaborate on how you plan to diversify your customer base going forward. And also, you know, if I have to just pick up a, speak on the Chinese part, you know, it, it is an interesting market, but at the same time, it's a very fragmented market and as management, when you choose OEMs within the Chinese OEMs, what is your kind of criteria or filtration? Because we've seen many large OEMs also, there has been news flow of largely group backed OEMs coming under pressure or under trouble. So what is your criteria so that your orderbook, you know, is foolproof?

Vivek Vikram Singh: Sure. So first of all, I would like to humbly make this submission that we do not choose our customers. We are servants of our customers; our customers choose us. So we have no criteria for selecting our customers. We try to work with all customers who we think are wanting our products and see value in our product, that's how we look at the world. As suppliers, one should never get so arrogant to believe that we are in a position to choose customers. Customer is king in any business, and we never let ourselves forget that. Your point about the China market is actually very true, that not, it is immense, it is the largest car market in the world, right? Well, it is not that simple a market, it has challenges in pockets, it has challenges in terms of fragmentation, in terms of supply chain distribution, it has geographic location challenges. So, it is not a simple market. But then, you know, if we think of ourselves and hopefully, we are a good management team, we are entrusted to do the things that are difficult. So, we are actively looking at how to get into China, but anything that I can say will be premature at this stage. Let us have something concrete, and of course, the moment we do, we will share with everyone. We would, only thing I can share is, of course, we would like to be electric first as we are in every other market. And in China, it makes sense. If you look at, even our past strategy, we shut down our starter motor line 1.5 years ago in China to focus only on suspension motors, right? Because we realize that, that market to have an ice product makes no sense. So that will be our playbook that EV makers will be of course, the one that we would desire more but open and happy to work with anybody who gives us the opportunity to work with them.

Jay Kale: Great, thanks. Thanks, and all the best. And I'll fall back on the queue.

Moderator: Thank you. And the next question comes from Jinesh Gandhi. Hi, Jinesh, your line is open, please go ahead.

Jinesh Gandhi: Yeah, so question on the same lines on China. So obviously that's the biggest market. But what are we doing to get a presence in that market and what it will take for us to win in that market?

Vivek Vikram Singh: So, same answer as I gave to Jay. A little premature because we have 6% of our revenue that comes from Asia, right now, it's quite small. We will, of course it is on our radar. We are doing some things but let them come to fruition. No point talking prematurely.

The plan would be as you know, we have a motor plant there, from where we supply suspension motor products. The driveline product is where it's low penetration, part of it is because of duties. There is a duty barrier between us and China, that China imposes import duties on our HS code, I think between 8 to 10%. For which some bits if you have to do, you have to do lowkey, so we have to figure that puzzle out, it's still not done, but it is on our radar. And whenever we have something that is concrete, we will announce it.

Jinesh Gandhi: Got it. And the second question pertains to our exposure to the US and the upcoming Mexico plant, given the changes which are happening in the US regime and the potential threat of tariffs. How are we seeing this risk in terms of 40% of our revenues are from the US and the upcoming Mexico plant. Is there any rethink on the Mexico plant itself?

Vivek Vikram Singh: Yeah, I actually was surprised by this question from somebody else also recently. I don't think the auto component sector is as much at risk. I think if you look beyond the headlines and which we should right? Before making a blanket assumption, the import duty on auto components imported from US and India is between 10 to 15% depending on which HS code. India duty to the US is about 2.5%. So, the entire difference, even if reciprocating tariffs were to be put, is between 5 to 10% depending on which category one is talking about. Second and this is a far more logical one. If I believe that the president and his current administration view is to put America first and benefit America. The US automotive industry is fairly large and fairly important to the US economy. If they said that we will put duties on auto component imports from Mexico, China and India, I have no idea how they will make cars or then they'll live with cars that are, you know, 15 to 20% more expensive than they are. I frankly think that we are misreading the situation, it could be a great opportunity for India that with the dollar rupee decline currently, with the 5% drop recently, if you have to source, where would you source this from? Because making these parts in the US is not going to be possible. It will take far too long, and it will be far, far more expensive even with the duty thing. So, I think it's a far smaller risk for auto components. I think where all of this is stemming from is the differential in duties between cars in India and US, that India imposes a 100% import duty on Auto, it is not the same for auto components. There is not that much of a duty difference. So that's my take on it. We don't think it's as big a risk as it's been made out. Mexico plant is starting with Mexico-to-Mexico sales to begin with. So, there is no rethink because though that's a local country to country thing which has no custom duty impact, etc.

