

AUTOMOTIVE AXLES LIMITED

07th November 2024

The BSE Limited
Phiroze Jeejeebhoy Towers
Dalal Street
Mumbai - 400 001
Scrip Code: 505010

National Stock Exchange of India Limited
Exchange Plaza, Plot No. C/1, G- Block
Bandra (E)
Mumbai - 400 051
Scrip Code: AUTOAXLES

Attn: Listing Department

Dear Sir/Madam,

Sub: Analyst / Investor Conference Call Transcript.

In continuation to our earlier intimation dated 28th October 2024 regarding Intimation of Analyst / Investor Conference Call and with reference to Regulation 30 read with Schedule III, Part A, Para 15 (b)(ii) of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 enclosed herewith Transcript of Analyst/Investor Conference Call conducted to discuss on the '**Automotive Axles Limited 2QFY25/1HFY25 Financial Performance**' held on **Monday, 4th November 2024 at 3:00 PM (IST)**.

The Transcription and audio recordings of the same is available on the website of the Company https://www.autoaxle.com/Analyst_Investor_Meet.aspx

This is for your information and record.

Thanking you,

Yours Truly,

For Automotive Axles Limited

Debadas Panda
Company Secretary & Compliance Officer

Encl: as above



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Automotive Axles Limited

**“Automotive Axles Limited 2Q FY25 Post Results
Earnings Conference Call”**

November 04, 2024

Automotive Axles Limited



**MANAGEMENT: MR. NAGARAJA GARGESHWARI - PRESIDENT &
WHOLE-TIME DIRECTOR, AUTOMOTIVE AXLES
LIMITED
MR. RANGANATHAN S - CFO, AUTOMOTIVE AXLES
LIMITED
MR. KISHAN KUMAR – GENERAL MANAGER,
MERITOR HVS (INDIA) LIMITED**

**MODERATOR: MR. SAILESH RAJA – BATLIVALA & KARANI
SECURITIES INDIA PRIVATE LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to Automotive Axles Limited 2Q FY25 Post-Results Earnings Conference Call hosted by Batlivala & Karani Securities India Private Limited.

As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Sailesh Raja from Batlivala & Karani Securities India Private Limited. Thank you, and over to you, sir.

Sailesh Raja: Thanks, Neha. Good afternoon, and thanks to everyone who have logged in to Automotive Axles' 2Q FY25 Earnings Conference Call.

Let me introduce you the Management participating with us in today's Earnings Call. We have with us Mr. Nagaraja – President and Whole-Time Director, Automotive Axles; Mr. Ranganathan S. – CFO, Automotive Axles and Mr. Kishan Kumar – GM, Meritor of India.

I would now like to turn the call to Mr. Nagaraja for the “Opening Remarks” followed by Q&A. Sir, we may begin now.

Nagaraja Gargeshwari: Thank you, Sailesh. Good afternoon, everyone. I am Nagaraja Gargeshwari – President and Whole-Time Director of Automotive Axles Limited.

I warmly welcome all of our investors and shareholders to this investor call, Q2 Financial Year '24 and 25. I hope you had a great Diwali along with your family and friends.

On this call, this time also, I have with me our CFO – Mr. S Ranganathan. Welcome, Ranga. We also have Mr. Kishan Udipi, who is the President & the Whole-Time Director of Meritor HVS India Private Limited.

As you are aware, last week we concluded our board meeting and updated the board on Company's second quarter performance.

Couple of highlights here I would like to share with you. As you are aware, market still looks a little bit soft. And in spite of that, we were able to continue to execute on optimizing our operational costs and thereby achieving a very strong performance. This will be discussed by Ranga later on. And also, as we mentioned in the previous quarter, we introduced our new Axle MS 185 to Ashok Leyland. And not only have we started the SOP, but we are also able to ramp up the production very well. And from the investment perspective, we continue to upgrade our plans with new machines and automations.

With that, now I would request Kishan to give a market update followed by Financial Results review by Ranga. Thanks again for calling into this meeting. Over to you, Kishan.

Kishan Kumar: Thank you, Nagaraja. Good afternoon and welcome again.

A quick update on the M&HCV market, 7.5 ton and above where we play a major role. Like Nagaraja mentioned, we continue seeing softening of market from Q1 into Q2 as well. Most of this was expected to some extent after the general election and the monsoon. And the recent few days have shown some uptick in the retail sales, which is a positive trend. And also we have seen the OEMs being very moderate about their inventory and not carrying much, which means from starting now onward we should see Q3 as well as Q4 being much stronger like last year. Having said that, we also have been following that there is not much of a significant change or market share shift among the major OEMs that we serve. So, in all likelihood, we should end up Q3 and then around 90,000 to 95,000, that is our current forecast. And Q4 will be like last year at the higher note, around 100,000 plus. This will still be a dip compared to last year about 5%, which is expected after we see in every time there is an election, and we see that infra spend and other things having a say on that. So, that's a quick update on the market and of course we can take more questions during the question-and-answer session.

