STERLING TOOLS LIMITED
CIN : L29222DL1979PLC009668

WORKS : 5-A DLF Industrial Estate
Faridabad - 121 003 Haryana India
Tel : 91-129-227 0621 to 25/225 5551 to 53
Fax : 91-129-227 7359
E-mail : sterling@stlfasteners.com
website : stlfasteners.com

By NEAPS	By Listing Centre
National Stock Exchange of India Limited "Exchange Plaza", Bandra–Kurla Complex, Bandra (E) Mumbai-400051	General Manager **BSE Limited** 1st Floor, P. J. Towers Dalal Street Mumbai – 400001
Security Code No.: STERTOOLS	**Security Code No.: 530759**

Date: 07th November 2023

Sub: Transcript of Analyst/ Investor Conference Call dated 1st November, 2023.

Dear Sir/ Madam,

Pursuant to regulation 30 (6) and 46 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, we wish to inform you that a Conference Call for the analyst and investors to discuss the financial and operational performance of the Company for the Second Quarter and half Year ended 30th September, 2023 was held on 1st November, 2023 at 10:30 a.m.

Following Management Attendees attended on behalf of the Company: -

1. Mr. Atul Aggarwal- Whole Time Director
2. Mr. Jaideep Wadhwa- Director
3. Mr. Pankaj Gupta- Group CFO

We further Confirmed that no unpublished price sensitive information was shared/discussed in the meeting / call.

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

This is for your information and records.

Sincerely,

For **Sterling Tools Limited**

STERLING TOOLS LIMITED NEW DELHI

ABHISHEK CHAWLA

Digitally signed by ABHISHEK CHAWLA
DN: c=IN, st=Haryana,
2.5.4.20=a299119baa0999f38488ec74a9814e9f612f049bc10c5ed07f0ab6af5ee520d5,
postalCode=121002,
street=NEARPRESCHOOLSECTOR88KheriKalan113Faridabad,
pseudonym=ab713916ffa746d4a779e97fb3bb4211,
serialNumber=54961b3c3cdc2561b17339b784eff853b5afc959e92186edc533cdfa3557158b,
o=Personal, cn=ABHISHEK CHAWLA
Date: 2023.11.07 13:43:45 +05'30'

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

Encl: As above

REGD. OFFICE : 515, DLF Tower-A,
Jasola District Centre, New Delhi - 110025
Email :csec@stlfasteners.com

“Sterling Tools Limited Q2 and H1 FY '24 Earnings Conference Call”

November 1, 2023

MANAGEMENT: MR. ATUL AGGARWAL — WHOLE-TIME DIRECTOR
MR. JAIDEEP WADHWA — DIRECTOR
MR. PANKAJ GUPTA — GROUP CHIEF FINANCIAL OFFICER

Disclaimer: E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on 1st November 2023 will prevail

Moderator: Ladies and gentlemen, good day and welcome to Sterling Tools Limited Q2 and H1 FY '24 Earnings Conference Call.

This conference call may contain forward-looking statements about the Company, which are based on the beliefs, opinions and expectations of the Company as on date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict.

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

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

Pankaj Gupta: Thank you. Good morning, everyone. On behalf of STL Group, I extend a warm welcome to our quarter two and H1 FY '24 Earning Call.

I am joined on this call by Mr. Atul Aggarwal – our Whole-Time Director; Mr. Jaideep Wadhwa – Director, and SGA, our Investor Relation advisors.

We have uploaded our "Results Presentation" on the Exchanges, and I hope everyone has had a chance to go through the same.

I will now request Mr. Atul Aggarwal for his remarks.

Atul Aggarwal: Good morning everybody. Thank you, Pankaj. I welcome you all to our Q2 and H1 FY '24 Earnings Call.

Let me just dive in directly into some broad industry numbers:

As you guys are probably more informed than us, the industry numbers are looking a little tepid. The industry overall, automotive industry overall grew by 1% and bulk of the growth, even less than 1% came from passenger vehicles which grew about 15% driven by change in buying pattern, preferring more SUVs and bigger vehicles.

The two-wheeler industry has grown pretty much flat. It's grown about 2.2% up. Commercial vehicles are up 3.6%, and farm equipment is negative 8.7%. So, overall industry is probably up only 1%. We, at Sterling Tools, are up close to 4% in revenue in our standalone business and overall, we are up about 23% on a consolidated level.

Talking about electric vehicles, which is where we are focusing a lot of our business, that industry has grown by 37%. It is below our expectations. I think the FAME II subsidy amendments and changes have caused a temporary hiccup in the growth numbers, but our subsidiary at SGEM level, we are up about 111% in revenue in that business.

