

STERLING TOOLS LIMITED

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Security Code No.: STERTOOLS	Security Code No.: 530759

Date: 07th February 2024

Sub: Transcript of Earnings Conference Call of Q3 and 9 Months ended 31st December 2023

Dear Sir/ Madam,

Pursuant to regulation 30 (6) and 46 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, we wish to inform you that Earnings Conference Call for the analyst and investors to discuss the financial and operational performance of the Company for the Third Quarter and 9 Months ended 31st December 2023 was held on February 02, 2024 at 02:00 p.m.

We further Confirmed that no unpublished price sensitive information was shared/discussed in the meeting / call.

Please find attached herewith the transcript of the aforesaid call. The same is being placed on the website of the Company i. e. www.stlfasteners.com.

This is for your information and records.

Sincerely,

For **STERLING TOOLS LIMITED**


Abhishek Chawla
Company Secretary & Compliance Officer
M. No. A34399

Encl: As above



“Sterling Tools Limited Q3 FY24 Earnings Conference Call”

February 02, 2024

Disclaimer:

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**MANAGEMENT: MR. ATUL AGGARWAL – WHOLE-TIME DIRECTOR,
STERLING TOOLS LIMITED
MR. PANKAJ GUPTA – GROUP CFO, STERLING TOOLS
LIMITED
MR. JAIDEEP WADHWA – DIRECTOR, STERLING
TOOLS LIMITED**



Moderator:

Ladies and gentlemen, good day and welcome to Sterling Tools Limited Q3 and 9 Months FY24 Earnings Conference Call.

This Conference Call may contain forward-looking statements about the Company which are based on beliefs, opinion and expectations of the Company as on date of this call. These statements are not the guarantees of the 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 ‘*’ then ‘0’ on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Pankaj Gupta – Group CFO, Sterling Tools limited. Thank you and over to you, sir.

Pankaj Gupta:

Thank you. Good afternoon, everyone. On behalf of STL Group, I extend a very warm welcome to our Quarter 3 and 9 months FY24 Earnings Call.

I am joined on this call by Mr. Atul Aggarwal - our Whole-Time Director; Mr. Jaideep Wadhwa – Director and SGA - our Investor Relations Advisors. We have uploaded our results presentation on the exchanges, and I hope you had a chance to go through them.

I will now request Mr. Atul Aggarwal for his “Opening Remarks”. Thank you.

Atul Aggarwal:

Good afternoon, everybody. Welcome to the call. I am going to dive down directly to more Company “Results Performances”. You guys get a lot of industry overview, you are probably more aware than I am of what is happening in industry.

So, let me just dive down broadly as to where we were in the last 3 months and the last 9 months for this financial year.

During the quarter, Q3 for FY24 standalone numbers of revenue have declined by 6%. If you look at our Fasteners vertical from a segment wise perspective, the business operations cater to two-wheeler and PV industry have performed very well, whereas our sales to commercial vehicles and farm equipment sector witnessed headwinds causing us this stress in our revenue growth. We also have some issues in our customer portfolio. We will get into it in more detail in the Q&A.

Having said that, we expect to mitigate these concerns and risks with the stronger performance in Q4 and the next financial year. Our EV business under SGEM has contributed to 33% of our overall revenues versus 21% in FY23. So, that vertical is showing tremendous growth and there is a lot of momentum in that business. We have also completed the localization of the MCU for LCV category, which indicates our commitment towards working on newer products in the EV ecosystem. SGEM gives us a great thrust on technology and in line with our vision, the Company



has embarked on a SAP implementation as well. We are excited in form that SGEM has booked his first export order, a testament to our effort as a team and product quality.

Finally, couple of large other strategic developments. We are pleased to announce to strengthen the Sterling Tools leadership team at the board level with induction of Ms. Rashmi Urdhwareshe and Anish Agrawal. The profiles have already been uploaded on the exchange and the part of the deck as well. They will bring in unparalleled experience to drive innovation and success. Their extensive expertise is poised to fortify the Company strategic objectives, ensuring continued success in this sector. Their visionary leadership seamlessly aligns with our commitment to innovation, reinforcing our readiness for sustained growth in our automotive ecosystem.