And over to you, Ranga, with that. Thank you.

Ranganathan S.: Very good morning to all of you. I am Ranganathan here. I will just give a quick update on the financial performance for the quarter.

So, for the quarter, we are done, we've just crossed over Rs. 500 crores sales as compared to last year's same quarter; is about we are 15% down in terms of overall revenue. Last year same quarter, we did Rs. 588 crores. And EBITDA, by and large, you look at it, we are at 11.4 versus 11.9. Though the drop of sales is about 15%, the drop in EBITDA is lower. However, it's not as low as the drop in sales, that's mainly due to the better operating performance and middle-class performance during this quarter. And PBIT stands at 9.7 compared to 10.3 same quarter last year. And YTD, that is the first six months' performance is concerned, we are close to about Rs. 1,000 crores sales for the first six months compared to Rs. 1,022 crores the first six months of last year is about 11% down. And EBITDA is about 11.6 for the first six months and as compared to 11.2 last year.

Overall, if we really look at it, I know the PBIT is 9.7% for six months against 10.3 the last year, the first six months. So, largely if you see the impact on the EBITDA largely because of the fixed cost under absorption is more than anything else. The operating performance for this quarter and overall, for the first six months, is comparatively much better as compared to the last year.

So, that is the larger update on financial performance. If there are any questions, we can take it up during the question-and-answer. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. First question is from the line of Sunil Kothari from Unique PMS. Please go ahead.

- Sunil Kothari:** As Mr. Nagaraja is here on the call and our Whole-Time Director from Meritor HVC also there. I would like to understand, sir, from you being a long-term investor of Automotive Axle, the thought process and strategic thinking about the automotive, this American Axle India's CV business Axle sales which has been done and bought over by Bharat Forge. How do we consider those act or not and strategically what was the reason or what are the reasons we should not go behind those type of deal? That will be really helpful if you can elaborate on this little.
- Ranganathan S.** By and large, we did not participate on the bid because the bid was not offered to us at the very beginning. So, at this moment of time, we don't have much details about that except other than what is available in the public. So, time being, we are not commenting on this takeover until we get some more details on this. So, at this moment of time, that's the only answer we have, sir.
- Sunil Kothari:** Because sir, that company has grown just during this two year, almost by 50% where almost any auto component industry, including us, they're not able to grow. They've grown that particular business from Rs. 900 crores to Rs. 1400 crores business. And so that's why, you are being in industry, I am sure you will be looking out for, I am listening and following you since the last 4-5 years. We are trying very hard to get Tata's extended business. But why we missed, I would like to convey that we missed this opportunity, but it's your thought process and your strategy.
- Ranganathan S.:** I will give my view and as I mentioned that I don't have much details about this takeover, what the considerations, it's been considered to wait and take this offer because we don't know the details. But by and large, as we say that we have been talking about the last 6-7 years, our focus is basically on medium & heavy commercial vehicles. We will continue to focus on it. The industry, what we are serving and definitely we are the leaders, and we are the largest independent axle manufacturers in India, we continue to hold that position for the segment what we serve. And we don't have the details of the American Axles, what are the details, you may hear bits and pieces, we know the information, but it's not very appropriate to comment on it. But that's the reason I said that initially that without having much details, we don't want to comment at this moment. So, as we get along the more detailed information, we can able to see that it might be what is not making value to somebody, it may be making value to somebody else. At this moment of time, again, I am reinstating. Kishan and Nagaraja can add value to that. The industry what we are focusing, we continue to focus on it, we continue to focus on new product development, we continue to excite the customers with our new products and our performance. And definitely, for an outsider, it may be a value add, but I am not sure about. As he said, that we will not participate in the bidding, we have no details about the takeover and other information at this moment of time. But definitely, we will be the largest axles manufacturers as we see it. And we will continue to be leaders in the coming days too. I don't think we are going to do less or more. Definitely we will do more, but not less, and we will continue to maintain our leadership.
- Sunil Kothari:** Just last question, or maybe some other reason is this company has been taken over by our one of major partner promoters, Bharat Forge. So, no information available, no details available. I think this will create a little bit issue on a corporate governance side also. So, I request you to just give a thought on the point that when our majority partner is taking over this entity, will it

not be wrong on somebody's side that it will create a competitive intensity, maybe more? They are a part of the Automotive Axle Group and now they are taking it over. Will it enhance competition? Will it affect our capability with the customer? I think whenever something happens in industry, well, only 2-3 players are there. I think normally, managements are aware about everything. They are aware about your competitive capability and your products and customers. And I am sure you must be in this industry since long, so you must be aware about their positioning. I am really surprised by this non-awareness of the deal and capabilities and products and all these things. Really, this is surprising for me. If you'd like to mention that. Nagraj, want to comment on this will be really helpful?

Nagaraja Gargeshwari: Just a couple of things here. Again, obviously, we are not part of the bidding for this company, like what Ranga mentioned, we don't have all the details. There is just an announcement that has come, but this transaction is not complete. It goes through all the legal proceedings, including anti-competition and everything. So, that's why we said that it is probably premature at this point of time to make any comments on this. Once we have all the details, probably we will be able to answer your questions.

