



Divgi TorqTransfer Systems

Divgi TorqTransfer Systems Limited

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Ref.: DTTS/Sec/24-25/19

May 31, 2024

To, BSE Limited, Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai - 400001 BSE Scrip Code – 543812	To, National Stock Exchange of India Limited, "Exchange Plaza" 5th Floor, Plot No. C-1, G Block, Bandra Kurla Complex, Bandra (East), Mumbai – 400051 NSE Scrip Code - DIVGIITTS
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Sub: Transcript of Earnings Call held on May 27, 2024

Ref.: Regulations 30 of the SEBI LODR Regulations

Dear Sir / Madam,

Further to our letter reference no. DTTS/Sec/24-25/10 dated May 22, 2024, pursuant to Regulation 30 and other applicable provisions of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("LODR Regulations"), please find enclosed herewith the transcript of the Earnings Conference Call held on **May 27, 2024**, in respect of the Audited Financial Results of the Company for the quarter and year ended March 31, 2024.

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

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

This is for your information and records.

Thanking you,

For Divgi TorqTransfer Systems Limited

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

Enclosed: As above



“Divgi TorqTransfer Systems Limited
Q4 FY‘24 Earnings Conference Call”

May 27, 2024



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

MODERATOR: **MR. AASHIN MODI – EQUIRUS SECURITIES LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to Divgi TorqTransfer Systems Limited Q4 and FY '24 Earnings Conference Call hosted by Equirus Securities Limited. This conference call may contain forward looking statements about the company which are based on beliefs, opinions and expectations of the company as on date of this call. These statements do not guarantee the future performance of the company and it may involve risks and uncertainties that are difficult to predict.

As a reminder, all participants lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star when zero on your touchtone phone. Please note that this conference is being recorded and I will hand the conference over to Mr. Aashin Modi from Equirus Securities Limited. Thank you and over to you, sir.

Aashin Modi: Hi, good morning everyone. On behalf of Equirus Securities, I welcome you all to the Q4 FY '24 post results conference call of Divgi TTS Limited. From the management side, we have Mr. Jitendra Divgi, Managing Director, Mr. Hirendra Divgi, Whole Time Director, Mr. Sudhir Mirjankar, Chief Financial Officer.

So without further ado, I now hand over the floor to Jitendra for his opening remarks. Over to you, sir.

Jitendra Divgi: Yes, thank you, Aashin and a very warm welcome to all our investor friends. It's always a pleasure to interact with you through this session and I look forward to an interesting and animated discussion. This time, we welcome our new Investor Relations Advisors, SGA, who will help us navigate on this journey as we go ahead.

We have uploaded the presentation on the stock exchanges and our website and I trust all of you have had a chance to go through it. So let me begin with FY '24 performance and we are going to talk about the achievements we've had, the operations. My colleague, Sudhir Mirjankar, the CFO will also give a little bit of detail on the numbers as we go along.

So in terms of achievements towards fulfilling the vision that we have been working on, there were five or six significant achievements that we accomplished in FY '24. First and foremost, we commissioned our plant at Shirwal near Pune in record time, along with the development of the design and the commissioning of a world-class manufacturing facility and infrastructure in this plant, with which we were able to introduce, genuinely speaking, India's first indigenously mass-produced EV transmission. This went on the Tata Tiago, as of last year, July, August of 23.

But what is significant is post that, we have developed three new designs within that short span, once the first design was commercialized and launched. Side by side, we also launched India's, at this new facility, first high-speed dynamometer for EV transmission testing, durability testing, but with which we can test all of our other product families as well, that is to say manual transmissions, automatic transmissions and our complete range of four-wheel drive transfer

cases. Also we were able to successfully conclude the commissioning of our production lines for our new export orders, where shipments have started to the US and revenue will start in the next couple of months. This, of course, was backed up by the award of a new export business with marquee applications worldwide and as we begin recognizing revenue from June-July, there will be new products coming on stream and we will keep you informed.

But as of now, on an annualized basis, if I look at the RFQ volumes, the value of that order is about INR75 crores to INR80 crores, depending on the volume that you consider. This includes eight different part numbers and the market includes geographies of Mexico, United States and Portugal in Western Europe. So this was what we, in terms of qualitative achievements, that we registered in FY '24.

Now coming to the performance in numbers, our total income for the full year stood at INR 273 crores as compared to INR 278 crores last year and which is dented by about 2% on a year-on-year basis. You know, the demand from our major customers determines our revenue levels and operations, obviously and our sales get directly affected.

This is what happened in the last two quarters. There was an unforeseen slowdown in four of our major OEMs, that is Mahindra, Tata EV, MG Motors and Mahindra Defense, where we were shipping a new four-wheel drive system for the Indian Army's armored light strike vehicle. So this was driven by various market conditions, different in each case, leading to sort of downward revision that we saw in the production of units.

So, obviously, as we go ahead, we need to take this into account and plan our business recovery, taking this into consideration. So because of this, obviously, our EBITDA was affected on the operating level, as was our PAT. But it is important to note that there was no cancellation of contracts with any of our OEMs, or this underperformance was due to capacity constraints or production disruption, or more importantly any quality related.