Jinesh Gandhi: Got it, got it. And the last question pertains to our orderbook. So, what percentage of our orderbook would be from Europe in terms of European OEMs or sales to Europe?

Vivek Vikram Singh: Good question Jinesh. Yeah, because actually I know people ask us about the US, you know because Mr. Trump is in the headlines. Europe is the one that should be asked more, relatively small portion. I don't have the exact number, but a relatively small portion is from Europe because as you might have noticed European OEMs have also not been giving out many new RFQ or purchase orders.

Jinesh Gandhi: Right. Right. And sorry, last clarification is, what is the stake in ClearMotion for this $4 million investment?

Vivek Vikram Singh: So good question. And frankly, I should, we should have put it in our presentation itself. It will be when fully converted between 1.5 to 2% somewhere in that range. Rohit, would you like to clarify on this one?

Rohit Nanda: 1.6%.

Vivek Vikram Singh: Oh, Rohit obviously, as usual, is far more accurate than I am. 1.6%.

Moderator: Thank you. And the next question is from Gunjan. Hi Gunjan, your line is open. Please go ahead.

Gunjan Prithyani: Yeah, thanks team for taking my questions. I had two questions. Firstly, on the you know, on the outlook that you shared for Q4 that there'll be destocking in Jan and Feb, if I were to just like look beyond, fiscal 25 now, because you know, this is a destocking, you know, leading to a refresh of cycle with the customer. How would you think about fiscal 26? And I'm presently looking to get your insights on, you know, on two parts one, the confidence on the conversion of programs that you see happening in fiscal 26. And secondly, you know what, you know, what does this refresh mean? Does it mean a substantial pick up in business from that customer going into fiscal 26, a bit more color on 26 revenue outlook.

Vivek Vikram Singh: Good question. Actually, in a way, it would mean some revenue shifting from Q4 FY25 to FY26, right? We, if we follow customer guidance, there should be increase in sales, but for our purposes or budgeting purposes, we are assuming even if it is flat because of this quarter change and our financial year being different from calendar year, we should see higher revenue regardless even if sales remain the same of the refresh model, we should see increase.

Gunjan Prithyani: And anything on the conversions, Vivek, on the orderbook? What do you see? How is it shaping up?

Vivek Vikram Singh: Not bad. We're seeing some good convergence. Actually, some have started this quarter or are starting in March etc. A couple of largish EV orders which are in the motor side, both the two large ones are both in India that are starting. There is one in North America that is starting, I would say at the end, near the end of the calendar year and one in driveline, which is also starting at the end of the calendar year. Apart from one, Gunjun, I think I spoke about it in a couple of quarters ago earnings call that one European EV OEM, whose order was supposed to convert in FY26, seems that it will convert now in FY27 to serial production, apart from that one instance, and there is one instance that I spoke about again, three quarters back, that was a Indian EV two wheeler, apart from those two particular orders, I don't know of anything else that has been delayed.

Gunjan Prithyani: Ok, got it. And I think, Vivek, you also referred to that suspension system getting into serial production, right? I mean, this was, if I recall, this was, you know, I think at least two years back when this was added to the orderbook, can you just refresh us, what is the potential annualized revenue that you know, that you're now looking at from this product line and have there been any progress in terms of, you know, new wins or, you know, how do you see that this product line shaping up going ahead?

