AUTOMOTIVE AXLES LIMITED

10th February 2025

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

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

Attn: Listing Department

Dear Sir/Madam,

Sub: Analyst / Investor Conference Call Transcript.

In continuation to our earlier intimation dated 02nd February 2025 regarding Intimation of Analyst / Investor Conference Call and with reference to Regulation 30 read with Schedule III, Part A, Para 15 (b)(ii) of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 enclosed herewith Transcript of Analyst/Investor Conference Call conducted to discuss on the **'Automotive Axles Limited to discuss 3QFY25/9MFY25 Financial Performance'** held on **Thursday, 6th February 2025 at 12:00 PM (IST).**

The Transcription and Audio Recordings of the same is available on the website of the Company.

This is for your information and record.

Thanking you,

Yours Truly,

For Automotive Axles Limited
DEBADAS PANDA
Digitally signed by DEBADAS PANDA
Date: 2025.02.10 18:51:15 +05'30'
Debadas Panda
Company Secretary & Compliance Officer

Encl: as above

"Automotive Axles Limited

Q3 FY '25 Post Results Earnings Conference Call"

February 06, 2025

MANAGEMENT: **MR. NAGARAJA GARGESHWARI – PRESIDENT AND WHOLE TIME DIRECTOR – AUTOMOTIVE AXLES LIMITED**
MR. RANGANATHAN S. – CHIEF FINANCIAL OFFICER – AUTOMOTIVE AXLES LIMITED
MR. KISHAN KUMAR – GENERAL MANAGER – MERITOR INDIA

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

Moderator: Ladies and gentlemen, good day, and welcome to Automotive Axles Q3 FY '25 Post Results Earnings Conference Call, hosted by Batlivala & Karani Securities India Private Limited. 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 star, then zero on your touchtone phone. Please note that this conference is being recorded.

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

Sailesh Raja: Good afternoon, and thanks to everyone who have logged into Automotive Axles 3Q and 9 months FY '25 earnings conference call. From the management side, we have with us Mr. Nagaraja, President and Whole-Time Director, Automotive Axles; Mr. Ranganathan S, CFO, Automotive Axles Limited; and Mr. Kishan Kumar, GM Meritor, India.

I would now like to turn the call to Mr. Nagaraja for the opening remarks, followed by Q&A. Sir, you may begin now.

Nagaraja Gargeshwari: Good morning, everyone. Nagaraja here. First of all, welcome to the investor call for third quarter of financial year '25. As you are aware, this for the last quarter, the market was a little bit soft. But in spite of that, we were able to perform pretty well and then make sure that we protect our margins. At the same time, our ramp-up of MS 185 axle with one of the customers, it started. So, we executed it pretty well.

So, what I would like to do is I will -- I'm asking Kishan to give you a brief market update and outlook for the next quarter or coming quarter, followed by Ranga to make comments on our financial results. And then we will take all the question and answers. Kishan, over to you.

Kishan Kumar: Yes. Thank you. I hope I'm audible. This year, that is ending March as a full year, we do expect the M&HCV market to be down by about 5% compared to last year. In terms of volume of the market, the vehicle volume, it will be around 400,000 to 403,000 ending March. Like Nagaraja mentioned, Q3 was a bit soft. Compared to Q2, definitely, it was better. And year-over-year, I think what we typically expect is the Q4 to be strong. And that is what the current visibility is directing also.

So, we are expecting the Q4 to be in the vicinity of last year's overall volume, which is around 110,000. With that, the overall impact to the M&HCV is the softening with the launch of some of the new products and the pipeline what we have, we don't see a big impact in our revenue -- overall revenue. So -- and coming to next year forecast, which we are working through, we expect the market to be flat again. That is starting April to March 2026. More work is being done and the pipeline of products that we are working on should be able to position us in a better spot.

So with that, I'll request Ranga to take on the financials. Thank you.

Ranganathan S.: Thank you, Kishan. A very good morning to you all, the first call of the new year, and thanks for joining the call. So, I broadly quickly update the financial results of Automotive Axles. The total income for this quarter is about INR537 crores, close to that compared to INR501 crores last quarter. And the revenue has been grown compared to last quarter is about 7.2%. But if you look at it the same quarter of last year, we are slightly down by 1.6%. So, more or less, it looks to be compared to last year, we are at a flattish level at this moment of time.