So, despite the hiccups, I think we are still clocking a good growth in that number, the only concern being the core automotive industry, which, like I said, is up 1%, but we are still outpacing the industry norm growth by 4%. It is not a number we are happy with, but we are making some efforts to grow fast, much faster than the industry is growing right now.

Coming to other updates:

The Company is introducing an STL ESOP plan 2023 wherein the Company shall grant ESOP, subject to regulatory approvals. The ESOP plan is being introduced with a view to provide employees of the Company and its subsidiaries employees with additional incentives based on productivity and performance and thereby motivating them to contribute further to the corporate growth and profitability.

We at Sterling Tools, are committed to deliver sustainable growth and strive towards outpacing industry growth at standalone and consolidated level. Our primary objective is to boost capacity utilization, which in turn will empower the Company to attain operational leverage. We are diligently implementing a three-prong strategy of customer acquisition, higher content per vehicle, and development of new products.

We have uploaded the presentation on requisite portals which was done yesterday. I am sure you had the chance to review those numbers. We are not going to dive into a lot of data in this call, because it becomes a lot of verbal data, which is difficult to follow at times. You have hard numbers with you.

So, may I suggest we dive into the Q&A directly and take it forward from here. Thank you.

Moderator: Thank you very much, sir. We will now begin the question-and-answer session. We will take the first question from the line of Abhishek from Dolat Capital. Please go ahead.

Abhishek: Sir, my first question is on fastener business. As the raw material prices have been high, and it was expected a sharp jump in your fasteners business margin, while margin still is hovering at 13.5% to 14%. So, when can we expect the historical margin of 16% to 17% in our business, sir?

Atul Aggarwal: Abhishek, so just two data points in that. Yes steel is, I would say, soft. It's not soft, but at the same time it still is not as volatile as it was say 6 months to 12 months ago. So, that's a good sign for our business. There is less volatility. Our raw material content is currently at 42%-43%. Yes, you are right. Historically, it is at 39%-40%, and hopefully, we get there in times to come.

But I think our historical margin was 16%-17%, and we have raised issue earlier as well. One, there is that customers have compensated us for the steel price increases, but we haven't got full compensation for the conversion or the value addition we do in our shop floors. So, we have not been compensated for other inflationary pressures on petroleum products, chemicals, energy, people etc. That's putting pressure on margin structures.

Having said that, our margins on a standalone basis in our fasteners business have improved. I think, on a half-yearly basis, we are at 14.4%, which was for the quarters at 14.6 vis-à-vis the Q1 at 14.1%. So, there is a margin improving happening in our EBITDA margins, and we hope to see that improvement continuing in third and the fourth quarter as well. It is also on the function of the accounts that as the prices of raw material are softening, we still have some old inventories at higher price points in our system which will get liquidated over time and the new inventories will start getting activated, which are already getting activated, which will help us improve our margin structures.

So, we are hoping that our margins in the coming second half will be close to 15%, giving us an overall margin in our fasteners business close to 15% or 14.75% and 14.8%. That's our estimation on the margins for that business.

Abhishek: And a second in MCU business, despite the fall in the revenue, your margin remain strong at around 7%. So, how is the outlook of the business for this? And what is the outlook of margin as well?

Atul Aggarwal: I am going to let Jaideep take questions on the EV side. Jaideep, over to you.

Jaideep Wadhwa: So, in our SGEM subsidiary we have indicated that we believe that our margin percentage should be between 7% and 9%. And because of the fact that we are not a very asset heavy business, we are an asset light business, we are a high working capital business. So, volume leverage does not give us such a big impact on our margins.

So, we have said this before, and I will reiterate that we believe that the steady state margin for this business will be about 7% to 9%, unless we do further investments for putting up SMT lines et cetera and bringing some processes in house, which is not something which is in the plan for this year.

Abhishek: So, in a non-fastener business, you had guided around double revenue in FY '24. In the first half, revenue is muted. So, still you intact your guidance given the slowdown in the E two wheelers volume post the subsidy reduction?

Jaideep Wadhwa: Yes. So, I will like to put in a couple of points here. Definitely, the sales of E two wheelers have not been as per our expectations, and government policy changes have had a big impact on this. And so there is, we do see that hitting, doubling our growth or doubling our numbers from last year is going to be a big challenge. We still believe that we will have very, very strong growth year-on-year, but it will not be 2x as we had projected at the start of the year.

I think another interesting data point which was there in today's newspapers is that the top four companies in the electric two-wheeler space now control 90% of the market. That means Ola, Ather, TVS and Bajaj now have 90% market share. You know, for us the good news is that we have at least one of those as our customers. The bad news is that some of our other customers that we had a lot of expectations from are not doing so well against the big four. So, yes, we will have to see how this maps out over the coming months.

