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Subject: - Transcript of Investor Call pertaining to Financial Results for quarter ended on 30th June, 2023

Dear Sir / Madam,

Pursuant to Regulation 30 read with Schedule III of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed herewith the transcript of the Investor Call held on Thursday, 27th July, 2023 on the financial result of the Company for the quarter ended on 30th June, 2023.

The transcript will also available on the website of the Company at <https://sonacomstar.com/investor/investor-presentations>

This is for your information and further dissemination.

Thanking you,
For Sona BLW Precision Forgings Limited

Ajay Pratap Singh
Vice President (Legal), Company Secretary and Compliance Officer



SONA BLW Precision Forgings Ltd. (Sona Comstar)

Q1 FY24 Earnings Conference Call Transcript July 27, 2023

The webcast recording and the presentation referred to in this transcript are available on the website of the Company and can be accessed through the following link:

<https://sonacomstar.com/investor/investor-presentations>

Moderator: Ladies and gentlemen, good day, and welcome to the Sona Comstar Q1FY24 earnings group conference call. Please note all participant lines are in the listen-only mode as of now, there will be an opportunity for you to ask questions after the presentation concludes.

Please note that this call is being recorded. We request that you place your line on mute except when asking a question.

Slide 2:

Some of the statements by the management team in today's conference call may be forward-looking in nature and we request you to refer to the disclaimer in the earnings presentation for further details.

The management will not be taking any specific customer-related questions or confirm or deny any customer names or relationships due to confidentiality reasons. Please refrain from naming any customer in your question.

Now, I will hand over the floor to Mr. Kapil Singh, Head of Consumer and Digital Commerce Research, India, and lead auto analyst at Nomura. Kapil, please go ahead.

Kapil Singh:

Slide 3:

Good day, everyone. To take us through Q1FY24 results and to answer your questions, we have the entire senior management team of Sona Comstar. We have Mr. Vivek Vikram Singh, MD and Group CEO, Mr. Kiran Deshmukh Group CTO, Mr. Sat Mohan Gupta, CEO - Motor Business, Mr. Vikram Verma, CEO - Driveline Business, Mr. Rohit Nanda, Group CFO, Mr. Amit Mishra, Head Investor Relations and Mr. Pratik Sachan DGM Corporate Strategy and Investor Relations. I will hand over the call to Mr. Vivek for his opening remarks followed by the presentation. Over to you, Vivek.

Vivek Vikram Singh: Thank you, Kapil, and welcome everyone to the earnings call of what has once again been the highest-ever quarterly EBITDA.

But first, as is our practice when talking to our shareholders, we let bad news take the elevator while good news takes the stairs. As highlighted in the last earnings call as well, the EV Two-wheeler industry continues to face issues around FAME II subsidy reduction and the related fallout on pricing and demand. This has meant an almost 25 crore negative impact on our sales this quarter from what would have been. We estimate that for the full year, we should see a 100 to 120 crore negative impact on the budgeted revenue from this category. However, having said that we still expect traction motors to be our fastest-growing product segment because this will happen on the back of new programs and new customer additions. EV Two-wheeler motors have relatively lower margins than our other products. So the corresponding impact on EBITDA and profit should be smaller.

Now come to the good news part of it, which is, which far outweighs the bad. In financial terms, we achieved our highest-ever EBITDA in Q1FY24. This is despite marginally lower sequential revenue. We've also begun FY24 with some meaningful new wins in both Motor and Driveline businesses that give us the confidence that we are moving swiftly on a long-term strategy. Three of the new programs, also mark our entry into three distinct new market segments that we had not been addressing before. We have additionally made substantial progress on our technology roadmap by partnering with a road-tested technology partner in Equipmake. And this is to enter the high-voltage motor and inverter space.

The macro view of the markets we serve also remains positive with light vehicle sales in both the US and Europe growing by double digits on a year-on-year basis in Q1, growth continues to look robust in most of our markets. The Indian market also did well in passenger cars and was I would say flattish in CV and off-highway. So overall continues to look positive.

Slide 4:

Now coming to the numbers. On a year-on-year basis, our revenue grew by 24% while EBITDA and net profit increased by 43% and 48% respectively. This happened because the margins have improved due to product mix as well as operating leverage, battery electric vehicle revenue grew by 13% and the BEV revenue share was at 26%. Both these metrics should have been higher, if not for the subsidy reduction impact on the EV Two-wheeler segment, which we believe should ease out going into the next few quarters.

Slide 7:

Now we've moved to an update on the biggest strategic priority which is electrification. Our BEV revenue continues to grow and we continue to build on our EV orderbook. In Q1, 3 programs have gone into production, two in the motor business and one in driveline. And this takes the number of programs which are active to 23.

We have also added four new EV programs and one new EV customer to the orderbook in the last quarter. One program is for EV differential gears for

a North American customer and the remaining three program wins are substantial enough that we would like to elaborate upon them in the next slide.

Slide 8:

We wanted to emphasize these wins as they are meaningful for the future of both businesses, financially as well as directionally. The first one is a differential assembly program for a class five electric truck for a new North American customer. This customer is a new-age OEM of commercial vehicles. Last quarter if you recall, we had won our first-ever order for commercial vehicle differential assemblies, and by following up on that with the second order and that too with a new customer, we can see that the electric truck market, especially in North America is becoming a meaningful addition to our future revenue.

The second one is a large volume traction motor program that we have won from an established Indian two-wheeler OEM who's an existing customer. This program is for their upcoming electric scooter model, which is expected to target the more let's say affordable market segment. This program is slated to become serial production in this financial year itself. And repeat business wins from the same customer are always special because if you win a business again for a new model that a customer is introducing, it proves our merit of being the first choice supplier or the first supplier. And it shows the faith the customer has in the quality and delivery of our product.

