Commercial Vehicle Solutions

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Date	February 14, 2025

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Scrip code: 533023

Listing Department
National Stock Exchange of India Ltd
Exchange Plaza, C-1, Block G
Bandra - Kurla Complex
Bandra (E), Mumbai 400 051

Trading Symbol: ZFCVINDIA

ISIN : INE342J01019

Dear Sir(s),

Sub: Transcript of the Investor Call held for the quarter ended December 31, 2024

In continuation of our letters dated 03rd February 2025 and 07th February 2025 pursuant to intimation and recording of investor's call, we hereby inform that the transcript of the call has been uploaded on the website of the Company and the same can be accessed through the following link:

ZF CV India Investor Relations - ZF

Request you to take the above information on record.

Thanking you,

Yours sincerely,
For ZF Commercial Vehicle Control Systems India Limited

MANOHARAN MUTHULAKSHMI
Digitally signed by MANOHARAN MUTHULAKSHMI
Date: 2025.02.14 16:43:17 +05'30'

Muthulakshmi M
Company Secretary

"ZF Commercial Vehicle Control Systems India Limited

Q3 FY '25 Earnings Conference Call"

February 07, 2025

MANAGEMENT: **MR. P KANIAPPAN – MANAGING DIRECTOR – ZF COMMERCIAL VEHICLE CONTROL SYSTEMS INDIA LIMITED**
MS. SWETA AGARWAL – CHIEF FINANCIAL OFFICER – ZF COMMERCIAL VEHICLE CONTROL SYSTEMS INDIA LIMITED
MS. M. MUTHULAKSHMI – COMPANY SECRETARY – ZF COMMERCIAL VEHICLE CONTROL SYSTEMS INDIA LIMITED

MODERATOR: **MR. ANNAMALAI JAYARAJ -- BATLIVALA & KARANI SECURITIES**

Moderator: Ladies and gentlemen, good day, and welcome to ZF Commercial Vehicle Control Systems India Limited Q3 FY '25 Earnings Conference Call hosted by Batlivala and Karani Securities India Private Limited. 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 an 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. Annamalai Jayaraj from Batlivala and Karani Securities India Private Limited. Thank you, and over to you, sir.

Annamalai Jayaraj: Thank you. Good morning to all participants. Thank you for joining us today, and welcome to ZF Commercial Vehicle Control Systems India Limited call to brief you on the quarterly earnings. Today, the third quarter earnings for FY 2024-25 will be presented by the management team of ZF Commercial Vehicle Control Systems India Limited.

Our host today from ZF Commercial Vehicle Control Systems India Limited are Mr. P Kaniappan, Managing Director; Ms. Sweta Agarwal, Chief Financial Officer; and Ms. M Muthulakshmi, Company Secretary. I'll now hand over the call to Mr. Kaniappan, who will provide further insights into the results. So over to you, sir.

P Kaniappan: Thank you, Mr. Jayaraj. Good morning to all of you. I warmly welcome you all to ZF Commercial Vehicle Control Systems India Limited third quarter results for FY 2024-25. Certain forward-looking statements that we will make today are based on management's good faith, expectations and beliefs concerning future developments. As you know, actual results may differ materially from these expectations as a result of many factors.

ZF Commercial Vehicle Control Systems India Limited results for the quarter ending December 31, 2024, published on February 6th, 2025. They are available on the website, www.zf.com, under the ZF CV India Investor Relations section. We hope that you have had an opportunity to go through them. A transcript and recorded audio of this call will also be made available on the website of www.zf.com under the ZF CV India Investor Relations section.

I'm happy to talk to you today as we give you an update about the business of the company. First, economic update. I would like to start with a quick update on our operating environment, which is influenced by economic factors and the development of the commercial vehicle industry. The global economy remains stable with growth to holding up amidst winning inflation, albeit at a slow stage. Geopolitical risks and policy uncertainty, especially with respect to trade policies have imparted heightened volatility to global financial markets.

On the domestic front, real GDP registered a lower than expected growth of 5.4% in Q2 FY 2024-25. As rebate consumption and investment decelerated given government spending recovered from a contraction to the previous quarter. On the supply side, the growth in gross value added during Q2 was aided by resilient services and improving agriculture sector, but weakness in industrial activity, that is manufacturing, electricity and mining, tempered overall growth.

Advent from geopolitical uncertainties, volatility in international commodity prices and geoeconomic segmentation continue to post this to the outlook. Taking all these factors into consideration, real GDP growth for FY 2024-25 is projected at 6.6% with Q3 at 6.8% and Q4 at 7.2%. Real GDP for Q1 FY '2025-26 is projected at 6.9% and Q2 at 7.3%. The risks are evenly balanced.

Going forward, economic activity is set to improve along with rising business and consumer sentiment as reflected in the Reserve Bank of India survey. (Source RBI's Monetary Policy Committee, December 4-6,2024)

Now about the industry, Indian commercial vehicle industry. The commercial vehicle industry demonstrated growth on a sequential basis compared to Q2 FY 2024-25, fueled by the resurgence of construction and mining activities, further supported by festive demand. However, on Q-o-Q basis, the industry experienced a 9.5% decline due to a broader economic slowdown and delayed Government's capex spend. Despite this, the shift towards the ICV segment continued in this quarter. The commercial vehicle production (CV>6T) decreased from 105,025 in Q3' FY 2023-24 to 95,082 vehicles in Q3' FY2024-25. Looking ahead, with the government's focus on infrastructure spending, anticipated improvements in rural demand, and growth in end-use segments, the CV industry is expected to grow.

