



Sharda Motor Industries Ltd.

SMIL: BSE/NSE: 24-25/3105/01

31st May, 2024

BSE Limited

Department of Corporate Services
Pheroze Jeejeebhoy Towers
Dalal Street, Mumbai - 400 001
(SCRIP CODE - 535602)

National Stock Exchange of India Limited

Exchange Plaza, 5th Floor
Plot No. C/1, G Block
Bandra - Kurla Complex, Mumbai - 400 051
(Symbol - SHARDAMOTR) (Series - EQ)

Sub: Submission of Transcript of Earning call held on Monday, 27th May, 2024 at 04.00 P.M. (IST) onwards

Ref: Regulation 30 read with Part A to Schedule III of SEBI (Listing Obligations and Disclosure Requirement), Regulations, 2015

Dear Sir / Madam,

In pursuant to the applicable provisions of the SEBI (Listing Obligations & Disclosure Requirements) Regulations 2015 and in furtherance to our letter no. SMIL: BSE/NSE: 24-25/2105 dated 21st May, 2024 with respect to the convening of Investors / Analyst conference call "Earning Call" on Monday, 27th May, 2024 at 04.00 P.M. (IST) onwards, for discussing the financial performance of the Company for the Fourth quarter and Year ended 31st March, 2024, in this regard please find enclosed herewith the transcript of the earning call.

Further the same is also being available on the website of the Company at www.shardamotor.com.

This is for your information and record.

Thanking You,

Your's Faithfully

**Iti Goyal
Asst. Company Secretary &
Compliance Officer**

Encl. as above

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CIN NO-L74899DL1986PLC023202



“Sharda Motor Industries Limited
Q4 FY '24 Earnings Conference Call”
May 27, 2024

Disclaimer: E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on 27th May 2024 will prevail.



**MANAGEMENT: MR. PURU AGGARWAL – PRESIDENT AND GROUP
CHIEF FINANCIAL OFFICER – SHARDA MOTOR
INDUSTRIES LIMITED
MR. AASHIM RELAN – CHIEF EXECUTIVE OFFICER –
SHARDA MOTOR INDUSTRIES LIMITED
SGA – INVESTOR RELATIONS ADVISORS – SHARDA
MOTOR INDUSTRIES LIMITED**

Moderator:

Ladies and gentlemen, good day and welcome to Sharda Motor Industries Limited Q4 FY '24 Conference Call. This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions, and expectations of the company as on the date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict.

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Puru Aggarwal, President and Group CFO of Sharda Motor Industries Limited. Thank you and over to you, sir.

Puru Aggarwal:

Thank you. Good evening, everyone. A warm welcome to all the participants on this call. I'm here with Mr. Aashim Relan, our CEO; and our Investor Relations Advisors from SGA. I hope you have had a chance to check out our results and the investor presentation. You can also find the presentation on the stock exchange and the company's website for your convenience.

Before going into the company's financials, I would like to give a brief overview of some noteworthy highlights in the industry. Let's start with the latest developments in the automotive sector. On the backdrop of robust economic growth of 7.6%, based on conducive policies of the government, the Indian automobile industry has posted a strong performance with domestic industry growing by 12.5% during FY '24. India continues to be the third largest automotive market globally.

Starting with the PV segment. Sales volume for the passenger vehicle in Q4 FY '24 stood at approximately 13 lakhs units, reflecting a Y-o-Y growth of approximately 9%. FY '24 was a milestone year for the PV, with sales volume reaching to about 49 lakhs units. This growth can be attributed to improved rural demand or favourable product mix and the launch of new models. Enhanced supply dynamics improved broad infrastructure and strong demand and the SUV segment also contributed to this growth. Looking ahead of FY '25, the industry is expected to grow at a single-digit rate due to this high base effect of FY '24.

In the commercial vehicle sector, total sales volume for Q4 FY '24 reached to about 2.8 lakhs units, down from about 300,000 units in Q4 FY '23. And sales for FY '24 stood at approximately 10.3 lakhs units compared to approximately 10.4 lakhs units in the FY '23. This decline was mainly due to a significant drop in exports. Domestic CV volumes gained traction due to healthy infrastructure spending, aided by allocation for capital spending in the Union budget FY 2023-'24 and a focus on replacing old vehicles under the Green Mobility policy.

Conversely, domestic CV volume were affected by weakened rural demand and cash flow due to unseasonable rainfall as well as a shift to high tonnage trucks, which increased payload capacity. Going forward, with the promising GDP growth outlook, government incentives to improve productivity in both, manufacturing and agriculture sectors and a continued focus on infrastructure, demand for CV is expected to improve from second half of FY '25. In Q4 FY '24,

the 2-wheeler segment surged by 26%, reaching around 55 lakhs, while FY '24 saw 10% growth to about 2.14 crores.