In fact, our quality performance has been quite stellar. And EVs particularly, where this noise vibration harshness can really cause unpleasantness in a car, we have been zero PPM (Parts Per Million) and we have the data to prove that. So while the qualitative performance was more than satisfactory, unfortunately, the numbers don't back that up.

But the important point to note is that we are fully geared now and we need to figure out how to take on this volume challenge as we go ahead. It is interesting to note that we lost about INR35 crores top line in the transfer case. So it's not as if we had not anticipated uncertainty with our major customer, Mahindra, but the EV business that we were working on since 2021 was supposed to make up for this.

That did not quite happen, although we did register from nothing to INR 24 crores and we had expected to be more than double of that. And but still, I think we were able to contain the damage to within 5% of our last year's revenue from operations. Now coming to our near term outlook for the next financial year because that is going to be the natural question. The headwinds that caused this dent in the last two quarters of FY24 we expect that to continue for the first two

quarters of FY25. But as we have been reporting, a new export revenue. As I said, the shipments have started.

We have, we are filling up our warehouses in the U.S. and revenue recognition will start in the first quarter of FY25. So it will pick up from there and we expect the second half to drive our business again. So this year, we will not see the full impact of the recovery steps that we are taking. And therefore you know it will be 8% to 10% topline growth for FY25. You know, our approach is to have sustainable growth driven by innovation in both, in everywhere, in product development and manufacturing and the way we approach the market. And we remain committed to it.

I think in the Q&A session, we can look at some of the details of this as I'm sure you will have more questions. Coming to our new business order wins, which will support our long term outlook. The orders we have won have a lifecycle revenue of INR 900 plus crores. Of this, we have export business with marquee Tier 1 North American. So not just one BorgWarner, but their peers as well. And we continue to work with them on more inquiries. So there are new business opportunities we are quoting on. A lot more work is under negotiation. And I personally was in the United States a couple of weeks ago to meet with these customers.

So that is about INR390 to INR 400 crores. The remaining portion of that is domestic for our core products and EV transmissions. So most of this will start in the second half of 2025 as Mahindra brings in, for example, the five-door car and the full impact of that will be seen in FY26.

So further discussions are on with new customers, as I said in domestic and international markets for our existing as well as new products. And through the next two to three quarters, we expect conversions and then impact on revenue in FY26. So let me give you some concrete examples.

We are looking at a global pickup truck with one of our largest OEMs. It has a carryover product configuration from an existing application. So, the basic chassis is more or less the same. And since it's a global pickup, it has markets in Asia and Africa, outside India where the need for four-wheel drive is much more.

In fact, the four-wheel drive is indispensable for the success of the product. And we are fully tooling up on that. So this is one example. We are working to widen our electric offerings to include higher power, more torque products and also for the three-wheeler market. So that application diversity will give some resilience and growth opportunity. So we continue to work towards and the remarks I just made alluded to that, diversification of our revenue streams.

That is through product and application and also customer and geography. So one of the areas, for example, that is under investigation is a front-end presence in North America. To bring us closer to customers, both OEMs and Tier 1's, where a significant amount of business has either been won or is under discussion and negotiation.

So this overall approach, we think, will also improve market share and wallet share with existing customers, working more deeply. So not just, let's say, with the passenger side, but also

commercial trucks. And as you may be aware, we have had success in the commercial area as well.

And once some of the government PLI issues get sorted out by the OEM, we will see the launch of those vehicles in the market and pulling the demand for our transmission products. We continue to talk globally to transmission Tier 1's. So not just in the United States, but also the leading Tier 1's in Europe and I might add in Japan.

In fact, I was in Japan last month for two weeks at a lot of interesting discussions with both OEMs and Tier 1's. The visit was hosted by the parts distribution company of the Toyota Group, with whom we have a long-term strategic alliance. And working with them, we are looking at opportunities both in India and Southeast Asia with Japanese OEMs.

So to sum up, I think we are not let up on the work to bring the company back on the growth trajectory. The strategic framework and focus of technologies and products that we had remains intact. And I think this product application diversity and customer geographic diversity and the push to create and sustain that, I think gives us resilience.

My sense is many of our peers may not have withstood the kind of shocks that we have over the last three to five years, whether it was COVID, the Ukraine war, the geopolitics with China and the sudden onset of headwinds we faced with two of our customers.

So I continue to remain optimistic about how we are doing. Obviously, there are more questions this time and we would be happy to answer them. So let me conclude here. I want to take the opportunity to thank all of you.

And I'm going to hand over the proceedings to my colleague Sudhir Mirjankar. But I look forward to your questions. And subsequently, if there are any clarifications needed, our Investor Relations Advisor, SGA, is also available.

So with that, let me conclude my opening introductory remarks and hand over the proceedings to my colleague, Sudhir Mirjankar. Sudhir?

Sudhir Mirjankar:

Thank you. Good morning to all. Speaking of the financial performance of Q4 FY'24, revenue from operations for Q4 FY'24 stood at INR65 crores as compared to INR73 crores in Q4 FY'23. Lower by 11% on year-on-year basis, it was marginally up by 3% on quarter-on-quarter basis.