OE Sales: The company's OE sales for the quarter stood at INR409 crores compared to INR483.1 crores in the corresponding period in FY 2023, '24, reflecting a decline of 15.3%.

This was primarily driven by a reduction in vehicle production and a shift in the vehicle mix towards buses and ICV segments, resulting in lower content per vehicle. While we anticipated a lower value per vehicle due to these market dynamics and our strategic exit from low-margin products, we partially offset this impact through targeted product launches.

- Electronic -- I would like to list 3 such a focus area. So one is electronically controlled AR suspension for coaches and electric buses,
- Expanded penetration of OptiDrive AMT, AMT automated manual transmission across additional value vehicle platforms,
- Strengthen the focus on safety solutions driving a 5% increase in trailer ABS adoption. These initiatives underscore our commitment to innovation and value creation, positioning us well for future growth.

The recent budget aims to, that is the one that was launched on 1st of February 2025 aims to boost the economic growth by focusing primarily on stimulating demand in both urban and rural areas. This will be achieved through increasing the income tax threshold and investing in agriculture with additional emphasis on infrastructure, innovation and technology.

Turning to the aftermarket, we are pleased to report a good performance in Q3 FY 2024, '25. The aftermarket revenue was at INR132.4 crores, making a 2.6% quarter-on-quarter growth compared to INR9.8 crores in the corresponding period in previous fiscal year.

Key highlights of the aftermarket business.

- Through the aftermarket, we facilitated the retrofitting of Hydraulic ABS on an LCV platform for a leading OEM exporting to the Sri Lankan market. This initiative presents a growing business opportunity

- Increased penetration of door control systems into northern and western regions. We are actively working towards, leveraging multiple growth opportunities.

- We are working closely with petroleum companies to introduce new safety specifications in upcoming tenders aimed at preventing rollover accidents. The initiative will begin with a pilot program in four states, where its effectiveness in reducing accidents will be assessed. Based on the results, we plan to expand the initiative to other states nationwide.

- We have launched a Go Green Project in partnership with major fleet operators. By offering retro kits with higher-capacity compressors, we aim to enhance fuel efficiency (Kmpl) and extend air brake life, contributing to sustainability and higher cost savings.

- However sales to State Transport Undertakings (STUs) remained stagnant due to the replacement of aging buses with new vehicles, slower-than-expected adoption of electric vehicles (EVs), and state government policies that have affected payment collections.

Export of goods. In Q3 of FY 2024-25, the Company delivered export sales of INR 290.6 crores. This robust performance was partly attributable to a favorable base effect following reduced offtake in the same quarter of FY 2023-24 due to higher inventory levels. More importantly, our growth was driven by strategic expansion into new business segments, particularly air compressors and actuators, with leading OEMs in Europe. Looking ahead, we anticipate continued growth in volumes for air compressors and actuators in the upcoming quarters. To support this demand, we are proactively investing in capacity expansion, ensuring we are well-positioned to capitalize on emerging opportunities.

Export of services. In Q3 FY 2024-25, the export of services grew to INR104.5 crores, an increase of 18.5% compared to the same period in the previous fiscal year. This growth was driven by an increase in engineering and related support activities provided to our global team. Digital business. In Q3 FY 2024-25, our digital business income was at INR9.5 crores, the subscription income quarter-on-quarter growth of 39.8% compared to Q3 FY2023-24.

This performance was driven by additional business acquisitions in connected advanced driver assistance systems, ADAS and driver monitoring system. From key fleet operators, along with a steady increase in customer subscriptions for our existing connected services. Subscription revenue grew by 17% on a quarter-on-quarter basis compared to FY2023-24. The growth was further supported by strengthened the field support and targeted customer awareness initiatives.

R&D and engineering. The company provided pre-home allocation and development support for the implementation of advanced driver assistance systems, ADAS feature for a leading OEM in India. This collaboration enabled the OEM to secure central motor vehicle rules, CMVR certification for their truck range making a significant milestone in CV safety and innovation in India.

Manufacturing update. The company launched new twin-cylinder compressors from the Mahindra World City plant for European OEM customers, in September 2024. This marks a significant milestone demonstrating our capability to produce and export high end twin cylinder clutch compressors.

At our Oragadam facility, the company established new assembly lines for Dual Diaphragm Spring Brake Actuator (DDSBA) and Automatic Slack Adjuster (ASA), ramping up production to meet the full demand for our export customers.

As part of our strategic manufacturing footprint optimization, we transferred the production of actuators, brake chambers, and exhaust brake assemblies from Ambattur plant to our plants in Jamshedpur, Lucknow, and Pant Nagar. This move enhances our operational efficiency by bringing production closer to key customer locations, thereby improving delivery performance to customers.

Additionally, we made significant advancements in productivity and quality by integrating Smart Automation, Robotic Technologies, Testing Automation, and Digitalization within our manufacturing cells. These initiatives have strengthened our operational excellence and positioned us for sustained growth.
ZF CVCS India at Bharat Mobility Global Expo 2025. ZF CVCS India, participated in the Components Show at Yashobhoomi from January 17 to 21, 2025 as part of ZF Group India. The event provided an excellent platform to showcase leading-edge technologies across all product lines, including OnGuard Max (Advanced Drive Assistance Systems - ADAS), Reversing Camera, Short Range Radar, iAMT, ConAct, Electronic Stability Control (ESC), and Electronic Braking System (EBS), among others.