The other thing I would mention is that we continue to improve our position in the three-wheeler and LCV space, and that should also continue to add to our revenue. So, I don't think we will be able to get to 2x, but I do hope that we will be able to put in a strong performance in terms of revenue growth.

Abhishek: So, as you mentioned that there the top four players have the 90% market share. So, in terms of the incumbent like TVS and Bajaj, how is your market share? Or are you looking to start supplying them?

Jaideep Wadhwa: As I mentioned, we are in touch and we have had discussions with nearly all of the auto companies at one stage or another, but Bajaj and TVS, those two companies specifically are not our customers as of today.

Abhishek: And my last question on the LCV segment, you are going to start supplying MCUs even in the three wheelers, and most of the companies are coming with the three-wheelers, EV three-wheelers and LCVs as well. So, how is the progress now in that part?

Jaideep Wadhwa: So, I think the big event for the industry was on 11^{th} September when Ashok Leyland and Switch Mobility showcased their new vehicles, and they launched the Dost and the Bada Dost. And I think that's not only important from the fact that these two products were launched, but it's important because it galvanizes everyone else in the industry to speed up their product launches. So, we see a lot more activity from the other companies also to bring out their products because I think that, obviously, when a very strong OE like Ashok Leyland/Switch launches a product, then other companies would not want to be left behind and will work hard to. So, we are very hopeful for, we have very big hopes from the LCV business in FY '25.

Moderator: Thank you. We will take the next question from the line of CA Nihar Shah from Crown Capital. Please go ahead.

CA Nihar Shah: I have just two small questions. One is that we are planning capacity expansion for SGEM, I guess. So, what will be the CAPEX coming in H2? And what was the CAPEX we did in H1 this year?

Jaideep Wadhwa: So, our CAPEX plan for this year was 28 crores. And for various reasons the first half has been quite light. It's been about 5 crores, but I still believe that we are on track. And you know, we will see our expansion coming through within this year. So, I do expect to be able to invest the balance 23 before 31st March.

So, to summarize that for you, the CAPEX plan was 28 crores as per current expectations. We expect to complete that CAPEX plan before 31st March.

CA Nihar Shah: And one small other question is, like, it's relating to the top line. Our top line saw a decline on quarter-on-quarter basis. So, how are we planning to grow from here? Like, what will be the drivers for our growth in H2 and coming FY '25-'26?

Jaideep Wadhwa: So, I mean, I think there are obviously a couple of reasons for the decline from H1, so from quarter 1 to quarter 2. One, obviously being the change in policy now, which means that a lot of our customers, a lot of the OEs have had to reject their product strategy because the incentive, the FAME incentive was based on the size of the battery pack. What these companies are doing is to reduce the size of the battery pack, which is also the largest cost component in a vehicle to minimize, to make the product more cost effective.

So, yes, there is a timing lag that we can see, or we are seeing a temporary dip. But it's not, I mean, to me, to my mind it's temporary for sure. It's not permanent. It's just a matter of realignment of product strategies by our end, by our customers.

The other thing to keep in mind is that the numbers in May were totally unrealistic. There was a lot of buying that happened in May driven entirely by the fact that the FAME subsidy was being eliminated.

So, if you take out the impact, and if I remember correctly, the May was about 40,000 units approximately, that number higher than the average. So, if you take 40,000 units and spread that out over a quarter, you will see that quarter 2 for the industry as a whole was not hugely off. So, I think the industry will weather this temporary setback. And as far as SGEM is concerned, we have talked about our strategy very extensively that it's not only about the E two-wheeler but also the three-wheelers and the LCVs that we are counting on for our future growth.

Moderator: And one last question is like do we have any major orders under our subsidiary SGEM? Like we have 16 contracts, if I am not mistaken. Have we gotten any other contract? And what will be the timeline for completing this contract?

Jaideep Wadhwa: So, look we have a lot of contracts. The challenge is that if our customers don't if their vehicles' launches are delayed or their volumes are not in line with what they expected the contract is not we can't. It doesn't help that much. So, we look at it more from the aspect of the fact that we are there, we are 100% of the business, and as these companies ramp up their production that we will continue to get it.

I think maybe you are looking for an indication of where we are heading. I think in the first question I mentioned that we feel that we will do well overall we are at 130 crores approximately in the first half of this year. That takes us to 260 for the full year if we can maintain this run rate. I believe that we will maintain and improve on this run rate for sure.

Moderator: Thank you. We will take the next question from the line of Kevin Shah from Finavenue Growth Fund. Please go ahead.

Kevin Shah: I just like to know the current capacity utilization levels in the standalone business and also in the MCU segment as well.

Atul Aggarwal: Let me talk about the standalone business. I think we are currently at a run rate of maybe, let's say, 5% growth, we probably clock, we clocked 600 crores of revenue last year. On a full utilization basis, we should probably talk a revenue of between 800 to 850 crores in all our capacities put together based on our current product mix and current price points. So, that gives you a sense how much headroom we have for growth with the current CAPEX in place.

