

KROSS LIMITED
(Formerly known as Kross Manufactures (I) Pvt. Ltd.)
(IATF 16949 Company)

M-4, VI Phase, Gamharia, Adityapur Industrial Area,
Jamshedpur - 832 108 (India)
CIN : U29100JH1991PLC004465



Phone : (0657) - 2203812, 2203813
E-mail : accounts@krossindia.com
purchase@krossindia.com

Website : www.krossindia.com

19th November, 2024

To
The General Manager
Department of Corporate Services,
BSE Limited
Phiroze Jee Jee Bhoy Tower
Dalal Street, Fort
Mumbai – 400 001

Scrip Code: 544253

To
The General Manager
Department of Corporate Services,
National Stock Exchange of India Limited
Exchange Plaza,
Bandra Kurla Complex,
Bandra (East), Mumbai – 400 051

Symbol: KROSS

Sub - Submission of Transcript of Earnings Conference Call held on November 13, 2024

Dear Sir/Ma'am,

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed herewith the transcript of Earnings Conference Call held on November 13, 2024

This is for your information and record.

Thanking You,

For Kross Limited

Debolina Karmakar
Company Secretary and Compliance Officer
ACS 62738



“Kross Limited
Q2 and H1 FY25 Post-Results Conference Call”
November 13, 2024

E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchanges on 13th November 2024 will prevail.



**MANAGEMENT: MR. SUDHIR RAI – CHAIRMAN AND MANAGING
DIRECTOR – KROSS LIMITED
MR. KUNAL RAI – WHOLETIME DIRECTOR AND CHIEF
FINANCIAL OFFICER – KROSS LIMITED**

MODERATOR: MR. MIHIR VORA – EQUIRUS SECURITIES

Moderator: Ladies and gentlemen, good day and welcome to Kross Limited Q2 FY'25 Post-Results Conference Call, hosted by Equirus Securities. As a reminder, all participant lines will be in listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need any 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. I now hand the conference over to Mr. Mihir Vora from Equirus Securities. Thank you and over to you, sir.

Mihir Vora: Hi, good morning, everyone. So, on behalf of Equirus Securities, I welcome you all to the Q2 FY'25 post-results conference call of Kross Limited. From the management side, we have Mr. Sudhir Rai, Chairman and Managing Director, and Mr. Kunal Rai, Wholetime Director and Chief Financial Officer. So, without further ado, I now hand over the floor to Sudhir sir for his opening remarks. Over to you, sir.

Sudhir Rai: Thank you, Mihir. Good morning to everyone and thank you for joining us today to our Q2 and H1 FY'25 earnings call. Along with me, we have Mr. Kunal Rai, Wholetime Director and CFO, other senior team members and Strategic Growth Advisors, our Investor Relation Advisors. I take this opportunity to thank all investors who participated in our IPO. Our company got listed on NSE and BSE on September 16, 2024.

The total size of the IPO was INR500 crores, of which primary issue was INR250 crores. Out of the net proceeds, we have already deployed INR90 crores towards debt reduction for the company as planned in FY'25. This will result in interest cost savings for H2 FY'25.

As this is the first call, there are a few people on the call with whom we have not interacted for the first time. I would therefore like to give a brief overview of the company before we go on to discuss Q2 and H1 FY'25 performance.

Our company is a diversified leader in manufacturing and supply of trailer axles and suspension assemblies, along with a comprehensive range of forged and precision machined high performance safety critical components. We focus on serving the medium and heavy commercial vehicle, -M&HCV segment, and farm equipment segment. We are recognized amongst the prominent manufacturers of trailer axles and suspension assemblies in India.

Our journey in the trailer axle business began in 2019, and since then, we have experienced significant growth. Today, we are amongst the fastest growing organized player in India, consistently competing with industry majors. With over three decades of experience in leverage of our strong product development capabilities to design proprietary products that meet the highest standards of safety and performance. As one of the few domestic players capable of in-house manufacturing of the trailer axles and suspension assemblies, we believe this capability gives us a competitive edge in terms of quality control and delivery.