Additionally, we introduced new technologies including the e-comp AirLite, SCALAR (Fleet Orchestration Platform), and CeTrax2 Dual.

The ZF booth was formally inaugurated by Shri Piyush Goyal, Hon'ble Minister for Commerce and Industry, Government of India. We engaged with CXOs of leading CV OEMs and key decision-makers from purchasing, R&D, and marketing teams. Our showcase received a positive

response, generating significant interest across all our technologies, which we aim to leverage for future business opportunities.
ZF CVCS India has been honored with the Best Supplier Award from JBM Group underscoring our leadership and commitment to innovation, safety, and customer excellence.

ZF CVCS India has been honored with the prestigious 'ZF DNA of Quality Excellence Award' for the second time in three years, a testament to our unwavering commitment to superior quality standards. This distinguished recognition is one of six key awards presented annually across the ZF Group and the only one dedicated to Quality Excellence.

This recognition highlights the company's quality transformation journey through successfully implementing the ZF DNA of Quality framework among our supplier partners. By fostering a zero-defect mindset and encouraging ownership of quality with the supplier, the initiative has set new benchmarks for excellence within the supply chain. This accomplishment underscores ZF CVCS India's dedication to innovation and continuous improvement, paving the way for our future success.

In the third quarter of FY 2024-25, the company's employees received notable recognition in Total Employee Involvement (TEI) engagements. The Product Engineering Team won the Platinum Award in NIQR's National Six Sigma Competition and the Ambattur site earned a Gold Award in the NIQR National Six Sigma Competition.

Our employees actively participated in external Total Employee Involvement (TEI) and related competitions, winning **2 National awards, 3 Regional awards, and 10 State-level awards** across various categories. These accolades were earned through our commitment to excellence and participation in competitions organized by Confederation of Indian Industry (CII), the Automotive Component Manufacturers Association (ACMA), and the Quality Circle Forum of India (QCFI), National Institute of Quality & Reliability (NIQR) among others. We remain dedicated to our pursuit of excellence.

CSR:- In Q3 FY 2024 '25, we continued to take significant strides and make a meaningful impact in our surrounding communities. At the Govt. Middle School, Uperbera, Jamshedpur, we constructed a kitchen facility for the mid-day meal program, installed a drinking water facility with an overhead tank and solar-operated motor, renovated the school playground, and undertook tree plantation around the location.

Strengthening our commitment to road safety, we contributed brake system working models for training drivers and technicians and sponsored workshop equipment to Metropolitan Transport Corporation (MTC), Andhra Pradesh State Road Transport Corporation (APSRTC), and Telangana State Road Transport Corporation (TSRTC).

As part of our community outreach efforts, we contributed laptops to underprivileged students through Govt of Tamil Nadu's "Namma School, Namma Ooru Palli" scheme, empowering young minds with digital access and enhancing learning opportunities.
Financial updates: For your reference, the results were made public at 18:16 hrs on February 6, 2025. I hope you have had a chance to go through them. The product sales in Q3 2024-25 were INR 832 crores against INR 797 crores in Q3 FY 2023-24. This is a growth of 4.4%, driven by an increase in aftermarket sales and exports. The company's EBITDA, operational profit, improved to 23.3% in this quarter compared to 20.5% in the same quarter in the previous year. The Profit Before Tax increased by 2.3% to INR 161 crores and the Profit after Tax by 2.4% to INR 126 crores. This was a result of the management's continuous efforts in improving the business profitability.

We will continue to carefully review the environment and our environment and our performance to consider further opportunities. Thank you. We now welcome your questions and feedback.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question and answer session. First question is from the line of Mumuksh Mandlesha from Anand Rathi Institutional Equities. Please go ahead.

Mumuksh Mandlesha: Thank you for the opportunity and Sir, congratulations on the strong operational performance. Firstly, to Sweta ma'am, is there any in this quarter any one-offs in the margin side because you've seen a particular good improvement in the gross margin and the other expense also was lower sequentially. Can you help us understand what happened in this movement of both the items, sir?

Sweta Agarwal: There is a minor onetime impact from the quality cost, which is evaluated on an annual basis. We have talked about us winning the excellence award the DNA of quality awards and this has resulted in a reduction of the claims and warranties and that's what's reflected in the books. But the onetime impact is not a major one. And in fact, it is a sustainable one which will be carried forward.

Mumuksh Mandlesha: Got it. So can you explain us just on the other expense the reduction which we saw despite higher revenues partly to this onetime saving, which we have from the reduction of the claims. And anything other than that also, anything like freight reduction, etc which have reduced the cost?

P Kaniappan: Just to add to what Sweta said. So we keep certain provisions for the warranty. So normally, we are keeping it based on the earlier rejection warranty claim trend. And it's a 3-year type of basket. So the actual trend has been steadily coming down, which is the actual case in the last 2-3 years. So the excess provision is released. So that was one time about INR6 crores. But then this is a sustainable thing because actually, it's based on a trend. Again, we have a practice of releasing it end of every year.

But it's also sustainable, meaning as you keep improving the quality of products, the field failure comes down, so you reduce your provision. So that is the topic. Other than that, there is no other one timer. In fact, we are affected by the forex that's a negative tailwind sorry, headwind.

Mumuksh Mandlesha: Got it. On the gross margin, the improvement would be sequentially improvement would be largely to the better aftermarket mix and the OEM mix?

