SONA BLW Precision Forgings Ltd. (Sona Comstar)

Q3 FY23 Earnings Conference Call Transcript

January 24, 2023

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

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

Moderator: Ladies and Gentlemen, good day, and welcome to Sona Comstar's Q3FY23 Earnings call. Please note all participant lines are in the listen-only mode as of now. There will be an opportunity for you to ask questions after the presentation concludes.

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

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

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

Now I'll hand over the floor to Mr Kapil Singh, Head of Consumer and Digital Commerce Research India and Lead Auto Analyst at Nomura. Kapil, please go ahead. Thank you.

Kapil Singh: **Slide 3:**

Hi, Good day everyone. To take us through the Q3FY23 results. We have Mr. Vivek Vikram Singh (MD and Group CEO), Mr. Kiran Manohar Deshmukh (Group CTO), Mr. Sat Mohan Gupta (CEO, Motor Business), Mr. Vikram Verma (CEO, Driveline Business), Mr. Rohit Nanda (Group CFO), Mr. Amit Mishra, (Head Investor Relations) and Mr. Pratik Sachan (DGM Corporate Strategy & IR).

I will now hand over the call to Vivek for his opening remarks and the presentation. Over to you, Vivek.

Vivek Vikram Singh: Thank you, Kapil, and welcome everyone to the earnings call of what has been our best quarter ever in almost every aspect of our business.

But first, as is our policy when talking to shareholders, we will begin with the challenges. Due to the new battery standards, most of our EV 2 Wheeler customers had to get their vehicles homologated again, which meant we saw very little production in October and November, which has negatively affected Q3's traction motor sales. The production run rate has normalized since December, and things are back on track, and we are back to our old run rate. On the cost side, as you would have seen in other companies and industries, raw material prices have continued to come down. But our largest purchase commodity, which is alloy steel, remains at elevated prices. To be perfectly frank, for the first time in almost four quarters, there are very little challenges to talk about, and the lead indicators are frankly good.

So I'll move on quickly to the positives. So in financial terms, we've achieved our highest revenue, highest EBITDA and highest net profit. We also won the biggest single new order in our history which is an EV driveline program which is a big step for us in both business development terms as well as technology because this is also a new product for us called an electronically locking differential or EDL. This win demonstrates our ability to keep adding new and higher-value products for our customers and hence new revenue streams with higher per-unit prices for ourselves. We also signed our first acquisition since 2019 with NOVELIC in this quarter, and we are adding a third pillar to our business which is sensors and software. We hope that we can close this deal by the end of this quarter, the current one and from Q1FY24 onwards, we should see that also for the adding to our numbers. Last, but not the least, on the ESG front, we released our first sustainability report, and I'd encourage all of you to please go check it out. We've taken quite ambitious targets for ourselves in the company.

Now before I go onto the numbers - now we don't consider ourselves to be macro experts actually, probably the opposite, but we inevitably get asked questions about the markets we serve. So to kind of preempt that here are a few highlights: Q3 was positive on a year-on-year basis for the US market, and things continue looking good. The Indian market did well across all the three categories that we serve - passenger vehicle, commercial vehicle and off-highway - and also continues to be strong. Asia is quite volatile with the Covid situation in China, and we have to wait and watch before we can take a medium-term call. Q3 was also positive for a change on a YOY basis for Europe light vehicles, and we believe that after five quarters of weakness going forward, the Europe market appears to be slowly turning around.

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So to the numbers, we've had good sequential growth and more importantly on a YOY basis, our revenues grew by 39%, while EBITDA and net profit have grown by 43% and 45% respectively. This is because of consistent margin improvement. BEV revenue, in absolute terms, grew by 29% to its highest-ever number of over 173 crores. While the BEV revenue share for the quarter was 26%.

Now, this is the first time we've actually crossed 100 crores in quarterly net profit on an organic basis. And please forgive me for a bit of nostalgia, but I still remember when we crossed 10 crore PAT for the first time, it was Q4 of FY2016. That was my first year at Sona. Obviously, for Vikram and Mr. Deshmukh, it was many many years, but my first year and to have grown over quarterly profits by about 10 times in less than seven years is a really proud and meaningful milestone for all of us here in the team.

Slide 5:

Coming to nine-month figures, Revenue, EBITDA and PAT are up by 22%, 17% and 18% respectively. I'd also like to point out that due to a strong Q3, our EBITDA and PAT margins have both returned to a usual long range of 25-27% and 14-16%. I think, given how the product mix and geography mix looks like going forward for the next, I'd say at least 4-5 quarters, I think, it's safe to say that we can sustain the new 27% and 15% margin ranges.