Our portfolio includes a range of high-performance safety critical components for the M&HCV segment, such as axle shaft, companion flanges, anti-roll bars, and differential assemblies. We

currently manufacture a wide range of components and have the capacity to produce forged parts with input weights up to 40 kgs. We have strengthened our backward integration assemblies by establishing a new casting facility in our unit V, which includes a high-pressure mold line, foundry, and a machine shop.

We are actively expanding our capacity and product offerings by adding new product lines at our existing facilities. This expansion will enable us to introduce new lines of products, including hydraulic covers for tractors and an in-house machining line for hubs and brake drums. We have a diversified client base, including large OEM's, Tier-1 suppliers, and domestic dealers.

Our relationships with major names such as Ashok Leyland, Tata Motors, Dana, Eaton, and TAFE, Tata International DLT, and other global OEM's stand as a testimony to the quality of our products and the trust we have built. In 2023, we expanded our export footprint by beginning bulk supplies to Leax, Sweden and we are in the progress of validating of additional components to this company. Our operational model is strengthened by backward integration, encompassing design, process engineering, forging, casting and machining, enabling us to maintain tight control over process and deliver products to meet the exact standard.

Additionally, we offer mobile and on-road service support, powered by a customer service software from Salesforce, providing our customers with efficient and accurate support. Our five manufacturing facilities, Units I, II, III, IV, and V, including the newly established foundry with a high-pressure mold line, underscores our commitment to backward integration and expanding capabilities. Our facilities are equipped with advanced machining, coating, and heat treatment equipment and hold numerous ISO and IATF certifications for quality, environment management, and safety.

Now coming to our Q2 & H1 FY'25 highlights, performance has remained stable compared to the same period last year. This stability reflects the resilience of our business model, especially amidst a dynamic market environment in both M&HCV and tractor industries.

For H1-FY25, we reported a revenue of INR285.4 crores compared to INR288.6 crores in H1-24. Our trailer axle and suspension business contributed approximately 45.2% of our overall revenues, while our component business contributed to about 54.8%. Though we faced some headwinds due to our lower anticipated demand in certain segments and a seasonally muted Q2 impact by monsoons & elections in the beginning, we maintained our revenue and improved profitability.

Our EBITDA for H1-FY'25 was INR34.7 crores up from INR33.3 crores in H1-FY'24, with a margin improved of 64 basis points to approximately 12.2%. Additionally, our PAT for H1-FY'25 reached INR17.3 crores, an increase from INR16.7 crores in H1-24, with margins up by 26 basic points to around 6.1%.

Our export revenue in H1-FY25 stood at INR8.9 crores as compared to INR 1 crore in H1-FY'24, an increase of nearly eight-folds to H1-FY'24. This growth is a result of encouraging inquiries from international customers, and we are committed to strengthen our global relationship with OEM's as we work to expand our market presence.

Looking ahead to the second half of FY'25, we are optimistic with the M&HCV and tractor industries gaining momentum and strong order visibility in our pipeline, we see positive growth prospects. We will continue investing in technology, pursuing backward integration, expanding our sales and service network, and diversifying our product range to meet the evolving needs of our OEM partners, fabricators, and customers. Our focus remains on creating value, reinforcing our position as a preferred supplier, and driving sustainable growth.

With this, I would like to hand over the call to Mr. Kunal Rai to update you on the financial performance for the quarter and half year ended 30th September 2024. Thank you. Kunal, over to you.

Kunal Rai:

Good morning, everybody. On a half yearly basis, our H1-FY'25 revenues stood at INR285.4 crores as compared to INR288.6 crores in H1-FY'24, a marginal decline due to weak M&HCV volumes. However, we improved our EBITDA marginally to INR34.7 crores as compared to INR33.3 crores in H1-FY'24, which is a growth of 4.4% on a Y-o-Y basis. The EBITDA margin for the half year improved by 64 basis points from 11.5% last year in H1FY24 to 12.2% in H1-FY'25. Not only our EBITDA, but our PAT has also improved. H1-FY'25 PAT stood at INR17.3 crores compared to INR16.7 crores in H1-FY'24, which registered a growth of 3.4%.