P Kaniappan: Actually, there are a few things contributing to the gross margin. One is we continue to review the bleeder products in our portfolio. And in a few cases, of course, we try to improve our cost side in the supply chain side, also in the plant, etc, but there are a few products in which it's more like a commodity today. So we buy the products and sell to the customers like air compressor type of products, where we are such a bleeder.

So we have to exit that those area. So this is one thing. One is you improve your overall margin by doing a bleeder management. So in some cases, we go to the customers and seek revision where we believe we have actually achieved the best cost level. Still if you're bleeding, we go to the customer and seek revision.

So this is one thing that we continuously do in the last 2 -3 years. Now we will continue that. We have certain targets to achieve in terms of customer profitability, product profitability. That's one aspect. The second aspect is in the supply chain, the purchasing team constantly look at opportunities to really reduce the cost. That again is through value engineering and value analysis initiatives.

Again, it's an ongoing more like a 3-year type of pipeline they keep working. And that reduces the purchasing price. We call it purchasing price variance. So purchase price of supplier parts. Then also, there's a negotiation process where based on the volume, we also get certain contribution from the suppliers through the negotiation. These approaches are more or less getting stabilized.

So this is on the supply chain. Of course, the factories again we work on we call it controllable factory cost(CoFaCo) this again, see what improvement we can do in the cost of – essentially addressing the productivity, improving the productivity of the plants continuously. So this is also a lever that continuously, it works. I've been always saying that we have come from a TQM type of background in which the continuous improvement is the core of our DNA.

So we look at the improvement in all aspects of our factory costs as well. So that is also contributed. So these things have helped us to improve gross margins.

Mumuksh Mandlesha: Got it, sir. Sir, coming to the exports outlook. I think the Daimler order is seeing a good ramp up. Can you just indicate how large this order can be and how -- and for next CY '25 if you can share any outlook how to see the exports growth? And secondly, on the BMW EV order, are you seeing any pickup there?

And thirdly, just on the exports how is the different value for twin cylinder compressor versus normally a regular compressor? How different is the content per vehicle for this product?

P Kaniappan: Yes. I will give a broad aspects and not in a position to give exact number, but what I can tell you our growth in export is largely driven by the new product launches. One is, of course, the global markets are not that much growing, particularly both Europe and the US, but we expect improvements maybe up after two quarters.

But current, our focus is to really grow through new products. So the last year we have launched three new products. One is we are already supplying to one of the global players. DAF we are expanding the volume again. W.r.t compressors, high-end compress earlier we used to supply compresses at 318 CC and of course 636 CC to that type of compressors to one of the global OEMs. Then, based on the success of DAF, we extended to other OEM’s

DAF started with 440 compressors now they are steadily increasing. And now, we are supplying the high-end twin cylinder clutch compressor. This probably is the highest in terms of value content that is in the compressor segment. Again, based on the success and, of course, we have also launched Daimler Global, same product, that's, again a similar high-end compressor.

That volumes are slowly picking up. typically the content is of the order of about EUR200 that's per compressor. So compressor it’s not only a good thing, but we also expect volume also to pick up. This is on the compressor side.

For DAF, we are a global center of excellence for compressor manufacturing in this space. So it's a question of how we continue to strengthen our position there in terms of future which I think we have all ingredients to really strengthen our position there. The second area is you asked a question about BMW. We are not seeing any big immediate recovery in the product that is selling.

In fact, in this quarter, about INR12crores is reduced comparing to the previous year, but we are again this is a global topic. So we are riveting the evolution in this space. But one another area where we are growing is in the actuators and brake chamber. So we have launched new brake chamber to one of our important customer Volvo. So in the actuators and brake chamber we see more opportunities as we are securing stronger position with some of the global OEMs in terms of share of market, etc.

Yes. It's -- we see growth, but one challenge is when we go through the new products, the demand of some of the existing is moderating because of the global situation -- economic situation. So that's why we are still in the range of 100 crores per month type of range. But I expect at least going forward, things should slowly improve.

Mumuksh Mandlesha: Got it. So just on the Daimler side, anything there how that is improving?

P Kaniappan: That's right. That is recently when we launched. Now maybe during September or October time frame, they launched the product. It's taking up well, customers seems to be quite happy, volumes are increasing more than what they've indicated. We see a growth in that space. So that and other customers Volvo, DAF and Daimler. So these are three customers. Now we see an improvement in the situation as we move forward. We are also trying to build additional capacity, expanding, putting some investments, etc, so that work is going on.

Mumuksh Mandlesha: Just lastly recently there was a transport committee meeting and Nitin Gadkari had talked about the upcoming regulation on the ESC and ADAS, etc. I just want to feedback, how do you see that announcement, I mean, that I mentioned about the regulations?

P Kaniappan: Yes. So in terms of our readiness to support the industry, we are already ready. In the case of ESC, we have applicated most of the truck platforms. You might know that in the bus platform, the ESC adoption has been adapted, but to I would say about 40% of the overall size of the industry because of certain loopholes or whatever in the regulations, but then September 2025, the government actually really bringing some more key points in the regulation that will allow the ESC to be fit that requires the ESC to be fitted in maybe 60%, 70% of the overall bus production.

So that will increase. Now the ESC is a technology that is more needed for the double-decker buses which are going heavy in the coaches. So whenever they turn -- they take a turn there could be a rollover possibility. So ESC helps to prevent that rollover. That is the technology. So this is much more relevant in India and the truck segment because people overload and that's vehicle became unstable. By Physics it becomes very unstable because the center of gravity is moving up.