Now since the calendar year 2022 has ended we also got our global market shares calculated by Ricardo. So again, first, not-so-good news. I'll start by saying that global market share for starter motors has declined from 4.6 to 4.1%. Now, this is not because we lost any business, but mainly because the highest starter motor market shares are in Europe followed by the US, both of these declined as a percentage of the world auto market. While Asia, where we had lower penetration, grew its share in CY22. Hopefully, as both Europe and the US look like they are picking up, we should see recovery on this front in calendar year 23.

Our market share in differential gears, on the other hand, continues to grow rapidly and has reached 7.2% of global volumes. Despite this relative shift of the US and Europe going down, this is what underlines our ability to grow on the strength of new orders alone.

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Coming to EV, our battery electric vehicle revenue share has increased from 23% in nine months FY22 to 25% and BEV revenue in absolute terms has grown by 31% to over Rs. 4.6 billion in the first nine months of the year. We continue to build our own EV order book, and in Q3 we have added four new EV programs and two new EV customers.

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So there are two new driveline program editions, both for existing customers and targeted at the North American market, on which I'll elaborate on the next slide. There are also two new motor program wins, both for electric two-wheeler makers in India and while one is for a new entrant, the other is for a currently top 15 E-scooter maker.

With this, we have now reached 41 EV programs across 25 different customers. Exactly a year ago this metric was 24, across 14 customers, which means we have added 17 new programs and 11 new customers in just 12 months. This displays our growing EV presence globally and the pace at which we are growing. In fact, we did an internal analysis based on a JPMorgan report and found that in the next three years, 98 new EV Car models are going to be launched in the US, Europe and India and our driveline products will be present in 21 of them.

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Now, coming to our proudest and perhaps the single most significant achievement this quarter. We have won a new order for electronically locking differential assemblies on EDLs, which is the single largest new order win in the history of our company. This is for an existing EV customer and is our most advanced and highest-value driveline product. If you happened to visit us at the Auto Expo, you may have seen this on display. This win has come after a lot of effort, a lot of joint hard work between our customers' and our own engineering teams.

In addition, we've also won another differential assembly program for electric cars for the US market from a different existing customer. And what is remarkable in both is that both programs must start in less than 12 months. It shows two things: one the urgency of people to launch EV models and also how much our customers rely on our agility in going from design to production quickly.

Slide 11:

Like we are showing agility in product development we are trying to also show agility in dynamically changing our strategic approach. So we had shown this about a year and a half ago when we did our first call, we have changed this a little to cover both passenger and commercial vehicle applications. Now in the driveline which is on the left-hand side, you can see that we already cover most segments on both sides. And this is the point I want to make because oftentimes we get asked on things like content per vehicle and how much is the differential assembly. Well, the thing is it depends on the application and the torque. So differential assembly value alone per vehicle can range from $30 at the bottom to almost $300 at the top on the passenger side. And on the commercial vehicle side, it can range from just about $20 to almost $900 going to the top of the range. So our strategy is to cover the whole spectrum for sure but focus more on maximizing our penetration in the top three segments of both PV and CV. PV we are already fairly significant, I think in CV also we intend to increase our penetration while also being present in and benefiting from the higher volumes of the lower power side.

In motors, on the other hand, we cover only the lower end of the power range today, which is high volume but medium margin. I mean we produced 120,000 traction motors in 2022 and given that only around 630,000 e-2-wheelers were sold in India in that time, that should comfortably put us among the top players if not the single largest player in India. But that's not the end goal for us, it never was, that is only the beginning, and we intend to cover all vehicle segments. The focus in the next three years at least will be on light passenger and light commercial vehicles and electric buses, that's going to be our focus. And in time we hope to advance to larger passenger vehicles and commercial vehicles, but not in this current phase. So that's the strategy on electrification.

Slide 13:

With that we come to our net order book which has increased on the back of these 4 new EV programs and 5 new non-EV programs, those are mostly in the driveline products for commercial vehicles. This increases by 35% year on year and our order book increases 16% over just last quarter, and we reached finally 238 billion at the end of Q3. Now the large size of the EV programs wins have also increased the proportion of EV in this order book, and now it's 73%.

Slide 14:

We've also updated our customer reach metrics at the end of 2022 and are exceptionally honoured that today we serve 7 of the world's top 10 passenger vehicle OEMs. We serve 3 of the top 10 truck makers and 7 of the top 10 tractor makers of the world. We are also privileged to supply to 4 of the top 15 electric two-wheeler makers in India and 5 of the top 15 electric car makers in the world. This reach ensures that we are well diversified and a part of a structural growth trend as electrification increases and not just dependent on one or two customers.