Coming to the quarterly performance, revenue for Q2-FY'25 stood at INR139 crores as compared to INR144.9 crores in Q2-FY'24, which is a decline of 4% Y-o-Y, and we were able to maintain this even though the industry saw an 11% drop in the M&HCV production. Our EBITDA for Q2-FY'25 was INR18.2 crores as compared to INR18.1 crores in Q2-FY'24. The EBITDA margin for the quarter improved by 58 basis points from 12.5% in Q2-FY'24 to 13.1% in Q2-FY'25.

Compared to Q1-FY'25, our EBITDA grew 9% despite a 5% revenue drop as better cost control activities and slight improvement in our product mix led to a 173 basis points EBITDA margin improvement.

The PAT for Q2-FY'25 was INR9.6 crores, which registered a growth of 10.8% as compared to Q2-FY'24 and a 26% growth compared to Q1-FY'25. The company has utilized INR90 crores from net proceeds of the offer towards repayment of certain existing borrowings. Deleveraging the balance sheet allows us to further utilize internal accruals towards any incremental capital expenditure requirements. The debt-to-equity ratio for the period stood at 0.1x.

Now in terms of the outlook, we for sure are seeing a better momentum in both the component and the trailer axle and suspension business from September itself and therefore we expect H2 of FY'25 to be significantly better than H1 FY'25. If we look into the overall year of FY'25, we would be surely targeting to close FY'25 with a double-digit sales growth.

With this, we open the floor for further questions and answers. Thank you.

Moderator:

We have first question from the line of Pritesh from Lucky Securities. Please go ahead.

Pritesh: Yes, hi sir. My question is for Q2 and for H1. If you could tell us the trailer's volume growth for us, for the market and what would be the prime mover growth in the market? Either you want to give for H1, or you want give for Q2 and H1 growth. Whichever you are comfortable with.

Kunal Rai: As far as our Q2 and H1 on the trailer axle and suspension segment, we have been able to increase our revenue by 7% if you compare it to the last year H1 figures. So we are surely seeing a strong momentum as we look into the trailer axle and suspension business. What was your other second question?

Pritesh: Sir, I know the revenue growth side. I was asking you on the volumes. So what is the volume in H1 for us? What would be the market growth accordingly? What would be the market growth? And what would be the prime mover growth in this space?

Kunal Rai: Okay. So if we look into the volume front, the total volume is at approximately 15,000 axles per month. Okay. This is what the current market volume is. As far as the company is concerned, we are at approximately 3,000 axles on a monthly basis. This is what we have been performing to. The July and August month on the prime mover segment has been weak.

Okay. But however, we have seen that from the month of September and continue to October and November, this has gradually increased as far as the major OEM's and Tata Motors and Leyland are shifting a lot to the prime mover segment.

Pritesh: Okay. So is it fair to assume that the axle volume is flat for the quarter and H1 on a Y-o-Y basis? Largely flat for us?

Kunal Rai: For us, it has improved as well. Last year in H1 FY'24, we were producing approximately 2,200 axles to 2,300 axles per month, which has now almost grown to 3,000 axles per month.

Pritesh: Sure sir. So then that cannot translate to just 10% revenue growth, right? 7%. Then you are referring to a volume growth of 30% and revenue growth of 7%.

Kunal Rai: No, the volume growth, the total turnover growth between our trailer axle and suspension segment over last year has increased by 7%. On a volume front, if you look at – if you look into an average volume, we were producing close to around 2,300 to 2,400 axles last year, which has now increased to 3,000 axles. July and August, as I said, have been weaker months. Okay. But what we are currently doing over the last couple of months is 3,000 axles.

Pritesh: I'm actually asking you for H1.

Kunal Rai: So if you look into H1, you could say the average has been at around 2,600 axles per month.

Pritesh: Okay. Against 2,300 last year?

Kunal Rai: Exactly right.

Pritesh: My second question is what is the progress on the components export order? What is the progress on the new axle that you are supposed to launch? And what is the progress on the seamless capacity expansion?

Kunal Rai: Okay. So as far as on the new trailer axle launch of what we have done on the 18-ton axle, okay, we must – we have been in this business now for the past four years. Okay. And we basically want to develop the entire range for the transport industry. Okay. When we started, we had the mechanical suspension. Then we developed the air suspension. In the axle front also, earlier we had the 13-, 14-, 15-, and 16-ton axle. There has been a requirement in the industry of the 18 ton. Hence, we have developed it, and we will continue to develop any other model which the industry requires.