So you need to have – technology you have to solve this through technologies. Very recently, we see there are some few places in India, there's a tanker accident which were carrying hazardous goods that led to some collateral damage to people around many, some people died, etc. So this is an urgent requirement for the market. Because when you deal with liquid transported through a tanker.

The vehicle per se becomes unstable. By Physics the driver cannot control because -- so this is the excellent technology to stop this. So what we have done is we have been working with most of the Indian OEMs and many of their platforms are already home allocated with the ESC technology.

Recently, we also came out public that we have invested on an ESC test truck in our test track located in Chennai. Now two things will happen the market itself we are seeing some pull from the market even without the regulation for these technologies for the trailer, trailer EBS which has got a rollover elimination possibility. So in the truck, mostly it will come through a regulatory route. So government, we are very much ready to support the government with all our capabilities, already we are partnering. Exactly when this will come, we are not sure because it's not a notification is not yet come, but it will soon -- it is expected to come.

Also, the ADAS, Advanced Driver Assistance Systems is the next technology that government will bring in regulation, a lot of talk about it. So generally, the ADAS needs the ESC also -- to effectively apply the safety in the vehicle. So you need to have ESC also before the ADAS. So these things are the very immediate in the near-term expectation in the market. So ADAS also are quite ready.

In fact, one of the big OEMs, they even presented in the Bharat mobility that they are ready with Level 2 automation which is -- essentially, we are working with our technology. So Advanced Driver Assistance Systems, there are multiple features are there. But then the government will expect -- wilsl bring notification for some basic minimum that is required to ensure that vehicles are safe because that particular one, that is called advanced emergency braking system, which is a part of the ADAS.

There essentially, the vehicle will have an ability to see, think and act. In the sense it will see what is in front through radar and cameras. It will have a software, which will actually be able to process the data and think and then it apply brakes or otherwise. So that is the way the technology works. And in our view, these are the next 2, 3 years' time line, most of this will come to the market.

Mumuksh Mandlesha: Understood, sir. Very helpful. I will come back in the queue.

Moderator: Thank you. Next question is from the line of Himanshu Singh from Baroda BNP Paribas Mutual Fund. Please go ahead.

Himanshu Singh: Just on the impact on forex. You mentioned that there is a negative impact of forex. Is it accounted in other expenses or other line items?

P Kaniappan: Yes. I will request our CFO to answer that.

Sweta Agarwal: Himanshu, this is accounted in other expenses.

Himanshu Singh: And would you be able to give the quantum this quarter, previous quarter and last year?

Sweta Agarwal: So last year, same quarter, we had a INR15 crores positive impact. And last quarter was INR9.3 crores of FX loss. You want me to repeat?

Himanshu Singh: No, no. That's fine. And coming to the margins. So like we have seen a substantial increase in margins this quarter from, let's say, 14.9% last year to -- like even if we account for the one-off of INR60 million, that comes to around 17.9% to 18.4% this quarter. So do you think this is sustainable and we should see a substantial increase in margins Y-o-Y going ahead as well?

P Kaniappan: See the mix is one aspect that has been playing -- has played well for us in the last quarter. You see the aftermarket, we have grown at 20%, while the OE business have degrown. Export we have done well. So mix can play a certain impact. Otherwise, they're all same. – But aftermarket, we are seeing the current situation even in the last 1 month or so also we are seeing a good improvement. We have to see how it will evolve. But for the mix, everything else is sustainable, mix if it is displaying some challenges, it can have an impact.

But at least in the near term, we see most areas to grow both aftermarket OE export, we believe, we will grow because we're seeing some signal that OE demand is also increasing now. Aftermarket is also increasing and export, we have some positive orders in the pipeline. So things are looking up.

Himanshu Singh: Okay. And sir, like what is the current mix -- and how do you see it going ahead, let's say, in the next 2 years? Do you see the aftermarket increasing in the overall scheme of things substantially. What is your assessment on that?

P Kaniappan: Okay. Typically, if you see our OE business is up of about 50%. Typically, right now. But then you can always apply your math. Aftermarket is up about 16%. This is in the last quarter. That is the quarter-on-quarter which we are discussing. And exports is about 35%. So 50% OE, 15% aftermarket and exports about 35%. So in terms of profitability, aftermarket is very profitable. And any big change in the -- for export, if you say currently, we are in the range of 1/3 of our production overall sales we do export. I don't see a very big change in that. Unless otherwise, we have some serious issue on the top line -- on the OE. But now that if the market recovers, you can always expect this is the type of mix that can be.

So the aftermarket is 16%. Export is 35% and OE is at 49%. That's the actual percentage in that quarter. And with that, you see some improvement in the bottom line because if that's a change. If there's a change – suppose the OE is increasing, and the aftermarket, it is coming down, the impact would be -- will be there, unfavorable situation in terms of margin, but not too much, but still you can -- for your calculation, you can use that is.

Himanshu Singh: Okay. Okay, sure. And sir, just on the revenue side. So we are in the range, as you also mentioned in the INR900 crores to INR100 crores range from like last 8 quarters -- so when do you think you would be able to like sustainably go above that INR1000 crores range?

P Kaniappan: No. you're talking about export -- Overall, I'm saying the growth starts now probably all areas, at least we see an improvement this quarter. But April, May, we have to see, however, because we now, if you say the government statement or RBI statement indicates that the growth is expected to be in the range of 6.5% to 7.3% going forward next few quarters.