Factors such as increased model availability, new product launches and favourable market sentiments, especially post the expiration of FAME II subsidy on March 31, drove this growth. Consequently, the 2-wheeler EV market share rose notably to 9.12%. Additionally, strategic launches in premium segments and positive market sentiment further fuelled the growth, supported by seasonal events, improved vehicle supply, rural market recovery from COVID and financial incentives.

In FY '24, the tractor industry saw an 8% drop in domestic sales and a 22% decrease in exports due to various economic challenges. However, the outlook is positive for a recovery. The government is focusing on infrastructure development, increasing investment in agriculture and rural areas, and boosting rural spending. Additionally, more agriculture credit is becoming available, helping farmers buy new equipment. These initiatives are expected to improve agricultural productivity and support rural communities, leading to a rebounding tractor industry.

After providing insights to the industry, I will now shift the focus to the operation and financial performance of the company. We have reported a consolidated revenue of INR703 crores for Q4 FY '24 and INR2,809 crores for financial year 2023-'24. Our gross profit for Q4 FY '24 stands at INR184 crores as against INR144 crores in Q4 FY '23, with a Y-o-Y growth of 28%. We have improved our gross profit margin consistently, which now stands at 26.1% from 20.9% in the corresponding quarter of last year. This margin expansion of more than 500 bps can be attributed to higher value-added sales.

On an annual basis, the gross profit grew by 24% from INR536 crores to INR666 crores in FY '24. The gross margin saw an improvement of 390 bps on an annual basis from 19.9% in FY '23 to 23.7% in FY '24.

In Q4 FY '24, our EBITDA stands at INR99 crores, demonstrating a substantial growth of 23% year-on-year compared to INR81 crores in Q4 FY '23. The EBITDA margin for the quarter also experienced a robust expansion, increasing by 235 basis points from 11.8% in Q4 FY '23 to 14.1% in Q4 FY '24. In FY '24, our EBITDA has reached to INR361 crores, indicating a significant growth of 28% Y-o-Y compared to INR282 crores in FY '23. Notably, the EBITDA margin for the full year has expanded by 243 basis points, progressing from 10.4% in FY '23 to 12.9% in FY '24.

For the quarter ended, our profit before tax amounted to INR117 crores, factoring in shares in profits from JVs and its Associates. Our JV recorded a profit of INR2.6 crores in Q4 FY '24 compared to INR1.5 crores in Q4 FY '23.

For the full year period, our profit before tax amounted to INR399 crores, considering shares in profit from JVs and its Associates. Our profit before tax witnessed a robust growth of 42% compared to Q4 FY '23. Additionally, for FY '24, our PBT experienced a commendable increase of 43% compared to FY '23.

In Q4 FY '24, the profit after tax amounted to INR88 crores, making a notable growth of 42% compared to Q4 FY '23. Our FY '24, the profit after tax reached to INR300 crores, exhibiting a significant growth of 44% compared to FY '23.

The company continues to be debt free with surplus fund of approximately INR900 crores, including investment in bonds and mutual funds. In line with our commitment to rewarding our shareholders, the company has declared a buyback of INR228 crores approx. inclusive of taxes. Furthermore, the Board has proposed a final dividend of INR9.92 per equity share equating to 496% of the face value of INR2 per share. This proposal is subject to shareholders' approval at the upcoming Annual General Meeting. Including the buyback and the dividend, our total distribution to shareholders will be approximately INR257 crores for FY '24.

We will continue to explore organic as well as inorganic growth opportunities which will be supported by robust operating cash flows adding to our existing cash reserves. With this, we can open the floor for Q&A.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Ravi Naredi from Naredi Investors. Please go ahead.

Ravi Naredi: Mr. Aashim, CEO sir; and Puru, you are really doing a fantastic work in the company, I admire you, what are you doing, buyback, good dividend pay-out, good growth, even turnover is not rising, but profit is rising, fantastic. It means our margin has improved. My only curiosity for future growth is there. What is our capex plan and growth prospectus for next few years and whatever margin we improve, will it be continued or not? These are my questions.

Aashim Relan: Sure. So Aashim this side, and good evening to everyone, and thank you so much for the question. So first, just to address the sales part. So given the high percentage of bricks or catalysts within our sales, so the gross sales number is not a good tracker to see growth. And gross profit and gross level is a better way to look at it, which I have been mentioning for a couple of calls now. And if you look at our gross profit increase, that has been far ahead of industry growth. And hence, the underlying growth in value-added sales is robust.

At the same time, now plans for the future. So first, we want to maintain or increase our market share in LCVs, as well as passenger vehicles, domestic exhaust system, RDE segment. Next, we are aiming for market leadership in the domestic tractor, TREM V, market, which is going to start on 1st April 2026. Third, we've been working for at least a couple of years now on the export side, and we have a good pipeline in terms of export subcomponents as well as emission systems for tractors and Gensets.

And then further, as we saw and updated in our presentation that we have increased our focus on powertrain agnostic side. And in the powertrain agnostic side, we've done very well in one of our smaller verticals, which is currently suspension, control arms, which we are referring to as the lightweighting vertical. At the same time, we will keep evaluating opportunities inorganically as well to deploy some of our surplus funds into M&A into the powertrain agnostic side.