So -- but if you really look at it, our EBITDA. EBITDA for the quarter is better as compared to last quarter. We are at 12%. And last quarter, we did close to about 11.6%. And the last year, the volumes maybe remain same. We are at 11.5%. So year-on-year, probably we improved our margin by 0.5% and quarter-on-quarter we improved by 0.4%.

So, as Nagaraja and operations leader is, we are working with a lot of initiatives consistently year-on-year, we call as Mission 25 to drive the cost optimization in every line of the profit and loss account. So definitely, that is one of the reasons the volume is oscillating. We are able to manage the margin through the volumes and do better when the volume improves. So that's basically a quick update. And as Kishan was saying, this quarter is looking to be better. So hopefully, we'll be finishing this year, maybe slightly lower than last year or maybe very close to that.

So with these remarks, probably turned out to Sailesh to open the line for the question-and-answer.

Moderator: Thank you very much. We will now begin the question-and-answer session. We'll take our first question from the line of Natraj Shankar from DSP Mutual Fund. Please go ahead.

Natraj Shankar: Yes. 2 questions. I was wondering if you could give better clarity with respect to Bharat Forge's acquisition of American Axle and you. Is there a better clarity that you can give on how this business would evolve in terms of the focus market? And two, you talked about CV market being flat next year. How about the bus segment? And if you could give some sense on what you plan to do over the next 2, 3 years?

Ranganathan S.: Yes. Just to alliance, I'll take the first question, probably the second question on the bus and the market, I'll give it to Kishan. See, I think we mentioned it last time also. I think the announcement is made by BFL, still the work is in progress in getting the approvals and all the stuff. So -- and we also mentioned that the segment and American Axle is predominantly present somewhere in the contract manufacturing with DICV plus into LCVs where we are not present.

So broadly, by and large, we don't have much clarity at this moment of time. But nevertheless, we don't anticipate a much of impact to us. That's what we think at this moment of time and probably that's a view at this moment of time. So, we're holding on to it. So -- and on the market side, Kishan, you can give some insight.

Kishan Kumar: Right, sure. This year, compared to last 2 years, I think the bus market did well. I think we are talking about 60,000 overall buses for this fiscal year. And next year, it could be similar numbers because there's a lot of replacement going on with some of the state-run transportation units. And that is where we have planned to launch the bus sector, which we have been talking.

So, it will be ready by first -- end of first quarter next year for the MIDV bus segment. And also, there are 2 more programs with the product called MS 177, which will be focused on the 13.5

meter and 15-meter buses, which we will be starting the trials with the OEMs that we are talking to.

Moderator: We'll take the next question from the line of Saket Kapoor from Kapoor Company. Mr. Kapoor?

Saket Kapoor: Sir, there was a mention about a plant closure at our Hosur unit. If you could just elaborate the rationale. And in the same, it was mentioned that 20% of the revenue was contributed from the same, whereas we also mentioned that there will be no financial impact on the working. So, just if you could throw some more light on the same.

Nagaraja Gargeshwari: Okay. So thanks for the question. So, let's clarify it. The explanation what we have given is it's a technical explanation. So, we had a small plant setup in Hosur. Bulk of that was VMI. Basically, we are managing the finished goods there. And then there was 1 or 2 small assembly operation used to happen. Now that we looked at our footprint strategy, we wanted to go closer to the customer plant. That's how we moved our VMI. While doing so, the assembly operation, what we are doing, we eliminated that.

So that way, it has become just a warehouse. So essentially, we are moving a warehouse from one place to another place. Technically, there was a plant. It was -- the license was given as a plant. So, we are closing the plant license and that is how we have given that explanation. So materially, there is no impact for us and it is better because now we are closer to customer. And the new warehouse is within the Hosur only. So, there is no impact for any of our business.

Saket Kapoor: Okay. So the revenue part of it at, I think, so INR458 crores was the number, sir? Or I missed.

Nagaraja Gargeshwari: No, that revenue is basically coming out of all the finished goods sales to the end sale to the customer. So that will continue, okay? But in the explanation, because we are moving from plant to warehouse in the technical terms, that's how that information has to be published. It's a mandatory disclosure requirement.

Saket Kapoor: Okay. And lastly, sir, on this point is that this land is -- what would be the end use of the land or the area going ahead, sir?