Slide 16:

With this, we neatly come to diversification. The weakness in Europe in the first nine months means that the revenue share from hybrid and micro-hybrid has been lower as compared to previous years. On a longer-term trend, the increasing share of BEV and decreasing proportion from ICE seems to be continued.

Slide 17:

Geographically, things have been far more interesting as you can see, Europe and Asia, which used to constitute around 40% of our revenue last year were reduced to only 25% for the first time. Now, despite that are exceptionally strong growth in the US backed by new programs and new order wins and the strengthening of the Indian market have more than made up by increasing to 45% and 29% respectively. Now relative market shares can be tricky like I said, I think last time also especially in the times of big growth. So when analyzing these numbers also look at the absolute numbers like how our Europe revenue has in fact increased on a YOY basis in Q3.

There is little change in product mix or vehicle segment mixed from the last quarter. So not too much to add here.

So with this, I turn to our group CTO, Mr. Deshmukh to update us on technology, over to you.

Kiran Deshmukh: **Slide 18:**

Thank you, Vivek. Good evening, Ladies and Gentlemen!

Slide 19:

Like in the past, I am sharing our technology roadmap with you. Every time a new product under development is commercialized, we move it from the white area to the blue zone. Last quarter, for example, our breakthrough net-shaped spiral bevel gear set moved to the blue semi-circle reflecting its commercial launch.

This quarter, our newly developed electronically locking differential assembly or the EDL debuts for the high-end electric SUV for the North American market.

The EDL is an advanced technology used in high-performance and off-road vehicles to enhance stability, traction and safety. An EDL is a type of differential that uses electronic actuators to lock the wheels on the left and right sides of the vehicle together. This allows the wheels to rotate at the same speed, providing maximum traction and stability. The differential is controlled by a computer that receives input from various sensors such as the vehicle speed, steering angle and yaw rate. The computer then uses this information to determine when the differential should be locked or when it should be unlocked based on the driving conditions and the driver's inputs. The technology enables better performance in off-road and inclement weather conditions.

The EDL as you would have seen from what I said before, is a critical component of the car and must integrate seamlessly with the rest of the vehicle systems. So this development required a significant amount of engineering and testing to ensure the EDL performance effectively while minimizing the impact on vehicle’s energy efficiency and meeting regulatory requirements. In this particular case, the customer’s launch schedule was highly aggressive, and our engineers worked closely with the customer’s team to make this happen. This demonstrates our engineers’ abilities to work collaboratively in quickly developing highly engineered product and the customer’s trust in their capabilities to do so.

On that note, I hand it over to Rohit to cover the financials.

Rohit Nanda: **Slide 20:**

Thank you, Mr. Deshmukh. A very good day to you all. It's my pleasure to share our third quarter and nine months results for financial year 2023 with you.

Slide 21:

Q3 was our best quarter in all three parameters of revenue, EBITDA and PAT at 685 crores in revenue, 186 crores in EBITDA and 107 crores PAT. Our BEV revenue grew by 29% this quarter, whereas our non-BEV revenue grew by a robust 42% which is more than two times of the underlying market growth of 18%.

Our EBITDA margin has improved back to above 27%, and it was 80 basis points better than comparable quarter last year, primarily due to better product mix. Absolute EBITDA has grown by 43% compared to revenue growth of 39%. On a sequential basis, EBITDA margin is up by 200 basis points mainly due to better product mix. Profit after tax at 107 crores is higher by 45% compared to adjusted PAT reported for the third quarter during last year.

Slide 22:

During the nine months of the year, our revenue grew by 22% to 1,932 crores. Our BEV revenue grew by 31% to 467 crores and constituted 25% of our total sales. Our non-BEV revenue grew by 20% while the light vehicle market in our three largest markets of North America, India and Europe grew by only 1% over the same period.

For nine months our EBITDA grew by 17% to 494 crores, EBITDA margin percentage was lower by 120 basis points, largely due to arithmetic effect from increase in RM prices despite the cost pass-through. The PAT for the first nine months grew by 18% to 276 crores, compared to the adjusted PAT of 234 crores for the same period last year. Margin transmission between EBITDA and PAT is better due to lower finance costs as compared to the previous year.

Slide 23:

This brings me to the slide on the key ratios. Our value addition to employee cost ratio continues to improve further, and it is now 6.4 times showing that the rate of marginal growth in the value addition is higher than the growth in employee cost of the company.

Our return ratios of ROCE and ROE continue to be strong, above 25%. Though these are a bit lower from the past two year levels, primarily due to higher working capital and ongoing capital expenditure for revenue to be generated in the future. Return on equity also had a base effect due to primary equity raised in the IPO, during the last financial year.