The third new EV program win is an interesting one once again, it's a mid-drive traction motor as well as the motor controller for this. And this is for electric tractor application. Like the second program, this too comes from an existing customer where we currently supply motors for the electric three-wheelers. And apart from the obvious show of faith, this win is also important as it is the first traction motor order for tractors, and this goes to show our journey and the progress we are making on it.

Slide 9:

So two quarters ago, if you remember in Q3 of last year, we had presented to all of you this slide on what is our approach to electrification and how we intend to cover both passenger as well as commercial vehicle applications and all the segments of that. It gives us great pride in reporting that only in six months, we have secured new orders that enable us to address almost all the market segments in the driveline business, only one remains, 40-100 kilowatts in commercials. In the motor business, we continue our steady journey moving up on both the capability access of power as well as voltage.

When we did our first earnings call nearly two years ago, our driveline business used to cater only to passenger vehicles in the electric vehicle space. Our motor business on the other hand had barely begun in EV and we had a couple of EV programs contributing literally next to zero revenue.

The progress we made in only two years is quite remarkable. I mean, sometimes even to ourselves. And I think this is this mindset and approach, one of continual addition of new products and new market segments has been and will remain the reason we grow much faster than our industry.

Slide 10:

This slide I think is a good visual summary of this section and it shows the reach and diversity of our electrification mission. This quarter, as you can see, we added one new customer in North America while adding two programs each in North America and India.

Slide 12:

This brings us to our net order book with the addition of 13 billion worth of new orders last quarter. At the end of Q1FY24, our net order book had expanded to 220 billion rupees. Two interesting things, the EV portion of this has now reached 78%, and if you notice the other side of it, which is non-EV, in that passenger vehicle is only 6%. So if we do believe that commercial vehicles and off-highway, are less, are going to electrify, let's say later, the business at risk is very, very low for us in the order book. And of course, in addition, to the four new EV programs that we discussed, we have also added 10 new programs for non-EV applications, out of which we would like to highlight one new win although it is non-EV.

Slide 13:

So we wanted to emphasize this win, as it is our first differential assembly program for recreational off-highway vehicles. This order is from a new global customer, and apart from signaling entry to get another new market, it is quite material from a revenue perspective as well. But most importantly, from a strategic perspective. This category of vehicles in our humble and limited opinion would be the least and last to be affected by electrification, which makes it a very good business development target for our starter motor business as well, and that's what we would hope that we would like to target this for that segment and try to get more traction here.

Slide 15:

Our fourth KRA is diversification, and on this slide, you can see that the trend of increasing electrification and decreasing ICE dependence continues unhindered, and in the last two years, we've seen the ICE-dependent revenue shrink to only about 11%.

Slide 16:

Geographically the revenue mix is largely similar to the last financial year. North America remains steady at 43% of our revenue in Q1, which is quite robust growth because we have increased by 24% and to maintain that in such a large market means it's a very good time for North America. Second, after dropping to nearly 11% revenue share in Q1 last year, the European

market has also recovered quite strongly, and it has come back to 23% of our revenue which suggests a return to I would say normal demand.

Coming to product mix or vehicle segment mix, the most glaring change is the reduction in revenue share from traction motors for electric two-wheeler and three-wheeler segment. And this is due to the reasons I've already covered earlier. The other change would be the exceptional growth in the differential gears business this quarter and the lack of the similar rate of growth or relative growth in conventional starter business.

Having said this, we expect the traction motor business to gain relative revenue share this year and be the fastest-growing product segment for us, as there are several new programs that have either already begun or will begin in the next few months.

So, with that, I turn to our Group CTO, Mr. Deshmukh, to update us on technology over to you, sir.

Kiran Deshmukh:

Slide 17:

Thank you, Vivek. Good evening, ladies, and gentlemen.

Slide 18:

This is our technology roadmap that we share with you every quarter. This quarter, I would like to highlight some important products which are about to move from the white area to the blue zone which is a high-voltage traction motors and matching liquid cool inverters. We expect to commercialize these products in year 2025, thanks to our recently concluded partnership agreement with Equipmake of the UK.

Slide 19:

Equipmake's next-generation electric motors differ from the conventional permanent magnet machines due to their unique and patented spoke architecture. Here, the magnets are arranged like the spokes of a wheel, allowing the best use of the magnetic flux and achieving the highest torque density.

You need to use the most powerful magnets to get the most powered dense electric motor. But those magnets don't like getting very hot so they must be kept cool. With a spoke architecture, we can have the cooling liquid very close to the base of the magnets, which is impossible in the conventional internal magnetic machines. As a result of which we can get very highly effective heat extraction. This efficient cooling system means we can run spoke motor harder and for longer. These motors are around half the size and about 80% of the mass of the equivalent conventional interior permanent magnetic motors. They are among the best in the world in power density.

Slide 20:

Equipmake's very high torque, high power motors, high power density motors meet the needs of a growing electric bus and commercial vehicle market. The technology has been tested, proven and Equipmake has delivered these motors to several customers worldwide.

Our agreement with Equipmake covers the EV drive trains consisting of the inverters and the motors in the 100 kilowatts and 440 kilowatts, 100 to 440-kilowatt range for electric passenger cars, buses, commercial vehicles, and off-highway vehicles including tractors.

We will have the exclusive rights to sell Equipmake's motors and inverters in the licensed territory which is India, Thailand, and select South Asian markets. We will manufacture these products in India and supply them obviously to our customers in licensed territory but also to Equipmake's other markets.

In other words, our partnership with Equipmake will help us add high-voltage traction motors and inverters to our product offerings.

With that, I hand over to Rohit to cover the financial update.

Rohit Nanda:

Slide 21:

Thank you, Mr. Deshmukh, a very good day to you all. It's my pleasure to share the key highlights of our first quarter numbers.