Nagaraja Gargeshwari: This was the leased out premises. So essentially, for us, we just closed the lease and we leased another warehouse. So for us, we did not own this land. This land, we had just leased out.

Saket Kapoor: And sir, now coming to the point on your Mission 25 agenda, I think so you articulated earlier of 4 basic drivers for it. You did mention about the product introduction part also. And if you could just throw light on where are we in terms of -- since now we have entered 2025, what have we achieved over the -- on the agendas, which we have articulated earlier? And what is left to be accomplished?

Nagaraja Gargeshwari: Okay. So, I'll also ask Kishan to comment on the product portion of it. Let me come to the operations. Operations, mainly, we were kind of focusing on value engineering and then enhancing the value for the customer. okay? So, this included several optimization of processes, getting into lean manufacturing and then also consolidation of suppliers and then sourcing strategy.

So, very happy to share with you that we have been able to accomplish all of them, what we laid out during 2022, because we have always put a 3-year strategy. So, we have been able to accomplish each one of them. And I'm sure that it is already visible in our financial results. So, in terms of new product introduction, we are able to introduce everything that we have planned for. And some of them, obviously, they are in a development stage and then because they are undergoing a field testing and we are very sure that -- very confident that like what Kishan mentioned, some of those products will be going for the series production in FY '26.

Saket Kapoor: If I may add, sir, then sir, if you could just give some more color on what will drive growth going ahead? And also, sir, we have been maintaining also cash balances. So, I think, so we have a capex of INR200 crores to INR300 crores, but that was mainly for the modernizing and the automating of the existing facilities.

So, in addition of -- in terms of capacity addition and in terms of diversifying our revenue streams in segments like defense and off-highway applications, what steps are we taking? Market and investors, sir, are always looking at good companies in terms of going for growth and value-led growth. So, where are we in terms of how have we placed ourselves in order to capture that opportunity, sir?

Kishan Kumar: So, this is Kishan. I will answer the growth part of it from a product standpoint and our strategy to go to market. So, when the market is flat, our focus has always been how do we increase our share of business. And that primarily comes from the strategy to reduce the product mix impact. For example, sometimes the tippers is high, bus is low, bus is high. So, this dynamics will always be there in M&HCV. And exactly for that reason, the bus axles that I mentioned earlier, that will position us in a place where irrespective of the market dynamics, we will be protected for the revenue.

Second, the growth -- the real growth in terms of value realization per axle, that comes from the introduction of axles like MT 160 and MS 610, which are the heavy-duty axles and per axle realization for a typical, let's say, 55 ton tractor or the 6x4, 8x4 tipper is about 20% more value per axle per vehicle. So, this is how the strategy has been. And also, we are looking at some of the EV segment where mainly, again, buses, a lot of new OEMs are starting up.

And what they expect from Meritor is a full end-to-end solution, which means including front axle. So, we are looking at that also in the long run, how we can bring those value proposition and capture the -- maximize the value. So, in a long-term perspective, '29-2030, with the projected market volume, we are expecting a doubling of our revenue. That is the strategy that we have laid out and presented to the Board in the previous Board meeting as well.

I hope that has given you enough...

Saket Kapoor: For that, just to conclude and I'll join the queue, just to -- as you mentioned that we are aiming to double the revenue in 2029. So that will be with the introduction of the product profile, which you have mentioned. But the volume part will remain constant, it will be mainly the value and therefore, improving the bottom line also significantly. That is what the understanding is because our capacity is going to remain same in terms of tonnages part?

Kishan Kumar: So, there are 3, 4 things in addition to what you mentioned that will drive the growth. One is the market growth. Market will -- 2030, we are projecting it to be around 500,000 M&HCV. So, we have an organic growth coming with that. Second is the share of business that we are improving with all the new product launches. As the market dynamics is also moving towards 4x2 tippers with a heavy axle, where we -- I just mentioned about the value realization coming in. And the third one is export.

That is where the additional capacity and modernization of the plant is going to help us. And the fourth one and the last one is the aftermarket. With the growth in the market, we are also having a strategy specific to aftermarket where we will see additional revenue coming in. So, with all those combined together, we are looking at the growth of doubling the revenue.

Saket Kapoor: Right, sir. And lastly, sir, our -- we do casting purchases from companies like Nelcast also? Or how much -- what portion is of all the casting are sourced externally?