Moderator: Thank you. The next question is from the line of Sagar Parikh from one of our Financial Consultant Private Limited. Please go ahead.

Sagar Parikh: I actually just mirror Mr. Kothari's thoughts here that Bharat Forge being a partner with us and they are acquiring this company on their own. I mean, I just want to understand the thought process and what are your thoughts on this going forward? I just mirror his thoughts basically. That's all I wanted to understand from you.

Ranganathan S: Sir, I fully respect your views here as an outsider. As Nagaraja is very, we don't have much details about the takeover. So, we only had this announcement, what you had this year. Whatever you heard, we also heard. As individually, we may have our opinion and feedback about this. But officially before we need to come on, we need to have some proper information before we commenting on it. So, at this moment of time, it's only an announcement made by Bharat Forge. So, once probably all approvals are done and we get to know more details, probably we can able to give answers to some of your questions. At this moment of time, with limited information, we don't want to guess and do something wrong. And so we are consciously saying that, we don't have full information, and we are not able to comment on it. That's only limitation we are trying to put forward to you. I hope you will understand it.

Nagaraja Gargeshwari: Just to add to what Ranga mentioned, see, we have two equal promoters or partners. One is BFL. Another one is Cummins. Cummins is also in automotive. So, as far as governance is concerned, you can be very, very sure of that. Everything will be done as per the legal requirement. Again, I want to reiterate it. This is just an announcement that has come, it is not the transaction is not complete until we have all the details. It is going to be premature for us and also not right on our part to make some assumption and make speculation regarding this particular takeover.

- Sagar Parikh:** Just one color, like since it's an unlisted entity, we are largely present in the 7 tons or 7.5 tons and above segment, how big would that segment be for American Axles? Because I understand they would also be on the LCV side. So, any sort of color on their business breakup broadly would also help us? Thanks.
- Kishan Kumar:** Unfortunately, we don't have, because the only thing what we know is their major customer is Daimler. That is the one thing which is available in the public. But otherwise, we don't know some of our competitors. We know what is our share of business, but we will not be able to know our competitors' share of business because there are Captive Axles are there and then also people are supplying like, we also have Dana and then we also have Tata Eicher, they are doing their own axles. So, it's a little bit challenging for us to know what their share of business would be.
- Sagar Parikh:** What would be our share of business in Ashok Leyland?
- Kishan Kumar:** So, our current share is around 63% to 65% depending on the product mix. Typically, that is where we range. And with the new products that we are planning to launch in a couple of months, we should be 65% plus, that is what we are aiming for.
- Sagar Parikh:** So, this new product launch that is the MS 180 is what you are saying or something else?
- Kishan Kumar:** 185 and the bus axle which is coming up early next year and then also 177 which we are planning. So, with all that it will be a north of 65%.
- Sagar Parikh:** 177, 185 and the third one you said is?
- Kishan Kumar:** The bus axle which we have talked in the last investors call as well. There is a bus axle that we are working on which is expected to launch sometime mid of next year.
- Sagar Parikh:** Okay, that's it from my side and looking forward actually to hear more on this American Axle deal maybe in the next or once you have more details. That would be really helpful.
- Ranganathan S:** Sure. Thanks.
- Moderator:** Thank you. The next question is from the line of Natraj Shankar from DSP Mutual Fund. Please go ahead.
- Natraj Shankar:** Just wanted to understand the bus business plan over the next 2-3 years. We had spoken in detail about in the last quarter, so just wanted to understand in terms of timelines when it will start up and what is the plan over the next 2-3 years? And I kind of had a similar question. I guess you answered it. What percentage of the business between American Axles and Automotive Axles is an overlap? But I guess you clarified that you don't have that information. But at some point, in time, that will be helpful. Thanks. But if you could just answer the bus part, that would be great. Thank you.