Slide 22:

Our revenue during the quarter grew by 24% to 732 crore rupees. Our BEV revenue grew by 13% to 184 crores. And as Vivek has already mentioned, it was affected adversely by a loss of sales in India Electric Two-Wheeler and Three-Wheeler market due to reduction in FAME II subsidy. Non-BEV revenue grew by a robust 28% to 548 crore rupees. A growth of nearly two times the underlying growth in our key markets of North America, Europe, and India. During the quarter, EBITDA grew by 43% to the highest-ever number of 203 crores. There was a recovery of about 3.6% in EBITDA margin to 27.8%. Primarily due to better product mix and operating leverage. Our PAT grew by 48% to 112 crores reflecting the improvement in our EBITDA margin. PAT adjusted for exceptional expense on account of ongoing acquisition-related diligence work grew by 51% to 114 crores. Next one, please.

Slide 23:

Coming on to the key ratios which is the last slide in the presentation. Our value addition to employee cost was stable at 6.4 times this quarter. Our return ratios of capital employed and return on equity continued to be strong with some improvements. RoCE was at 31.4% and RoE was 27.1% due to high year-on-year growth in the profits. Our net debt to EBITDA continues to be below zero, as net debt number is negative. The working capital turnover ratio has further improved to 4.4 times due to higher last 12-month revenue and fixed asset turnover ratio was slightly lower at 3.8 times primarily due to new capitalization done during the quarter.

With this, we have come to the end of the presentation and I'll now hand the proceedings back to the Nomura team for Q&A.

Moderator: Thank you very much. Now we are at the Q&A portion of the session. If you wish to raise a question, please use the raise hand function located at the bottom right of Webex page. We will unmute your line and prompt you to speak up or you can submit your question in the Q&A chat box addressing to all presenters, please be reminded to keep your questions to a minimum of two questions. If you have more questions, please return to the queue. Thank you.

Okay, so we have a couple of participants who have used the raise hand, we will start off with Ms. Gunjan. One second, your line is unmute Ms. Gunjan, please go ahead. Ms. Gunjan Prithyani. Are you able to speak up? Ok. So, if you can't speak up, you can submit your question in the chat box. We will now go to the second participant, Mr. Jinesh Gandhi. Please go ahead with your two questions.

Jinesh Gandhi: Yeah. congrats for a very good set of numbers and a couple of questions from my side. One is, can you talk about drivers of gross margin improvement, in 1Q, we have seen a very sharp improvement in gross margin, so, is it just the product mix or there are also additional benefits of commodity, which came in and similarly, other expenses have gone up quite substantially on QoQ basis, so if you can clarify on these two P&L items and then have one more question on the business.

Rohit Nanda: So, Jinesh on the margin improvement side, there is no commodity benefit which is there in this quarter. So it's purely on account of improvement in the product mix and operating leverage. Sorry, what was your second question?

Jinesh Gandhi: Other expenses have gone up on QoQ basis. So, any one-offs there?

Rohit Nanda: No, there won't be a one-offs actually other expenses will also have manufacturing expenses which is also a function of change in the mix. There are no exceptional expenses in this quarter. I mean, except for what is separately disclosed as exceptional expense, which is a small 3 cr.

Jinesh Gandhi: Sure

Vivek Vikram Singh: Just to help Jinesh understand in the driveline business raw material expenses are relatively lower but manufacturing expenses are much higher because there we start from steel and build everything in-house. In the motor business, raw material expenses are higher because there are also a lot of bought-out items in its assembly. The manufacturing expenses are relatively lower. So as the product mix shifts between motor and driveline, these numbers change, but there is nothing exceptional.

Jinesh Gandhi: Right, Right. Ok. Second question pertains to the order book which we have and as the revenue ramps up over the next 2 to 3 years, as this order book comes into P&L, what are the factors you're looking from a margin perspective in terms of push and pull, given that we are already at about

27.5 - 28% margin. How do you see margin evolution based on the orderbook coming into the P&L over the next two to three years?

Vivek Vikram Singh: So, Jinesh the answer is the same as it has always been. I mean, this is our 9th earnings call and I think we've answered it nine times. We expect our margins to remain in the range of 25 to 27% over the medium term and it shouldn't change that much. And if you look at every year, yes, there could be quarters where it could go very out of this range, but on an annual basis, it always remains in that and that is what we have seen for the last I would say 15 years and that's where we expect it to remain also even going forward.

Jinesh Gandhi: Ok, I got it. A few more questions. I'll come back in queue. Thanks.

Vivek Vikram Singh: Thank you Jinesh.

Moderator: Let's go back to Ms. Gunjan Prithyani. Your line is unmute.

Gunjan Prithyani: Are you able to hear me now?

Moderator: Yes. Very good. Go ahead. Two questions.

Gunjan Prithyani: Ok, sorry about earlier I don't know what happened really. Thanks so much for taking my question and you know, really impressive wins this quarter. Good to see the way the portfolio is expanding. I just wanted to get a bit more color on this Equipmake. You know, because this is an absolutely new product category. And what I really want to understand is, you know, what is this arrangement, particularly is it, you know, we going to be manufacturing for them in India? Is it sort of outsourcing and the business development that you sort of refer to in the release, that business development, you know, how big is the opportunity size? Because if I think about it, E-buses is something which is already seeing huge traction. So is that something that we can cater to or is my understanding correct on that front? So maybe, you know, a little bit of color on that because I haven't heard much about it in terms of the arrangement as well as the economics.

Vivek Vikram Singh: Sure. So Gunjan as usual, you are more right than wrong, you're very close to the thing. India and Southeast Asia, Thailand these countries, and as you know, India is the second largest bus market in the world. This is where Sona Comstar takes the lead and does the business development, selling, etcetera, and Equipmake is paid a royalty, which is say X percent of the gross margin. When Equipmake does marketing in Europe, the US, UK and wins an order, that's where Sona Comstar's role will be to manufacture those motors for them.