Ranganathan S.: No. By and large, just to answer your question, we don't have an answer to the specific numbers. But broadly, we procure from all the major casting suppliers. We really wanted to deal with people who produce volumes and capacity. We are not doing anything in-house. It's all completely procured from the suppliers.

Saket Kapoor: Right, sir. And on your utilization level, sir, I missed what you're trying to explain. Currently, what is our capacity utilization if we take the nameplate number? And how should we understand, firstly, utilization levels for us?

Ranganathan S.: See, it's actually they keep varying from period to period. For example, after BS-IV time, we had some idea about what the utilization is. And based on we took benchmark of '18-'19, we start saying that we are utilizing 85% and 90% level. That's the reason we thought we wanted to expand the capacity and we start expanding the capacity. With the introduction of BS-VI, the larger realization is the types of models, the process which goes through the new -- and further the new products, what we are consistently introducing is redefining the capacity to ourselves.

So, if you really look at it, we are aspiring to reach to the 15,000 to 16,000 capacity level maybe in a year, 1.5 years' time. So that keeps changing it as we introduce the new products. And as we -- like Kishan said, in 2028, the 500,000 vehicle level is going to be there definitely.

That requires a little more capacity to not only augment the domestic market, but also to support the export requirements. So, as you rightly said today, if you ask me a capacity utilization, roughly, I'll say about 68% to 70% level, 65% to 68% level, I could say that. As you see the model ratios of what we manufacture keep changing, there's always a fluctuation. So probably you can take it a broader view of 65% to 70% level.

Saket Kapoor: And what can we operate at optimum level, sir, since I think that there is also a limit that 80%, 85% would be the maximum we can be…

Ranganathan S.: Where the threshold we generally monitor when we see a market as well as maybe sometimes it's probably it's swing in the quarter, we may utilize about 85%. Is it sustainable that we'll evaluate. But if it is to be a case, that definitely we will start investing on it. We are very closely working with the customers, looking at the market. So, we are looking at our own constraints as well as the aftermarket requirement.

Definitely, we keep investing it. We are already investing it. So make sure that, first of all, to improve the throughput time of the production and bringing a lean manufacturing which Nagaraja has set, so that the throughput time is there. Naturally, it gives you a little more leverage in terms of capacity. So that's a constant exercise we keep doing it, sir.

Saket Kapoor: And sir, for the aftermarket business, can you just give the color how did we -- how did we perform in the aftermarket? And what was our tonnage for this quarter? And I think so we are expecting tonnages close upward of 1 lakh for quarter 4 to complete the year?

Kishan Kumar: Okay. Let me answer the aftermarket piece of it. So, we have 2 ways of doing the aftermarket business in India as a whole business. One is the OES, where we directly sell it to the OEM spare part division. And the second one is the independent aftermarket. So, our focus is always to grow the independent aftermarket with the -- where we have the right to play in the market and that is where the growth is coming. So, these products are also non-Meritor or the company products.

So, we are also selling our competition and other OEM products in the aftermarket. That is where we see the growth. The second question, I'm not very clear if you are talking about the overall industry tonnage. But what we are seeing is we -- as a whole M&HCV market ending March, we'll be around 8.6 trillion metric tons.

Saket Kapoor: Sir, our tonnages, I was -- for this quarter, what was the tonnage? What is the anticipated tonnage in terms of the market conditions, which we are in the first week in February, what should we exit this quarter and the year in terms of the tonnages?

Kishan Kumar: I'm sorry, I'm not understanding the question. Tonnage, in the sense, we have -- yes, we measure only number of axles for that specific segment, 7.5 tons and above.

Saket Kapoor: But the most important point which we investors are looking is that by year 2028-'29, we are looking in -- anticipating the doubling of our revenue with the newer product introduction and putting around INR200 crores to INR300 crores in terms of the modernization that will lead to improvement in margins. This understanding is correct, sir?

Ranganathan S.: Yes, it is.

Saket Kapoor: We hope for the continuity of this call. First, sir, can we also look for investor presentation as a part of our results, sir, going ahead, giving us some more understanding. We have customer concentration and product -- limited products, but still can we look for more understanding in terms of...

Ranganathan S.: Probably we try to see that we can give once in a year because quarter-on-quarter, there's no change in anything. So, we thought -- we were doing it before. And some suggestions also came from the market. I don't have a content to add every quarter. So, probably what we thought is try to give a yearly once kind of an update, we'll certainly do that.