I am going to hand you back to Pankaj, who will give you more insights on our financial model.

Pankaj Gupta:

Thank you, sir. I will give the financial highlights for Quarter 3 and 9 months FY24. Total income on a standalone stood at Rs. 142.7 crores and 9 months we achieved Rs. 446.7 crores. EBITDA margin for the quarter was Rs. 21.3 crores aggregating to Rs. 65 crores in 9 months. EBITDA margin stood at 14.9% and we had a profit after tax of Rs. 36.2 crores in 9 months. On consolidated level, the total income increased to Rs. 234 crores in Quarter 3 as compared to Rs. 208 crores in Quarter 3 last year. Our blended EBITDA margin stood at 12% in Quarter 3 and 9 months EBITDA margin stood at 12.3%. Profit after tax aggregating to Rs. 39.1 crores in 9 months. Thank you, everyone and we can begin now the question and answer session.

Moderator:

Thank you very much. We will now begin the question and answer session. We have a first question from the line of Deepan Sankara from Trustline PMS. Please go ahead.

Deepan Sankara:

So, firstly from my side, so what are the drivers for such strong performance of EV business in the current quarter? If I put together Ola and Ampere volume for the current quarter, the growth is coming only around 25%, so the higher growth in volumes, how is that possible, is it due to new customer additions or higher volume from LCV business?

Jaideep Wadhwa:

I have to say that currently while our confirmed orders, we have now got 20 customers that we have confirmed orders from, I don't believe that the LCV or HCV businesses today make a significant impact on our revenue numbers, because the customer programs are still to really take get traction in the market. Our performance is based on our existing customers and their growth. It cannot be, it is not easy, and I think we have discussed this in the past also that it is not easy to match exactly the numbers even on a quarter basis because there is obviously some stock building or stock depletion that takes place with various customers. So, we continue to do well with the customers that we have. We continue to be 100% suppliers to them, sole suppliers to them, but the LCV and HCV businesses have yet to really get traction because our customers have not launched these products in the market fully as yet.

Deepan Sankara:

So, that means you say, even the other two customers, Star and JCB also could have performed well in terms of volumes?



Jaideep Wadhwa:

So, all across, we have got a number of customers. So, all these customers have done reasonably well. We have done slightly better than if you look at the overall market for high-speed scooters, which is our biggest play. We have outgrown the market, but that is really to do with how our customers in this market have done vis-à-vis their competitors.

Deepan Sankara:

And also, could you please throw some light on our strategies on increasing revenue contribution from non-Ola type of customers and also non-scooters business in the areas of LCV, PV and M&HCV for medium-term?

Jaideep Wadhwa:

LCV's is something which we are very excited about because we have got contracts from mainly for most of the LCV manufacturers in the country. Our revenue numbers don't reflect the success we have had because there are huge delays in homologation of these vehicles and therefore they are not, our customers are still buying these in the 10s rather than in the 100s or 1000s, but I think we are the best placed in the LCV segment and our market share in this segment will be again in high double digits as we are with the high-speed two-wheelers. So, that is one big focus area for us and also in the HCV space we are making inroads with some of the customers on products that are going into heavy commercial vehicles. Volumes are low, but we have the early mover advantage and we will continue to strengthen our position there. Beyond that as I have mentioned in the past, we are looking at adding additional products which will give us a higher share of wallet from these different customers.

Deepan Sankara:

And lastly, are we discussing with any of these top players as a second supplier for EV two-wheeler for scooter itself?

Jaideep Wadhwa:

So, we are in discussion, and I guess when you say top players, you are talking about the incumbents. Yes, we are in discussions with nearly all of them. Each of these companies has a very healthy pipeline of innovation and new product launches and we are in discussions with them for some of these new products. So, I am just making, it is a very subtle difference when I am just clarifying. It is not that we are in negotiations to be a second source for an existing model. We are in negotiations to be supplying products for new models that they are launching and as you know that they have got a number of models in the pipeline.