- Kishan Kumar:** The line was not very clear, but what I heard is the business plan for the next three years. Is that right?
- Ranganathan S:** He is asking for the bus axle when it gets launched and what is the outlook for the next 2-3 years' time for the bus axles?
- Kishan Kumar:** So, thanks Ranga. So, in the bus space, we have different categories of buses, 9 meters, 12 meter and then the 13.5 meter and 15-meter coaches. Today, where we are present is only in the 12 meter. So, we have our flagship product 1497 and 59, which we supply to Ashok Leyland 100%. Now where we are not present is where Dana, our other competition is actually supplying. So, that is the 9-meter coach. So, our new product that we are launching sometime in second quarter of next year, and also the 177, which is in very early stage of discussion for 13.5- and 15-meter coach. We see that the deficit of bus which had after the COVID, it is now picking up. So, the 9 meter and 12 meter will be more and more in the SKUs and also in the public sector. So, we see with that our overall impact due to the product mix, which we see otherwise, like this year and the previous year, that will come down. Because we will be able to play where that 2%-3% will otherwise make an impact. So, in terms of overall market or penetration into Ashok Leyland, we will probably 2%-3% more than what we are today because of these two products' introduction. Otherwise, the market itself is pretty small in India for the coaches. When I say coaches, it is a 13 meters -13.5 meters. Typically, we see Volvo where anyway it is our product imported from Europe. So, the domestic players are now getting into this segment.
- Natraj Shankar:** And just on that 65% market share in Ashok Leyland that you have, keeping aside the capital part of the Axle sourcing from internally with Ashok Leyland and Tata Motors, will American Axle be another competitor for us at all or...?
- Ranganathan S:** I am sure you have access to their, I think somebody had a comment on this in the beginning, how they have grown. And I have not seen the reports in particular, but as we understand their major share of business comes from Daimler, which is a contract manufacturing, and which is 100% only for Daimler. So, other than that, we are not aware of any other product which they will be competing with us. And we have a full range of products that we have a pipeline of introduction we have given.
- Natraj Shankar:** Over the next 2 to 3 years, can you just guide us through the CAPEX plan?
- Ranganathan:** As you are aware, last time itself, we mentioned that apart from our typical sustenance CAPEX, the board has approved about Rs. 70 crores. Once we complete that part of the investment, probably by end of next calendar year, then we will be going for phase 2 and phase 3. Again, we are kind of looking at like what Kishan mentioned, this year and next year, we are kind of looking at a flat market. So, we would like to make sure that we time the investment properly. Our expectation is we should be investing close to about Rs. 200 crores in next 2-3 years' time.
- Moderator:** Thank you. The next question is from the line of Rahil Shah from Crown Capital. Please go ahead.

Rahil Shah: Will you be able to guide in terms of the topline and the EBITDA margins for FY25 and if possible, for the next year as well? And some of the key developments the company is working on, which will drive growth for us in the coming years?

Ranganathan S: See, like Kishan was talking in the beginning, the market for this year looks to be flat. And there may be, at this moment up in the forecast what we have is next two quarters, the volume should be the similar lines of the first half year. But could be possible then a 5% to 10% upside can be quite possible. It purely depends on two things and how the market and how the inventory at the OEMs. So, we are expecting another 10% more than the first half year and the second half. We have to wait and watch. And overall market if you look at it is continuing to be just loitering below 400,000 vehicle level, over 395, around that level it is there. So, it's lower than the last year. But we have to wait and watch. If you see our performance and EBITDA is concerned, our EBITDA performance is quite consistent with respect to volume what we generate. I really see the operating level margin is substantially improved compared to last year, mainly our continued focus last six years on the metal cost performance is yielding the benefit. Only what we are a little suffocating at this moment of time is basically the fixed cost absorption. So, as I said that, we continue in market at the same level, you can see the same level of performance of EBITDA in the next six months. If the market improves as we are expecting another additional 10% to 12%, the second half of the year, our EBITDA improvement will be much, much, much higher than that. So, definitely that absorption benefit will come into the picture. So, that will definitely make us a little better EBITDA as compared to what we achieved in the first six months. That's how I would like to present the case. So, even in the moderate performance, we are upholding our operating performance highest level. As Nagaraja was talking about the investments, the investments is basically meant to automate and debottleneck the issues in the production and on towards so the investment to the new products and so on and so forth. So, basically, the manufacturing automation is the main focus, which is resulting in an operating efficiency and will continue to improve the operating performance. As the market grows, we will able to get much better benefits in the overall EBITDA.

Rahil Shah: What was the volume in H1?

Ranganathan S: I just stated at the beginning of the call that we did about close to Rs. 1000 crores and so we are expecting the similar volumes. I said that could be an upside but plus 10% more, if that could be possible. That depends on again how the market and the inventory, what the OEM has?

Rahil Shah: So, the next two quarters we expect it to be flat, but what about FY26, you see recovery coming?

Ranganathan: We are expecting conservatively a flat, but always 10% upside is quite possible, that we have to wait and watch.

Moderator: Thank you. The next question is from the line of Radha. Please go ahead.

Radha: First question was that in this quarter, if you seen the overall M&HCV goods carrier volumes, so the industry volume fell by 13% and the similar number for our key customer Ashok Leyland

it fell by 22%. And if you adjust the sales number that we have reported in second quarter with the lower raw material cost like you have mentioned in your opening remarks, then estimated volumes for Automotive Axle have fallen only by 12%. So, which is lower compared to the fall in industry or the fall that we are seeing in Ashok Leyland. So, just wanted to know what led to this outperformance compared to the industry and also with respect to Ashok Leyland?

Ranganathan S: Maybe I will give a little bit of overall what I know that probably I will leave it to Kishan about giving more details what he best knows from a customer perspective. See, overall if you look at it Ashok Leyland is into LCVs, M&HCV in all segments they have. So, the overall performance is basically if you look at it, I am not sure. I have not looked at the data, but if you look at all composites, you may be seeing it. And second is about this quarter we had some better benefits coming from sales to the aftermarket, which was probably one of the last quarter's backlog, and we completed this quarter. And also, some upsides on the brake side.