Ravi Naredi: Okay. So any capex plan, will you tell?

- Aashim Relan:** The capex plan for this year is similar to be average of last year, plus we'll be adding a new facility. For that, we made an announcement that we'll be doing INR50 crores on that facility in Pune. INR50 crores.
- Moderator:** The next question is from the line of Payal Shah from Billion Securities. Please go ahead.
- Payal Shah:** Thank you so much for the opportunity, sir. I just have a few questions. First, what percentage of annual revenue is coming from various legislations that is already implemented?
- Aashim Relan:** Sure. So the revenues are coming -- on the emissions side, which is linked to legislation. So all our emission business comes from the various legislations. I mean that CV emissions, which is commercial vehicles plus LCVs, they account for about 42% of our sales, and these are all new legislations. Very minor part, spares and all would be on the old legislation. Then on passenger vehicle emissions, again, 42% of our revenues comes from that.
- And these also are the BS-VI RDE and a very small percentage of that would be coming from the old ones, which is just on the spares front. And then 5% is coming from the off-highway tractors, Gensets and so on legislations as on FY'24.
- Moderator:** The line for the current participant seems to have been disconnected. We'll take the next question. The next question is from the line of Kartik Keyan from Suyash Advisors. Please go ahead.
- Kartik Keyan:** Yes, good afternoon, sir. Congratulations, fantastic presentation after a long time, well spruced up and lots of useful details. So, thank you very much for that. Two, three key questions. One is with regard to your addition products. You've indicated a volume of roughly 1 million units. Just for perspective, what would this number have been, say, three years ago?
- Aashim Relan:** One million units you are referring to the slide on the emission front.
- Kartik Keyan:** Yes. Yes, exactly.
- Aashim Relan:** Sure. So it's 1 million plus, right? So don't look at it as an exact number, 1 million, that's now cross million-plus. I don't have the number on what it was previously, but we'll get back to you. So your question was three years ago, what was it?
- Kartik Keyan:** I'm just trying to understand what it would have been the growth mix, given all the initiatives you have taken and where could this number be, say, a couple of years down the line? I don't want to pin it down to a quarter or year.
- Aashim Relan:** Sure, sure. What we'll do is the exact number on what it was three years ago, we'll definitely share. And one of the biggest drivers in the last three, four years on growth has been the content increase, right? Because from BS-VI, we went BS-VI RDE, right? And the content driver plus the opening of this new market of tractor, off highway . Right now, it's just about 5% of sales, but that's also I did. So content has been a large part of growth in terms of gross units, that I'll come back in terms of what it was three, four years ago.

- Kartik Keyan:** Sir, the other question is, I don't want to name names, but one of the OEMs was indicating that TREM V may not happen on the indicated date. What is your best guess of the probability of things happening?
- Aashim Relan:** Sure. So, now it's notified by the government. It's a formal notification and almost all OEMs have nominated and started development also, right? So maybe there's just one or two OEMs left. So they are investing money into it. They have nominated their suppliers as well. And it's notified now by the government. However, you never know, but it looks like all the OEMs are gearing up for TREM V.
- Kartik Keyan:** Great. If you care to answer, what percentage of volumes today would have bricks as a part of the procurement?
- Aashim Relan:** That we don't answer, just because we don't talk too much about bricks. What we have shared is that to look at gross profit, it's a very good indicator to our value-added sales, the growth and gross profit that we see....
- Kartik Keyan:** That's the number we have always looked at because it doesn't make sense looking at the grossed-up number. All I'm trying to understand is how is the transition progressing?
- Aashim Relan:** It's reduced. Yes. It's reduced a lot. And are all our new products which have come in, in RDE have all been FOC, right? That's why one of the reasons why gross profit is up and it has outperformed the industry. So I think for the year, it's roughly up 24%, 25% versus industry growth of 5% to 10% if you take a blended rate. And so it's reduced a lot. Our RDE products, the new products that came in, all came in with FOC.
- Now for TREM V and for newer products, we're trying to have the same strategy, that is a strong preference that we are sharing with the OEMs, but customer is what we will follow. And as of now, it looks like even TREM V business and additional business will come, so it will further go down as a percentage of revenues, but it definitely has come down.
- Kartik Keyan:** That's fair. Last question from my side, three to four litres what is the current status of commercialization?
- Aashim Relan:** So, we are in the development phase only of that. We are ready. This is a market that is harder to penetrate in terms of timing though we are optimistic that we'll be able to penetrate it. And once we penetrate it, we straightaway get about 30%, 40% market share of it. Because there are only 3 or 4 engines here. And once our product goes into that. Then, one we get the engine and second that exact same product can be produced in the entire segment. Our product is ready. Our technology is ready, and the work is underway.
- However, these are stickier products. And as this requires a change in testing emission cycle and so on for the customer, so the work is on. As of now very little revenue's coming out of that segment but that is going to be one of the growth drivers in the next couple of years.
- Kartik Keyan:** Not in this year?