The two motor categories that were presented, one is very suitable for buses and that's, where if you saw the power density is almost twice the competing motors, that is for the bus category. The other one, which is more I would say suitable for cars, it is quite good and compares with the best, but it isn't so much relative outperformance. So, I would say bus is where the primary focus is if we get any other applications, of course, great, but that's the focus

market. Mr. Deshmukh, Sat, if you can add anything more on the arrangement, it would be nice.

Kiran Deshmukh: So, like I said that the arrangement is exactly what Vivek mentioned, is that we will have the manufacturing facility in India. And since our market, India and the Southeast Asia is the largest, which is the licensed territory, so whatever we make here will be to serve that market. But Equipmake gets any business from outside this territory which is Europe, the UK, the US, etcetera, then we will be, it will be like subcontracting. So, they will use our facilities. Our facilities will be mainly set up for our market which is India, Thailand and Southeast Asia. So that's the arrangement.

Sat Mohan Gupta: Just to add to Mr. Deshmukh's comments, the APM 200 will also be a very good product for the LCV segment in India because that would be catering between 80 kilowatts to 150 kilowatts and it's a very, very light and it's very, very efficient motor design. So, LCV is the segment where we can use APM 200.

Vivek Vikram Singh: Correct. My bad, I forgot that one. Actually, electric CV market, which if you saw that strategic approach is the right next to where we reached this time. We genuinely believe that is a market that should electrify very fast and should electrify completely in India. And if the large LCV players, they seem to be fairly serious also, I think there's a good scope for that motor to succeed. Because compared to the competition that is there in that segment, this motor will perform quite well. And power density upon dollar is what we have to deliver to customers and that's our objective.

Gunjan Prithyani: Anything you would, you can put in terms of, you know, the opportunity size, I mean target I get is small commercial vehicles, e-buses in India. But if I have to think about the opportunity size in terms of, you know, what is really, you know, how much let me put it, what is the cost of you know, broad range if you can share and the E-buses that we see, you know, from STU orders, is that something which is also the relevant target market?

Vivek Vikram Singh: Yes. So the answer in a more prosaic sense is this that if you take the bus market and the LCV market, how much of that will electrify? That's a call you can take and then make that assumption. But the entire electric CV market, and entire electric bus market, and frankly, even the tractor market. Now, what percentage will electrify, let's say by 2030, by 2035 that we leave to you, we don't do that analysis as you know. And I think I explained to you before, if we think the market is large enough, and if we think we have a product that puts us in the best three or four in the world, we go for that market. Because if you have read Clayton Christensen's The Innovator's Dilemma, large companies often fail to address new and emerging markets when they rely too much on TAM and what is the market size. We try not to fail in that trap, whenever we think the market's opportunity is big enough for our scale and is interesting enough to do and we have the right product, we tend to go for it. Assumption on electrification is the only thing that would vary amongst different people who tried to size this market. But it is significant because even if you take 100 buses, right? And you calculate the motor

inverter cost, it is actually a decent enough number for us to stake our claim there.

Gunjan Prithyani: OK, OK, Got it. I mean, I was trying to understand the value opportunity but maybe I'll, you know, I'll maybe take it later. Just extending this forward on the traction motor. Clearly, this is now, you know, like you called out it will be a big growth area. It goes beyond the E two-wheelers and three-wheelers. So, you know, if I have to think about the contribution that can come through from this sub-segment, is that something that you're, you can call out how big can this become in the next like three years or so, in terms of the contribution to the revenue?

Vivek Vikram Singh: Not really, no. So that I'll be completely honest, we don't know, we know it will be higher than what it is today. And that is good enough for us to continue. How fast depends on so many factors including government policy, government support, etcetera that we don't want to get into that bit. It's meaningful and it's a high growth rate and that's good enough for us to proceed.

Gunjan Prithyani: OK, just last question on the differential assembly. You know, how does the cost or the value differ from, you know, PV differential assembly to a CV different or truck differential assembly that you have been winning for the last two quarters?

Vivek Vikram Singh: By a lot

Gunjan Prithyani: Any number?

Vivek Vikram Singh: It depends on the, from customer to customer, class three, class four, class five, class eight. I mean, it's, I can't really give it that straight answer but it is many times I think we gave the range last time that here we're talking about from 150 to 750 dollars per vehicle. So, 150 for the lower class trucks and 750 for the higher I would say class five, class six. So yeah, it's much higher then.

Gunjan Prithyani: All right. Thank you very much.

Moderator: Thank you. Just a reminder to all participants, please keep your question to 2 maximum, if you have any further questions, you can join back to queue, appreciate it. We'll now go to Rishi Vora, your line is unmute please go ahead with two questions.

Rishi Vora: NOVELIC acquisition, I think that acquisition has been delayed, so when should we expect that acquisition to go through? And also, if you could give some business updates about NOVELIC as well, how it has done over the last 1-2 quarters?

Vivek Vikram Singh: Hi Rishi, I thought you were asking about the Novelic transaction. I'll let Rohit answer this one.

Rohit Nanda: So, Rishi, it is indeed delayed. We are expecting to close this next month. That's the answer to your first question. And the second is a performance of

Novelic. Is that the second question? So I would say this year it's been largely in line with the plan that they had shared with us initially. But for us, I mean, the real performance will start kicking in when we start consolidating and that's after closure of the transaction as you know.

Rishi Vora: Thanks for that. And just to follow up on Equipmake, Are we like, or when should we start expecting the company to manufacture this product? Because Equipmake was already going to supply us one order, so when should we expect the manufacturing to start off the products? And have you also started discussing with the domestic OEMs? So any color on the product feedback or whatever you could share at this point in time would be helpful.

Vivek Vikram Singh: Thank you, Rishi. So, I'll invite Sat to shed more light on that.

Sat Mohan Gupta: So, Rishi, I mean, from the production point of view, we are targeting 2025 to start our commercial production. We are validating these products. These are already used products in the UK and other territories. So, we are working on to do the validation of these products and the technologies to suit the Indian conditions and the roads. So, we are targeting to complete that by this year and we will start working with OEMs post those validations. So, our plan is to launch sometime in 2025.