Moderator:

Thank you, sir. We have our next question from the line of Abhishek from Dolat Capital. Please go ahead.

Abhishek:

This year, in MCU business most probably will cross the 3 billion revenue, so just wanted to understand what is the guidance for the next year for FY25 for MCU business?

Jaideep Wadhwa:

I don't know how to answer such questions because it is very difficult for us to give forward-looking statements. I think the only guidance I can give is that that the EV industry is set to grow in healthy two digit numbers or in the healthy two digit margins even despite all the issues with FAME-II and so on and so forth. Still I am very confident that the industry will grow in strong double digit numbers and our growth should be in line with industry growth thereabouts.



Abhishek:

And on the margin side, the current margin for the MCU business has gone up to the 7.5%, which is quite decent, so going ahead, if you want to achieve the 10% kind of the margin, then what kind of the peak revenue you need to achieve?

Jaideep Wadhwa:

So, I am glad you said that because I am going to tape that and give that to my Board because they don't think it is good margin, but as we have stated in the past also that we believe that the long-term margin potential for this business is low double digits and that is what we want to move towards through both margin improvement actions on existing products as well as getting greater volume leverage and in the future also bringing in-house additional operations. So, I can't say that it will be next year, but we do hope to be able to be in the low double digits in the medium term.

Abhishek:

And few questions from the standalone business, in the 9 month FY24, how was the segment wise contribution in the passenger vehicle, CVs, two-wheeler and tractor?

Pankaj Gupta:

The mix in this 9 months have been, we had 87% sale coming from OEM and 11% coming from the retail and segment wise we have passenger vehicles contributing 28%, two-wheelers, 24%, commercial vehicles 22%, farm equipment 13% and retail 11 as I said.

Abhishek:

So, that is for the standalone business, right, sir?

Pankaj Gupta:

That is right.

Abhishek:

And in a fastener business, as you mentioned that quarter 4 would be strong because of the increase in the production of the OEMs, but you have also mentioned that there will be strong growth in FY25, so what are the key growth drivers in FY25 revenue growth, sir?

Atul Aggarwal:

If you analyze our first 9 months of this financial year and you look at the industry, the industry has grown in passenger vehicles by about 5% or 6% is growth of in two-wheeler segment, I think there is also marginal growth improved in commercial vehicles. Farm equipment is one sector, which is negative, substantially double-digit negative for various reasons. And if you see our customer portfolio in two-wheelers, we work with market leaders, Honda Motors and Scooters and we have added Hero MotoCorp couple of years ago. And in passenger vehicle we work with Maruti Suzuki primarily and with Mahindra Automotive Division. So, in these two segments, I think if you look at the names of the customer we have mentioned, these customers have grown marginally themselves, HMSI and Maruti, but a lot of the growth in these segments have come in. It is in passenger vehicle, Hyundai Kia and Tata PCBU has grown dramatically. Unfortunately, they do not part from us. They are not part of our customer portfolio which is what we are trying to address. Even in two-wheelers, we are working with HMSI. There has been a marginal growth in HMSI. Bulk of the growth in two-wheeler segment has come with TVS and Bajaj Auto in these areas. So, like I said in my opening statement, there are issues on our customer portfolio, which we are trying to address in these customers by being more aggressive with customers like Hero MotoCorp and we have already got LOIs from Hyundai as a business, but the revenues will or other meaningful or material revenues will come over next



couple of years, so we won't find a dramatic shift happening in FY25 on this thing. But last quarter, since you mentioned about last quarter, we are hopeful that last quarter will be a strong quarter, probably one of the highest quarters we get in this financial year. There will be substantial revenue growth we expect in Q4 over the other quarters we have had and I don't want to give a strong guidance. All I can say is that at in a fastener business, we are a strong supplier to all OEM's in India, #2 in revenue terms compared to our competition. So, there are opportunities, but unfortunately that the opportunities are not as large as our EV business. Our EV business is growing dramatically. The potential for growth there is much more dramatic going forward as well. So, when we compare the fastener vertical with other product lines on the EV side, it does not look very attractive, but still there will be some growth coming in next year.