And now because the government has started investing and a lot of tender programs for the buses, particularly EV buses is already happening and many customers have started producing the electric buses. We are seeing a positive momentum to start now. We will have to see because all of us have to really see how it is evolving. But we are preparing to seize this opportunity. So INR1,000 crores, in my view is not too far, per quarter.

Himanshu Singh: Sure sir. Thank you so much. I'll get back in the queue.

Moderator: Thank you. Next question is from the line of Rakesh Jain from Axis AMC. Please go ahead.

Rakesh Jain: Just wanted to understand, you talked about domestic OEM growing next year, you expect that? Is it for you or you're talking for the industry?

P Kaniappan: So I'll give some better points and you can make. The actual number of >6 tons vehicles is something that is what our space. It could be buses – so in the quarter that we are discussing roughly, you can see about, we have done about 95,000 vehicles, so it's about 30,00032,000 Vehicles a month we are talking. In January, the number was 39,000. So you can see there's a growth. We are seeing a growth indication. Our view is that this growth is not -- okay, one is this first quarter -- last quarter of year for the volumes.

Second, also, the mix was very unfavourable because the main heavy-duty vehicles, the MHCV segment. That mix came down from about 60%, 62% to 57%, in that quarter, the quarter in discussion. But now we expect this is also in this quarter, now onwards it is likely to increase, the mix is likely to increase because of again the construction, mining, those activities are actually increasing.

And also the electric buses where we have a good content, even though it's a low volume, but still it's a high content type of segment that was not happening in that quarter at all because tenders were not there. Whatever orders customers are having, they're complete as they are waiting. But now most of the electric bus manufacturers have started the production. We see a growth there.

And so in our view, how this will be pronounced, we have to still wait and watch. But at least this quarter, we see at least some indication. We are in the second month of this quarter, so indication is quite positive. A lot of pull from all customers. In some areas we are even looking at going for a third party type of operations to support the market volumes. So -- but again, we are more or less connected to the industry.

So industry grows, we are also going to grow. Whether it will grow -- continue beyond April, we have to watch. But this quarter, I'm seeing a very good demand pull from OEMs. Also, there's a very good increase in the bus production also. And that we expect it to continue because of the school season and thereafter.

Rakesh Jain: So is it possible to quantify how much does buses contribute to our overall revenue today?

P Kaniappan: Actually, in terms of model mix, I can tell, about 24% of the vehicles are produced -- the overall in that quarter about 32,000 per month. 24% is bus production. But to our revenue, we don't know separately, we are not having that number. We treat this along with the second bus -- and we consider the value per vehicle as a key -- So bus production, if it increases -- again, if it is

EV bus, it's a positive value per vehicle increased -- but then if it is a normal but it is not. It is actually unfavourable debt of mix.

Rakesh Jain: Okay. And sir, just 1 thing on the export side. On the new products, which you are adding -- those products are just currently being tendered to one single customer or they are more than one customer?

P Kaniappan: New products, the export is for many customers. But in terms of product lines, -- we have 4 important product lines. Compressors is one of the major product lines. Maybe we will be doing 1/4 roughly, you can take 1/4 of our overall export comes from compressor. Ccompressor area, as we said, when we started it, it was only one customer, now, we are expanding to 2 more customers now.

. Earlier we were supplying the basic level compressor and now we are getting into advanced high-end compressors. And our view is India may become a center of excellence for these types of compressors. That's the way we are moving because we have a good supply chain. We have a good engineering capability in India. We have a good manufacturing strength.

Then the second important product is actuators and brake chambers. In a brake system, you have a compressor, actuator brakes chamber. Then you have some valves. So in the actuator brake chambers, again, we are emerging stronger and the pipeline is building. We are supplying to many customers. not only in the truck segment, but also the trailer segment.

But in all these cases, the model is we don't directly supply to the customers. We supply to a parent or region from there, they supply to the customers. So we have more like an intercompany operation through a transport logic. But the key point is we are emerging in these spaces more and more a center of excellence, the actuators and brakes chamber.

The third area is we used to make that electronic control system for the air suspension for BMW type of similar platforms. There, there is a reduction in the demand maybe globally, there are the CV transition, there are some challenges. So we have to understand the plan of our customer. But as such, our demand has come down there. We have to study how this is going to evolve.

Then of course, we have many valves and component supply, etc. But there is, I would say, that it's not a very strategic type of topic. So we currently deliver best as per need, but in certain areas of the valves, we see the volume to slowly pick up. I mean, yes, this is a broad line. So customers wise it is very widely spread -- because every customer needs these products because the products are released at a global level. It's a global product. Again, there's a possibility to keep expanding in this space as well because cost wise we are quite competitive. At least in the actuators, for example, we are the cost leader in my view.

Rakesh Jain: That’s all from my side. Thank you so much and all the best.

Moderator: Thank you. Next question is from the line of Mukesh Saraf from Avendus Spark. Please go ahead.

Mukesh Saraf: Thank you for the opportunity. First question is, just back to the margins part of it. In this quarter, have we got any benefit of pricing negotiations with customers say, for prior periods, which is kind of cumulatively come in this quarter? Any such benefit we have got, sir?

P Kaniappan: Yes. Mukesh, no specific benefit like that, every quarter, we are working with customers that have certain pipeline of bleeders like -- that's nothing specific here.