Moderator: Next question is from the line of Devang Shah from Asit C Mehta Investment Intermediates.

Devang Shah: As you have right now mentioned the way you want to have some kind of growth trajectory that is going to come in the coming years by having product portfolio expansion and modernization will improve your bottom line. And your aspiration to be some kind of doubling revenue in the next 5 years. So, my question is that, sir, by this particular aspiration, what kind of run rate as far as revenue growth is concerned, we can expect in the coming 2 years?

Because this year, you have some kind of negative 10% growth in a Y-o-Y basis for the entire year as far as your top line is concerned. So, what kind of growth we can expect from moving forward by considering the fact next year, there will be a flat volume, but you are going to have some kind of value that you will realize in spite of being a flat volume on an overall basis from other segments. So sir, I just throw on a light what kind of growth to reach that particular trajectory in 5 years?

Nagaraja Gargeshwari: Yes. So one is a straight math. On an average, we need to do a CAGR of about anywhere between 14% to 16% if we have to double the growth, right? Having said that, this particular year, what has happened, Kishan is going to probably bring in more color and the information on that is -- at the same time, all the end markets, not only the India market, but also Europe and then North America, all the markets have softened up.

And that is why we are seeing a big -- not big -- it's a small impact on our top line. Otherwise, if it is only the question of India market, we would have straight away managed those 6% drop, whatever is there, we would have been able to manage. So, it is very difficult for the next 5 years for us to year-wise identify what kind of growth we are going to have.

Obviously, what we want to promise you is we will be growing better than the market. And we have demonstrated it over the last several years that if the market is growing at like a 10%, we'll be probably growing at 15%. And then there are several things which also contribute to that is, for example, I'm just giving you an example for your understanding, this MS 185, which is the largest axle, we developed 3 years ago, anticipating that the market is going to switch over. But it took almost 3 years for the market to kind of switch over, especially this 55-ton tractor.

So, there are -- these are all the few variables that will kind of accelerate our growth and then probably achieve doubling the revenue in less than 5 years. But we think that we will be growing better than the market. That's exactly what we can commit. And then obviously, the enhanced models, the new value content addition will help us to achieve that doubling. So Kishan, do you want to add any more thing?

Kishan Kumar: Yes. Just looking at the market dynamics, every OEM today is pitching in with the high-power engines. Like we were looking back 3, 4 years ago, we were in the vicinity of 200, 250 horsepower. But now 320, 350 is becoming a norm. That's mainly because of the fleet efficiency and improvement in the infrastructure, which demand the increased capacity access in terms of tonnage or performance or efficiency. And that's exactly the product road map we have for 2029 and 2030.

And like Nagaraja said, any market having the right product and the product road map is the beginning. But then the adaptation purely depends on lot many external factors, which we closely work with OEMs and some regulatory bodies. So, the outlook is good. And like Nagaraja said, all the pieces coming in, in the right order, I don't see any real concern doubling the revenue, even exceeding that for the domestic market in the on-highway space.

Devang Shah: Quite satisfactory answer. Sir, I have one more question that the way we are expand -- making some modernization in our facility and cost efficiency and effective measures, there is a scope with this value-added product, we can expand our operating margin beyond the current trajectory in the coming years?

Nagaraja Gargeshwari: See generally, we wanted to keep that information with us. But by and large, I rest assured we had some larger aspiration -- any investment always have the return of investment, definitely, we'll be looking at the cost optimization, improving the capacity and so on and so forth. Because if you really see 10 years before, we started with about 8% to 9% EBITDA level. And we have come to about 12%, 12.5% level.

So, even the current volumes, the volumes bless us, we will be definitely able to take it up even beyond 13%, 13.5%. So having said that, definitely, whatever we see the margin improvement, it's a combination of the conscious effort we make on cost optimization through our Mission 25 initiatives. The Mission 25 initiatives also covers about -- this plant is about 42 year old. So, we are modernizing it. definitely that -- see, some of the element of investment is more towards the quality, okay?

So, when we wanted to really address the growing demand of the customers domestically, when they're introducing new models in India as well as the global customers, there are a lot of things we need to do in terms of improvising the process, improvising the safety measures and improvising the final quality of the product.