Radha: Is this aftermarket seeing a one-off in this quarter or do we plan to see an increase in aftermarket?

Ranganathan S: That's the backlog of last quarter and probably we completed this quarter.

Radha: Out of overall sales on a yearly basis what is the percentage of sales is from aftermarket?

Ranganathan S: Generally, we don't share the percentage, but it's close to double digit.

Radha: The second question, result in March 2022. So, we had announced a mission, Mission 2025. So, in that four key growth levers were discussed. So, one was exports. So, just wanted to know from the export perspective, currently how much is exports and how has that increased compared to FY22 levels?

Ranganathan S: I need to really see what FY22, are you talking about FY21-22 or 22-23?

Radha: '21-22?

Ranganathan S: I need to really check the data, but I don't have readily and unable to comment on '21-22 to current, but nevertheless, compared to '21-22, definitely our export performance would have definitely gone much better as of now, is because that's definitely it's my gut at this moment of time, but exactly the quantification, I don't have it before me to comment on it. And secondly, on the export segment, again, as I mentioned, that we don't give the segmentation, but you can take it, it's also close to the double digit, that is also. And definitely, as I mentioned that, the marginal increase in exports and good increase of the backlog of orders of aftermarket of last quarter definitely has benefited us this quarter.

Radha: Exports, three years back also we had two customers, one is Meritor, Meritor Group and second was the Volvo Thailand. So, apart from this in the last three years, have we added any new customers and if not, then when do you expect to add new customers in the export market?

Kishan Kumar: When we talk about export, it is also the intra company export that we do. So, what Ranga touched on, what you mentioned is the OEMs that we export. And regionally, the regional business units will be the end of sale point. That is how it has been, except for the two cases where we do it directly. And going forward also, our focus is the intra company export, where all the new investment that we are doing to bring the systems to the upgraded version and also all the business that we are working with other regions like Europe and North America. That is all intra-company. And your question earlier on the growth, I just pulled out some numbers, which may not be very accurate, but we have grown about 25% compared to 2021-22 to the current year. And all the new products also what we are now working on, we are bringing them to the global standard. For example, 177, 185, these are global products, which are already manufactured somewhere else. So, now introducing them in India gives us that advantage to also export to our intra-company elsewhere in the world.

Radha: Just wanted to understand why aren't you also focusing on adding new customers in the exports market?

Ranganathan S: Because the products are very unique in those regions. So, what we are talking about is only the drive **(Inaudible) 0:33:46**, but rest of the architecture is very unique for India. Just like, for example, in Europe, it is all cast housing. And in India, we don't have cast housing other than the heavy-duty hub reduction. So, the uniqueness of the end product that goes into the OEM vehicle requires a different way of architecture which the regional business units do. So, what we can supply from here is only the **(Inaudible) 0:34:11**, which is our primary focus and the component.

Radha: Continuing with this question of Mission 2025, the second key target of the mission was that we will be entering into LCV and bus segment. So, presently as per also our previous conversations, we are not present in the LCV segment and that also just in one product we are present. So, I wanted to understand that this vision was set a few years back, but still, we are not very largely present in these segments. So, why has this taken so long to scale up and how do you see it pan out from here?

Kishan Kumar: I missed that. I heard LCV but I was not sure whether you were talking about LCV?

Radha: Yes, the LCV segment in our Mission 2025, like we have stated three years back, there one of the key growth drivers was also entering into LCV and bus segments. However, we have not entered into the segment significantly. So, I just wanted to understand why has it taken so long to scale up these business and how do you see it pan out from here on?

Kishan Kumar: When we talk about the LCV we are still talking about the 7.5 ton and above. We have had no intentions to go below that. So, all our axles and the smallest axle that we have is also in the 7.5 ton GVW which we have a good, I would say, good share of business with Mahindra and Ashok Leyland. Beyond that we do not have any plan to go below the 7.5 ton and neither we had in the past. Now coming to the bus, as I explained earlier there are clear paths and we our core competency is actually in the 7.5 ton and above. There is no need for us globally also to look

below that, which is a totally different ballgame altogether. And we have been never in that space. So, for that, those two reasons, our focus will be the 7 ton - 7.5 ton **0:36:32 core** where we already have products in production. The volumes are slightly lower compared to the lower end. But then the bus is where we are riding for and also the ICV. So, the new brake that we launched the 394 that is a very sweet spot in the ICV segment, which we were not present in the earlier. So, our focus has been always this 7.5 and above and to be strengthening our product in the ICV segment and that is what we have been working in the last 2-3 years.

Nagaraja Gargeshwari: Just to add to what Kishan mentioned. If I understand, your question is why it is taking so much of time? Again, in the last three years, you know, when the BS-6, when we moved from BS-4 to BS-6, we had to really upgrade all our current products. That way we did mention in our previous investor calls, we have probably launched about 4-5 new products in the high-volume segment, especially for an M&HCV segment which is really helping us to meet and keep our share of business with all the critical suppliers. So, bus axle was a little bit reprioritized, I would say. And that's why now that we have done with all our major high-volume products, the focus is coming on the bus axles. So, we didn't slack off. The only thing is we kind of reprioritized in last three years based on the market conditions and the statutory and legal requirements.