Vivek Vikram Singh: So, good you brought that up, Gunjan. I think we put it in Q3 FY22, so it's been almost three years and it's a good thing that you asked and good also that shows how long our development cycles usually are. So, when we talk about something and when we talk about the future, we actually talk about a far longer term than a lot of other industries. So, it has started, I think at that time because it was three years out nobody gave it much importance, but for us, we have been working on it for three years, right? And now that it has started, we would not like to commit to annualized revenue right now because like I said, it just started with one model of one car maker, which I kind of have named. So, as it spreads to other customers, it could be very large. And I don't want to create false optimism by giving a number because the number, if you think about it, it's just like it is very, very big. So that's why I don't want to quote that number. I told you the total addressable market for ClearMotion itself is about $14 billion, right? I won't go into our product costing, but we are a significant part of this BOM. And if we are a significant part of this BOM, a significant part of this number is our total revenue potential. How soon do we get to that? Of course, it will depend on how early people adopt it. I can share that, there has been one more OEM who has now nominated gear motion and they have a second customer and the pipeline as we know, and that's one of the advantages of being an investor. The pipeline has many, many more OEM conversations going on. It will be two again premature for me to talk about in the short term, that, what will it be in revenue in 2-3 years? But I know that it will be a large part of our revenue in four or five years.

Gunjan Prithyani: Ok. All right. Just, if you can offer us an update on, you know, the railway transaction and I'll join back in the queue.

Vivek Vikram Singh: That, I will hand it over to my colleague, Rohit.

Rohit Nanda: So, that's progressing well. We had earlier indicated a timeline of September end. It's still under discussion if all works out well, we may actually be able to close it sooner. But it's not a done deal yet. But, yeah, so we are progressing well, I would say.

Before we take up the next question, I would like to correct myself on the CMI question. There was a pre money post money issue. So, our equity stake will be about 1.5% and not 1.6%

Vivek Vikram Singh: Thanks Rohit.

Moderator: Next question is from Amyn Pirani, Amyn, your line is open. Please go ahead.

Amyn Pirani: Most of my questions have been answered, just a few clarifications. This, inventory stocking and de-stocking at one of your customers. Was it something unanticipated or is it generally how, you know, it normally works in your business or, or was it something which happened, you know, in a time frame which you were not expecting?

Vivek Vikram Singh: So, I think one difference when I talked about inventory reductions in North America, that was a general comment for US carmakers and not particular customers. For the particular customer, it's not an inventory issue, so they're doing a model refresh. So, if you launch a new model, you will have to shut down making the old model, right? So, there is a two month, three month transition phase whenever a new model launch happens, which is major. Of course, this is a regular practice in auto, but the thing is we've not been listed long enough for it to have happened to us while being public because model launches are 5 to 7 years, you refresh.

So it hasn't really happened since 21-22. So this is the first one. Second, it happens but if it happens to a customer who's a small part of your revenue, it is virtually negligible and not worth mentioning. But yeah, this happens to be a fairly large customer, which is why it is a smaller, sorry which is a bigger thing, sorry.

Amit Hiranandani: OK. Secondly, on the, you know, the US angle and the tariffs thing, thanks for the perspective that you gave on the difference between the fully built car and components on the tariff side. Coming back to the Mexico angle, you said that, you know, your sales are Mexico to Mexico, and you just forgive me for belaboring on that point, but your customer to whom you are supplying and with whom you will most likely ramp up. Is that customer mainly setting up their capacity for supplying to the US or is it also within Mexico?

Vivek Vikram Singh: So their factory is in Mexico. So if they export from there to all over Americas, but again, they, I don't think they can make any decision now, from that perspective. And again, I'm also, I know we have heard that the saber rattling, let it get implemented, you know, there is a, we have seen the same administration last time also and a lot of noise was made and it didn’t get done really. So let's see, let's wait for it to happen before speculating. We are not very heavy capex people in general, as you know, we and I explain to you beforehand, for at least land and equipment, we always lease. It is machines which are fairly fungible to our production processes and can be shifted if that is what happens. So, although a relevant point, it does get taken up in our risk management committee as a proportion of our total investment and what is at risk? It is a fairly small proportion.

Amit Hiranandani: Ok. And just lastly, on the Chinese OEMs aspect, now obviously one aspect is going to China and supplying to Chinese OEMs from there, but Chinese OEMs, it looks like they are looking to become big in Europe and other parts of Asia as well. So is there an angle that you know, that your Europe revenue or you know, business can also be through these Chinese OEMs or do you think that you will have to start supplying to them in China to become relevant in other parts of the world?

Vivek Vikram Singh: So excellent question, Amit, I mean, and this is something that internally also we have actually discussed, that which one comes first. So let's first take the problem in two separate ways. If not for this duty barrier, we would have had market share, fairly decent market share even in the Chinese market. But because of that, we have very little right. It's hard to come at a 10% price difference if you're not willing to sacrifice your own margins.