- Aashim Relan:** This year we won't see some big parts. We could. As of now it looks like there's not going to be some big addition in the 3-4-liter segment.
- Kartik Keyan:** Many positive pickups. So I hope you continue the good work, best wishes.
- Moderator:** Thank you. And the next question is from the line of Vishal from Svan Investments.
- Vishal:** Congratulations for a good set of numbers. Sir, my question is again, regarding the gross margin. We have seen an expansion of gross margin to almost 26%, 100 basis point Q-on-Q, 500 basis points Y-o-Y. And at absolute terms also gross profit has increased significantly. So going ahead what run rate should we take at a sustainable basis in terms of this gross margin expansion from here on? One.
- Second, I know that it is not correct to compare the base of last year because there the mix would be on older vehicles and new -- and this quarter there would be a larger proportion of new RDE norms vehicles. So at what level the base will nullify and you will get a sustainable gross margin levels which will be easier for us to estimate going forward?
- Aashim Relan:** Sure. So we had guided last year that our value-added sales will increase, and it will outperform industry between 10% to 15% because of the content increase that would come from RDE. So if you would look at our annual number the growth in gross profit which is a strong indicator for underlying growth of value-added sales has gone up 24% so it's well in line with that. Now it also includes some elements of product mix and so on.
- So it's very hard to guide on one number but you can look at gross profit as the base for any year and that would be helpful to look at growth versus industry. And it would never be exact on a sequential quarterly basis and so on. However in the long term this is the best indicator. And if you look at the back data as well it would indicate that this has been a very good indicator of value added.
- Vishal:** Okay. So from here on also 26% gross margin you would expect that there will be some increase on quarterly and yearly basis?
- Aashim Relan:** So as a percentage whether it will be 26% and so on because there is also a mix that comes as part of it. So I won't be able to guide on it. However, what I will be able to share is that you can utilize gross profit absolute as a base. And you can then see how it progresses versus the industry.
- Vishal:** Okay. Sir, my second question is regarding there has been sharp increase in the other expenses. So is there any one-off sitting there? Can you highlight on that fact?
- Aashim Relan:** There's not much one-off on the other expenses. As the underlying growth is happening. So the other expenses have also. There's not any one-off in particular on the other expenses. But I'll pause here and Puru sir maybe if anything you want to add here to this question.
- Puru Aggarwal:** So it has gone up because of the higher value-added sales in terms of labour hire charges, freight outward charges, consumables, power, and fuel etc. And as Aashim just said that it is going to continue like that.

Vishal:

Okay. Sir, my third question is regarding the TREM V and CEV V norms which are going to be implemented from FY '26. So will we be able to see the same kind of content increase as we have seen in this new emission regime similar kind of content increase, we'll see in that regime as well for construction equipment and offloading vehicles?

Aashim Relan:

Sure. So first, I'll take tractors because that's the big part of it. And then I'll come to construction equipment and other categories. So on the tractor front currently most tractors in India don't require our product only. So our content per tractor is 0. Where we do sell in tractors right now is partially on the TREM IV legislation where very few tractors require it as a percentage. And then also a lot of the OEMs export out of India into countries where the legislations are higher similar to what TREM V will be. So that is where our product goes in.

So, when TREM V kicks in then we will be having additional revenues coming in from the industry. And that is going to be slightly large in size. It will definitely be a solid tailwind and we are looking forward to good business on the tractor industry.

Now coming to the construction equipment industry and others. So in construction equipment and others as volumes, they are much smaller than tractors because you're making more than a 1 million kind of 1 million tractors in India now. So the construction equipment and the other industries also which we have begun to develop now. We already have some business in genset. We are looking at construction equipment. And there we have also found that the adjacencies of our products have very high value add. So we are also looking at the core product plus we are also looking at the adjacencies.

And the good part about the construction equipment industry is that a lot of the domestic or other domestic players are also global players. And getting entry into these players also opened a very large account for us from a global scale because the same customers on construction and genset side buy a very large amount of our product plus adjacencies globally and they do prefer the route of exports or imports for them. And most of it right now they're buying from China.

Vishal:

Great, sir. Sir, there has been a significant increase in the contribution from our Eberspaecher business this quarter. So what kind of impact on a yearly basis also FY '23 INR3-odd crores contribution from this business and FY '24 around INR5-odd crores contribution. So will we see a sustainable level of growth in this business going ahead? And what kind of growth we should build in for next 2, 3 years going forward?

Aashim Relan:

Sure. So I think you're referring to contribution as probably on the pack because that comes on a consolidated side, sales don't come in of that business. So if we just look at it as a percentage of our overall profit it's very small whether the absolute number has gone up. As a percentage of our overall consolidated profit, it's still roughly 2% to 3% only. It's not a lot. And we do expect this business to do better as we go forward but very hard to predict because this is focused on the commercial vehicle and heavy commercial vehicle industry, which is very concentrated on few models, very cyclical.