Abhishek: And my last question on the operating margin side on standalone business, it is still quite low at 14% versus historical high of 18% to 20%, despite the benign commodity prices, in this case, what are the plans for the expand margin to the 16%-17% in the standalone side?

Atul Aggarwal: So, I think, firstly, I think we have addressed this issue. One particular factor in this issue on numerator dominator effect where the steel prices went up dramatically and still they may be soft, but they have not corrected, they were corrected marginally not to really impact that equation. So, I think that impact of that numerator denominator closer to 2.5%. Now having said that this quarter, we are showing an operating margin of 14.9% despite a muted revenue number for the quarter, its own function of softer steel and other cost saving initiatives on the shop floor. The main concern is not from a cost perspective. Our main concern is from a revenue growth perspective. So, we are addressing that. It is a combination of addressing the revenue growth concern and also keeping an eye on a cost center as well. We expect Q4 to be a stronger margin structure because of revenue growth coming in, but for the full year, it will be hovering, I think very similar to what we have shown right now.

Moderator: Thank you, sir. We have our next question from the line of Himanshu Upadhyay from Buglerock PMS. Please go ahead.

Himanshu Upadhyay: My question is on the standalone business and looking at a longer-term perspective, so if I look at 2018, our revenue has grown quite significantly, but from Rs. 450 crores, we will be doing nearly Rs. 600 crores and what we did last year also, but if I look at my absolute operating profits, which was Rs. 90 crores has remained flattish. So, despite 30-35% growth and what we have also stated that we have added many new customers in last few years, so how much would the volume be higher than 2018 and where are we stuck up, I am not talking about percentage. I understand because of steel prices and all those things vary, but I am more interested in the absolute operating profit which we did of Rs. 91 crores where we are still there?

Atul Aggarwal: So, good question. Let me try and give you a big picture perspective. I don't want to drive around with too many numbers here, but I will give you a sense why the numbers are the way they are. Our Bangalore facility went online couple of years ago and investment in that facility is close to Rs. 200 crores, it is about Rs. 180 odd crores right now, but I think before we are fully optimized,



the current we will probably be at Rs. 200 crore level. So, a lot of CAPEX went into it, which also meant from pure operating cost perspective, OpEx perspective, there is obviously a certain amount of cost we carry in manpower and operations vis-a-vis FY18-19. That is one factor which is impacting the cost structures. Second impact would be FY18-19 the steel prices were not a factor at all. Steel was soft yet, the economy was strong, steel was soft, customers were very aggressive as well. We were able to get good prices, hold our prices, etc., I think both the reasons compensated. If you look at the overall industry numbers vis-a-vis 18-19 and you do segment right analysis, the only segment which has really grown over 18-19 is the passenger vehicles. Two-wheeler segment is still negative of financial year 18-19. I think we are looking at about 18-odd million this year where we had a peak level of 22 million in that particular financial year. Commercial vehicles also saw a peak in FY18-19 and I think that commercial vehicle number is still coming close to that. So, the growth has only come in the passenger vehicle segment vis-a-vis 18-19. On our Sterling Specific level, I mentioned two particular reasons, one the Bangalore facility went up which has added to our cost structures which we get optimized and rationalized. We believe it takes us 5 years to optimize and rationalize the full facility and bring all costs and alignment with our revenue numbers etc., so we are on track with that and secondly, I said steel was also a little softer in that particular year. I hope I addressed your question.

Himanshu Upadhyay: So, the economies of steel has yet to play out in the Bangalore facility, that would be my understanding?

Atul Aggarwal: That is correct.