Secondly, on the export business, last year our exports were just at 1% of our entire top line and we have been in continuous discussions with two customers, one in Sweden and one in Japan. The business with the company in Sweden that is Leax is going as per our plan. Our top line on the exports has increased eightfold if we compare it to last year. We have already started the bulk supplies of one of the components which we are manufacturing the Universal Join Cross. The other components have also finished their validation stage, and we would be commencing the bulk supplies of those components in Q3 of this financial year.

So, on the export front, we are as per our plan. It has already contributed to 3.1% of our H1 FY'25 revenue. Our plans are intact from both these customers. The third question I believe was on the axle beam extrusion. Our plant is already ready. The machine for it is already ready and we will be undertaking certain trials in the month of November. We plan to install this facility at our plant by Q4 of this financial year.

Pritesh: Okay. Thank you very much, sir.

Moderator: We have next question from the line of Dhaval Jain from Sequent Investments. Please go ahead.

Dhaval Jain: Hello, sir. My question is I want to understand how much is our production capacity for axles per month?

Kunal Rai: Okay. So, our total trailer axle monthly capacity is 5,000 per month and with the inclusion of the axle beam extrusion facility that we are going to be installing in Q4, it is going to grow to 7,500 numbers per month.

Dhaval Jain: Okay. And what is our capacity utilization right now?

Kunal Rai: As I mentioned, we are currently at 3,000 axles per month. So, if you look into utilization, that's at approximately 60%.

Dhaval Jain: Okay. So, I just want to understand going forward, where do you see our growth coming from? Is it the trailers and axles business or the components business? Because what I see is our share of trailers and axles business is growing comparatively in our revenue versus the components business. So, is it going to be the same thing going forward?

Kunal Rai: So, the revenue is going to grow on all the three segments, sir. Okay. We have increased our contribution from 44% to 45.2% on the trailer axle segment, mainly because the M&HCV segment has performed quite weak, especially in Q2. Okay. Hence, the revenue contribution has

increased from the trailer axle business. However, we for sure see some kind of recovery in the M&HCV segment in Q3.

Also, our other growth would be coming in from exports. We had negligible exports last year, which has grown to approximately 3.1% on the total revenue for H1. This would further be increasing as more components are going to be starting bulk supplies.

Dhaval Jain: I understand that we'll be having around 90,000 production capacity for the axles annually. So, what is our targeted capacity utilization in FY26?

Kunal Rai: Sorry, sir. Can you just repeat?

Dhaval Jain: So, you told me that we will be increasing our capacity to 7,500 axles per month. So, it is around 90,000 per year, right?

Kunal Rai: Yes. This would be for FY'26.

Dhaval Jain: Yes, FY26. So, I want to understand how much will we have capacity utilization in FY'26 or what are we aiming for?

Kunal Rai: So, we would be again planning to have a utilization of approximately 60%.

Dhaval Jain: Okay, 60%.

Kunal Rai: Yes. We are targeting to reach to approximately 4,000 to 4,500 axles per month by quarter four of this financial year.

Dhaval Jain: By this financial year?

Kunal Rai: Yes. Of Q4 of this financial year, we want to be at 4,000 trailer axles per month.

Dhaval Jain: Right, sir. Thank you so much.

Moderator: We have next question from Mihir Vora from Equirus Securities. Please go ahead.

Mihir Vora: Hi, sir. So, thank you for taking my question. So, my first question was on this extrusion line which we are adding. So, you said that it would be commencing in the fourth quarter. So, I just wanted to know whether how it makes our trailer axle product different in terms of pricing and margin-wise. Like, why would it be preferred by the aftermarket segment?

Kunal Rai: So, basically, sir, there are two advantages on this product. Number one is on the margin side, it is a lighter product than the existing axle beam. Secondly, it is stronger. Okay. This is basically a seamless tube which is heated at both ends and the spindles of these are extruded from the beam itself as compared to the existing design which is of a fabricated version. So, there are certain advantages which are there in the single piece construction than the existing design.

Mihir Vora: Right, but how would it be different in terms of costing to our existing product and once we start using the extrusion? So, will there be a major price hike in this product realization?