Rishi Vora: Understood and just last bit on Equipmake. How should we look at the margins of this product vis-a-vis our business margins, as we will be paying royalty? Some parts will also be more like we'll just be supplying motors to traction motors to Equipmake. Will it be lower than the business margins or like any sense around that?

Vivek Vikram Singh: Well, it will be lower than 27% for sure, how much lower even we will find out once we start doing it. Yes, there will be a royalty element. There will also in the space that we will be doing manufacturing and then some margin will be taken by Equipmake for doing the marketing etcetera there obviously, it will be lower. So, yeah, we expect it to be lower. How much lower, again, we don't know today.

Rishi Vora: Understood. Thank you.

Moderator: Thank you very much. We now move on to the next participant Aryn Pirani. I think he is on mute, the next participant will be Arvind Shyama. The line is mute. We'll go on to the next participant, Basudeb Banerjee.

Basudeb Banerjee: Am I audible?

Moderator: Yes, go ahead.

Basudeb Banerjee: Yeah, a couple of questions. One is with respect to the last year those tie-ups with C-Motive and IRP Nexus, Israel, those news came up. So any update on those tie-ups products when they are getting commercialized or business coming from those two tie-ups? That's the first question, sir.

Vivek Vikram Singh: So, Basudeb I will answer that. And I think we mentioned it very clearly even in the earnings call at that time, those were product development partnerships. And if you were to look at the transcript, I think I had written that somebody had asked me what is the probability of success, and I said, between zero and 100 which is what it remains, see Equipmake is a commercial partner for a proven product, those three were to develop products when they do get developed, and product development is the thing that one can't predict from day one that this will happen and then it will happen at a cost that we can sell it at, and then the third, which is how many will we sell? I think that's too early. When, if any of those do get developed into commercially viable products, we will certainly inform everyone.

Basudeb Banerjee: Sure. Second thing sir, any update on PLI-related payment, etcetera?

Vivek Vikram Singh: So, we are moving on our application. It has been and I'll choose my words very carefully. It has been a slow process. It isn't as simple as it appears, I think for the last year from what we know from people in ACMA, etcetera, no auto component company has been approved. So, we are working on our application and yeah, we will let you know when we know more. I mean, even if I feel bad, I wish I knew more but we don't.

Basudeb Banerjee: Sure, last if I can chip in, like in the initial comments, you said around 130 crore revenue was missed because of the FAME subsidy deduction. Am I right sir?

Vivek Vikram Singh: 100 to 120 is our estimate. See this quarter, we lost about 25 crore from what we had budgeted from our electric traction motor customers. So, we did an analysis of what we think will be the whole year's impact. And 100 is the best case according to us and 120 is the worst case. So that's what we are seeing.

Basudeb Banerjee: And that analysis was based on June retails or a more holistic picture because in July, despite that deduction in subsidy, retails have started to improve.

Vivek Vikram Singh: Yeah. So, I mean if it was first week of July, it would be far worse. So no, slightly more realism, after the first 15 days of July.

Basudeb Banerjee: Ok. Understood. Thank you very much.

Moderator: We'll now go to the next participant.

Vivek Vikram Singh: Basudeb, I get what you're saying, we could be positively surprised but this is what it looked like on 15-16th July and that's where we kept it. Let's see what happens.

Basudeb Banerjee: Sure. Sure

Moderator: Thank you very much. We go to the next participant. Sonal Gupta and your lines are unmute, please go ahead. Hi Sonal, your lines are unmute, are you

able to speak up? Yeah, I think we can't hear you. Would you like to submit your question in the Q and A chat box, please?

Vivek Vikram Singh: Is there a problem at our end or theirs? I mean, three or four people. think they're not being able to speak.

Sonal Gupta: Hi

Vivek Vikram Singh: Hi Sonal, Is that you?

Sonal Gupta: Yes, hi, sorry. I hope I'm clear now.

Vivek Vikram Singh: Yes, you are.

Sonal Gupta: Ok. Great. Thanks. Thanks a lot. Just a couple of questions. One, I mean on the conventional motor side, right, both the mild hybrid as well as the conventional electric starter motors. We are seeing a very lot of quarterly volatility. So just trying to understand what is happening there. Is it because of customer production issues or what is driving this quarterly volatility?

Vivek Vikram Singh: Sorry, I didn't get that.

Sonal Gupta: Sorry, I'll repeat it again. I don't know if you, so just on the conventional motors, I was just trying to understand there's a lot of quarterly volatility in terms of the revenues. So just trying to understand what is the reason for that. And how do you see this segment? Is this more like a flattish segment or what's happening there?

Vivek Vikram Singh: Yes. So I'll let Sat answer it. But I mean, look, if you were to look at the long term, starter motors as a product would decline to zero, right? Now is that date in 2032, 2033 or is it 2038? We don't know yet. So, we prepare for the worst case in that scenario. Only starter motors for, I would say off-highway, and maybe some segment of commercial vehicles might survive. Commercial vehicle we are not there, off-highway we want to get into but not in the tractor segment, and more construction equipment or recreational vehicle segments, we'll see that. But long term it is going to decline, in the short term, yes, there has been volatility because this business has been focused mostly on North America and Europe, right, very few little bit sales we do in India. And yes, last five or six quarters because of supply chain risk, the Russia-Ukraine situation, there has been a lot of fluctuation in those two markets. Apart from that, nothing exceptional has actually happened. And if you look at absolute revenue from three years ago to now, it might not actually be very different. So, it is a long-term downward trending product. It hasn't shown up yet but it will at some point.

Sonal Gupta: Got it. So I know, I understand there's a lot of shift like in Europe, more than 20% BEVs are there. So now, so just trying, I mean, so are we actively seeking new business in these areas or we are sort of completely focusing on the traction motor for EV side?