However, outside China, if you look at EV customers of ours, we are fairly competitive and almost always win against our Chinese peers for like-to-like products. This should mean, in just pure theory, similar, if the OEM was Chinese or European, if you're setting up a factory in Europe and sourcing locally, then the same thing should apply. But practically relationships and familiarity matters. And if you're doing a copy paste of your plant from China into Europe, maybe you want to replicate the same supply chain and not reinvent the wheel. So that's what I think is the point. It will not just be Europe, actually there are plants of Chinese OEMs coming up all over the place in Southeast Asia, South America. And we are seeing that the same kind of pattern is emerging, some OEMs do not go to a geography and figure out what is the best way to manufacture there. They are in a way replicating the Chinese plant and hence it may be or actually we think it may be a better strategy to get into China, get that familiarity and to then travel with them outside might be an easier way than to make your inroad through a foreign subsidiary of the Chinese OEM. But yeah, I mean, we don't know if we're absolutely right or wrong on this one, but this is what we are seeing and we are trying both approaches. But I think the latter approach has a higher probability of success.

Amit Hiranandani: Ok, fair enough. Thanks for your thoughts!

Vivek Vikram Singh: But great question I have to add, that is a, I mean, this is something we've been deflecting now for a couple of years.

Moderator: Thank you and the next question is from Shruti. Shruti, your line is open. Please go ahead. Hi, Shruti? Your line is open, do you have questions for the management?

Shruti: My question was answered, thank you!

Kapil Singh: Linda, I'll take some questions from the question queue. So, one question, this is from Raghu, on the BEV traction motors, can you talk about the status of product readiness for 4-wheelers, and possible timelines for commercialization?

Vivek Vikram Singh: Sat, do you want to comment? I would say premature right now, is what I would say, but Sat, do you want to add?

Sat Mohan Gupta: I agree with you, Vivek. It's premature right now and we are still working on some of the designs and validations.

Kapil Singh: Then one question is, how do you see EV growth for CY 25 in major markets?

Vivek Vikram Singh: Oh, that's a very broad question. And I have to be a forecaster. Actually Kapil. I mean this, I thought analyst had to answer this, not people in the industry, we know our orderbook, we don't know industry, everybody. But I think this, so my guess is as good as anybody else's. But I think China will continue to electrify very strongly. The Chinese EV guys may just sweep and a lot of the legacy OEMs who are foreign, I think they will struggle a lot in China, especially the European OEMs. I think US, we don't expect a lot of EV volume growth. Europe, there should be EV penetration growth but then the total market also has to grow, hopefully that, there is some recovery. India should actually interestingly be one of the fastest growing EV markets in our view, one low base, two just the amazing range of new models that are being launched through this calendar year. I think there is going to be a very high EV uptake in India. Actually, the more and more and this is obviously completely anecdotal, the more and more people I talk to, the, there is a strong preference to buy EVs and I think a lot of our OEMs in India have done a fantastic job of launching affordable electric vehicle models in the car space. Two wheeler space is doing fairly well. Three wheeler is coming to a stage where they don't even need any subsidy and they might just go 100% electric like very, very soon. Buses, light commercial vehicles, ditto the same logic. It's just becoming economically a better option. So India, China, Asia, in particular to electrify much faster, the US to be slow. Europe depends on the overall market, but penetration should continue to deepen.

Kapil Singh: One more question is there, update on PLI.

Vivek Vikram Singh: Oh, ok, Rohit, can take that but we've got all the approvals on all our motor models. It is a more of accounting question, I think. Rohit?

Rohit Nanda: So, PLI, we've actually last time also updated, essentially the approvals and all are in place and the PLI disbursement for the current year will happen in the next financial year. So, so far it's not there in the PnL. We'll decide as to how we want to account for it depending upon the milestones and all. So yeah, so this is where we are. I don't think there is any major change from last time. Because now approvals and all are all out there in the public, you can actually find those approvals on the government website.

Kapil Singh: Will you consider accrual basis accounting, or this will be based on the cash?

Rohit Nanda: We are evaluating it. So, I mean, it's not a decided thing as yet, but this is something we are seriously evaluating. So we'll inform you know once the final decision on this is taken.