EBITDA for Q4 FY'24 stood at INR13 crores as against INR19 crores in Q4 FY'23. Year-on-year degrowth of 31%, it was up by 3% on quarter-on-quarter basis. EBITDA margin for the quarter stood at 20%. Profit after tax for Q4 FY'24 was INR9 crores as against INR13 crores in Q4 FY'23, year-on-year degrowth of 31% and it was down by 1% on quarter-on-quarter basis. PAT margins for the quarter stood at 14%.

Speaking about revenue mix, the transfer cases business has seen degrowth of 36%, this largely due to slow pickup of our units for major OEMs. Our EV transmission business did exceptionally well and has grown by 160x on year-on-year basis.

Coming to FY'24 performance, total revenue for FY'24 stood at INR273 crores as compared to INR278 crores in FY'23, lower by 2%. H1 was good for us but in H2, change of production schedule at OEM side resulted into lower production and sale for us, impacting the revenue.

EBITDA for FY'24 stood at INR53 crores as against INR74 crores in FY'23, a year-on-year degrowth of 29%. Fall was due to high overhead expenses on commissioning of Shriwal plant and suboptimal capacity utilization at other plants. EBITDA margin stood at 21%. Profit after tax for FY'24 was INR40 crores as compared to INR51 crores in FY'23, degrowth of 22% on year-on-year basis with PAT margins at 16%.

Coming to revenue mix of FY'24 then, the transfer case business has seen degrowth of around 20% which is our product portfolio. Its degrowth impact was offset to larger extent by pick-up in EV transmission business which grew by 120x from negligible. EV business now contributes around 10% of our business. We will continue to diversify our revenue stream going ahead by way of expanding our product portfolio and its applications.

Some of the other key financial metrics for FY'24. As you all know, we are a net cash company and we will try to maintain it going ahead. Our current net cash position for FY'24 is INR225 crores. Return on capital employed for FY'24 is at 9.3%. Return on invested capital for FY'24 is at 11%. Both the above metrics is expected to improve as operating leverage will start playing out.

Out of the IPO process of capex of INR170 crores, till date we have deployed INR45 crores and capex spent for FY'24 was INR78 crores. Finally, to conclude, the Board of Directors at its meeting has recommended final dividend of INR2.60 per equity share of face value of INR5 each for FY'23-'24. It is subject to approval by members at AGM.

That's it for my side. Now I would like to open the floor for questions and answers. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session and even who wishes to ask a question may press star and one on their touchtone telephone, if you wish to remove yourself from the question queue you may press star and two. Participants are requested to use handsets while asking the questions. Ladies and gentlemen we will wait for a moment while the questions. The first question is from the line of Sameer Panke from Centrum Broking Limited. Please go ahead.

Sameer Panke: Thank you for the opportunity. The first question is on data. Would you like to share the volume data...

Moderator: Sorry to interrupt you sir. May I request you to use the handset, please?

Sameer Panke: Yes, I'm using handset only. Am I audible now?

Moderator: Yes.

Sameer Panke: So would you like to share the volume data for all the segments that we are operate in for FY'24 and FY'23 comparable numbers, number of units sold, transfer case, or NexTrac, synchronizers, A and H components and electric vehicle transmission?

Jitendra Divgi: Yes, I think there should not be a problem in looking at -- hello, can you hear me?

Sameer Panke: Yes, I can hear you.

Jitendra Divgi: So I think what I suggest is if you can get in touch with SGA, we can coordinate and make sure this clarification is provided. I don't see a problem.

Sameer Panke: Okay, Yes, sure. Sir, in the conference call, we have guided for at least 20% Y-o-Y growth in FY'25. I think in recent few months, we have had guidance for FY'25 to meet the 10%. So would you like to shed more light, I mean, you have in your remarks narrated that there has been a [inaudible 0:24:31] but any other thing that -- in three months, it has changed substantially, which you were not aware of because we're not having info on...

Jitendra Divgi: Yes. There is a lot of static on the line, but I think -- let me rephrase the question and make sure that I've understood it. You're saying that against the previous remarks we had made regarding CAGR, our growth prospects for this year are very modest and you wish to know whether there are factors, that we know or don't know that affected this and what are some of the other factors that are bearing on our market prospects? Did I understand that correctly?

Sameer Panke: Yes, sir. Yes.

Jitendra Divgi: Yes Thankyou, actually, we have to be careful in how we respond to questions of this nature so that we do not transgress beyond the limits that the regulations put on us, but suffice it to say that we have a lot of -- sort of data and analysis in our long-range planning. Our typical long-range planning process has a budget for the ensuing year plus a four-year planning horizon beyond the budget year and this structure is put in place about a quarter before the year starts.

So by December, January, in a year, we pretty much have the planning horizon of the ensuing year as the budget year and four years beyond that. When we look at our numbers and what is happening is every month there is an LRP review process where we are looking at the forecasts relative to the budget and then critically assessing at least the first two of the out years, so there is a systematic process in place. That's the first point I wish to make.

Further, our analysis of the work is put into three buckets, steady-state operations, business that is earning us revenue, inquiries that are in the bucket for development and launch and then opportunities that we are pursuing with respect to RFQs and stuff that is under negotiation. So none of our sort of guidance figures or whatever we talk is outside the scope of these three buckets.

In other words, we do not give a forecast based on some wild blue yonder aspiration that we may have in the company, so it's conservative to that extent. And what I wish to say is that, based on work -- this kind of work that we are doing, we are still reasonably optimistic, that we can pull the company back on that track that was, you could say, promised by us.