Himanshu Upadhyay: And the second question was in our May 2022 call, we said that there is an opportunity of AC drives and you said that the G Take was having a relationship in India and was supplying lot that the relationship is no longer there and over longer period of time it can be opportunity for us. And in the last calls we have also stated that we want to grow more into electric vehicles and newer product introductions, what is the opportunity in that AC drives business for auto and did we proceed on that space or just some of your thoughts and, it is no then why not is the focus now?

Jaideep Wadhwa: So, the AC drives is a purely industrial product. I mean this AC drive could be used in solar plants, could be used in any manufacturing operation where they want to drive energy efficiency. Now obviously there are opportunity, while the technology is very similar between an AC drive and a motor control unit, in fact the motor control unit have been derived from the AC drive per se, but we feel that there is so much opportunity in the EV space that we are really focusing more on the EV space right now and not as much on the industrial aspect of it. So, while there is probably an opportunity there, it is not something that we are looking at in the short term. For us the short term, we have to lay the focus on the automotive industry and even within that, the electrification of the automotive industry.

Himanshu Upadhyay: And one last thing, can you give an idea of Sterling Fabory India means? Why could not that scale up better when we had that JV agreement, not JV, but understanding and everything, what is the future there?



Jaideep Wadhwa:

I will just take that for ease, just for convenience, I will address that Atul if that is okay with you. So, the business of supply chain management has a couple of complexities, one of course is that a lot of what you do is buy out from other suppliers. A lot of these relationships are global relationships or long-term relationships and I think that we were not able over that period to manage this as effectively. This is not a large market in India, the market of the supply chain management and because the scale of the industrial companies that typically are customers for this is not what it is in other geographies. So, maybe the timing of our venture into this, our competitive positioning was not what it should have been. Atul, anything you will have to add further? Talking about Fabory and why we were not successful.

Atul Aggarwal:

So, that business I think I don't know the exact time and broadly I think we went to a JV agreement with them in 2010, give or take a year or two and not really that it is not on top of my head. The basic premise of that business was like the West, wherein we do C Class products, the variety of SKUs run into thousands of components, Auto OEMs or non-auto OEMs companies, let us say when I say non-auto OEMs would be companies like Siemens, Alcatel, Atlas Copco from a multinational perspective or companies in Indian perspective like L&T, etc., when they buy C Class parts, they don't want to work with manufacturers, they want to work with supply chain companies and who basically do warehousing, stock management, inventory management, Kanban system, basically take over their in-house purchasing teams where they don't have to have in-house purchasing team for those products, they don't have to hold inventory in-house and that entire operations are outsourced to a supply chain Company, which is what we were trying to be. From the customer perspective is, it bring brings down their total cost of ownership, TCO as they call it. Unfortunately this business model has not succeeded in India. The customers want to work in manufacturers directly, they do not have current. Business practices do not favor addressing TCO issues. It is a very complex calculation. They are not able to understand that culturally, they are happy working with manufacturers and not with consolidators or supply chain companies, which is what we were trying to do in the JV with Fabory. So, we tried that for almost 10 years, I think. And eventually we talked with our partner and said it is not working out. No point spending more man hours and capital behind it. So, we decided to liquidate that operation and shut that operation.

Moderator:

Thank you, sir. We have our next question from the line Hardik Doshi from White Whale Partners. Please go ahead.

Hardik Doshi:

I joined the call slightly late, just two questions, one is, on the standalone part for the quarter and also for the full year, the trends have been quite muted, can you just talk a bit about that? And the second question is, there is the Ken article recently talking about how Ola Electric as they go in public, are looking to in-house more and more of the parts there was also some mention of motors. There was some mention of MCUs, but any commentary and the risk that we have of moving some of it in-house?