Vivek Vikram Singh: Yeah. So once again, Kapil, a good question and obviously, we know from people such as yourself that there are companies in our industry, especially OEMs, who already started accounting for it, frankly from Q1 itself. We weren't sure and we have that debate, that one is accounting for accuracy. So that can only be achieved when 100% disbursal has happened and you receive money, right? But the second is to avoiding the lumpiness and giving, uncertainty and this quarter to quarter imbalance because it will only come once in every year. So we are debating, there are obviously pros and cons to both approaches. So we are discussing, we'll also have to discuss with our auditors on how because it is a new thing. I know a couple of people have been, I would say conservative, a couple of people have been not so conservative. So there are different approaches to how to recognize PLI revenue. But from the approval side, from the regulatory requirement side, from what we need to do in order to get it, all of that has been done, but that I thought was already public domain knowledge.

Kapil Singh: So, do we have a follow up Linda, can you check?

Vivek Vikram Singh: While you're doing follow up, there is a question in the Q&A queue from Asha about the software that goes into the component. I think we shared a while back that there are about 2 million lines of code that go into this on what we make for ClearMotion and it is in house. We have a software team, we have in Chennai, that is where it is done and we do not outsource anything core, there are repeatable things that you outsource to ER&D companies, but those are non-core and non-critical parts, but very little most of it we develop in house because it is application software, it controls the hardware that we make and hence we are the best place to write the controlling software for it. Yeah. So that was one question.

Moderator: Hi, we have another question for Prateek Poddar. Hi Prateek, your line is open, please go ahead.

Prateek Poddar: Yeah, hi, thanks for the opportunity. So just two questions. One is while I understand you talked about model refresh and inventory destocking, typically at the production level that shouldn't happen. Right? I understand at the retail level. That was question number one. The second question was just to add on Jay's question.

Vivek Vikram Singh: Sorry, Prateek, I will answer this, otherwise I'll forget what your next question is. No, it will have a production thing, right? So let's say you are launching a new refresh model, won't you stop the production of the old model completely? It isn't a retail thing. It is actually far more from the production side. You have to stop the line of the running model and only start building the old one. But for that, in the selling side, you have to get rid of whatever is the existing inventory, and do not produce any of the old ones. While the new ones you introduce first in smaller quantities and then you ramp up, right. That's why that word ramp up of new model. That is, literally every time that is how it happens, actually, production has far more of that impact because you go to zero, you don't even like, go down, you go to zero for a limited period of time, let's say 45 days or something. And then you start building the new vehicle again.

Prateek Poddar: Fair enough to understand that this catch up of loss of production of 45 days should be covered in the next calendar. That's a fair understanding then?

Vivek Vikram Singh: Yeah, yeah, Prateek. I actually said that. In the first two quarters we should get it back, now exact month to month, you know, it gets harder. And we are trying to get this news, because it's negative, out before, otherwise this is just like it's just started so we don't even know when it goes, the curve goes back. But we have the schedules, as I said for March, so it is already coming back to normal in March. Now, how, so let's say it goes to zero, then it builds up to 20-40, then it will be months in which instead of doing 100% you will be doing 120 - 130%. But, from quarter, I can't.

Prateek Poddar: Surely. No, no, I'm not looking for that. The second question was just on Jay's follow up. I think you still are saying that with inorganic acquisitions, doubling of revenue in three years is possible despite, you know, we, I mean, there is a bleak outlook, at least on the, on the car industry side, right? So, that's a fair understanding?

Vivek Vikram Singh: It is, but you have to say not each point to point, but yeah, we finished our first one in FY24, first three years, so FY24 to FY27. Yes, obviously there can be 5% up down but that much, even we don't have, you know, foresight, but you know, far more than car everybody focuses because a car is the cooler thing to talk about also in our industry. People should notice this commercial vehicle off highway is far more concerning actually right now.

Moderator: Thank you and then the next question for Sachee. Sachee, your line is open, please go ahead.

Sachee: Hi, can you hear me? Ok, great. I'm so sorry to belabor this point on the demand for EV but just a couple of data points like the US has cut down some of these on EVs and in Europe, Chinese EV makers are eating European EV makers for lunch. In that context, why should we not expect some of the EV plants to basically shut down? Both from US OEMs and European OEMs. And why would that not be a risk to the orderbook?