And because of small changes also the percentage is seeing much higher or lower because it's a much smaller business than our overall business. So going forward, in the larger scheme of things if you look it's a very small percentage of a contributor to our overall numbers.

Vishal:

Great, sir. Sir, my last question regarding the suspension system business which has increased by almost 9% in FY '24. Sir, what would be the road map going ahead for this business? One and sir, there is one more question regarding what will you guide regarding your export business going ahead in next year and one to two years going ahead?

Aashim Relan:

Sure. So I'll take the suspension business which we are renaming lightweighting. And lightweighting, why? Because we are seeing a very strong trend on lightweighting. And we have seen good number of synergies between our core processes and the lightweighting theme that's playing out. And right now, the business is basically suspension assemblies as well as control arms. So we had made some small R&D investment innovation work, but they've yielded good results. We have added one additional customer, plus we've been nominated for a good-sized platform, which is EV plus ICE for an existing customer. And that has given us a lot of confidence in this segment.

Our current product, as I mentioned, is largely control arm, suspension axle assemblies. But given how the lightweighting theme is playing up, because of the requirements in weight reduction in EV as well as ICE, hybrid and so on, even for safety reasons, we will continue to focus on it. Right now, the guide on it is difficult. However, our content currently is small in the realm of things. However, there is opportunity to grow it. And as it develops, I'll keep updating on this segment. Our new plant that has been added is to begin with only focused on this segment or which will be added we've announced, which will be added in the next couple of months.

Vishal:

So you will be increasing your product offerings also in this space?

Aashim Relan:

Currently, we have very less market share. So first focus is to get more business within the product as well as looking at opportunities on how we can increase our content. And it's such a huge space. We just want to be very careful that we are addressing only the segments that are technology-driven, right, and which do have good financial profile rather than just going for everything.

Vishal:

Fantastic, sir. Sir, regarding the export, can you throw some light there as well?

Aashim Relan:

Yes. So the export business, we have built a team. We are building a team -- a bigger team now, which we'll be building over the course of this year. We have a very good RFQ pipeline. We do expect some new additions. To time it is very difficult. Also, as Puru sir mentioned that globally, the off-highway segment is in a slowdown, which has more to do with the U.S. and Europe market. So to time is difficult. However, the pipeline is good. We are building a focused team on it. So we'll have a good team working on it. And the initial orders will be small as pilots, but they'll grow over time. And overall, we are very excited about this segment, on how we can grow our exports. Timing, it may be difficult to plan, but we'll keep you updated on the program.

Vishal:

Fantastic sir. Sir, I'll just take one more last question. Sir, we are building this new Chakan facility. So what kind of peak revenue visibility do you see from this Chakan facility? This is

one. And one, on a longer term basis, your vision to be in domestic market as well as export from a five-year perspective, how do you see your business in terms of size, in terms of market share, whatever, your parameters to judge, you want to be in next five-year basis in terms of both export market and domestic market? These are my last two questions, sir.

Aashim Relan:

Sure. So I'll come first to the new addition. So in revenue, there's no guidance as such that we can give, because this is something very new and we will build it up. This is a new facility that's coming up for control arm as well as suspension assemblies. And this product, which we've been nominated for, will largely be used in EV and ICE. It's powertrain agnostic, so it fits in very well with our overall strategy. The first phase investment, which we'll be doing this year, and it may spillover to next year as well, which is INR50 crores. And then we will look at how to build it further. And in terms of giving specific numbers on revenue and so on is very difficult.

Coming to your question on overall vision. So there's no number as such that we are guiding on. However, if you look at it, the growth perspective is quite good just because of the addressable markets that we have entered. I think the addressable markets that we've entered and will be entering into are exponentially bigger than our current revenues. And hence, we do see a good growth opportunity and we are ambitious about it. And we hope to definitely be outperforming the industry and to be providing good results. Just specific numbers and so on, we are not guiding it.

Vishal:

So sir, do you see five years hence, export can be 15%, 20% of the business? Is the potential big you are seeing?

Aashim Relan:

Sure. Again, no numbers, but the potential that we see on this product is huge for international business, right, from an export perspective. The numbers that we are seeing in terms of how these larger companies are buying, especially on the segments that we are working on, on our product and its adjacencies has positively surprised us also. So the addressable market when we look is multi-fold of the India opportunity. However, we have to see and get some wins and build it up.

Moderator:

The next question is from the line of Chirag Shah from White pine Investment Management Private Limited. Please go ahead.

Chirag Shah:

Congratulations for a strong show as well as the presentation. Sir, my first question is just a clarification. So if I look at your EBITDA margins, they are now higher than what we used to have before this bought out component accounting has happened? Would it be right to say that the FOC terms that you are referring to now is largely percolated in our revenue, maybe some tail is left, that would be the right way of understanding?