- Kunal Rai:** No. We are not looking at any hike in the product. In fact, the cost saving of this would be at approximately 5% than the existing design.
- Mihir Vora:** Okay. All right. And are we looking at some other use for this extrusion line as well in terms of axles only or are we looking at some other business as well?
- Kunal Rai:** So, this would surely benefit the trailer axle business. Not only that, but we would also be able to supply with the extruded axle beam, the tag axles to the OEM's for their rigid vehicle application.
- Mihir Vora:** Right. And are we in talks with, like, is there is a good visibility?
- Kunal Rai:** We have been in touch with the OEM partners and once we have the product ready, we would further take it up.
- Mihir Vora:** Sure. And my second question is on basically the trailer axle market is something where you have to, build your service network and it's sort of an aftermarket business. So, how are we doing on the service network side? Like, what is our reach right now and what are we looking at going ahead? Like, which markets are we looking at?
- Kunal Rai:** Yes. So, we have a total team of now approximately 80 people on the field, which is continuously increasing. Okay. Even for customer service, we've set up a specific software developed by Salesforce, in fact. Okay. But we are basically expanding to different states.
- We are already present in states like Jharkhand, Chhattisgarh, Rajasthan, Gujarat, Maharashtra, West Bengal, and in which we've onboarded, in fact, new customers, that is new fabricators in the last 12 months and that's been approximately 80 new customers in this field.
- So, with the expansion of new customers, we have to obviously build our sales and service network as well as this is a very important factor in this business. We've, in fact, been able to reach to where we are and the market presence that we have now and the share that we have is due to our obviously good product that we have and the service network that we've been able to establish over the last three to four years.
- Mihir Vora:** Sure, sir. That's all from my side. I'll fall back into the queue.
- Kunal Rai:** Thank you.
- Moderator:** Thank you very much. We have next question from Sriram R from Investor. Please go ahead, sir.
- Sriram R:** Thank you for the opportunity. Also, in your presentation, you have mentioned Tata and Ashok Leyland and also Meritor and Automotive Axles. So, I just want to understand which are the products that you sell directly to OEMs, and which are the products that you sell to Meritor and Automotive Axles? And also, for the products that you sell to them, the Automotive Axles and Meritor, what is the value addition made by them?

Kunal Rai: So, basically, sir, there are three segments in our industry, one is on the trailer axle, the other is on the tractors, and the third is on our component business that we work with our OEM's and large Tier-1 companies. So, we have a very diversified product portfolio.

To name a few, these are axle shafts, coupling flanges, differential spiders, anti-roll bars, stabilizer bar assemblies. So, these are the products that we offer to our OEM and large Tier-1 partners. So, we are supplying to Automotive Axles components for their rear axle assemblies, such as companion flanges.

Sriram R: So, you sell to Automotive Axles, rear axle, sorry?

Kunal Rai: Companion flanges, yes.

Sriram R: Okay. And then the suspension and trailer parts to OEM's?

Kunal Rai: No, sir. The suspension and the trailer axles are supplied to the trailer fabricators in the country. They are not supplied directly to the OEM.

Sriram R: Okay. Yes.

Kunal Rai: The trailer axle and suspension is being supplied directly to the trailer fabricator, which is a very fragmented business in the country. And we are also associated with the largest trailer fabricator in the country, that is Tata DLT.

Sriram R: Okay. And, sir, any plans to forward integrate into that chain also? You're saying it's fragmented. You're saying the fabricators are fragmented. So, any possibility to forward integrate and take care of the fabrication part also?

Kunal Rai: No, that is a business we do not plan to enter. And just coming back to your previous question, OEM's do not buy the trailer axle and suspension directly. Okay. It is directly done by the trailer fabricator only. And coming to the second question, we plan to increase our expansion and everything on the axle and suspension segment. We do not plan to get into the trailer fabrication part of it.

Sriram R: Great, sir. I'm just squeezing one more question. I mean, there is one transaction which has happened in the industry. Bharat Forge has actually entered into an agreement of American Axle. So, would it have any impact on your business with Automotive Axles or any other possibility? What would be your answer?