Vivek Vikram Singh: Sorry, whose plants are shutting down?

Sachee: So given that in the US, the EV subsidies have now been basically, you know, removed. So some of the traditional OEMs that were, you know, that did have EV plants and EV programs in the US and in the European context, European OEMs are completely unable to compete with the pricing and features of Chinese OEMs. So why should we not expect some of these EV programs to shut down in the medium term?

Vivek Vikram Singh: Yeah. I don't know whose EV programs are shutting down or not because, you know, again, I have very limited ability to read the future. But what I can tell you is what we are seeing and hearing from customers. We fortunately do not supply much to European EV makers in China. So yes, that is happening, but we don't have any exposure there. In the US and this is again completely speculative because we don't know what is actually going to happen. I think the pure EV makers will actually do quite well. However, the legacy guys who were starting new EV programs will probably suffer or get challenged. We are in most of the pure EV makers in the US, if not all. Anybody significant, we would be a part of and in the orderbook, there is not that many from legacy OEMs new programs to actually affect the overall trajectory. Yes, there could be a risk but it's not that major and Chinese OEMs like I said, we right now have no exposure. It is, I would at least like to look at it as an opportunity to gain some market share to lose is not much because I know what you're talking about. But those European EV makers who are struggling in China or in Europe, we don't have that much share there. So not that much to lose.

Sachee: Understood. Have you, I mean, this probably, you know, illustrates my ignorance more than anything else but given that you have found a spot on the table with some of the legacy OEMs in the US or European OEMs have you been able to or is there a possibility to convert some of those relationships to supply to the ICE side as well?

Vivek Vikram Singh: So, Sachee, a good question, but actually, we were already there as supplies to the ICE models. So in fact, and I don't want to sound callous, but in a world where the legacy guys continue to make and sell a lot of ICE and the EV guys continue to make EV, that literally is the best possible outcome that I can hope for. Because in the ICE model, we have a much, much larger market share of the legacy guys. You know, our starter business is basically North America oriented, supplying to ICE models and hybrid models. So if they do well in that, we benefit a lot and let pure EV guys, we only supply EV products. They do well in EV, that's a great outcome. I don't know if this will play out exactly like it is. But if it does, we actually will, that is the best possible outcome of this entire debate.

Sachee: OK. And just one final point on Chinese OEMs where you have nothing to lose. But you know, you, there's an opportunity to gain market share. Are you outside of the duties because you mentioned there's a 10% that is a 10% differential, but you would be trying to gain market share there like, you know, or you would be trying to gain a new OEM or new EV OEM, if you see what I mean. Would you try to displace somebody from existing EV OEM or join hands with a new OEM? Where do you see that opportunity?

Vivek Vikram Singh: Without tipping our hands too much because you know, transcripts are read by all people, including our competitors. Of course, we as an ambitious company which likes and lives for growth, we'll try to get market share from everywhere we can. That includes China and that includes all the major carmakers in China. We will of course want it, how well can we execute on it? Time will tell, and like I said, it's a little premature but we have to, it is just too large an opportunity to ignore. And we've been trying, let's see. So and that, that's about China. But if you also notice I think, you know, as well, we have not focused on the East at all right. In the last 10 years, which is the first decade of my stint here in this company, we have grown by focusing almost exclusively on the West and India. That's it. We did not actually even increase or do too many products apart from if you can call it EV two wheeler, three wheeler, traction motor that was specifically made for India. We have not been making products also which is towards the east, Japan, Korea, China. So Chinese, Japanese, Korean, all these 3 OEMs also we must target because we are getting down to that point. See when we started, we were at 2%-3% market share in each category. Even just by trying to focus on West, you can get it to a significant number. Today, we are 8.8% of the world. If we want to take it to 20% we can't do it by saying half the world we will not service. So yeah, there is a strategic shift in our focus that we will now not solely focus on West. We will do East plus West, we will focus on all of transport, which means India does come back into play as a fairly important market for us. The railways move was also part of this shift in thinking that if we have to grow and fulfill our ambitions, we cannot leave half the world unserviced. We need to continue to build there too, so a slightly long winded answer. But I hope I can share how we are thinking.