Aashim Relan:

So your voice is a little bit unclear, but as much as I could get, I'll answer. So regarding this FOC and catalysts, it's always been part of our revenues, right? Even like 10 years ago, it was part of our revenues. Only thing is before the BS-VI regime, it was a smaller part of our revenues because BS-IV products, the catalyst was not so expensive, right?

And in BS-VI and BS-VI RDE, it's way more expensive than what it used to be in BS-IV. At the same time, we were also not that large of a company then, right? So it's always been that. There's

never been a period where there was not a mix of catalysts as well as non-catalyst business, right? So in terms of that, you can always refer back, I think, since the BS-IV norm started.

Now coming to the EBITDA margin number, EBITDA margin number is -- the core driver is the underlying value-added sales, right, which is a good representation comes from our gross profit increase. And how the EBITDA margin will pan out, that's something which I mentioned in the last few questions as well that it depends on the value-added sales going forward.

Chirag Shah:

Okay. Sir, I think -- let me rephrase my question. What I'm trying to understand is when BS-VI came across, if I look at your material cost as a percentage to sales, which used to be around 68%, went up to 82%, okay? Because of the accounting issue, it has nothing to do with the business as such, but the way you have to account it post that. Now it is -- on an annual basis, it is around 76%. So if more and more business is moving towards the pre-BS-IV regime in terms of accounting, your RM to sale, it should actually go back closer to 70%. Is this the way to understand the business?

Aashim Relan:

Okay. Sure. Understood. So there are three regimes that we must talk about. One is BS-IV, one is BS-VI, and one is BS-VI RDE, right, so BS-IV to BS-VI, as you mentioned. In BS-VI RDE, we took all the business where the brick was FOC. It does not show in our sales, it does not show in our purchases and it's only pure value added sales, and that's why this improvement has happened this year. Now going forward, if we continue to only take on new business on FOC, definitely FOC business is like this only. However, when TREM V comes in, we are strongly preferring to go with this model, but we'll keep the customers' preference as a priority. And let's see how that pans out when it comes on to the tractor industry, we feel it may be a blend, but we are trying to do fully in terms of FOC. So just look at it in terms of three things.

Chirag Shah:

So if we exclude TREM V on the existing business, would it be a right assessment that accounting-wise, RM to sales can see a further decrease or now we have achieved broader number, it could be now marginal or incremental in nature?

Aashim Relan:

Sure.

Chirag Shah:

Because as I explained, 68% to 82%, 82% becoming 76%, largely because of this accounting of bought out component versus FOC, and the proportion of that changing?

Aashim Relan:

Sure. Yes. So just that we look at it a little bit differently, right, to how you are seeing it. I get your point. So I won't comment with this way of looking at it. It is also just a different way. I'll just say that these three things have been exactly linked with the emission norms BS-IV, BS-VI, and BS-VI RDE. And in the future, right now, the big emission norm that's coming is CEV V and TREM V, right? And CEV V and TREM V, as it progresses, I'll keep updated. However, the best way to look at it is to look at the gross profit number versus the industry part of it. I get your point, just because internally, we look at it differently. Maybe offline, we can, through SGA, go through this.

Chirag Shah:

Yes. Sir, second is on tractors. You indicated OEMs have started nominating the suppliers. So when you say you are nominated, its nomination for developing the product or nomination when -- what I'm trying to understand is if TREM V gets implemented on the notified date. So again,

what kind of market share we can look at it? Would it be 50% plus based on the nominations you have? Or you are in the process of proving the product as of now and after that share of business will be decided? So is that more the -- and how many players are there as your peer set? Is that a two, three-player market or there are more players over here?

Aashim Relan: Sure. So exact market share numbers and so on, we won't guide on, even though we would have a good indication, right? Because mostly nomination 50% plus of the industry has already happened. And when the nomination happens, it's based on the go ahead to invest and to fully develop and to start on training the manufacturing lines, testing and so on, right? And exact guidance on what the market share will be? Probably won't be able to give.

However, we are bullish on this industry, given that most of the customers are already our customers because we've been supporting them in TREM-IV as well as all the export products. And which was small, but we have good relationships with the teams as well as our R&Ds have worked together on similar style products for exports. Coming to how many player market it is, it's largely a 3-player market because this is advanced emissions. And then you can see how they would pan out in terms of market share in a three-term.

Chirag Shah: And lastly, on the control arm...

Moderator: Can you come in the queue for the follow-up question?

Chirag Shah: Just a clarification. On the control arm, sir, you are on the passenger vehicle, we are not on the commercial vehicle side. Is that the right understanding?

Aashim Relan: Yes. Currently, we are on the pascar side. But this can be cross-applied to LCVs as well but current business, largely is on the pascar.

Chirag Shah: And Aashim, I have been trying to get a meeting with the senior management since a very long time. And you have been indicating that you would try to be more accessible. I hope you have formed the policy around it, and it would be helpful if you can -- outside the results call, the senior management is able to find some time.