Our net debt continues to be negative, reflecting the balance sheet strength to raise debt in order to support future growth. Working capital turnover ratio has improved to 4.1 times. Whereas fixed asset turnover ratio has come down a little bit to 3.9 times, mainly on account of new capitalization done during the year.

Slide 25:

Last, but not the least, we are glad to share that our first sustainability report has been published in December. This can be accessed on our website. For now, I'll just briefly touch upon the key ESG goals that we have set for ourselves.

Our environmental goals include providing solutions for low-carbon mobility by increasing revenue from products meant for electric vehicles to 45% of our revenue by 2026. Besides this, improving resource efficiency in our operations through reduction of specific energy consumption by 4% by year 2025 and 8% by year 2030. Besides this, we have also taken targets for reduction in Scope-1 and Scope-2 emissions. Apart from environmental goals, we've also set other ESG goals like social and governance goals, which include maintaining the highest levels of quality and health and safety environment for the employees - be an equal opportunity employer, create a meaningful impact through our CSR programs and ensure highest level of corporate governance through zero tolerance for corruption and non-compliance.

I will encourage you all to access our sustainability report on our website, and with this, we have now come to the end of our Q3 earnings presentation. I will now hand the proceedings back to the Nomura team for Q&A.

Moderator: Thank you so much, we will now open the floor for the Q&A session. If you wish to raise a question, please use the raise hand function located at the bottom right of the Webex page. We will unmute your line and prompt you to speak. Or you may submit your questions via the Q&A chat box addressed to all panellists. Please be reminded to keep your questions to a maximum of two questions. If you have more questions, please return to the queue. Thank you!

We will take the first question. It is from Gunjan. Gunjan, your line is unmuted now kindly go ahead.

Gunjan Prithyani: Sure, thanks. Thanks, team, for taking my questions. Two questions from my side, firstly on the, you know, on the order backlog, clearly this is impressive, but you know, we're adding new programs, we're adding new customers. What I'm just trying to get more colour on is, you know, slide nine, where you give your programs which are under serial production. Now though, that number has been sort of at 10 for the last couple of quarters. You know, if you can give us some colour on, when do we see some of the new commissionings, you know, the new wins that you speak about today, you do mention, you know, that is towards the end. Is there something which flows through in the next couple of quarters, and, you know, what segments would that be in, some colour on how we should see the order book translating into revenues over the next 3-4 quarters, that will be the first question?

Vivek Vikram Singh: Gunjan, so first of all, hello and second, you know, our business is long-term in nature, it's a long-term game we are playing with long-term players, three quarters, two quarters is not the way to look at programs, even if a program and you covered auto for a while. So 10 means, this 10 is not just in serial production, it is at its maximum. So it is a fully ramped-up thing. No program can go from start to fully ramped up in just three quarters. So it doesn't happen. So it'll be hard for me to comment on that. We will keep looking at it every quarter, and we should see, but in the next 4-5 quarters, we should see a lot of programs becoming active even if they're not fully ramped up. I mean, if you look at our BEV revenue right, that should give you some indication that they are obviously ramping up, which is why numbers keep going up.

Gunjan Prithyani: Okay. But you do expect like, you know, few of these which are, you know, which are in the order book, start commission or start contributing. I mean, I understand that ramp will take time but is there visibility from the next 3-4 quarters' perspective?

Vivek Vikram Singh: Yeah yeah, even in this quarter, there are four or five that have started, but they have not come to a stage where it is fully ramped up, and that how much time it takes, that's, one that's not in our hands, that's in the customer's hands, and that can take a while, but yeah, a lot of them are starting actually this quarter, a lot of them are starting.

Gunjan Prithyani: Got it, and Vivek, the second question on this whole, you know the EV competitive landscape that's been changing globally, right? I mean, we all saw the way, you know, the EV makers are looking at price cuts and aggressively pricing the models, and you know, in that context, when you're looking at your opportunity, you know, how are we approaching this now? Because does this means there is more cost pressure as a supplier, you know, given the pricing from the OEM is getting more aggressive, and I don't want to name the customers or OEM here? But I mean clearly, there has been very aggressive pricing and uh, you know, you know, does this aggressive pricing mean that the market shift could accelerate? So how are you guys approaching this change in the narrative on the EVs?