Vivek Vikram Singh: I'd say both Sonal. So, while it is a market that eventually is going to decline and traction motors is the future. If one looks at it, in three years out the traction motors will be a larger business for us than starter motors already. There is still focus on trying to find niches in which starter motors will remain. There is very little focus on trying to maximize within segments we know we are not going to be in. So I think I mentioned that recreational vehicle category, similar categories, if we find we will keep trying to make that investment last as long as possible for us.

Sonal Gupta: Got it. and just my second question was on the orderbook size, on the new order wins that we are giving. I mean, like, how do you, is this based on customer projection volumes? How, how does this work? I mean, like, how do you estimate that? I mean, because why I'm asking is that you're signing up these new-age OEMs who do not have a very long history, right? So.

Vivek Vikram Singh: Always tricky, always tricky when you deal with the customers who you don't have a history of, you know, their forecast accuracy. So I will let Sat answer it more because, from my side, I think just being very conservative, that's just the safest way to do these things. Rest Sat will add.

Sat Mohan Gupta: Yeah, generally, I mean, it's based on what the customer has projected or based on the pricing, agreed with the customers, but we take a little bit of conservative view when we put it in our order book. So, but the data we get is from the customer and on which base we have taken the pricing.

Moderator: Thank you very much. We'll go now to Hitesh Goel, please go ahead with your question.

Hitesh Goel: Yeah. Yeah, hi, thank you. So, my question, first is on the, you know, Europe part, can you give us some sense on the BEV parts / BEV revenue actually, how much is Europe in this right now because, you know, there is, you said that one customer program is ramped up and six is yet to come through. So, I just wanted to get the Europe revenue in the BEV revenues.

Vivek Vikram Singh: Hi Hitesh, this will require some work at our end. I don't think we have that ready because we don't segment it internally also with that many cuts, I mean, when we do it, even internally, we have the geography and then divide it by categories. So India PV, India off-highway, India CV, Europe PV, CV, off-highway, this is how we do it. We don't sub-segment into battery electric or not. So we'll have to kind of get back to you on this.

Hitesh Goel: No problem, now because I was asking because it's an important part from ramp-up phase for the electric programs, right? So I was just trying to understand.

Vivek Vikram Singh: So, there is a program that has started and that has picked up quite well actually. So, but I won't know the exact percentage.

Hitesh Goel: OK. and my second question is on the BEV. Can you give us, what is the e-motor revenue out of that? Just to get a sense. that how...

Vivek Vikram Singh: That we gave 2.5% was this quarter, last quarter it was 4%. So that if you go to the product mix. Yeah. So, in this, we give this one. Yeah, that slide. So, you can see traction motors 2.5%, this used to be 4%, traction motor is all BEV only.

Hitesh Goel: Ok. Ok. Sorry, sorry, I missed that. Thanks, Vivek, and all the best.

Vivek Vikram Singh: Thank you, Hitesh.

Moderator: Thank you very much. We'll go to Chirag, your lines are unmute, please go ahead.

Chirag Shah: Hello now am I audible?

Vivek Vikram Singh: Yes, you know there is a bit of an echo, but you are audible.

Chirag Shah: There's some issue. Sorry for this, I don't know why this echo. So quickly, two questions. One, can you indicate something on your cross-selling opportunities, so can you talk a little bit about it? And secondly, coming back to Equipmake, what was the driver of this arrangement? Was it a product gap that you are looking at in your portfolio or something else? And how should we look at the further product opportunities?

Vivek Vikram Singh: Sure. So, the second one I'll take up first, and then Mr. Deshmukh can add on it. It was a product/capability gap because if we look at the bus market, not only is the power much higher, it is also the voltage is also much higher of the system. As you know, we have been progressing quite well organically on our own path, but to get there would have taken a fair bit of time and we would have missed the first wave. If you miss the first wave, you only come in the second wave as the second supplier, second suppliers traditionally compete only on costs, right? You have to be better cost. So we didn't want to take that role. Hence to accelerate that, that is the biggest driver, but I'll let Sat and Mr. Deshmukh add to that.

Mr. Deshmukh: Yes So, one, of course, is that the electrification we have seen that it's happened first in two-wheelers, three-wheelers. The next electrification is going to happen in buses and commercial vehicles. So that market segment quite clearly needs to be addressed. And we didn't have the technology for these high-voltage applications. And as Vivek just now mentioned, to get there internally would take time and we may miss the bus, right? So that's why we were looking at partners who could offer products in that market.

With Equipmake two distinct advantages. One is that this particular patented design, which is spoke design, makes these motors extremely compact. So, as you have seen, especially for the bus application, they are almost two times in terms of power density, so, much compact and much less weight, so, easy to package. And so therefore, that is a unique thing that we are in a position to offer with these motors.

Second is of course, as I earlier mentioned, it's the high voltage and bus application. These motors have been used. They have been proven, they've

been running for several years now in the UK, in London. So, there is a proof. It's a product which is already proven. So, these were the two things which drove us to get to have this partnership with Equipmake. Sat maybe you want to add something.

Sat Mohan Gupta: No, sir. I think you have covered it pretty well, sir. Thanks.

Vivek Vikram Singh: What was the first question that Chirag you've asked? Chirag, you'll have to help us out here.

Chirag Shah: Hello? Am I Audible?

Vivek Vikram Singh: Yes

Chirag Shah: Yeah, sorry for this. So, the first question was about cross-sell opportunities. You have been looking at that since last 2-3 years and now that the basket is widened for you, you had the product basket and hopefully, you had more on that. So, are there increasing interactions and acceptance, and are you able to leverage your this because when we look at your revenue growth, we are given the strong growth that we are seeing, you have been seeing even in the past, you know, so as an outsider I'm not able to figure out whether the growth is driven by single product businesses or more of a cross-sell driven businesses. So where are we on that journey? And just before you answer that, just a clarification on the earlier question, Are you looking at acquiring Equipment kind of businesses if you get the opportunity or you are, you are happy with this kind of arrangement? You don't want to go for acquisitions.