Now, what are the factors that have tended us? I think it's important to appreciate this and also bear in mind what is the strength in the company to counter these headwinds. I am fully aware, as is our team, that one of the legit criticisms of our business model that there was perhaps an asymmetric dependence on a customer with a certain product line. But the fact also is that in 2021, so this is before the IPO, we had been awarded India's largest EV transmission contract.

Export businesses were under negotiation with customers and of course, never forget that we had a very large contract at that time in Russia. So our overall approach to handling this asymmetric dependence on any one customer was, I think, more than substantively addressed by the company.

Now, what we have run into is a rather unfortunate and tragic confluence of, you might say, a perfect storm in the market. The geopolitics hit our China business, Russia business, initially. Of course, the whole China factor is now helping us in the United States, but it's taking a little bit of time. And the EV business, which we executed from award to launch, we did it in 18 months and if you consider the fact that when we won the award, we didn't even have a facility and neither did, at that point, we just had a design of the product.

So, in 18 months, we essentially executed and if you look at the track record, of the last, since last July, where we have shipped 21,000, we have zero PPM on NVH and because of some handling damages, there have been one or two issues. We still have a PPM, which is below 100. It's actually at around 50. 50 PPM on a brand-new product, just launched. Now, that, I can tell you, ladies and gentlemen, is an enviable quality record to have. Forget India, globally, so we should be justifiably proud of that.

So what I'm trying to say, is that this is the outcome, of the capabilities, that we have built in the company and it is exactly this, that will enable us to go forward. If I look at my, FY '26 Long Range Plan, most of my projection, for FY '26, this is important to note, for the audience, is coming from business, that has already been awarded and it's already earning revenue right now, or is under development and launch.

So we hope to have, the last loose ends tied up, by the end of this calendar year, towards, let's say, by Diwali and the occasion of, our quarterly calls, will give us the opportunity, to give you updates, on what is going on. So we are holding ourselves, in a manner of speaking, accountable to this. So when, we give you, some sort of, I know, it's not very quantitative, but qualitative guidance, in terms of how we are responding, to this difficult market situation.

It is based on, substantive data and facts, that we are looking at. We understand that, speed and agility, are now very, very critical, but I think up to now, my sense is, we have sort of weathered the storm okay, we could have done better of course, but it could have been, a hell of a lot worse as well.

So, as we go along, we'll continue to update you, but suffice it to say, that for, FY '26, it will be, you know a little bit of improvement, in the four-wheel drive business, a significant improvement, in the electric and a considerable improvement, in our exports. And this we think, will be, what will drive our recovery, here, onwards.

Sameer Panke: Yes, thank you. So one more question, on electric vehicle transmission, would you like to share, the status of Punch because we started the supply, how the shipments are on Punch? And second, status on the Nixon?

Jitendra Divgi: Yes, yes. I'll be happy to answer that. I should also say that, so we are working on, three designs, okay. The fourth one, that we have is three designs at Tata and the fourth one is at Mahindra, there's a fifth one under development, for three-wheeler applications, but that's still under in the early days.

So the first design we have, is going to be used on the Tiago and Tigor. The Tigor model currently, still uses some residual imported inventory, but we have indication that, our current system will migrate, onto that, so that will add to some resilience. On the punch, there are two models, one is called the medium range and the other one is called long range. So we have the medium range, design successfully developed, it's a sort of lower cost, version of the punch. It's doing very well.

The numbers, are a little disappointing, let me be honest and we think, that has happened because, in this segment, the market seems to have slid, to the higher trim levels, the higher power options because people, I suppose in keeping with that, spectacular design of the punch. Also expect equally exhilarating, motoring experience which is what the new power, the higher, power configuration is capable of delivering that is not to suggest that the MR performance is not exhilarating, it's just relative. Also I think the LR as it's called has a longer range and perhaps we are seeing a little bit of the market going towards that.

So the answer to your question is the punch has been launched in the MR segment. We have an excellent delivery quality track record. I'm very pleased to tell you that which is unusual in making EV transmissions that our first pass yield on the assembly line is virtually at 100%. I mean it's upwards of 98%, 99% and in some weeks it's at 100%. So that I think is significant to note.

For the higher power the product is under development the first set of results we have on testing are very encouraging. I mean in the development the very first units have significantly exceeded, the NVH standards and this I think is a, a testimonial to our engineering and development capability. So with the commissioning of our equipment in Shirwal we have the capability to quantitatively measure and report the noise vibration harshness standards.

And these standards now have been calibrated with vehicle performance and therefore we can state with, utmost confidence that having exceeded those acceptance standards we have the assurance of right first time when this product goes into launch. So that is the current status. We have a similar experience the development and launch of the Mahindra E-Jeeto was done within I mean in like 4 months that was the kind of speed we brought to the program.

We are waiting for some PLI issues, to get sorted out with the government of India and once that happens this program will go into launch, it is fully tooled up and I think we have won a lot of appreciation and gratitude from Mahindra management for the manner in which I have no hesitation in saying this for the manner in which that program was managed and executed.