Atul Aggarwal:

So, let me take the first part of the question. I think Jaideep will get into that MCU business. On a standalone our fastener business, we have been around, like I said, we are #2 fastener maker in India working with almost all the OEM's. We have been around for (+40) years now. We will



still grow this year maybe albeit marginally and our growth going forward will also be there and like I said, it may not be as dramatic as EV businesses, but we have some weaknesses in our customer portfolio like I mentioned earlier, which we are trying to address which is also going to play out over short to medium term. So, from a margin structure perspective, we are quite comfortable. There are stresses on it, but that is the nature of any business. That is the nature of the auto comp Tier 1 business we are in. We are comfortable with that in that space. We know we are on top of things we will be able to handle that. So, now from a big picture perspective, our standalone business, there are stresses, like I said in our customer portfolio which we will be addressing, but from a long-term growth perspective, we are also comfortable knowing the size of the market, knowing where we are currently and how we can grow in that business. But that is the nature of the business we are in today. I am going to hand over to Jaideep to talk more about the MCU business.

Hardik Doshi:

A clarification in that even you are saying that stresses in the customer, is it our orders with the customer because overall two-wheeler volumes and even passenger, pretty much across the board volumes have been quite good, right?

Atul Aggarwal:

Yes. So, I don't think that the stress in our customers at all. I am just saying we are working with market leaders. In each segment, like say namely let us say, Maruti Suzuki, Maruti is already had a 42% market share in India and a passenger vehicle segment, bulk of the growth if you see in the last 2-3 years has come from Hyundai Kia and Tata PCBU and Mahindra ADD. So, it is a customer mix we need to improve, but there is no stress with our existing customers. We are growing faster than they are growing, which means we are adding more products with them, like I think the Maruti growth is probably more like 4% this year unlike Tata PCBU or Mahindra ADD, Mahindra ADD is up 27%. Tata PCBU is doing very well. We don't have them in a customer portfolio, so they are customer portfolio issues. They are not customer specific issue in our case.

Hardik Doshi:

So, the model that you probably supply to ones in the pressure?

Atul Aggarwal:

I am not even seeing the model, I am seeing the customer like I mentioned in the passenger vehicle segment. We are growing with Maruti. Maruti is growing 4%. We are up 7%, 8%, 9% with them this year, but the issue is not Maruti Suzuki and the customer with us. If the passenger vehicle segment is growing on the back of growth of Hyundai Kia, Tata passenger vehicle segment and Mahendra ADD. Maruti is growing slower than their own passenger vehicle industry. So, in other words, their market share is shrinking, but they still have the market share, so it is not a model issue. It is we need to add more customers in that passenger vehicle segment. That is an issue.

Jaideep Wadhwa:

To address your question regarding Ola, going back, I want to say 6-8 months ago, Ola released a video of a motor controller that they had developed, but till today 100% of the vehicles use our controllers. So, I think what we believe we have to do is we have to give our customers a better product in a better price, so that in the make by decision they always look at buying from us or not always, but they look at buying from us rather than trying to make it themselves. There is a



chance that for some models Ola could decide to go in-house and that is something that our only way of countering that is to continue to give like I said better product, better price, so that it is in their interest to source from us. The industry is still very young. I think we have had this discussion several times in the past. Number of customers believes that they should make products in-house. If you follow what has happened with the internal combustion engine, everything started in-house and then everything moved out initially into companies like Delphi and Visteon and Magneti Marelli and then those companies were finally spun out. So, one believes that at any given time, there will be some companies that will manufacture in-house and there will be some companies that prefer to work with partners. Companies that are very agile and have plans of a number of product launches will, I believe, prefer to work with the external partners because that they can then focus on developing vehicles and not have to worry about making components. But it is something we will have to wait and watch our strategy, like I said, is focused on making sure that the customer has a good reason to stay with us and to look at diversifying the customer portfolio to the greatest extent possible, so that we have more than one big customer to count on.

Moderator: Thank you, sir. We have our next question from the line of Kevin Shah from Finavenue Growth Funds. Please go ahead.