Mukesh Saraf: Sure. Understood. And secondly is on the September '25 time line that you mentioned for ESC, what is the change there, sir? Is it know that at the RTO level before registration, there will be some kind of a check? Or basically, what is the issue now in terms of -- what change the government is going to make?

P Kaniappan: If you see the bus production, many customers they do the body building elsewhere. So they don't -- so they understand that this ESC has to be only for the body -- factory fitted -- factory assembled in. So that is one exclusion, the market has taken like that. That is being corrected.

Mukesh Saraf: So the body builders, now the non-OEM or builders, even they will have to now kind of mandatory fix the ESC.

P Kaniappan: From September onwards. Right now, they are not fitting. Again, depends on their tender to their customers also. But then by and large, it is excluded. Also certain intercity operations also there is excluded that will also -- some of that will also come in. So -- but mainly the factory fitting versus external body building.

Mukesh Saraf: Got it. And similar adoption on trailer ABS also is happening, sir? Is that time line also September '25 because there also, there seems to be a gap between mandatory regulations versus actual adoption?

P Kaniappan: Yes. I think it's a very good topic because actually, government has mandated it in 2019itself that all the trailer produced in our country has to have a trailer ABS. But actual adoption is only about 22% as far as I know, till 2-3 months ago.

Mukesh Saraf: You mentioned this quarter some 5% increase in trailer ABS or all.

P Kaniappan: Yes. So what we did here, what we did was we spoke to some of the trailer manufacturers. And trailer manufacturer is telling us, if you supply two options, that is without ABS and with ABS, then the customers, the trailer manufacturers will only go for without ABS. So we do supply without ABS. That was a point of some of the trailer manufacturers.

So then we have jointly decided that we'll work together and then at one stage, we have stopped supplying without ABS. We don't want -- at ZF, we don't want to support the unsafe type of practice. But then, there was some push pull. But finally, they all agreed. Many of them have agreed that steadily will improve. As such you have got only 5% improvement in that quarter. But then more and more fleets are now adapting because they have to communicate to their customers and make sure that new orders are booked only with the ABS.

ABS, again, as I said, it's a very safety critical topic, government mandated. So we also want to support that the compliance. So by April, I see at least a very significant improvement because that's the way that we are working manufacturers of trailers. But what is positive happening in the market place. Many of them choose to go for a trialer EBS even though it is not mandated. Trailer Electronic Braking System.

Instead of ABS, they go for EBS because EBS has got ABS feature plus also rollover elimination possibility. Also, it has got many functionalities because EBS per se is a very intelligent system. It will also ensure that the tire life also improves. It will apply whatever the amount has to be applied to whichever wheel, etc, as per the need. Whereas ABS will apply blindly, but there plays break based on the driver demand.

So a lot of people are seeing significant improvement in the tire life. So on their own, they're adopting -- they're deciding to go for trailer EBS. Of course, it's a high content and a good -- it looks like that's a win-win type of model. So again, we are working with the industry and trying to support, trying to collect more information. Yes.

Mukesh Saraf: Got it. And just lastly, the Oragadam plant, the subsidiary, we're seeing revenues are more or less around the INR6 crores mark. Even this quarter, it hasn't really gone up much. What are we seeing there? Is it entirely driven by exports right now, especially the new line that you mentioned for actuators. Or is there some other domestic products as well that we're going to be starting to manufacture there at Oragadam.

P Kaniappan: Yes. In Oragadam, in the subsidiary, we are producing 3 or 4 products now. One is the electric compressor. That's the main product, electric compressor with the localization, more and more localization. We are now ready to support the industry in a much larger volume. But then in that quarter, electric buses were not produced because earlier order whatever was there with OEMs have completed, new tenders were not released because of the election and subsequent delays in certain towns.

Also, I think some OEMs because there, the model is transport as a service type of model. The OEMs have to invest on the capex. The STUs pay the per kilometer rate.. There were some issues in the solving that part between some OEMs and the STUs, etc So that was another reason why some OEMs did not participate and all that in some tenders. But I understand the government as a result that. But we are seeing already a take-off in the EV electric compressor production. From January onwards, it has been increasing now and we are trying to create a capacity to support. So this will increase our Oragadam plant production on one aspect.

The second is -- another important thing is we manufacture the cartridges there. That is getting more and more streamlined. It was earlier we started as the aftermarket supplies to India about 5,000 number a month. Now we have launched for the OE, to one of the big OEMs, 10,000 number a month, is a typical demand. So that they're ready now that the production has started. Of course, organization also now we are trying to prepare for a larger, say, production and sales. We expect an improvement there.

Mukesh Saraf: Great. Thanks for this. I'll get back in the queue.

Moderator: Thank you. Next question is from the line of Viraj from SiMPL. Please go ahead.

Viraj: So just three questions. First is, just a little bit more clarity on the gross margin. The reason if you are look at last 8 quarters or even longer, this kind of gross margin you have really not earned in last -- I mean, last -- we're talking about 2014 is when we own a 43% kind of a contribution margins.

Now I understand what you're seeing in terms of export share and aftermarket share, but broadly, even if I look at from an annualized basis, export either has been around 13%, 14%, and that's more of the 16%. While in OE in domestic, we talked about a negative impact in terms of segment of trailers and better share reducing towards ICV.

And generally, there were no new orders that can come to EV buses, which we supplied in Q3. So just still trying to understand. If I could just understand the major factors you talked about proving up the portfolio. So can you just give a more detailed perspective in terms of the major contributors to this kind of a margin profile? And how we should understand it going over next 2-3 years?