Radha: A bit more clarification. So, my question was in the 7.5 ton to 14-ton category only. So, previously we were in focusing more on greater than 16-ton category and then we had mentioned that we will enter in this 7 to 16 ton category also. So, my question was that in this category specifically that we are not significantly scaled up in this segment. So, and you also mentioned something about the Mahindra share of business. I just request you to repeat that I have missed that part. So, why has it taken time in this segment?

Nagaraja Gargeshwari: So, maybe Kishan, I will just add a couple of comments and then maybe you can further explain. So, we do have three products in this 7-to-14-ton segment like what Kishan mentioned, our smallest axle, which we supply to Ashok Leyland, that has grown in volumes over the last 3 years. Apart from that, we also have 11x product and also 120 product. So, it is not that we don't have the products there. And some of these products have been kind of launched in or upgraded in last 3-5 years. So, again, that particular volume is a bit challenging one and the volumes are also kind of probably, Kishan, can comment on that. So, whatever the possible share of business, we have got the share of business there and also penetrating into some of the new products which Mahindra has introduced, we are on that. And also, some of these products are also being exported by the OEMs out of India. So, we do, in a way, indirectly, we are exporting some of these products.

Kishan Kumar: Just add to that, there is also a significant shift in the market. Now, as you see the higher tonnage vehicles and the high value that our axles provide, that is also been the shift in the market. So, we are aligning our strategy along with that. Like all the new products that we are launching is in the heavy duty, medium heavy-duty segment, which is where we are seeing the volumes. The 8x2s, 10x2s, even the 4x2 tractor where the axle probably the 185 is the largest axle we have in India and that is the value we are bringing and that is also where we can realize more penetration

like for example Ashok Leyland, Mahindra these are all the non-captive OEMs where we are almost present 90% to 100% in these new segments what we are launching.

Radha: I will continue with the second question which will be a continuation of this question only. Broadly if we take the industry M&HCV goods carrier numbers for first half FY25, the average monthly production has fallen in 25 to 34 ton and 46-to-55-ton vehicles in FY25 if you compare that number to FY24. And where we see the production increasing is 16 to 25 ton and 25 to 49 ton. So, hence my question was in light to this that if the industry is shifting more towards lower tonnage vehicle, then have we been slower in launching products in these segments and if you could just highlight what is our wallet share in the segments 15 to 25, 25 to 49 where we are seeing higher production currently by the industry?

Ranganathan S: Your line was not very clear, but I understood you are saying 15 to 18 ton is where the highest volume is picking at as per you from the production data and then you mentioned some other number 49 tons is what I heard and that is probably what I was telling earlier. So, the shift is very clearly, and you are probably looking at only the last one, two, three quarters but what we are seeing is the high tonnage, the 43 tons and above. That will be the one where the highest number of vehicles will be sold including the tractor trailers. And coming to the 15 to 18, we already have three products in that space which is in production for a long time. And they are catering to most of the applications that we currently do with any of the OEMs.

Radha: So, basically want to understand, if CV market falls, let's say for example, 20%, how much fall can we expect for this? Can we limit the downside to 10% for us as compared to 20% for the industry?

Nagaraja Gargeshwari: That's a very, very tough question. But what we have done over the years, I think you probably can witness that, is when the market is growing at a certain x percentage, we have always grown more than that. That is by expanding our product portfolio, increasing the share of business with our existing customers, and also we are being present in all some of the new EV, OEMs or startups that are coming in. And our export business in the last 3 years has grown. Of course, this year, all the European and North America markets are a little bit soft. That's why we are kind of a flat. But that is the area we are kind of looking at, how do we continue to be competitive with some of the export opportunities to our own intra-company so that we can limit this cyclical effect of the market volumes impact both on our topline and bottom line. And as we have demonstrated, in spite of our topline decrease, we have still been able to hold on to our EBITDA margins. So, we continue to work on that. Our expectation is as we invest more into our manufacturing plant and then launch some of these critical axles like bus axles, we should be able to minimize the impact. I cannot tell you whether it's going to be less than 10% or more than 10%, but we will try to make it as minimum as possible in spite of adverse market conditions.

Radha: So, can we say it in this way that now we have a lot of growth rewards like aftermarket that you mentioned rightly about performance during this quarter, aftermarket exports, new products,

new segments. So, is it a fair understanding that if there is a CV downcycle, then our performance will be much better compared to the historical performance in a down cycle?

Nagaraja Gargeshwari: We will definitely try our level best to be better than our peers. But again, it's very difficult to kind of dimension it because there are different product segments and different OE shares, how it gets affected. But like I said, spreading our product portfolio and then share of business with all these opportunities, exports, aftermarket and also new potential OEs. We will be minimizing it. And I think we have demonstrated time and again in our last several years, we always kind of outperformed our peers. So, we will continue to do that.