Kevin Shah: In your recent quarterly PBT that you all released, in one of the slides, you have mentioned that the Company is working to launch additional power electronics and electrical products to capture higher EV wallet share, so could you please give some color or throw some light on which products we are building?

Jaideep Wadhwa: As you are very familiar in an EV, there are very few components that are there, you have essentially got a charger, a battery pack, a motor control unit, a motor and a DC-DC. And so that is pretty much the entire architecture of an EV. On top of that, of course, you have a vehicle control unit, you have cooling and you have the connectors and the wiring harnesses, etc. Our ambition is to play in all of the electronics, so we are evaluating opportunities in the charging space as well as in the DC-DC space, both of which use very similar technologies to what we use in a motor control unit, but I cannot confirm that what products exactly we will be doing because that depends on the partnerships that we finalize and the business plans that get finalized thereafter.

Kevin Shah: And just one question on our proprietary model of the MCU that we are building for the two-wheeler space. In the previous calls, you had mentioned that will be available for commercialization by the end of FY25, so are we still on track with our internal process for that?

Jaideep Wadhwa: Yes.

Moderator: Thank you, sir. We have our next question from the line of Aditi Savan from AMD Capital. Please go ahead.

Aditi Savan: Can you throw some light on the details of the export order received in the SGEM entity?



Jaideep Wadhwa:

First of all, let me explain that this is a contract manufacturing opportunity where we are manufacturing for someone else. Due to confidentiality reasons, I cannot provide details of who the customer is, but it is in the EV space and also the only other hint I can give you that it is not necessarily in motor control unit, but it is an allied product. The other detail I can give you is that the revenue potential is about Rs. 1.5 to Rs. 2 crores in the short term. So, it is a small business to start with, but we are excited about it because it opens a door that we believe leads us to good opportunities in the future.

Aditi Savan:

And what is the amount of the order and timelines to meet the order or which country we are going to be shipping this?

Jaideep Wadhwa:

As I mentioned, the order is for about Rs. 1.5 to Rs. 2 crores to be shipped before the first quarter of FY25. It is to a country in Europe.

Aditi Savan:

And sir, can you elaborate on the localization of MCU for LCV category? I mean how was it structured earlier as compared to now?

Jaideep Wadhwa:

So, this is just I guess sometimes when we write this out, we are getting into a little bit of a technical detail. So, when we start a product typically we import complete units from China and supply them to customers and they test them out etc. Once the product is proven, then they give us a formal order and basis that formal order we make a business plan and make the investments on the assembly lines and testing and so on and so forth. And then once we make the product in India then the customer and we have to retest it to make sure that what the product that is made in India performs to exactly the same specifications as the product that we had imported in the past. So, while we had got these businesses and the complexity on all this is that this is all to do with the FAME subsidy and the government because of the misuse of the subsidy that happened with some OEMs in recent times. The government has a tremendous scrutiny on what has done and this was really to say that we have passed the government's audits, etc., to say that this is now a localized product and our customers who are using this for their production can get the subsidies and that is what I was talking earlier about the traction in the light commercial vehicle space that the customers can now get the subsidy that they are looking for, but some of them have not got approval for their vehicles from ARAI or ICAT and until this is done, they cannot start selling them. And they are limited to testing them and using them in very controlled environments and therefore we don't get the volumes that we have projected until this happens. So, this is really an acknowledgment of the fact that we have crossed that hurdle for this motor control unit for the light commercial vehicles.

Moderator:

Thank you. We have our next question from the line of Anuj Sharma from M3 Investments. Please go ahead.

Anuj Sharma:

Two questions, both on fasteners, one is as per my understanding, even today 15% to 20% of the fastener market is imported, just out from there, is it something which we can replicate in-house or that is technical capabilities we don't have or it is just the stickiness of external customers or the international suppliers? And the second is what is the outlook of smaller



players, some of the smaller players in the fasteners industries like Lakshmi precision were out of the industry, how is the competitive scenario now with other players?