P Kaniappan: Okay. So our focus is more and more margin. If you see in the last few quarters or 7- 8 quarters, if you see, we are now continuously driving margin expansion. As a matter of focus, so we are taking many actions, whether it's OE, whether it's aftermarket or it's export. In all areas, we are trying to see how we can drive margin expansion. So, our performance in this quarter is not -- maybe it's not a onetime. If you see a trend in the last 8 quarters, we've been steadily improving.

Number two, what do we do to improve if you see in the OE -- there were certain bleeder products because we have taken a conscious decision that individual customers' profitability we'll have to look at individual product profitability, we have to look at -- and wherever we are not making profit, we are seriously looking at anything that we can do in terms of production of the supply chain cost.

And then we also work on a should cost type of analysis. If we are able to reach the should cost, then we should keep bleeding and supplying. So we will go to the customer and then the cost country reset. In some cases, customers say now this is a commodity can buy from elsewhere. Then we take a call.

Some cases, customers are agreeing because in our view, the products are -- the quality of the products are extremely important because it is a safety critical product. And we are able to demonstrate that these products have been working very well in many areas. So of course, jointly developed with the customer over many years.

So we cannot bleed in some time. So we jointly -- quite a few areas we are trying to reset improve. And this is one side. You constantly look at how do we get a better realization for our sales to OEMs.

Viraj: What percentage of portfolio, you would have seen chunk on either in terms of pruning or resetting the price. So just to give you a perspective. So if I look at 50% of the business, it's domestic OEMs and what I understood a major part would have or pruning or resetting would have been in that part of the business. So just to get a question to what share of that business would have seen a reset or proving in the portfolio?

P Kaniappan: So maybe we don't have the exact number, and this is the direction we are moving. We are still protecting our overall business because, as I said, -- there are many new advanced products also are launching. But this is a direction, I'm saying the directionally, this is how we move. On the aftermarket, again, access the market is it's a profitable business.

Our scope is to expand with new revenue streams. Some of the products which we are launching now, what we are selling now is completely different from what we used to do. Typically, as I said, we have digital business in which there's a subscription revenue we are getting, which is -- which is for very many advanced technology products in the digital group.

And doors and door control systems are something that in new products where the selling. So like that, we are seeing many new opportunities. As such, margin -- it's a good margin, but the focus is how do we increase our in -- so like that, overall, as you said earlier, the factory productivity year-on-year, we are trying to improve.

We have been -- so overall, our focus is continuous improvement on the margin front. There are -- of course, there are a lot of headwinds as well. There's a lot of challenges, not that the customer is going to go what we are -- but we are working on that. I don't know because you -- what you asked the question was not very exactly clear. I don't know if I answered your question, I'm not sure.

Viraj: I'll probably take this offline, but I just have three more questions. One is, if I look at the manufacturing subsidiary, which is set up for advanced products. But over the 9 months, the sales contribution seems to be much lesser than the year before. And just in the previous participant commentary, you were talking about new products wrap-up and localization. So I'm just trying to understand you look in the next 2- 3 years, how should 1 see scale-up of those advanced products through the subsidiary?

P Kaniappan: Yes. So that's the plan. More products also will follow. Right now, the 3 products we are producing. So -- and that a lot of -- we have created more space -- and so one of the products, it also has the potential to get to be exported. So our idea is to really stabilize the production for India to Indian customers and then because we are able to localize or produce at much more cost effective than us.

But we have to see, maybe every quarter we can review this. But as such the Oragadam Site, our focus is to really ramp up production and then market is supporting right now in all this -- in the electric compressor area. But then in the other area, we are able to stabilize the production now I expect things to improve in terms of volume.

Viraj: Okay. Just last question, and I'll come back in queue. The largely related to the portfolio…

P Kaniappan: I need to close the call, but maybe I'll take your question quickly.

Viraj: I'm not sure if the new MDs on the call. But question is largely in terms of the portfolio, which they outsold WABCO India used to have and now ZF CVS. You see a steady expansion in the portfolio over the last 2- 3 years, largely in the CV and selectively in the passenger vehicles for export. Going forward, let's have a look at the next 3- 4 years, do you see any such more opportunities in terms of portfolio additions through the listed entity, within CV and bought in PV?

P Kaniappan: I hope, but I remember this part we have more or less clarified earlier also. So we will have only WABCO portfolio plus the ADAS technologies are now into the listed company, which was earlier ZF also having its own ADAS. So this is one.

Number two, we are permitted at the global level they have given a special permission to use CVCS listed company to support the LCV segment. The LCV segment is basically the more like, those platform of Ashok Leyland, Tata AIA type of product lines, particularly to the EV transition.

So we have got quite a few portfolio, there is a separate initiative there. Next 2- 3 years time frame that will also start getting we will start seeing revenue flowing from that as well. These are the two major additional areas other than the original WABCO portfolio ADAS and LCV segment.

Moderator: Thank you. Ladies and gentlemen, we will take this as a last question for the day. I would now like to hand the conference over to the management for the closing comments.

P Kaniappan: Yes. Thank you for all your interest and for the participation in this earnings call. Any more details, you can always reach out to our CFO and Company Secretary. So we will try to clarify as soon as possible. Thank you.

Moderator: Thank you very much. On behalf of Batlivala & Karani Securities, that concludes this conference. Thank you all for joining us, and you may now disconnect your lines.