Vivek Vikram Singh: Yes. Sure. So, I'll answer the first one. I mean cross-sell, I don't know if it is a word in our business, every product has to win on its own merit, it doesn't matter, this is one company, so there is no, I mean, I'm not sure what that means. Are there places where we supply motor products as well as driveline products to the same vehicle? Yes, there are actually quite a few of those already. But it doesn't actually matter because when you are speaking to the team of one product who has to select one product or one engineering team, they only care about that. It isn't like, see this would work if you're selling something which is a commodity product or a commodity service in which what you're trying to piggyback is on a relationship that I have a relationship and let me sell more. What we do is highly engineered and customized products which stand on their own merit and there isn't like if I'm going to discuss, let's say a final drive differential assembly with a customer, they are not going to discuss their traction motor with me in that meeting. So, in the same customer do we have it, yes, but both teams have independence and both teams do their own selling. Growth has been good because of that. Because relationship-dependent growth will always have a finite shelf life. If your product is better and it offers better economic value, it should be selected and it should win on its own merit. That's the way we run our business.

On the second one, on Equipmake or acquisitions in general, yes, we would also, I mean, we would be open to acquisitions in general. However, the acquisition threshold for a company to qualify is a far more stringent threshold, than a collaboration. Because not just the company has to be very good technically, for us to have a collaboration, for us to actually acquire it, it has to be not just good technically, it has to be also amazing commercially, which means it can deliver growth while delivering very high returns. That's not usual. And we want both. We don't want just one of two, which is why we are fairly I'd say selective in our acquisitions. I don't know if that's answered, but that's I am just trying to share how we think about this.

Chirag Shah: No, no, it fairly answers. It very well answers it. So, thank you very much, and all the best.

Vivek Vikram Singh: Thank you, Chirag.

Moderator: Thank you! we'll now go next to the next participant Prateek Poddar. Ok, please go ahead.

Prateek Poddar: Hello, am I audible?

Vivek Vikram Singh: Yes.

Prateek Poddar: Yeah, I just wanted to ask about the two new products or three new products which you have added to your basket, right? The liquid cool inverter, high voltage inverter. Maybe you could just talk a bit about the size of opportunities like applications in which they would be implemented.

Vivek Vikram Singh: So, Prateek those products are a result of the Equipmake partnership.

Prateek Poddar: Oh, ok

Vivek Vikram Singh: Yeah. So, this is what we are getting from this partnership is the technological capability to build.

Prateek Poddar: Got it. Thanks, really helpful. Thanks.

Vivek Vikram Singh: Thank you.

Moderator: Thank you so much. We will now go to the next participant, Siddhartha Bera, Sid, please go ahead with your question.

Siddhartha Bera: Thanks for the opportunity. Sir, my first question is basically on this power source neutral segment. If you see in terms of share and even in terms of absolute revenues, I think it has grown quite well. I would assume predominantly maybe because of the gear export business. So, can you just help us understand about what is happening here? How much is in order book or how much growth or which customers are driving this?

Vivek Vikram Singh: It's a good question Siddhartha as usual. It is driven by North American customers in general and you're right it's a differential gear segment and North American customers have been driving this more than any other

geography, but it is literally everyone in North America. If you look at it, everyone, it's quite well spread but it is North American passenger vehicle segment that's driving this growth.

Siddhartha Bera: Ok, any particular I mean a market share, would you have an analysis about how much would you have in that region? And based on the orders I mean, how should we expect that it can go up just to understand the growth potential?

Vivek Vikram Singh: Last we looked at it was in calendar year 22. And I think if we looked at it because see we do this once a year, right, this market share analysis that we get Ricardo to carry out for us. In 22 I think of North American market, we were early double digits as market share. I think there is a lot of room to grow there, a lot. So yeah, that is one of, I would say one of the tailwinds that we anticipate in the next 2 to 3 years. It should grow quite strong.

Siddhartha Bera: OK, got it, and the value of these products can range between what number like you have said for the year, can you just guide us about this product, how, what is the value generally it ranges between?

Vivek Vikram Singh: So, Siddhartha the differential gear pricing is so, it depends so much on the size and the vehicle category and the torque that it has to deliver. I think once I mentioned that the lowest price gear we have ever made is 45 rupees and the highest at 4,500 rupees. So, there is, that's why I think Gunjan also asked me, what is the value, the thing is, the values are very divergent depending on what size of vehicle. Because if you take an 800 cc, small commercial vehicle and you take an 18 wheel truck, it'll be very different and that's why it's very hard. I can give you average, but the average will hide more than it will show. But value in North America in general is higher Siddhartha because it tends towards bigger SUVs and pickup trucks, etcetera, larger the vehicle and the larger the weight of the vehicle and higher the acceleration, the higher would be the torque and hence the higher the value of the differential system.

Siddhartha Bera: Ok, sir. Ok, thanks a lot, sir for that.

Moderator: We will now go to the next participant. Garvit Goel. Garvit please go ahead.

Garvit Goel: Am I audible?

Vivek Vikram Singh: Yes, Garvit you are.

Garvit Goel: Good evening, sir. Congratulations for a good set of numbers. So, my questions have already been answered, but the thing is you mentioned that several programs that are likely to enter into production in the next few months. And in your presentation also two programs likely to commence from a quarter four 24 onwards. So, sir what percentage of order book is likely to be executed in the next 3 to 4 years sir?

Vivek Vikram Singh: Tough one. I again, I don't think we analyze these things that way, but I would say the order book is always heavier to the front and in the middle, than the

back. So, if I were to take the first, let's say, five years, which is what you actually wrote in the Q&A box, how much of it will come in the next five years I would say, and Pratik and Amit help me out here, I'd say 65%. Two-third, one-third; first half two-third, second half one-third.