Sachee: Yeah, this is very good and I think it's a great note, like 20% market share, if that's where your eyes are set, then I obviously wish you all the very best.

Kapil Singh: Vivek, I'll take the last question for the day. This is on the suspension motor that we have just about started building. If you could give some details about the IPR that we have developed for the suspension motor, as a layman, if you could explain what, what is the difficult part here. And then secondly, what would be our share of business when we supply to ClearMotion and can the order come faster? Because the first product always seems to take longer for the R&D.

Vivek Vikram Singh: So the third part, I'll answer, which is the more commercial part, of course, you need the first launch to happen as in any other industry when people see the product on the road. Like today, I could show you a video, right, that made life so much easier, in 2021 when I was trying to explain to the world what the product is, it was so hard. We had to actually make a wire frame animation to even illustrate and even that was lost. Most people thought it was something comparable to what German luxury carmakers had. And it is so different only when you see them side by side can you actually know that five times latency and what it means? So, yes, of course. Now the snowball effect starts and that's why I said three years is what we think it will take because whoever, now starts engaging the typical 32-month development cycle will follow. So, 3-4 years that's a good time frame and there are of course confidentiality issues so we can't share too much about commercials and pricing and these things. But as I can say, we are a large proportion of the bomb here. You saw the product, you saw what we make, I mean, physically you can see it is a large part of it, right? Sat can though, I don't want to steal the limelight from Sat and Praveen, if they should talk about how difficult it was because not just is the part new, the equipment to make it also, in some cases didn't exist, we had to make the equipment also for making the part. So Sat and Praveen, have got this done. So let them talk about it.

Sat Mohan Gupta: So Kapil, I mean, from the product perspective, I mean, it is AUTOSAR compliant, which is the highest in the auto industry. It is FuSa SLC compliant. The response time for this motor is less than a millisecond which Vivek talked about the latency. It's a very, very compact motor. I mean, with the copper content is very, very high in a very, very small size but was available to us to develop this motor. It's an integrated motor and controller. So you have one motor with a controller and inverter sitting on it. And as Vivek said, I mean, it's more than 2 million software lines there and to make it AUTOSAR compliant, you need to be very, very sure that, I mean, both from the machine design, hardware design and software design, you have those provisions in, in the design itself to create a backup for any failures. It's a combination of a motor and the hydraulic module. So we haven't done as a group, we haven't done this product and it's a very, very compact, very, very high, highly efficient, suitable for connected vehicles, electric vehicles. I mean, the current product is going on the electric vehicle and it's, you can use it for ICE vehicles, for hybrid vehicles and electric vehicles. So that's the advantage you have. I mean, it's you can use for any applications whether it's a four-wheeler, whether it's a sedan or whether it's SUV or MUV. So very, very compact and very highly efficient motor design, we have. Praveen, anything you would like to add.

Praveen Rao: I think you have covered all of the points. The few additional emphasis would be on being a very small package motor, the ability to handle high temperature, high pressure is all the more important and high vibration because the whole purpose of this product is to contract the vibration from the road. So the ability for this motor to sustain that high level, the vibration. So all of the IP relates to the a lot of development work, as Vivek said in the last many years. Of course, packaging it in a very tiny box to put it under the wheel, so that is the biggest challenge we had.

Kapil Singh: And on the share of business Vivek, can you comment on the share of ClearMotion?

Vivek Vikram Singh: Currently it's only us. It's, we developed it together. So yeah, as things grow and ClearMotion hopefully becomes a massive company. Who knows? But right now, it's just us.

Kapil Singh: Thank you all. It was the last question of the day. Thanks for joining this call and Vivek, I will pass it back to you in case you have some closing comments.

Vivek Vikram Singh: No, no. Thank you so much everyone for attending. I mean, as you know, we are a company that culturally puts bad news first and tries to get that. If it's good news, sometimes we go super conservative and keep it to ourselves till it's all done. But I hope we build a business that is also remembered for how we communicate, how transparently we act and how honest we are with our shareholders. So that is all. And yeah, thank you so much. See you next quarter.

Kapil Singh: Thanks to the team of Sona Comstar for joining this call. And Linda we can close the call.

Moderator: Thank you very much. Thank you everyone for joining today's call. Have a good evening. You may drop the line now.