- Sameer Panke:** And on Nexon part of the business?
- Jitendra Divgi:** Yes as I said that product is when I said the higher power configuration that gearbox goes on both the Punch, LR and the Nexon. That is the one where we have the prototypes have been successfully developed and we are now going ahead with the commercialization.
- Sameer Panke:** Okay and the last question from my end on the margins, would you like to share any outlook for FY25, FY24 we have seen 20%, 21% range on a leverage?
- Jitendra Divgi:** Yes let me say that we were obviously very disappointed where EBITDA. We knew that it will take some time for our investments to bear fruit in terms of the return on invested capital. Historically if you see we have had spectacular ROIC numbers and we are in a phase where a lot of investment is going in to sort of bring the muscle for expansion and make the business more resilient.
- Also some of our legacy businesses had manufacturing infrastructure that was sort of completely outdated. We needed to invest to modernize and improve productivity. So the commitment of the company is to sort of maintain EBITDAs above the 20% range and ROIC all our quotations everything is done to achieve minimum ROIC of 18%. The risk of course is in the volumes on the ROIC, but at a unit and project level, we also have focus on the contribution margins and EBITDA. So that should answer your question.
- Sameer Panke:** Yes. Thank you. That's all from my side.
- Jitendra Divgi:** Let me just further qualify perhaps this will give you a better appreciation of how we manage operations, I have Dipak Vani with me as COO maybe he would like to make a few remarks on what are the four KPIs we use in operations. I'm just finishing out that answer please. Yes go ahead Dipak.
- Dipak Vani:** So the first and foremost KPI what we monitor for our internally as well as for customer is on-time delivery, then the customer PPM and internal PPM, then for productivity we track progress in terms of revenue per employee and for the fourth one what we track on monthly basis is cost reduction. So these are the four KPIs what we track on month-on-month basis.
- Sameer Panke:** Yes. Thank you. That's all from my side.
- Moderator:** Thank you.
- Kunal Shah:** Hello. Am I audible?
- Jitendra Divgi:** Yes please go ahead.
- Kunal Shah:** So you sounded very confident on your export business doing exceptionally well. So I have two questions regarding it, how are you seeing domestic export business mix for let's say 2 years, 3 years down the line, is export a high margin business for you and related to it which is a low-hanging country for us in terms of exports like what's the competition landscape there in those countries?

Jitendra Divgi: Excellent question. Thank you very much for that question, may I know your name please.

Kunal Shah: Kunal Shah.

Jitendra Divgi: Kunal Shah, okay. So obviously as time goes by and we see a greater amount of globalization happening with the maturing of Indian industry, the competition my sense is it is going to increase however the areas that we competed. So for commodity stuff exports I think is going to become a pretty brutal affair, but the areas that we operate in require sophistication on many dimensions.

One of course is the product design, the metallurgical science in the steel, that steel and materials that we use, the sophistication, in the financial modelling that is required to handle a complex uncertain global environment, the sophistication in project management because these programs are pretty complex and require the successful integration of diverse knowledge streams.

So because of this through the service aspect and the actual manufacturing aspect we bring a bundle of some sophistication. Now when it comes to actually delivering a proprietary product the margins are of course the best, but even otherwise at the component level compared to the domestic business there is no doubt that overseas business brings decidedly a better margin.

And I think the proof of that is if you look at our data historically it clearly shows that and we have the data from 2010 till now that shows this. So of course it depends on how skillfully we are able to negotiate our contracts and there are also segments in the marketplace. So for example in, North America, in addition to the high volume, of business with the OEMs, there is a significant aftermarket because you have to bear in mind, that the United States, produces something like, 13 million to 15 million units a year.

And so in five, I mean if you go back 10 years, that's a huge number out there, in the installed part as they say, so there is a significant aftermarket, but the United States, has many other segments, commercial truck, it has a recreation industry, there's a complete off-road utility area, which is where, I would ask analysts to pay attention, to what Mahindra is doing, with its Roxor model, in the United States, it is a product, full of a lot of promise.

And Mahindra, is really the only player today, which has an automotive product, from India, available in the United States market, from a B to C kind of business model, so that is one of the reasons, why we want to be close, to the Mahindra operation in North America, to be able to innovate and create new options, on that platform. And if you operate in areas like this, that's where the margins, are even more because the volumes are modest and that's when, it becomes difficult, for these high-cost economies, to service those segments effectively.

And that is where I feel Indian companies, have a decisive advantage, mainly because I think, of the language culture and the engineering sophistication, that has to be brought and that's where I think, we have an advantage, over Chinese companies.

Kunal Shah: Okay, thank you for the detailed answer that's it from us. Sir, thank you.

Jitendra Divgi: Yes, I just want to, clarify further, that the proof of India's, competitiveness, also lies, in our ability to compete, in the Chinese market, tragically because of the current geopolitics, which I don't think will cool off anywhere in the near future in fact if you go by the comments, that have come from the latest CII conference from the foreign minister it appears that we're in for a kind of a longish cold war.

And sort of muted trade but our hands-on experience because still, this latest round of geopolitics exploded in our face Divgi TTS or as Divgi Warner, had an unbroken track record of exporting to China from 2001 till 2020 or 2021. And so we are, figuring now how to get back, into the China marketplace, I want our audience to appreciate that the China market is double the size of the United States.