Vivek Vikram Singh: So there is a lot of noise out there, and not enough signal. With most of our customers, we worked, and I know who you are talking about, but we have worked with most of them for decades. Behaviour between customer and supplier if you have a long-term relationship doesn't shift overnight. Market news shifts overnight, yes, capital markets react overnight, but relationships don't change that much like business models don't change. We do not see any significant impact on that front, to be honest, at all. Acceleration in electrification, yeah, I mean, look, if people cut prices, of course, it can be accelerated. However, the biggest shift will come when battery prices actually go to the level they should be, which is much lower than today actually, the last couple of years is when the battery prices have plateaued. That's what has kind of made electrification penetration slower in the last couple of quarters than it was. That is the big one that I will ask you to look at. I can understand, in your role, you come across news every day, and you have to see that changing. We, let's say, we win a new order, right? We've been working on this for the last two years, on the pricing and all the product development. It doesn't suddenly change overnight just because the news item comes. So nothing, I mean, you have, you know, our numbers for the last 22 years. We get asked this question a lot. But do you think auto was ever a market in which customers were like, no, no, increase your margins a lot? We don't care about cost. I mean, when was auto not cost-competitive? It isn't got to do with the EV world. It was always this way, which is perhaps why we are rare in making the kind of margins we do.

Gunjan Prithyani: Okay, got it. Just last clarification, and I'll join back the queue. The EDL product that we've, you know, we showcased at auto component expo, and you know, if you can give some colour on how the cost of this product is different from the diff assembly that we've been doing so far. I mean, just broad approximate numbers would help.

Vivek Vikram Singh: Cost or Price?

Gunjan Prithyani: Content value, let me put it very simply for you because, you know, we obsess over content value. So how would it be different from the conventional diff assembly that you were doing?

Vivek Vikram Singh: It is at the highest end of the range I indicated to you. In my commentary, I had indicated that differential assemblies can go from 30 per vehicle to 300 in passenger vehicle side. So it is towards the highest end of that range.

Gunjan Prithyani: Okay, all right, thank you, I'll join back the queue.

Kapil Singh: Just following up on the EDL thing. Vivek, can you just talk about, you know, how many, like, what is your competition in this EDL? And how much time did it take to make this product? Also, what are the additional components that go into making this compared to a standard differential assembly that you do, and, you know, in terms of the future applications of this product as well? Where all can this be used in the future?

Vivek Vikram Singh: So I let Vikram answer this because, to be honest, it is his achievement, not mine, and second, again, we should not look at each product and say how much can we multiply by. The thing is, at any range we can, and the higher end is what we will try to service. We won't even stop at EDL, right? We are going to do the whole transmission eventually. So everything that you see to try to predict how our future will look in a year or two, it will not work because if you did the same exercise two years ago, you would have taken $60 differentials and multiplied by a large number. If you've taken it four years before that, you would have taken $18-20 per gear set and tried to multiply by that number. Every three years, who we are as a business and what we can do in capability terms itself will change. Vikram?

Vikram Verma: Yeah. Yeah, I think the present differential, which can have 6-7 main parts, can go up to 15 plus parts to make an EDL. So the content within the differential actually goes up twice, that's one. And of course, the complexity of making is quite different than the normal differentials, which we are making for EV vehicle for passenger car, a low-end pass-car application to a very high-end pass-car which uses EDL, off-roading application, it is required. So as I said, it will be twice in number of parts going in, that I think was your question?

Vivek Vikram Singh: So, competition Vikram and what is unique about our EDL?

Vikram Verma: From a design perspective, I think the EDL which we have made is quite different from that what competitors have been making for ICE. And so, from that angle, it is very different. I can't explain to you in terms of how it functions, the end function is the same, but the construction is very much different. So that's the uniqueness of what we have made in collaboration with customer.

Vivek Vikram Singh: And this was done jointly with the customer because EDL existed in the ICE world, but they didn't really in the EV world. So to make it with the customer was a challenge, and we've done well. The traditional competitors were GKN and Dana. I think these were the two who were known for EDLs in the past. But this is different because it's made only for like this a born electric. This is a born electric EDL. So in a way, it's a different product. And again, we're trying to be one step ahead of global competition. I mean, if we have to make a mark globally, you believe we have to always be doing, you know, different things. So that's the goal of this.

Kapil Singh: Yeah. And how much time did it take us to make this?

Vivek Vikram Singh: From beginning to now? A while, Vikram?

Vikram Verma: I think we have been working for the last two years.

Kapil Singh: Okay, And we also have another order for differential assembly for electric cars. So could you talk about it as well that, is this a product? and also, the question that I was asking on EDL was also the thing that not so much from, you know, numbers prediction but just to understand the applicability of EDLs, will it be, will the future high-end electric cars also be using EDLs according to you is that a requirement?

Vivek Vikram Singh: Big SUVs and pickup trucks.

Kapil Singh: Okay, so most of the electric SUVs and pickups will be using it, all right.

Vivek Vikram Singh: It is a better way than doing what, I would not name the company who was trying to do with a quad motor configuration. This is a better way to achieve the same end result.