Sudhir Rai: If you look into it, it is a wise acquisition. But it's the same tree, different branches. The Automotive Axle is one area and then you have American Axle as another. And Baba Kalyani is also half owner of Automotive Axles. So, he's just been – and American Axle wanted to exit the country. So, they found a good buyer who is more aligned with the business. So, that's why they chose Baba Kalyani. It doesn't hamper our business. It will only help increase it.

Because now there is another brand which will go into manufacturing. And all these big companies which manufacture the live axle, they do not make the parts which go into the live axle, like axle shafts or whether it is companion flanges or differential kits. It is always that they

have the technology, and they buy out the parts as per their design. So, if you question about what impact it will have, it will only have a positive effect. It doesn't have a negative. And it's basically growing of the existing business.

Sriram R: Okay. So, just a basic question. I mean, you mentioned that they do not make the parts, they have the technology. But why is that the case actually?

Sudhir Rai: In a rear axle assembly, this is always of a proprietary design which is there with a few companies. Meritor is one. Then Dana is one. And Spicer, again, which is part of Dana group. And then you have in the Indian OEM's only Tata Motors who are in this space. Otherwise, even Ashok Leyland and Daimler are buying out their axle assemblies.

And even other players who are smaller in size, that is VECL as well as Mahindra, they buy out their axles. Now, it is not possible for a Tier-1 company to go into the forging and all that. Then you have to have a backward integration for the forging. It kind of loses focus. They would rather go on to a forward integration of having designs, validation facilities, rather than going to component manufacturing.

Kunal Rai: They do manufacture. Let me just tell you, the crown wheel is always manufactured by these OEMs. Like, for instance, if you look at Automotive Axles, it makes its own crown wheel and tail pinion. Okay. And if you look at Tata Motors and even Ashok Leyland, they all manufacture their crown wheels. And then they give it back to the large Tier-1 companies like Dana and Automotive Axles to make the entire rear axle assembly.

Sriram R: Okay. Understood, sir. Thank you so much, sir.

Moderator: We have a question from Ashish Raut from DEM Securities. Please go ahead.

Ashish Raut: Good morning, sir. So I have a question on more or less commercial vehicle segment has not shown any growth in H1 compared to last year. So what has its impact on us? And do you see any slowing down of demand? And how does H2 look for us as our major revenues are dependent on commercial vehicles?

Sudhir Rai: Yes, I'll just take you back on this. You see, the demand for load, okay, for carrying load is not decreasing. This was mentioned by both Tata Motors and Ashok Leyland during their annual vendor meets. The load carrying capacity, the tonnage capacity has increased by 22% over the previous year.

It is just that heavier vehicles, higher tonnage vehicles are now more in fashion than the earlier. The average tonnage of vehicles that was there in the previous year was something like 32 tons, which has increased to 45 tons. So there things go wrong for these people. The volumes come down a bit, but the tonnages have been increasing. That means it just goes to show that the demand is there.

And this year, what is it that we have seen in the beginning? The first quarter we saw elections. Things were not settling down. Then we saw the July-August historically are very poor months to go by. And that left only September. And in September, we posted a better growth than in

August. And the indications that we have received in our October was also good. Our November indications and December indications are on the positive side only.

So there are two aspects which are governing on volume. One is the tonnage increase. The carrying capacity of vehicles which have gone up by 22% that has affected the total volume. But the demands have not come down. The demand of 22%, that extra load carrying capacity, has been there only. Otherwise, we would have seen a much bigger drop.

The drop has been approximately 11% only on the total volume. But the demand for carrying load has increased by 22%. And now we see that the government spending has increased towards road building and various other infrastructural projects, which require a lot of vehicles. So that's why we see that H2 will be far better than H1.

Ashish Raut: Okay. Thank you, sir. All the best.

Moderator: Thank you so much. We would like to remind participants that you may press star and one to ask a question. As there are no further questions, I would like to hand over to management for closing comments.

Kunal Rai: Right. Thank you to all the investors who were part of the call today. And thank you for listening to our Q1 and Q2 and H1 results. And from the outlook perspective, as I mentioned during my earlier talk, that we surely see a better momentum, not only in our trailer axle, and suspension business, but also in the component sector from the month of September. And we look into a better and positive H2 FY'25. Thank you once again for joining.

Moderator: On behalf of Equirus Securities, that concludes this conference call. Thank you for joining us. You may now disconnect your lines.