It hovers between, 25 million and 28 million units a year, there are OEMs in China that are twice the size, of the entire Indian industry. And therefore, there are, industries and segments, in the China market, that if you are good at your game, you can export and do business in China as well. We don't necessarily have to, buy the line that the Chinese are so competitive, that they have to always have a trade surplus with India.

It is quite possible for Indian companies, to compete and sell in China as well,

Kunal Shah: Okay, thank you,

Moderator: Thank you, the next question is from, the line of Mahesh Bendre from LIC Mutual Fund, please go ahead,

Mahesh Bendre: Hi sir, thank you so much for the opportunity, sir, on the presentation and on page number 14, we have given that, the orders we have received, awarded on a particular date and tentative productions. So, I mean, for example like this, serial number 2nd, HVB reduction 007, this has been awarded on August 2024 and tentative production is on, 4th of August 24th, is anything wrong in this?

Jitendra Divgi: You are referring to 007 right?

Mahesh Bendre: Correct.

Jitendra Divgi: Yes, Yes, let me tell you the 007 is going into, it's a manifestation, so actually the 012 and 007 were awarded, more or less together, we have already made shipments on the 012, the invoicing and therefore, revenue recognition will happen for next month, we have already made 2 container shipments I think, 007, 012 goes into a plant in the United States of America.

Mahesh Bendre: No sir, I am talking about the date, it has been awarded right?

Sudhir Mirjankar: Yes, let me, no, announcement in August 2023 and you are saying why SOP is going out to 2024, that's the intent of your question right?

Mahesh Bendre: No, awarded on 2024 right? So August 2024 something wrong, I mean, awarded last year back, right?

Sudhir Mirjankar: Mahesh Yes are you referring the revised PPT?

Mahesh Bendre: Yes, in revised PPT also.

Jitendra Divgi: Revised PPT says August 23,

Sudhir Mirjankar: August 23 announcement and SOP of August 24,

Mahesh Bendre: Because I have downloaded the same, but it's still showing, I don't know, what's wrong with this,

Jitendra Divgi: Yes, it was awarded in 23 Mahesh and it will start revenue in 24, August 24, so that's the correction you need to take into account,

Mahesh Bendre: No, but I have downloaded the same, I mean revised only,

Sudhir Mirjankar: No, the file was loaded, the old version, so if you see the revised version again on the exchange, you will find that,

Mahesh Bendre: So this is wrong, I mean,

Sudhir Mirjankar: Yes, so you need to correct it, August 23 is the announcement and SOP is August 24,

Mahesh Bendre: And sir, last four quarters, we are reporting the de-growth now, I mean, now we are talking about 10% growth next year. So, essentially, next year FY '25 our revenue will be similar to what it was in 2023. So actually, we are two years behind, actually, what we are supposed to, so in this situation, '25, '26? You said, so what kind of growth rate one should expect in FY '26, I mean, given what we have done in the last two, three years?

Jitendra Divgi: Yes, let me -- so if you recall in my opening remarks and even in answering some of these questions. I said that, we look at work the projections and the guidelines we are giving is based on two buckets of opportunities we look at. One is, what we call supply and support process, which means steady state operations and the second bucket is stuff that has been won and that is under development and which we are pushing into production. Once it is successfully developed. So all the, forecasts that we give are based on this. What can happen is, events, can, they can be internal, causes and external causes. What has happened in our case is all the causes are external, not internal.

So when I look at FY '26 and I look at '26 and '27 and I look at, my development launch, bucket of opportunities along with the current opportunities that are revenue yielding right now. I feel, I mean the conclusion that, it's not a feeling it's a conclusion of our analysis that we will pretty much, get back on the track, of 15% CAGR.

Mahesh Bendre: But sir earlier we were talking about you know, INR1000 crore of revenue in next 4 to 5 years. So does it change there is a dramatic change in what we were earlier saying and now we are talking about?

Jitendra Divgi: No I commented on 26 Mahesh. I did not talk about next 4 to 5 years. So next I would say, if I look, at our plans till FY '28 it is still in that direction, it has not changed,

Mahesh Bendre: Because the real problem is that we understand every company goes through a difficult time and many things can come and hit. The problem is the communication. In the month of probably last con-call we were talking about 20% kind of growth, this year and suddenly we came back to single digit growth. So, this is where I think some fine tuning is required in terms of how we communicate to shareholders...

Jitendra Divgi: No, yes, so I think going forward, SGA will help us, do a better job of that, but I can assure you that, I mean if you look at, as I said, in FY '24 particularly, there were 4, I mentioned, when I opened my remarks, that there were 4 OEMs where, unforeseen things happened, first was at Mahindra itself, second was the records clearly show that we had, even, when the headwinds hit, the forecast given to us was 70,000 units, we had discounted that to around 55,000 and what actually came through was only 21,000, now this could not have been foreseen by us and there was no reason at that point in time, to suspect that what Tata was telling us, that the forecast would get dented to that extent.

So, which is why we were, confident that we would do significantly above INR300 crores, please bear this in mind, that does not mean that this, market potential and what is out there, has disappeared, certainly, if you talk to Tata and they are also, banking heavily on the TPM prospects and if we are right now, their single largest, biggest, transmission maker, surely there is some substance to this story. So, I think the verdict is still out on this, we should be a little patient and wait for the further development and announcements that will come over the next quarter.