Kapil Singh: Okay. And does it have any software components as well?

Vivek Vikram Singh: No, I mean software is at the OEM end, ours, we just have the electronic actuator. I think I showed you at the auto expo what that does, but not software.

Kapil Singh: And this will be over what period this order is, the order book that we have assumed is over what period?

Vivek Vikram Singh: So the order books end is 10 years, as you know, I mean, we only give for ten years. Obviously, it is less than 10 years because it begins in. Yeah, but this is an open order. So as long as the vehicle.

Kapil Singh: And by when can we hit the peak revenues here?

Vivek Vikram Singh: That's a good question.

Vikram Verma: I think it kicks off from the end of this year and should grow over the next two years, 2026 probably it will peak.

Vivek Vikram Singh: Calendar 25 or 26 calendar should be peak.

Kapil Singh: Thanks, Juliet, you can continue with the Q&A.

Moderator: Okay, thank you. Next question is from Chirag. Your line is unmuted now. Please go ahead.

Chirag Shah: Yeah, thanks for the opportunity. Hi Vikram and everyone, I had a question on a follow-up that actually answered some of my questions on EDL. See, my basic question was how and why an OEM would adopt EDL over a differential assembly, one. Be it pass-car or commercial vehicle, that is the broad question. And second, is there a regulatory push required to achieve the penetration of EDL?

Vivek Vikram Singh: EDL is a differential assembly. Name is electronically locking differential assembly.

Chirag Shah: The reason why I was asking is, the cost or the value difference, as you indicated, from 30 to 300, is at the top end of the spectrum, means it involves a good amount of value content jump from an OEM perspective, also. OEM spending $30 may not be willing to spend $300. So what will drive them? You partly answer SUVs and pickups. But why and how to transition to even lower vehicles or cars or commercial, and is regulatory push required for this for faster penetration?

Vivek Vikram Singh: No, so I will answer this. I think you are trying to ask that with the new product that will go in everything? No, it won't.

So EDL is required if, you, one, you need to have a four-wheel drive as a beginning. Why 30 vs 300 is also how many driven axles, right? So two, so first, you have to say it is actually 30 to 150 in that sense. Even in that case, it is the class of vehicles. So if you don't have an off-roading four-wheel drive requirement, you don't need anything. You don't need an EDL for a city car. Which is why I said SUV and pickup truck is the target segment, which is why in that if you look at the highest segment.

Chirag Shah: And I presume push is required for adoption. That it is a natural progression the way it happened in ICE.

Vivek Vikram Singh: Not really. This is more the OEM's desire to give you better handling of the vehicle. So let's say he gets locked, and you can max power to the other one. How do you need it? Yeah, it is almost all reputable and global SUVs, and I'm taking global definition of SUVs, not the one where crossover also come in. Almost all of them, if they are SUVs, will be four-wheel drive, and they will have EDL even now. So it's an ICE product also.

Chirag Shah: Yeah. And are you looking to enter the ICE market also, given that you have an EDL now and will be required in ICE market, or you are not looking at ICE market at all?

Vivek Vikram Singh: Not at all, because look, we started making differentials in 2016 for EV there is no reason to go supply to a market that will start shrinking. So opportunity just doesn't make strategic sense.

Chirag Shah: Yeah. My second question was on this market share data that you shared, you know, from the differentials and motors. Is it possible to indicate what is the global denominator in that? Because it would be helpful for us to understand what, according to Ricardo, was the global sales like, given that there have been so many upheavals last year, if you can share that number, according to them, what was the industry volume that they have calculated.

Vivek Vikram Singh: Sorry, Chirag. Your voice actually is slightly. I couldn't understand.

Chirag Shah: What I am saying is, if you can share the industry data that Ricardo has used, industry volumes to calculate the market share for the full year.

Vivek Vikram Singh: Sure, that is widely available. 80 million vehicles sold last year CY22, and, sure we will send it to you.

Chirag Shah: Sure, I will take it offline. Thank you for the opportunity.

Moderator: We have the next question from Hitesh Goel. Hitesh, your line is unmuted now, please go ahead.

Hitesh Goel: Hi Vivek, hi team. So, you know, my question is more on the PLI Scheme, you know, so can you give us some sense on what is happening on the PLI? You are already applying to the government on the, you know, incentives that you're getting? But as far as I understand, it's not coming into the P&L as of now, right? So when do we expect that? How is it getting calculated? Because somewhere I read it, the government is looking at value add to really compute that rather than revenue, which was the first draft, which we saw in the PLI scheme and whether you will be passing on to the OEMs because that will be a competitive advantage, especially for, you know, Indian automakers, suppliers, right? So whether some part of that will be passed on or, you have sufficient pricing power to hold on to the gates.