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

Ankur Shah: Sir, could you guide us just a ballpark number, what kind of revenue growth we are seeing in the next 3 years in industry growth and sustainable EBITDA margins going ahead?

Ranganathan S: No, generally we don't paint a picture of the EBITDA, but definitely you see the track today. If you really see the highest volume we've done in terms of number of vehicles is about 18, 19. Today, if you really look at it, we are much lower than, and the next 12 months forecast the market will continue to be at 400,000 vehicle level. So, we don't expect a much of growth in the next year too. And beyond that, we are expecting the market might grow, but we have to wait and watch. As he said that as the market grows, our growth will be better than the market for sure. And if the market touches the volume of 18-19, which is unlikely to my opinion because the configuration of the vehicle, the market segment is completely changed in the sense that the type of vehicle what we have in 18-19 which is currently happening is quite different. But nevertheless, if there's an overall improvement in terms of the vehicle level, definitely our growth rate will be better than the market by number one. Definitely our operating performance, if we look at it 18-19, to current is about, we are much, much in a better position with new improvements what we have done in the shop floor and our overall operating performance is much higher. And definitely with the market growth, we can expect as a growth we will definitely leverage benefit will come hugely. Our profitability is already is growing year-on-year, but overall if we look at the next three years' outlook, Kishan can see that, but overall more or less you know even if it touches 450,000 vehicle levels, I think our EBITDA will be at least 20% better than or 25% better than what we are doing.

Moderator: Thank you. The next question is from the line of Muskaan Rastogi, an individual investor. Please go ahead.

Muskaan Rastogi: In a previous con call, you had mentioned that brakes at around 10% to 15% of overall volumes for the company. And the company has launched two new models in brakes, as well as you are seeing more opportunity in the exports market. So, in the light of this, please tell us where do you see 10%-15% numbers in the next 3 years. And do you plan to increase the brakes mix to 20% plus?

Kishan Kumar: So, the first part of the question was on growth, what you are talking about. So, I think in the previous call we talked about mission 25 or mission 28. So, similarly, that is when it is for the operation, we also have a product roadmap or technology roadmap for the products. And in the breaks with the launch of 394, we are already seeing the market which was not available to us earlier. We are seeing that we can easily increase our market share in the breaks by 2% to 3%. So, our ambition is to come closer to 35%, 38% as an overall market share in this segment where we are there which is medium and heavy duty. There are a few more brakes that we are looking at more specifically for EVs, where today if see EV is still in the bus space, right? It is still growing in the buses. And the brake that we are supplying is a regular brake, compression brake. But there are opportunities to make modification or improvement in that segment, that we are already working globally as well as in India. So, with that also in the place, for the next 3 to 5 years, when the electric bus market grows, we believe we can take our overall market share in brakes to about 35% to 40%.

Muskaan Rastogi: My next question is, in the last 3-4 years, we have been able to grow market share in brakes from 30% to 35% to 40% now. Can you please talk about the challenges we face in terms of getting new business and how do we address them? And what gives us the confidence to take this to 50% in coming years?

Ranganathan S: Sure, I can probably tell you that the only other competition for us in India is Brakes India. And they are a brakes company, but we are as a full product solution provider. So, brakes, while we are only talking about drum brakes. In the drum brake space on the M&HCV side, we have already segmented them to cater to almost all the applications where Brakes India is present. Now always the challenge, probably for Brakes India as well is, the friction is always controlled by the OEM here which means our application of the product is a little bit limited. In other words, it is not our standalone recommendation but it is always jointly with the OEM. And OEMs always have a dual policy. They always have a dual policy when it comes to any product and specifically brakes because there are two players here. What differentiation we can bring is our global knowledge. Like I gave an example of the brakes specifically for EV. So, we have done a lot of data gathering globally where we understand the EVs operate differently because of the architecture and the regenerative capabilities of the motor. So, now we are mapping that back to brakes and making them more optimized, which means that within the operating space, within the M&HCV and the bus space we can bring up more efficient and more value-adding products, which I wouldn't say Brakes India will not be able to do it, but because we have this global connect, maybe our opportunities there are better. The challenge is always that the highest contributor to the BOM cost is friction. So, that is always in India with the OEM. So, that will always be a limiting factor for us.

Muskaan Rastogi: Sir, could you please talk about the business opportunity in differential gears and currently where are Mahindra and Tata sourcing the gears, they are housing from?

Nagaraja Gargeshwari: Again, I do not understand what you mean by differential gears. Most of the differential gears, if you are talking about side gears and the diff pinions, which are all the smaller gears, usually it is always outsourced with precision forging companies. So, I think they should be getting from

the same supplier as ours. But as far as if you are talking about crown wheel and pinion, we always most of the people, they buy this crown wheel and pinion, they don't buy it. We do at least from the Automotive Axle's perspective, we manufacture it in-house because that's where our IP is, that's where we can, we do the value addition. So, I believe maybe our competitors are also, most of them, they probably do in-house.