Jaideep Wadhwa: In our SGEM subsidiary, Sterling Gtake subsidiary, we have already ramped up the capacity to about 1,500 units per day, and assuming 90% utilization or 90% being the optimal we actually hit that number very often. But if you looked at it over a period of a month or so, our capacity utilization would be about 70%.

But this business, you know the fluctuations in the market. So, we track it daily because that's how it tracks. But I mean, I think to answer your question directly, we are averaging about 70% on current capacity and then we hope to expand that capacity in the coming months.

Kevin Shah: And just on the back of the point of capacity expansion in the MCU business, we were looking to expand our capacity to about 6 lakh units. So, is that expansion plan still as per schedule? Like is it on track as per our thought process?

Jaideep Wadhwa: Yes, it is. And I think I had also explained that in the last question that in terms of our CAPEX, we expect to spend to utilize the entire budget of 28 crores by the 31st March.

Kevin Shah: And just one last question. In the previous call, you had mentioned that you will be finalizing the terms of your agreement with Gtake, like you will be meeting them. So, is there any update on that? Are those terms crystallized? Are we through with that?

Jaideep Wadhwa: So, no the meeting has not happened yet. The meeting is now scheduled for later this month. And I am very confident that we will be able to announce the finalization of this definitely in the next call or earlier.

Kevin Shah: And just one last question, if I may. Do you expect the second half of this year to be slightly more positive driven by like the festive seasons coming up and just like a general bounce back in demand, like even in the two-wheeler segment for the MCU business and even for our fasteners business, if you could just throw some light on that, sir?

Atul Aggarwal: Can you repeat that question again? Festive demand in the last quarter.

Kevin Shah: Do you expect the second half of this to have like a more positive response in terms of sales in comparison to the first half of this financial year for both the businesses?

Atul Aggarwal: So, the festive sales are pretty good, but you also got to keep in mind that an upsurge happens in production level with OEMs a month before the festive season starts, which is probably September, October this year. So, the production numbers are pretty strong all around.

Now having said that, the month of December is pretty slow for various reasons. One, there is a lot of demand which has been satisfied during the festive period. B, a lot of the OEMs going for a shutdown mode for short periods, some as small as 5 days, some as long as 14 days for maintenance and an annual shutdown, which from our perspective, from a consumption perspective, or production perspective, slows things down. But that's an annual cycle which happens every year, and it's been happening for a while.

Jaideep Wadhwa: I think Atul has addressed the macro industry trend. But I will just add to that that in the EV space, the other thing that we are looking at to help boost our numbers is new product launches by our customers.

Moderator: Thank you. We will take the next question from the line of Dushyant Mishra from SageOne. Please go ahead.

Dushyant Mishra: I just had a quick question. Jaideep, you've alluded to the fact that it's better to work with a basket of sort of EV manufacturers in the past so that whoever the consolidation eventually leads to, you still have force in that race. But it seems like 50% of the leaders today we have absolutely no exposure to. Is there a strategy to change that? And despite what you are talking about with the sort of customers' new product launches, is there anything at our end in terms of new product innovation outside of the MCU space within mobility obviously, that we would want to ramp up to increase our wallet share within them?

Jaideep Wadhwa: So, I would just like to clarify my statement from earlier. When we talk about a basket of customers, we are talking about customers from the established OEs or the incumbents and as well as working with certain startups because we do believe that some of the startups will have the ability, at least potential to disrupt the industry in some way or shape or form.

So, our idea when I talk about that it's about saying that we try and work with as many companies as possible. We are constantly in touch with all of the OEs and trying to figure out how best we can serve their requirements. There is a constantly changing dynamic around this as new models are launched, new strategies are developed etc. And so we continue to look at customer diversification and having a broad customer base as a key element of our strategy.

Having said that it's unlikely that we will ever have all of the customers, all of the companies as our customers. And if you look at the auto industry in India and globally, no Tier-1 really do that. Tier-1 typically have have some level of concentration with some OEs. So, I think, I hope that addresses your question there.

Regarding our models, we continue to launch new models. So, when we continue to bring new products into play, and I also mention that before the end of this year, we do hope to have some additional products that we will be launching. So, we in the motor control, in our subsidiary, in our Sterling Gtake subsidiary, we hope to have greater share in the motor control unit business or the MCU business, and we also hope to have greater share of wallet overall by introducing new products.

Dushyant Mishra: If I could just go back to that first question, what is the trigger for the current, like, for example, the guys that we don't work with who make up a lion share of the EVs out there? What is the trigger for them to introduce or use us in some of their other models that they launch? What is that business development like? What do you approach them with as a proposition relative to their current suppliers?