Mahesh Pendre: But sir, the weakness in our core business of transfer cases is really surprising and shocking, the way it has reported degrowth, so are we aware of this kind of stuff is going to?

Jitendra Divgi: No, we did not expect MG to let us down so badly, the MG, we were expecting about, INR25 crores to INR30 crores of business and at that time, there was no reason to suspect that, they would run into this kind of headwind, they are based in Halol, Gujarat, there was everything to indicate that, despite the geopolitics that since they were already an incumbent and had come in that -- but, it was not to be and we could not have known at that point in time, again, from award of business to launch, we did it in 12 months, I mean, even by Chinese standards, that was very fast.

And of course, if you talk to MG top management, they will tell you that this, the way we executed this project is a case study of engineering and development excellence. So there was no reason to suspect that, we would get hit by -- it's just that the market conditions, suddenly came about in that fashion. We were, you could say a little conscious of that the exposure, at Mahindra was a little asymmetric, but that is why the work development on the other areas was going on in EV, in exports and the market just came at us faster, than we could develop the alternatives, but that's not to suggest that the alternatives were not there.

So I think, I understand, your disappointment and sense of agitation, but that is the reality, I think my request would be you look at, what is the company doing, does it have the attributes, to now counter, these headwinds and have a turnaround story, I think beyond that, I cannot say

anything else at this point in time, but we'll see to it that in terms of communication appropriately, we improve as we go along,

Mahesh Pendre: Sure, I think, we need to deliver probably three, four quarters next, I mean, to show some consistency in terms of delivery and that will bring back the confidence of shareholders, but just wondering, I mean, you indicated that the first half will be soft, so it will take time. So in the meantime, are we expecting any new orders to come up from the clients or anything like, any venture or any partnership, we would like to.

Jitendra Divgi: Yes, I think there will be,

Mahesh Pendre: You mentioned that, you went to Japan, so is there anything we can expect from company to have a form some kind of relationship with international players and the opportunity you're talking about?

Jitendra Divgi: Yes, so as I said, we already have a strategic alliance with one of the largest companies in the Toyota group, we with that relationship, we have managed to unearth a lot of inquiries and opportunities in the global universe of Japanese OEMs, that is a fact, question is will that convert into awards in the next month or three months.

I wouldn't like to speculate on that, but there definitely will be a couple of -- we are looking forward to a couple of announcements in the next quarter. In terms of in the general direction, of the vision of our business and that is a new technology and also new markets. So, please bear with us and as we go along, you will see those updates, new business wins, plus new combination of business wins and technology awards, you will get that.

Mahesh Pendre: Thank you so much sir.

Moderator: Thank you. The next question is from, the line of Aashin Modi from Equirus Securities Ltd. Please go ahead.

Aashin Modi: Yes, hi, sir. So sir, in our opening remarks, we talked about venturing into the three wheeler side, could you give us some color over there because it seems to be a very big market and where are we in discussion with them, how are we in terms of product readiness?

Jitendra Divgi: Yes, I would say that there are two broad segments, Aashin, in that area, in the three wheeler. One segment is populated by very strong brands of incumbents, it could be a Bajaj, it could be, Mahindra it could be Piaggio, big brands. So we are working with one of them on this the numbers are pretty significant, I mean, they go at some point in the life cycle, they cross the 100,000 mark.

So, that is one area that we are pursuing, the other area is dotted, that landscape is dotted with really lean and mean startups and that is where innovation is right, this, area also includes small recreation ATV manufacturers, who use three wheeler type powertrains to drive these, you could call them dune buggies or ATVs and one of the areas that have suddenly emerged is the possibility of Indian companies assembling these vehicles using the three wheeler infrastructure,

in the country to export these ATVs, for utility and recreation purposes globally and we are working with companies, in this area.

This area is also dotted with a lot of, I would say feverish activity of startups in the powertrain area and so what you have, it's a very heady cocktail of consulting vehicle engineers, startup, vehicle making companies and startup powertrain companies and this is like a cauldron, that is brewing now, who are the winners that come out of this, time will tell.

But it is one of the most exciting areas in India right now and given the design capability that we have, what startups need is the ability for, companies like us to bring in standard designs with which their time to market is assured the development period is cut down, the prospect of a right first time is assured and then you have the capacity needed to support them and because they don't have the time to do and the resources to do a ground up development and this is the space in which, I think it's, it's a little amorphous and constantly changing and evolving.

So if you, put a finger on a number, in 3 months it will be outdated, this is what is happening, then of course there is a little bit of overlap, with the two wheeler makers because some of these power train guys motor inverter start-ups, are able to service both the two wheeler and the three wheeler. So, it is a fast moving target and the area which is most difficult, for these people to pin down, is actually the transmission because the investment that is needed, the experience and the knowledge, of the material science, the heat treatment, the ability to engineer, NVH free systems, this is at a premium today, this is our sense in the marketplace.

So, I can tell you that, in the three wheeler segment, we are, working with all the stakeholders there, we are in touch with the vehicle engineers, who are advising, these companies, they are also doing, pilot production, for some of these OEMs, we are in touch with the, power train makers and we are also in touch with the guys, who are making the ATVs and the UTVs, UTV stands for, Utility Task Vehicle and it is just a 2-seater, with some kind of a utility, carrying capability, a lot of it is off road, so they need four wheel drive, electric four wheel drive systems.