Aashim Relan: Sure.

Chirag Shah: Thank you very much.

Moderator: Thank you. The next question is from the line of Rushabh Shah from Buglerock PMS. Please go ahead.

Rushabh Shah: Sir, how big is this tractor emission market according to you? And what are the high players in the world which you are talking about?

Aashim Relan: Please, can you speak louder, please?

Rushabh Shah: So how big would be the tractor emission market according to you? And who are the 2 to 3 players, which you are talking about are in the world?

- Aashim Relan:** Okay. How? Is the question, how would the tractor market? I can't get to your -- it's a very muffled voice that's coming.
- Rushabh Shah:** So how big is the tractor emission market according to you? And which are the big 2 or 3 big players or competitors in the space?
- Aashim Relan:** Sure. So how big is the market? Depending on how, which product strategy and which range of products, eventually the OEM stake, as well as value-added, non-value-added, hence giving a definitive number is difficult. However, it would be similar to the size of what commercial vehicle is in terms of numbers. And the competition, we don't name competitors but the general competitors who are there on the CV segment are the same ones on tractors that we understand.
- Rushabh Shah:** And sir, my second question is tractor market is a cost-sensitive market. So how are you managing being the lowest cost among your peers?
- Aashim Relan:** Yes. So that's an advantage for us, right, being the low-cost player any of this, as the other two, three competitors are global companies. So, that is one of our strengths, and that's why we're not to play out on the tractor industry as well.
- Rushabh Shah:** That is what I'm asking. What's the different you are doing against your peers?
- Aashim Relan:** So I think what we are doing different against our peers?
- Rushabh Shah:** Yes.
- Aashim Relan:** So, just that maybe not worth talking about right now, given that that's one of the things that TREM-V is under nomination right now. However, we are using various techniques, which we would be able to get a better business market share from our competitors, and it's very similar to what we do in other industries as well. But just listing it out, given that a lot of nomination is going on right now, would not be the right thing to do.
- Rushabh Shah:** Okay. So a small one from my side. What percentage of the top 3 or 4 customers contribute to your revenue?
- Aashim Relan:** I don't have the number with me off hand right now. We'll get back to you to on that.
- Rushabh Shah:** Thank you so much.
- Moderator:** Thank you. And the next question is from the line of Chetan Doshi from Tulsi Capital. Please go ahead.
- Chetan Doshi:** Congratulations Aashim, for good set of numbers and nice presentation. Now a couple of questions are already answered. But please restrict your people to only 2 questions. We have to wait for almost 35, 40 minutes to be in the queue to get 1 or 2 questions answered. Now my specific question to you is see, this suspension systems, you have been growing at 45% compounded annual growth.

So what are your plans to expand in this particular segment? And the second question is, you have announced a buyback. As such, our equity is very low. And in what way it is going to benefit? Because this money could have been utilized for a takeover or for further expansion because as such, the liquidity in our stock is less.

Aashim Relan: So first, I will take the question on suspension slash lightweighting. Just to repeat that your question was what is our plan in this sector, correct?

Chetan Doshi: At present, it is 10%. How -- what is your growth plans, particularly in this segment?

Aashim Relan: So this has been a smaller segment as we've shown, now it's grown, and we have also been positively surprised. This is largely due to the lightweighting theme that's playing out in the industry. And it seems to be a mega trend that is stronger than we expected also. And in terms of planning, we will add some R&D investments as well as innovation to look at opportunities.

This sector is or this segment is very big when it comes from an addressable market perspective. However, we want to be cautious and only address the sub-segments, which are profitable and have an overall good ROCE picture. So we'll be selective. However, it's so big. It's still a good addressable market that we'll have.

We've added one new customer plus we've been nominated for a platform, which is EV plus ICE. So this is a powertrain agnostic, something that we were looking for, for a long time. As Phase 1, we've added a facility or we'll be adding a facility, which will come up in the next couple of quarters, and that will be Phase 1.

We'll see and learn on how that goes forward, and we'll continue to look at opportunities from the perspective of R&D as well as technical support, where we can cater to this larger segment, which is larger than our current -- as an addressable market, larger than our current emissions market as well. So that's on the front of lightweighting.

Now your second question in terms of buybacks. So as Puru Sir shared that we've closed the year with surplus of a good amount of cash reserves. And we wanted to return back at least some to the shareholders, as we would still have enough left over for opportunities in M&A, which we are actively exploring. However, we are conservative and selective because we want to only enter into segments which have high modes, have high ROCE and not just acquire for the need of acquiring.

So as a balanced approach with what that will give something back in the form of buyback and reward the shareholders as well. And this also, of course, increases our ROE and ROCE. And so it is a good thing in terms of buyback.

Chetan Doshi: But this is benefit - sorry to interrupt, but this is beneficial to - if we give a higher dividend? Because this will be tax free in the hands of shareholders or it will be taxed? Because if you pay dividend, more dividend, then that is more helpful?