Jaideep Wadhwa: Well, I just, if I may, can I just say that we do work with a lion share of the industry. So, in the two-wheeler space, we have over 40% market share. So, I mean, I just like to correct that. In terms of the trigger, it's as of now the industry still does not have dual sourcing as a strategy. It's typically a single source strategy.

So, our trigger typically is when a Company looks at launching a new model, let's say, and I will just talk about a customer that currently doesn't buy from us today. So, we would want to pitch for new models as they launch, and that process starts at least a year, possibly more in advance of the launch of the vehicle. And so we start working with their engineering department to do trials. If we get selected in that phase of initial trials, then we have to work very closely with their teams on vehicle integration and so on and so forth.

But today, the trigger is typically when a customer says I need to have a new model. Recently you have seen and I also mentioned this earlier, that instead of having 4 kilowatt-hour battery packs, the companies are now looking at smaller battery packs in the 2 and 3 kilowatt-hour range. Therefore, they need smaller motors and smaller motor control units because they don't want to draw that much current from the battery packs. So, as they make their product strategy, then that's when we start working. Did I address your question?

Dushyant Mishra: That did. And one last thing. So, is there something on the anvil right now? Because you say, you have about a year's worth of visibility in product launches. Is there something in the next year that's giving you the confidence of the growth that you are talking about or is it mostly on the current customers that you are working with?

Jaideep Wadhwa: So, we have kind of resisted the whole notion of saying talking about an order book because we find that to be, as I explained a little earlier, that it's a little nebulous because of the fact that we don't know exactly how the launches will go and what the success of the launch will be. But what we do track is what is the number of customers that we have who have given us a contract who have sent their vehicles into homologation with our product. That number today is 16. The number of vehicles within that, I think, will be closer to about 120.

Now, not all of those are in high production volume. Some of them are still in homologation. Some are still some are doing trial marketing in one city or two cities or something like that. So, there is that complete that those 16 contracts that we keep talking about is what our pipeline is. In addition to that, we have, I am going to say, another 10.

So, let me back off. So, the numbers that I track are 16 active customer contracts, 40 engagements with customers. That means there are 40 other customers that we are working with. And of the 40 that we are working with, 10 are in an advanced stage where we have got a lot of interactions where we feel we are in the right ballpark in terms of product performance and pricing etc. So, we don't have the contracts, but we think we are definitely amongst the short list. So, that's the pipeline that we track and that's what gives us the confidence for growth.

Dushyant Mishra: And my last question is on the fasteners business. We are doing about a 50 crores per month sort of run rate. How many months of high-cost inventory are we still sitting on?

Atul Aggarwal: I think on an average, if you see our inventory carrying days, it is about 120. So, that gives you a sense as to where we are on that high-cost inventory.

Dushyant Mishra: Probably another quarter of lower margin run rate.

Atul Aggarwal: Since we carry a lot of grades of products, lot of variety of SKUs, so some have already been consumed. Some are not. So, there is no thumb rule to it, but I think on a full cycle, it takes about 3 to 4 months to exhaust that.

Moderator: Thank you. We will take the next question from the line of Khush Gosrani from InCred Asset Management. Please go ahead.

Khush Gosrani: Sir, I am new to your Company in terms of understanding. So, if you could help me cover my knowledge gap? In the MCU business as of now, how is the position with the partner? Have they invested or are we just buying from them right now?

Jaideep Wadhwa: So, in our Sterling Gtake subsidiary, we do not have investment from Gtake. That was, as you are aware, the government has restrictions on investments from neighboring countries. So, the agreement has been more into a technical agreement, which I think we just discussed a little while earlier. We are in the process of fine-tuning that, fine-tuning the arrangements, and we will be able to sign that within this month.

Khush Gosrani: And if that happens, then there would be no need to pay royalties to them per se.

Jaideep Wadhwa: And I think what we said is that our costing will not change. So, our gross margin will not change. So, that what we see as our sustainable margin will not be impacted by our technology agreement.

Khush Gosrani: And then we would have to pay minority interest that is when we report numbers, right? Am I understanding, correct?

Atul Aggarwal: I am not sure I understand your question. Could you repeat that, please?

Khush Gosrani: The subsidiary profits would be shared with Gtake as well, right, once they acquire?

Atul Aggarwal: No, no. There is no because they don't have a minority investment, right.

Khush Gosrani: Once the investment happens, whenever it happens.

JAideep Wadhwa: I think other than the political leadership of this country, I think no one else knows when that will happen. So, until there is clarity there, we have no way of knowing it will happen. And I mean, the question now is that considering we have been working with them now for over 2 years on this other arrangement which we keep adapting as for the things, we feel that I am not sure that there is value for us to have an investment.