Now, all of this activity that is unfolding is not reflected right now in our budget and long-term plan but as and when things crystallize, we will be able to sort of streamline it and dovetail it into, our business, that is the current status, I hope I have answered your question,

Aashin Modi:

Yes, sure sir and sir my last question is regarding, where are we in terms of our investment cycle, what sort of a capex, should we expect over the next 2, 3 years?

Jitendra Divgi:

Yes, I think Sudhir alluded to what has been utilized and what is pending the reason is we are timing the development of a lot of our new products and the injection okay, this is a bit of a dicey thing because we don't want to prematurely over invest we want to make sure that, that investment is synchronized it is done in a thoughtful manner without exposing the company to undue risk a little bit of upfront investment that proactiveness has to be there one of the complications is the -- this EV wave across the world, has extended a lead times on some of the, equipment, which is the other challenge we are facing.

And many of these, high-tech machines are not available in India they have to be imported from, Japan, Switzerland, Italy or Germany and some also from France so and the lead times there

have gone beyond conventional lead times that the industry was used to. So, it's a little, difficult to sort of put a finger on we have of course, broad plans you have to understand what where the focus is export business; EV, we are continuing to monitor.

The four wheel drive, business which of course has a connection, with, the component business because a lot of the components we export are components of our four wheel drive products, that connection you must make we are also -- we continue to monitor the manual transmission space because that is an area where the OEMs are letting go of a lot of -- and there are discussions underway, of how that will evolve strategically over the next 3-5 years those discussions are going on with many of India's big, OEMs.

When I say India's, Indian OEMs, that is our Tata, Mahindra, Ashok Leyland, Eicher, maybe and then of course, the elephant in the room, if I may say so, is automatic transmissions and there has not been much of a question, in that area, but I can tell you that, that is according, to our assessment, still the hottest, area for us, no one company, has the wherewithal to embrace, this segment, I mean, even the likes of, the world's biggest Tier 1s, I don't think, have the stomach, to take on the challenges, of the Indian market.

So it is going to require, a deep collaborative effort and those companies, that bite the bullet, on figuring out, how to, I think, will reap the, dividends, of the risk they take, so the point is that, the automatic transmission business, also awaits, investment from us.

Aashin Modi: Thank you.

Moderator: Thank you. The next question is from the line of Karan Kokane from PGIM India AMC. Please go ahead.

Karan Kokane: Yes, hi sir, so just a few clarifications, so you said, FY '24, FY '25 growth, will be around 8%-10% is that right?

Jitendra Divgi: Yes, that's what we said.

Karan Kokane: Okay and sir, can you just, give a broad indication, of the growth between, the transfer case and EVT for 25? Would that be possible?

Jitendra Divgi: I think, overall I would say, we are a little more optimistic, on the EV transmission, than on transfer cases.

Karan Kokane: Okay. And sir I just missed your FY '25, growth guidance, how much was that?

Jitendra Divgi: No, 25 we said 8%-10%.

Karan Kokane: Sir, FY '26?

Jitendra Divgi: Yes, 26 I didn't answer that, directly with a number, all I said was, if I look at the, contracts we have in, steady state operations and the contracts we have, that are under our develop and launch process, I said that, that gives me the confidence, that we will pull the, company back on the, 15%-20%, CAGR trajectory, that's what I mean,

- Karan Kokane:** Understood and on margins, you said 20% plus, is what you want to maintain right?
- Jitendra Divgi:** EBITDA.
- Karan Kokane:** EBITDA and this is excluding, other income right?
- Jitendra Divgi:** Yes, only operating business that is our goal. See what has happened is, if imagine, where we are, if all the additional business, imagine we had, a little 20% more in Mahindra, Tata had promised 70,000 units, even if it had been 55,000, entire contribution margin, out of this business would have, gone to the bottom line, it would have made a huge difference, to the EBITDA so please bear that in mind.
- Karan Kokane:** Yes and sir I just missed the, capex numbers for 25, 26?
- Jitendra Divgi:** 25 capex, we'll come back to you, I don't have that, number readily.
- Karan Kokane:** Okay, those were my questions, thanks and all the best.
- Moderator:** Thank you. Ladies and gentlemen, we'll take this as a last question, I would now like to hand the conference, over to Mr. Jitendra Divgi, Managing Director, for closing comments.
- Jitendra Divgi:** Okay, once again, I thank, all of you for giving us this opportunity and appreciate the, critical questions that you asked, I look forward to, these sessions very much, gives me the opportunity to understand what is on the minds, of our investors how we are aligned generally with the market and actually it's a source of great value, I feel for the thinking that goes on in our business. So, I cannot thank and appreciate this enough. So thank you very much again.
- Just bear in mind that the, basic integrity of the story, is still in place that's what I wish to assure you. And the four quadrants that we were looking at, of our legacy four wheel drive business, the manual transmission synchronizers, EV powertrain and automatic transmission, that story we have not given up on it and I look forward in, the next couple of quarters to give more substantial updates, in this space. So let me conclude here by once again thanking all of you, for your time and interest, thank you very much.
- Moderator:** Thank you. On behalf of Equirus Securities Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines, thank you.