Aashim Relan: Sure. So I am not sure of the taxation side of it. However, we evaluated all opportunities. And for this stage, for this amount, I think the team and the Board decided that this would be the best.

This is only 1 phase; we will continue to evaluate all further opportunities as well and in terms of returning to the shareholders.

Chetan Doshi

Yes. Good luck.

Aashim Relan:

Thank you. Thank you so much.

Moderator:

The next question is from the line of Pradyumna Choudhary from JM Financial. Please go ahead.

Pradyumna Chaudhary:

Hi, my first question is, in one of your slides, you mentioned a steady state margins of 10% plus. Whereas FY '24, we ended at 13% kind of margin. So like what's the kind of steady margin you see going forward, like is 13% sustainable? Or was it more of a product mix related higher margin? That's the first question.

Aashim Relan:

Sure. So our growth this year has been largely from BS-VI RDE product. On BS-VI RDE products, we chose to take this strategy of keeping a large component in sales called Catalyst as FOC and the customers agreed with us as well. And hence, the margins have improved or optically improved because the sales number also from that perspective in terms of growth did not show the way we grow. So the best way to look at it is gross profit and gross profit growth as an absolute to get an indicator on our growth.

Now going forward, it is totally dependent on our new product additions, whether it will be with FOC catalyst or non-FOC catalysts. We are trying our best that it remains that all new product relations will be new FOC catalysts, however, yet to be seen. And the best way to look at it is that the increased margins is nothing, but value-added sales are going up, which is not an indicator in the gross numbers, which we saw because of this catalyst thing that happened in RDE.

Pradyumna Chaudhary:

All right. So yes, like that was my sense. I was just trying to understand whether there's any other reason for it, but that's fine. I got the answer.

Aashim Relan:

There are always other smaller reasons also. This is a large driver of value-added.

Pradyumn Chaudhary

Okay. Thanks. Second would be, do we see any - like this already has played out in a base, right, the content increase and that's already played out in FY '24. So going forward, do we see any further content increase from our existing portfolio? Or would our growth largely be dependent on taking away - having the higher market share or entering new segments?

And third would be on the demand environment side, right, especially on the LCV side, what kind of demand are we seeing?

Aashim Relan:

So in terms of the future, rather than looking at it as a content increase and so on, we are adding or attempting to several new addressable markets, and that's going to be a key growth driver. So for this LCV/PV segment, definitely, the thought process is how we can increase market share as well as enter into this 3 litre-4 litre segment, which we are not currently present.

In addition to that, we are looking at how to get market leadership in TREM V, which is in tractors. Currently, tractors don't require our products. In addition, on the export side, on the

subcomponents as well as emission systems for tractors, gensets and building up our Lightweighting Vertical, which is currently slightly under 10% of our sales. And coming to further content, content generally increases in link with legislation. So within the Indian market, the legislation that's on the Horizon are CEV-V, TREM V and then Euro 7. CEV V and TREM V are much closer and notified. And Euro 7 or BS-VII will depend on how it plays out globally.

Pradyumna Chaudhary: Understood. And on the demand environment side or the LCV side, especially?

Aashim Relan I mean we are not seeing anything in particular from the demand side. I think it's business as usual so far. And we don't see any kind of difference. So I would say nothing to comment upon, positive or the other way.

Moderator: Thank you. And the next question is from the line of Vaibhav Gupta from Bowhead India Fund. Please go ahead.

Vaibhav Gupta: Hello sir. Thanks for the opportunity. So my question is, compared to the tractor industry, how is the addressable market size in the construction industry, like it would be 1/3, 1/4, 1/5? Can you please share?

Aashim Relan: It would be the same as how many construction equipment are produced in India and how many of the engines are produced. I don't have the number as such off hand. It's smaller, right? So it would be roughly, I would guess, about 20% of the tractor industry or slightly under 20%. But this is a guesstimate because I don't have the numbers in front of me. However, this is a very attractive segment as this has a lot of adjacencies for our part, which are tech oriented. And for that as well, the content is very high.

And most of the players in this market are international and they do a lot of buying of our products and adjacencies globally from China. So this is an attractive segment for the long term from the perspective of entering in India and then utilizing that also as a platform to export to these guys as there are very big companies present in India, global companies in this.

Vaibhav Gupta: Just a clarification, sir. So realization of our product in construction equipment is similar to what it is in tractors?

Aashim Relan: Yes.

Vaibhav Gupta: Got it. Thank you, sir.

Aashim Relan: There's the volumes of construction equipment are less

Moderator: Thank you. I would now like to hand the conference over to Mr. Puru Aggarwal for closing comments.

Puru Aggarwal: We appreciate your participation in our earnings call today. We trust that we have addressed all your queries. Should you have any further questions, please feel free to reach out to our Investor Relations Advisors at Strategic Growth Advisors. Thank you and have a pleasant evening.



Sharda Motor Industries Limited
May 27, 2024

Moderator:

On behalf of Sharda Motor Industries Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.