Moderator: Thank you. We will take the next question from the line of Sonal Gupta from HSBC Mutual Fund. Please go ahead.

Sonal Gupta: Atul, I just wanted to understand right, like, you mentioned that our capacity on the fasteners side is to get to a turnover of about 800-850 crores, and the industry is sort of sluggish. So, just trying to understand that. I mean, is there something else that we can do in terms of being able to accelerate the growth on the fasteners business? I think couple of years back, we were doing a good amount of exports as well. So, is that an option? Just trying to understand.

Atul Aggarwal: Sonal, so, a good question. I think our objective is to grow faster than the industry. I think we have some opportunities in our customer acquisition strategy, in our product acquisition strategy which we are working on, and which are already bearing results. Hopefully, they will show some positive impact in FY '25.

So, if you see our customer portfolio, if you talk about passenger vehicles, we work very closely with Maruti Suzuki and also with Mahindra Automotive Division. One large customer which we have just activated this year after years of work with them is the Hyundai Kia Group, and they are the second largest manufacturer in India after Maruti Suzuki. They have become a very dominant force in Indian passenger vehicle space. We are hopeful that we convert that customer to much larger revenues in years going forward. So, despite the fact industry may not grow, we hope to grow faster in the passenger vehicle segment.

Also, in our two-wheeler space, we work very closely with Honda and Suzuki Motorcycles. Hero, we reactivated last year. We hope to grow faster than the industry in that segment as well. So, we have a couple of strategies we are working on in terms of customer acquisition and product acquisition, which will help us grow faster than the industry. We believe the industry will not grow as fast as it had in the last two, three years. It's kind of cyclical, but we certainly hope that, we hope to grow much faster than that.

Sonal Gupta: And just on the export front, I mean, like is that an option or that was more opportunistic in nature?

Atul Aggarwal: No, I think that's an option. We are currently in negotiation with some large tier-1 customers on that because on export cycles, these takes, this work takes years of work. The customers we were working for in Europe pre-COVID, somehow they had a turbulent time. They came under financial stress, and they were not able to continue their business model at the higher volume we were working at. So, they have rationalized their businesses, but we at the same time are looking at acquiring more customers. But having said that, that is definitely a weak area in our customer portfolio which we are working on, but the visibility is still very slow on that.

Sonal Gupta: And just my last question. On the EV side, I mean, when are we anticipating really the pickup on the three-wheelers and LCV side, right, like any timeframe?

Jaideep Wadhwa: This is Jaideep. So, in three-wheelers we already do decent volumes. I am just going to see if I can find. So, three-wheelers is something we already, I think we have got five customers which are on active production and as three-wheelers pick up, we will definitely see our numbers pick up. On the LCVs, we expect the actual product launches from our customers to start in, let's say, the first quarter of calendar '24 or first calendar of FY '25. So, in those two quarters, that's when they will pick up.

Just to, I don't want to bore you with details, but the three-wheeler industry was one that it is one, and I won't say was. It is one that we expected to see the highest penetration of electrification because of the payback or the total cost of ownership that is there. It's interesting that there are certain interesting twists that are there.

For instance, people rent the passenger three-wheelers, and when they rent them, they drive them 24 hours. So, a person drives it, then his brother drives it or his friend drives it. So, he drives it 12 hours and his friend drive it 12 hours. Battery has no time for charging. So, the industry is adapting to that.

So, I think now the numbers are picking up. They are doing better. I was very intrigued to see recently the charging stations that the government has set up actually being used because for the longest time, there has been very little utilization on there, and the vehicles that were standing there were three wheelers. So, I think the three-wheeler industry is now really right for electrification, and we will do very well with that.

Moderator: Thank you. The next question is from the line of Priyank Parekh from Abakkus Asset Managers LLP. Please go ahead.

Priyank Parekh: So, just wanted to understand the competitive intensity of this MCU business. So, how fragmented this business is? And how like OEMs approach this business? Like, are they having in-house manufacturing also apart from the external suppliers or how it is?

Jaideep Wadhwa: So, it's an evolving landscape. Right now, I can kind of go down the list of the companies and you will see difference. So, TVS currently use a Bosch motor control unit or Bosch Powertrain solutions. Bajaj has one which is manufactured by one of their strong tier-1 for them. Ather makes in house and Ola buys from us as an example of the four. So, the four big boys have all four different strategies around this.

In the three-wheeler space, again, you have got the same thing. You have got a couple who make in house that we already been probably the most notable in-house producer. Most of the other companies are buying from outside. In the LCV space or in the passenger vehicle space, no one is making. Now everyone is buying from outside.

When you talk about competitive intensity, there are numerous companies that are out there. The question is there are only a handful that are actually being able to produce any volumes and that have the ecosystem to be able to ramp up supplies and meet customer requirements.