Pratik Sachan: So, the first half is close to 60%.

Vivek Vikram Singh: OK. I wasn't that off right. And Pratik is the man who has all the excel sheets and all the data. So, he knows more than me.

Garvit Goel: So, that's all from my side. So, thank you, and congratulations.

Vivek Vikram Singh: Thank you very much Garvit for your question.

Moderator: Thank you very much. We'll go now to Dhaval Shah. Your lines are unmuted. Please go ahead.

Vivek Vikram Singh: Yes, Dhaval we can hear you

Dhaval Shah: Yeah, just one very small question. The PCB assembly project which you've announced? So, was this outsourced before or, is it more of a backward integration strategy for us?

Vivek Vikram Singh: It was outsourced also because we didn't have enough production of motor controllers as when motor controller production increases, we want to control every step of the manufacturing. If you've been looking at how we operate, even in both businesses, we like to keep everything in-house. We believe that it gives us far greater control of the technology and the final output. And that's why we want to keep it, it is a fairly integral part of it. I mean, if you're getting into power electronics, the board is important, and we want to do, and more and more of these controlled opportunities are coming. So, we want to have our own assembly line. Sat you want to add to the rationale?

Sat Mohan Gupta: No, I think this is a strategy and we are on the right path.

Dhaval Shah: OK, that was the only question. Thank you, very much and good luck.

Moderator: Now I will hand over to Kapil. Kapil, would you like to go ahead with your question?

Kapil Singh: Yeah. So, Vivek just one question, you know, if you can comment on you know, the customer concentration that you have, you know, where are we today on that? and specifically on EVs, I know you don't comment on customers, but just your general thought on how do you see this, you know, diversifying because we have not seen so much success of a lot of players with products, right? So, in which, at least in which geographies do you see other players succeeding beyond your top customers?

Vivek Vikram Singh: See It's a fair question. And I think, let me address it because quite often people think the concentration, customer concentration is much higher than it is because we don't comment on it. It is, actually I would say, one of

the best in this industry. There is no customer greater than 20% for us. Not even a single one. Even in EV, I would say the high, biggest customer is, I don't know the exact one, but between 70 to 75% not more. That's why, yes, it is true that one person being 75% of EV revenue is very high. But that is for this quarter when a lot of our two-wheeler revenue went away. Over time, this will start coming down. Our top five, I think I mentioned it in the shareholder letter this time that this is a constant thing that we keep looking at. I think it's about, it's less than 60% top five, it's fairly healthy. And if you look at it now, let's just do an equivalence. No company can be in a world different from the industry itself. Let's look at the automotive industry, let's say Volkswagen, Toyota, Hyundai-Kia, Renault-Nissan, and Stellantis, these five, how much of the world market do the top five automakers control. It will be greater than our top five customer concentration. The reality is, and we, this is one of the things that I have seen that when you're in a public market, people compare you even to industries that you're not in. And it doesn't really reflect that reality. We are in an industry that is heavily concentrated at the top. The top five automakers are any, I think 60% top 10 or 80%. We are less than 80% for top 10 and you know, less than 60% for top five. So, if you're doing better than your industry, you're ok. Customer consideration is not that big an issue, but yes, we actively monitor this. This is something that is a KPI for us that we always keep looking at. In EV I think there will be a lot more people doing well. One of the things that's not let us proceed on this was also our product offerings. As we add more products that can address more market segments, I think this diversification will increase. But yeah, it is not the problem that it is the number of customers. We actually have a lot of number of customers. What we can't solve for is making or helping our customers sell more vehicles. That's something they have to do on their own. And that's basically where our limitation lies.

Kapil Singh: Sure. and just one more question just, just so that we understand how you know, you are positioning the growth for the company you mentioned about KPI. So I'm just wanting to hear what are the KPIs for the management, you know, just some broad top 2-3 sort of things that you are very focused on.

Vivek Vikram Singh: Sure, I think we disclosed them. My contract, by the way, can be found on MCA. We are a very public and transparent company. The first KPI is EBIT for the company. We look at new order intake very, very seriously because we are a growth company. To deliver that growth new order intake becomes a very important metric, as important as the current year's profitability or if not more. Third is EV order intake specifically and not just as a subset. So if you do that, you actually score on two KPIs. Fourth would be around technology and progress on our technology roadmap. Every year, we choose a number that these many products we must deliver. Safety is we are in manufacturing after all, this is one of those KPIs where the target is always zero, you can only underperform on that KPI but that is important because if we don't put our people first to make the workplace safe, we fail it, that is our first charge here as managers, is to ensure that the working environment is safe for our people. There are others that go once they go below me, there are lots of them on quality, on delivery, on cost. So yeah, I mean I think when we passed the

resolution and Rohit you can help me out here for the ESOP program, we did put out a lot of the management KPIs right, along with that document?

Rohit Nanda: Yes we did

Vivek Vikram Singh: Yeah, so that

Rohit Nanda: We have an explanatory statement actually.

Vivek Vikram Singh: Yeah, that may have more exhaustive ones.

Kapil Singh: Ok, thank you so much, the entire team from Sona Comstar, that was the last question we had, and Vivek I'll hand it over to you, in case you have any closing remarks.

Vivek Vikram Singh: Nothing, just thank you. Thank you, everyone, for coming here. Your questions obviously make us better at running our business. We hope we have been able to answer all questions. There are some questions we can't answer because either we don't think that way and hence have never actually tried to answer those questions or because we don't know. And we will try to do better if it's a second category. If it's the first category, hopefully, we can continue being ourselves and not being driven by external questions alone. So yeah, that's it. Thank you for attending and have a great day.

Kapil Singh: Thank you everyone for joining this call. Deanna, we can close the call now. Have a good day.

Moderator: Thank you again to all participants. Thank you for joining today's group conference call and you may drop off the line. Have a good evening.

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