Atul Aggarwal:

On the first part, government has come out with accused quality control or QCO and they are forcing the OEMs to buy from BIS certified manufacturers for fasteners. Sterling Tools has been able to certify all its facility for BIS under the QCO. The import of fasteners is happening on from companies like Maruti Suzuki, Hyundai, Volkswagen or Toyota, etc. Now these companies are being forced to localize its components to fastener makers like us. I think this is a phased out program over 3 years, which will happen. One needs to have certain technical capabilities. Fortunately for us, at Sterling, we have them and hopefully we will be able to crystallize some business under this program of BIS and QCO, but the opportunities be primarily with Maruti Suzuki, Hyundai and Toyota. Tata and Mahindra are pretty much localized already, so they don't have any import component for fasteners, so yes, there will be opportunities coming our way for that. To the second part on the competitive landscape, I think Lakshmi Precision probably shut down 5-6 years ago and Sundram is leading in terms of market share in the OEM side of the business. We are #2 in that segment. There are other players who have grown as well in the last few years, some are out of Nasik and Punjab region, they all have seen growth, but we believe in the segment we are in, the kind of products we do. Sundram and Sterling still are competing against each other on these product categories. So, in the short term, we don't see much threat in that.

Moderator:

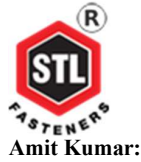
Thank you, sir. We have our next question from the line of Amit Kumar from Determined Investments. Please go ahead.

Amit Kumar:

On the MCU business, just one sort of point on the EV industry, so we understand that the existing subsidy regime is only up to 31st of March 24 and just wanted any clarity, I mean are we sort of seeing any sort of extension to that or I mean any sort of way forward on that side basically?

Jaideep Wadhwa:

We were hoping that we would hear some announcements from the Finance Minister, but that didn't happen. So, I think we should assume that the subsidy will be removed come 31st March. But I believe that the industry will continue without more than a big hiccup. The big reduction in subsidy already took place last May and the amount of subsidy left is now not that significant. The industry has already adapted and I am speaking specifically about the two-wheeler industry, the industry has already adapted, they are bringing out new models which are more economical. Essentially we are looking at reducing the size of the that and making it more viable than some of the products that were there at the beginning of last year. And I think the industry has, with the quality of products that are now available, the rationale for buying EV's is there. People believe that there is a benefit to buying EV's. The EV experience is such that the customers are willing to pay a little bit of a premium for that. So, I think that despite the reduction or elimination of duties cum 31st March, you will continue to see growth in the two-wheeler segment.



Amit Kumar:

Just one further point on this, any sort of sense you have of industry growth and I understand your business would be very sort of OEM specific, so how the OEMs deliver it will be a function of that, but what sort of industry growth in terms of volumes should we expect, let us say this year or at least in the near term over 2-3 year period, what are the assumptions that you are working on? That would be helpful?

Jaideep Wadhwa:

If you look at there are hundreds of reports out there that forecast the industry growth over a period of time. They talk about penetration of EV's across various categories, going from obviously the lowest penetration will be in passenger vehicles, the highest penetration will be in three-wheelers and LCV and especially two-wheeler scooters is expected to see about 30% penetration now. I believe all of these forecasts or projections account for the fact that the subsidy is going to go away and if you look at those kind of numbers, you are looking at very healthy growth rates. I would say that if I had to an average of most of the reports I have read, I would say that they would indicate that the EV industry is going to grow by about 40% over the next 5 years. Now is that actually going to be 40% or is it going to be 20-30%, but like I said earlier, when talking about our growth, I believe that whatever the case may be, it is going to be in the high double digits for sure.

Moderator:

Thank you, sir. As there are no further questions, I would now like to hand the conference over to Mr. Atul Aggarwal for closing comments.

Atul Aggarwal:

Thank you everybody for participating today. I hope this will be able to give you more insight into our businesses and the way forward. We will be interacting with you again very soon, some of you individually and probably our annual accounts call sometime in April this year. Thank you once again.

Moderator:

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