So, if you go through again the two-wheeler, three-wheeler and four-wheeler both light commercial vehicle and passenger vehicle, if you add heavy commercial vehicle in that, the total number of companies that you will come up with would be, I will say, about 10 or maybe less than 10 supplying the entire requirement or bulk of the requirement. There may be 20 other companies out there who are doing few hundreds a month. So, I think there is a preference from the industry on certain brands and certain products, but it's a constantly evolving space.

Priyank Parekh: And another question is, is there any kind of synergy between our fasteners business and the MCU business? Of course, we are catering to a kind of similar industry, but apart from that, at a technical level, is there any kind of synergy between these two businesses?

Jaideep Wadhwa: So, at the technical level, you could find something which is further apart, and that's why we keep the businesses absolutely separate, separate facility separate management. You know, there is absolutely no interplay between the two businesses on that technical level, but let's be honest. The most difficult thing about any business is getting customers that that is the most difficult part about business. It's never about producing something or even technology. Those things are manageable. Getting customers is really tough.

So, the fact that we had the foundation of Sterling Tools, so when we made a call to a customer, they knew who Sterling was. There was a certain credibility that went with the name, and we were able to get the businesses because the customers said, well, they were willing to talk to us.

I can tell you that there will be startups with good products that won't be able to get an appointment with an OEM. So, the short answer is the synergy is on the customer side, but that's the most important synergy.

Moderator: Thank you. We will take the next question from the line of Saurabh from Multi-Act. Please go ahead.

Rahul Picha: This is Rahul Picha from Multi-Act. So, I have two questions. First is on Ola second generation platform. What we have read is that they have designed an integrated motor and motor control unit. So, wanted to just understand from you whether our arrangements with them change on the second generation or our business stays intact or is there any change in our arrangements?

Jaideep Wadhwa: Look, let me just say we are 100% of Ola business right now. I cannot get into individual models and what goes into that. That would be really spreading line on confidentiality, but we are 100% as of today.

Rahul Picha: So, our perspective was to just understand from a risk point of view because we are largely dependent on one customer in the electric vehicle segment right now.

Jaideep Wadhwa: No, I would beg to disagree. We are not large, I mean, Ola is our biggest customer, but we are not only dependent on them. I think Ola has talked about manufacturing MCUs in-house. I think in the long term, we see that it's going to be very difficult for companies to cater to the kind of model that they want to do with in-house production.

As of today, Ola itself has S1. So, they have the Ola S1, the S1 Pro, the S1 Air, S1 X, S1 X plus, right? That's six models or five models that they have. For them to make five different MCUs, five different motors become very challenging also. And the same thing is true now, is going to be true of everyone else.

Ather for today, example today has essentially the 450 platform. But when they launch new models, will they continue to develop? Because if they continue to develop all the electronics and all of the components themselves, I think that will really slow down the pace. So, we think that volumes will continue to increase and while, yes, there has been talk of Ola, let me put it this way. Ola has the capability. They are a very strong technology company. They have the capability to make the MCU. The question is, is that their priority? And you have seen the videos etc. But the question is, is that the priority or is their priority launching vehicles?

Rahul Picha: So, my second question was that I was going through a news report in which it was mentioned that now we have signed a similar bulk supply contract deal with another two-wheeler with OEM like we have with Ola. So, can you talk about that?

Jaideep Wadhwa: We have five different contracts from two-wheeler companies, but each one has different volumes and ramping up in a different way.

Rahul Picha: So, sir, what the news report mentioned was that this, perhaps this two-wheeler OEM is a large player in the industry. So, just wanted some update on that because right now other than Ola, the players that we are working with are not very significant in terms of volume?

Jaideep Wadhwa: Look, so, I think, when we try and put resources behind and the biggest constraint for us is engineering resources always. When we put engineering resources into a program, we obviously are doing that basis an assessment of the potential success of the customer. So, the customers that we have are there is Ola and one other customer are large and have reasonable and have large or reasonable volumes. The other three are startups where we believe that the product is good and that they will do well, but the volumes are not as significant.

Moderator: Thank you. We will take the next question from the line of Kartikeyan from Suyash Advisor. Please go ahead.

Kartikeyan: Just continuing on the previous topic, previous question that was asked, just trying to understand, in terms of resizing of the motor and motor control units, how much of the help comes directly from Gtake and how much of it is being done in house? And how easily are you able to do this? Is resizing a substantial component?

Jaideep Wadhwa: So, I will answer this in two ways. The resizing basically started as soon as the government unexpectedly changed the FAME guidelines, but we actually had been anticipating just from hearing what the market needs were. We have actually been working on that from a little bit earlier than that, and a lot of the development that we did all of the customer, voice of customer and management around getting the specs right. A lot of the designed work was done in China for the current models that we are talking about. We have also developed our own capability, in-house capability to design motor control units between our engineering center in Delhi and Bangalore and future models will be designed in India. I hope that answers your question.