Muskaan Rastogi: In terms of ROCE, what is the delta between ROCE from actual business versus brakes? And what is the CAPEX cost per unit for axle and brake if someone is creating a fresh capacity?

Nagaraja Gargeshwari: Last one is very difficult because it depends on what kind of technology you are going to bring in. And definitely it will be very, very expensive, I would say that, because it requires quite a bit of CAPEX and that also acts as a high entry barrier for the new entrants.

Muskaan Rastogi: From our technology, what would be the CAPEX per unit for axle and brake?

Nagaraja Gargeshwari: Probably, maybe Ranga you should talk about it because I think we have invested over the 40 years, so it is we don't have a one single ballpark number to say what should be the CAPEX. So, I think probably that's where I would stop. Like I say, just upgrading and then doing an automation next 3 to 5 years, that's what we are telling that we are just investing Rs. 200 crores just for upgrading our existing lines.

Ranganathan S: Between axles and brakes, the majority of investment happens in axles for sure. And definitely we are also focusing on in terms of automating the process, deep bottlenecking some of the areas as far as brakes too. But if you see majority of the investment is on axles only. And see it's a very complimentary product both.

Muskaan Rastogi: How much would it be?

Ranganathan S: No, we don't give a split, but you can say, I tell you about major investments in whatever the CAPEX which Nagaraja indicated earlier in the call, we have a sustenance and also board has approved Rs. 70 plus crores to invest in overall basis. The majority, I will say that would be in the axles business, Axles lines, manufacturing lines. That requires more automation and all this. Our focus at this moment of time is on that. Definitely, we have investment quality improvement systems, productive improvements in brakes lines also to make sure that we sustain the capacity, what 100,000 plus to cater them into marketing goes in the future. So, as I said, we don't exactly give, I don't have the split to tell you how much it is, but nevertheless I will say that is majority is on axles.

Muskaan Rastogi: In terms of ROCE, what is the delta between from axles and brakes business?

Ranganathan S: No, that's more internal, sorry, not able to share. But overall basis, you really see that our ROCE is at around 21%. As the volume grows, we can able to overall the ROCE can improve much beyond 24 or 25. So, we are just waiting for the volumes. But as I said, Axle has more engineering content and the value addition as compared to the brakes. Obviously, the margin goes with the same flow. So, we see as an overall business together and see that to be sustaining

in the market, both are very complementing products to the customer. So, that's how we look at the business here.

Muskaan Rastogi: One last question. Overall, what is the expectation of the M&HCV industry growth or degrowth in FY25 and FY26? And when do you expect the recovery?

Kishan Kumar: So, there are mixed reactions to this. Some people believe this is not a degrowth. This is probably a shift in the overall market analytics, more closer to the western world. So, the idea here is there is a very clear trend that the engine HPs are moving, the horsepower of the engine vehicle is moving from the lower 200 and mid-250 range, now we are seeing 300, 350 and with higher power engine the goods carrying capacity, the tonnage is also increasing. So, I think the good comparison everybody can do is with the 2018 volume of 476,000, which was about 8.6 billion metric tons is now catered with 390-380 market, which means the overall tonnage is now stabilized. We know where we are. Now in the next 2 to 3 years what is expected is with all the growth corridors and the natural economy that is growing, the GDP, along with that we can expect around 15% to 20% growth in the next 3 to 4 years. And for that again what will play a major role is, how this high-power engines and the segments will have the mix in the overall volume. So, that's how we are also thinking. That's how our entire thought process in terms of product launch is also aligned with that.

Moderator: Thank you. Ladies and gentlemen, we will take this as the last question. I now hand the conference over to Mr. Sailesh Raja for closing comments.

Sailesh Raja: Thank you all for attending the session. Nagaraja sir, would you like to make any closing comments?

Nagaraja Gargeshwari: Once again, thank you very much for calling into this investor call. I really appreciate it. I do understand that there were some questions we could not probably answer to your satisfaction, especially related to this acquisition announced by BFL. But as you mentioned that with whatever the information we have, we cannot make any speculation or make any premature comments on that. So, we will wait to how it turns out because this transaction is not over yet. On the other hand, from the performance perspective, like we mentioned, we are committed, we are always growing better than the market. And then we have always been very prudent in when it comes to operational cost, especially the last quarters, last few quarters. Earlier we used to invest heavily on the product development. Now we have also started investing and upgrading our operations and then manufacturing capabilities. So, with that, we are very sure and very confident that the entire management to meet the growing challenges and demand from the OEs, shift in the product lines and also maximize the opportunities that is available in both aftermarket and exports. So, with that, again, I would like to thank Ranga and Kishan and also B&K, Sailesh. Thank you very much and have a great evening.

Sailesh Raja: Thank you, sir.

Moderator:

Thank you. On behalf of Batlivala & Karani Securities India Private Limited that concludes this conference. Thank you for joining us, and you may now disconnect your lines. Thank you.