Vivek Vikram Singh: So I let Rohit answer it. Our accounting treatment policy etc, is clear till we get it, we are not accounting for it. So we haven't made any provision or any adjustments for PLI, but Rohit?

Rohit Nanda: Yeah. So Hitesh, to the best of our understanding, the scheme continues to be linked to the revenue. So, value addition criteria is basically the qualifying criteria, the domestic value addition. So to the best of our understanding, so far, we have not, I mean, we were called by the ministry also recently to have a meeting and all, but we have not heard about any changes from them, and like Vivek already clarified, we don't intend to start taking the credit in our books till the time we actually get it, which will be in the next financial year. So when in the next financial year is also something that we don't know as of now. We will probably keep everybody informed as and when we get more information from the government, but this is where we are.

Hitesh Goel: And just to be clear, what is the average incentive on revenue that you're looking at? I mean in your portfolio.

Rohit Nanda: So there are two factors there. One is that it will be limited to the products which qualify under the scheme that I'm sure you understand, the percentage also is graded depending upon the turnover we achieve. I think my sense is that at the peak over the years because one, there is an EV sort of top-up that we are likely to get, overall over five years, I think the peak rate that will hit will be, I think, around 15%, we may start at around I think 11% or so.

Hitesh Goel: And is there a necessity to pass to the OEMs, or you have, you know, because you know…

Vivek Vikram Singh: Unlikely, Hitesh. You know who our customers are. There is no customer in, I mean, there is only one customer who's above 5%. Most of the customers in India are less than 2% of our revenue, so bargaining power is not the same as it is everywhere. 2nd, for most of our Indian customers, we're not getting any incentives, not much there.

Hitesh Goel: Okay, got it, Thank you!

Moderator: We have the next question from Amin, your line is unmuted now. Please go ahead.

Amyn Pirani: Yes. Hi, can you hear me? thanks for the opportunity, and congratulations on the order win on the EDL. Some clarification on that. So (A) this order, so basically, this is for an entirely new product, or are you like replacing someone or are you giving a better product to something that you are already supplying? So some colour there would be helpful.

Vivek Vikram Singh: So, new product for this customer, obviously, the product exists in ICE vehicles of different car makers but not for them. For them, this is the first EDL.

Amyn Pirani: Okay, okay. And the other order that you know declared today. Obviously, the amount is significantly lower. Is it because it is for a significantly lower tenure, or is it just because it is a relatively lower-value add product compared to the EDL? So I just wanted to understand that.

Vivek Vikram Singh: Amin, correct. So it is lower value, lower volume and low tenure, all three. Small cars, in an ordinary quarter that would have been a highlight win. But, and that's the point I've been trying to make to a lot of people that you know, you win a big SUV with a big value, you get in money terms, you get way more than you get in volume terms, here even if the volume is decent, value is so little and one axle driven. So it's just not a big car. So you don't get that much.

Amyn Pirani: Great. Most of my other questions are answered. So thanks a lot. I'll come back in the queue.

Moderator: We have the next question from Jinesh Gandhi. Your line is unmuted now, kindly go ahead.

Jinesh Gandhi: Am I audible? Congrats on the EDL order. So can you indicate what's the share of business, would it be 100%? Are we single supplier for that product for that particular model, or it's a shared sort of business?

Vivek Vikram Singh: No, yes, So yeah, single source.

Jinesh Gandhi: Okay, that's great. Secondly, when I look at our Asia Pacific ex-India revenue, that market has been under tremendous pressure to put, so, in terms of share has been following because other markets are doing well, but on absolute basis also that geography seems to be coming down. So what is happening there? Why are we seeing decline in that geography particularly? I mean, I presume that's China.

Vivek Vikram Singh: China plus Southeast Asia, but the decline mainly on the ICE starter motors as a percentage of vehicles sold is getting lowered. So if you have only one product, and that is what the plant in china does. That's a starter motor plant. So yeah, there is a time where we'll have to figure that out. What is the point of continuing in a particular market that's electrifying fast? So that was bound to happen.

You know, China is electrifying far faster than India. So India, your starter motor business or even in the US can continue for 15 years, let's say, but in China, maybe five years, six years, it may be all-electric.

Jinesh Gandhi: Okay, okay. And are we seeing increased penetration of our driveline products in China, or that is difficult?