Kartikeyan: Yes. I just wanted to understand if you had to give me some context, by how much does the size shrink, for example? When I use the word size, I mean it in a very broad context. It could be in terms of value. It could be in terms of other.

Jaideep Wadhwa: I will just throw out a number which I hope covers size, cost, price, all of that broadly about a third. So basically, we are downsizing the product by power rating, size, everything, by about a third.

Kartikeyan: About a third, okay. Third would be proportional, I am assuming, right? It wouldn't be different from a price point of view.

Jaideep Wadhwa: That's something very difficult to get into. See, I think a third would kind of cover everything that we are talking about. That's a good round number to work with.

Kartikeyan: And the other thing is with regard to revenue mix across customer categories. So, last we spoke, you talked about how half of your revenues come from non-two-wheelers, non, shall I say Ola. From FY '25 onwards, do you believe that that's possible now or do you believe the timelines can be stretched somewhat?

Jaideep Wadhwa: No, I think the timelines would change a little bit because various, the industry is evolving. Models, the launches are not necessarily going as planned etc. So, no, I don't think we will be at 50% in FY '25.

Moderator: Thank you. We will take the next question from the line of Ruchi Gupta from Value Creed Consultants. Please go ahead.

Ruchi Gupta: Sir, what will be our steady-state ROCE for both of our businesses?

Jaideep Wadhwa: So, we think it's going to be 15% to 20%.

Atul Aggarwal: On a consolidated level.

Jaideep Wadhwa: On a consolidated level with fasteners being lower and our subsidiary being higher.

Ruchi Gupta: My second question is what was the CAPEX we have done over the last two, three years for both of our businesses? And what is the CAPEX plan for next two years?

Jaideep Wadhwa: I got to tell you the second question is very difficult to answer because we have got so many moving pieces that I really, I mean, I think maybe it will be another three months before we can lock down what the CAPEX plan is for the next couple of years. Go ahead, Atul.

Atul Aggarwal: So, the CAPEX plan for this year on a consolidate level is 50 crores plus. We are on track to do that investment this year. We are working on the plan FY '25 as we speak. But like I said, there is so many things which are dynamic and moving. The bulk of the investments will come in our new businesses. On the standalone business, it's probably going to be maintenance CAPEX, but we will keep you posted once we have the final number for the year FY '25-FY '26.

Moderator: Thank you. We will take the next question from the line of CA Nihar Shah from Crown Capital. Please go ahead.

CA Nihar Shah: I was just saying I heard that we have partnered with Hyundai Kia Group and looking forward to growing faster than the industry. So, can you put a number on the console top line, like what number can we achieve, like in case of percentages we will also do, like a ballpark number for '25-'26?

Atul Aggarwal: Nihar, it's very early for me to give you guidance on that. These are numbers which are very fluid right now depending on and they keep on getting complemented or they keep on increasing on depending on the products we keep on acquiring from the customer. So, it's early days for me to give you a number as to what we are looking at in FY '25-'26.

CA Nihar Shah: So, can we have a guidance for H2 at least, like H2 guidance for the top line?

Atul Aggarwal: I think we maintain the run rate we have right now. Maybe marginally better than that.

CA Nihar Shah: And one small question on EBITDA margins. Like, we said on the last Con Call, it would be around 15% plus, but right now we are sitting on 12.5% on consol basis. So, are we in line to achieve the 15% margin or has there been any change?

Atul Aggarwal: Nihar, one correction. I think that the 12.5% margin is on the consolidated level. We never said that the consolidated numbers would go up 15%. We talked about the standalone business, and we are still very hopeful that we will be very close to that. If the industry was growing faster than it is currently, then I would have given you a little more confident guidance on that particular number, but that's where we are right now on standalone and on a consolidated level.

Moderator: Thank you. Ladies and gentlemen, as there are no further questions from the participants, I now hand the conference over to Mr. Atul Aggarwal for closing comments. Over to you, sir.

Atul Aggarwal: Thank you everybody for being patient and taking your time to spend your morning with us today. We will see you again once we announce the third quarter result, and hopefully, some of you will reach out for any clarificatory questions or queries you may have post our call today, please reach out to Pankaj or me or Jaideep. We will hopefully address them for you. Once again, all the best. Festival greetings. Happy holidays, and I wish you good health and prosperity in the coming Diwali days.

Moderator: Thank you, members of the Management. Ladies and gentlemen, on behalf of Sterling Tools Limited, that concludes this conference. We thank you for joining us, and you may now disconnect your lines. Thank you.