Vivek Vikram Singh: No, I think we mentioned this even right from the I. P. O. time that our strategy is North America, Europe and India to retain because we already have very very high market share and grow in US and Europe. Now this time why our market share increased is we grew quite a lot in North America, Europe is still very under-penetrated. I would say low single digits is what would be a differential gear market share. Asia, especially, China, the biggest problem is there is a duty, Jinesh. So if I export, there is a duty, and if I want to go set up there, you know we have, we don't see that as a better choice and right now if you have a lot of room to grow in North America and Europe like a lot. It (China) is also a lower-margin market, by the way.

Jinesh Gandhi: And lastly, on the PLI part, I mean, given that only few of our products would be qualifying for that. Can you talk about what percentage of our current revenues, would be eligible for PLI scheme in the sense, in terms of the portfolio mix would be eligible for PLI scheme and similarly, if you can do it at the order book level, that will give us some indication of how we stand in terms of our qualification for PLI?

Vivek Vikram Singh: So I don't think that's a true assumption that only a few of our products are qualified. Will be qualifying is not the thing because the list is out. So all EV differential assemblies, all EV traction motors and Rohit, IMCM will also qualify, right?

Rohit Nanda: That we are getting clarification but right now, our EV revenue largely would be a good indicator as of now.

Vivek Vikram Singh: Yeah, actually that's, that's a very good one. EV revenue. So whatever is EV is pretty much automatically qualified.

Jinesh Gandhi: Got it. That's very helpful. Thank you. Thanks, and all the best.

Kapil Singh: We have a couple of questions in the Q&A box as well. So one of them is from Pragya Shah, you have added a lot of new products in the last year. Have you seen any new customers or existing customers ordering these new products apart from first initial customers for whom you have initially built these products? The reason is to understand RoCE on these products.

Vivek Vikram Singh: Yeah, Rohit, you can take this.

Rohit Nanda: So I think the number of customers and the products actually we disclose every quarter. So if you see the number of customers and number of orders, they've been going up. So there are repeats, no, I shouldn't say repeat, but there are different customers buying the same or similar products. And what was the second part of the question?

Kapil Singh: So basically, if there are, the question here implies that if there are more people ordering the same new product, then maybe the ROCE on the product will be better. So is that how it works? How do the ROCE on the new products work?

Vivek Vikram Singh: I don't subscribe to that philosophy number one. I think if your product doesn't make in the first batch itself, it doesn't start making good money and return, you shouldn't do it. So we don't follow or subscribe to that philosophy. If we have a single order also, it will be ROCE positive, and it will be in the range that we have been doing business. That is the discipline with which we do anything anyway. We don't price, actually, as you guys would have also found out in other companies, that thing of let's first introduce a low price and then when volumes increase, we will get higher price does not work in auto. Whatever is the price you set, it can only go down from there. It can never go up from there, and from economies of scale, yes, they come in but not that much. However, if you just add a look at the latest order that, we, I mean, traction motors is a new product category. We went from no customers to 7-8 customers in almost two years. If you take any of the ones but you have to go at least 2-3 years because for a product to go from when we announce it to S. O. P is one year, from S. O. P. to other customers seeing it and enquiring and then trying to build that would be another year minimum, so 2 to 3 years is how much time it takes. But anyway, I mean economic value-wise, it should start working out from product one.

Kapil Singh: Yeah, and then the last question from my side, you know Rohit, you talked about the fact or Vivek, you also, that we should be able to hold onto the margins around these levels. So if you could just talk us through in the context of EV revenue mix will be going up and what are you seeing on the raw material costs and also the motor business mix will also be going up. So when you put these three variables together, what are you seeing?

Vivek Vikram Singh: You said just three, there are more, there are many more, but I won't confuse you, which is why I had said very simply that at least for the next 4-5 quarters, we see 27 and 15 as sustainable levels. If nothing changes drastically, and alloy steel does not go up further, or you know, aluminium can go up further. However, I think there is also potential for good news, which is equal, which is alloy steel can come down also, which it should. Geographic mix and product mix, we kind of have an idea of what the next four quarters are. It looks like it should hold at this level. There are other variables also, by the way, but I'm not confusing the matter. I'm just trying to give a straight and simple answer that it should be continuing, nothing else. I mean, interest etc, doesn't really affect us that much. So I don't think there are other variables at play.

Kapil Singh: Okay, great. Juliet, I'll hand you back for the closing remarks.

Moderator: Thank you very much. We will now conclude this call. If you have any follow-up questions, please feel free to email your Nomura Sales Representative or corporate access. Thank you, everyone, for your time. Over to the management for the closing remark.

Vivek Vikram Singh: Thank you, Juliet, and thank you, Kapil, and thank you, everyone, for attending. I'm sure you have other places to be. So I won't take long. Thank you.

Kapil Singh: Thank you. On behalf of Nomura, we'd like to thank the management and all investors for joining us. Thank you very much, and we can close it now.