So definitely, that will have a bearing on the overall top line, but immediately see the margin did not happen. But nevertheless, to see that we are aspiring to grow this modernization, definitely will yield a bit -- will yield us some improvement, not less than about 15% to 20% at the current level overall in the next 3 to 4 years.

Devang Shah: But this trajectory of a margin will be sustainable, right? That's what we can expect, right? Gradually, you may have an improvement, but current trajectory of margin can be sustainable over the next couple of years, 3, 4 years perspective?

Nagaraja Gargeshwari: By and large, I'll say yes. Again, margin is a very relative term. We need to look at it. One is on the investment what we are making on the manufacturing lines, and we are looking for a cost optimization. Yes, by and large, yes. But some of the cost initiatives, sometimes as we introduce a new model and this kind of a new model, a new composition of cost may be set in and to mature the product to the required expected level that may take 1 or 2 years. So that's always a little bit of changes keep happening in the margin level. But nevertheless, by and large, I'll say that, yes, this is sustainable.

Devang Shah: Quite satisfactory. And last one question, sir. On your growth path, any kind of external risk that you are perceiving because the way the geopolitical tensions are unfolding related to tariffs and related aspects. Just to have your inputs on that, any kind of risk that you are perceiving for a couple of years.

Nagaraja Gargeshwari: At this moment of time, the answer is no. Even the global team will be discussing, we're not seeing anything. So it's probably -- domestically, I think the same supplies that also we don't see any much of a change in the competition level. So that will continue. As of today, we don't see much of the risk.

Moderator: Next question is from the line of Gargi Singh from Value Investment.

Gargi Singh: My first question was that regarding the axles for the bus 9-meter bus category, earlier we were supposed to launch this in October 2024, which was then shifted to second half of FY '26. So, I wanted to understand what is causing this delay? How confident are we to start supplying these products from next year? Who are the current suppliers for this category and who will we be replacing?

Kishan Kumar: Thank you for the question. I would like to clarify something before I get into when we are going to launch. In the previous investors call, we mentioned about this being in the development stage. So typically, a product launch to the end customer happens with a lot of internal validation. So, we are today in a stage where we have completed almost all the internal validation.

And this being in the bus segment, there are new requirements that are coming in. For example, noise and we are ensuring this product meets those new requirements, which is only expected in the next coming quarters. So, this is why the extended validation and some of the changes in the process specific to the gear noise has taken a little bit more time. But we are very confident. Now the validation as we speak is progressing. And May, maybe even before May, we should be having the first few vehicles on the field trials with customers.

Gargi Singh: And sir, a comment on who will we be replacing when we are supplying to the top customers? And also a little bit if you can talk about the 13.5 meter and 15-meter bus category by when do you expect the soft launch?

Kishan Kumar: Okay. So -- the only other competition for us, there is only one competition. I will not name the competition. So, we will be competing -- we are competing with them. And we are in advanced stage of closing the commercial as well with the customers on the 9-meter. Now, 13.5 and 15-meter, they are coach segments and there is a drastic change in the requirements. For example, the regulations are changing in terms of top speed.

So, the products that we are working, these are all the global products, which are already productionized in some other part of the globe. And what we are doing now is giving the flavor that is required for India. For example, I mentioned about the engines. So, we are talking with the OEMs and the customers, potential customers, even in some case, the fleets, end customer, what is their expectation and fine-tuning the product.

So, the trials will begin in 2026 and a lot of external factors depend on the trials, readiness of the OEM. The OEM that we are talking with all things falling in place, we should be seeing these 2 axles, 13.5 and 15-meter coach by August, September next year -- sorry, this year.

Gargi Singh: August, September 2025?

Kishan Kumar: 2025. The trials will start because these have to be homologated. These are all new platforms for the OEMs.

Gargi Singh: And launch, sir?

Kishan Kumar: Launch SOP will be around the end of calendar year this year or early next year because the homologation and then some other changes, the regulation changes -- regulatory changes in terms of noise that is not yet finalized. Even though we know where it is heading, it has to be finalized before we close our product specification.

Gargi Singh: All right, -- the second question was with regards to the related party transaction numbers. So, Automotive Axle sales to Meritor HVS is around INR,700 crores as per the reported numbers. So, what is the total sales figure of Meritor HVS? And is HVS selling any other products other than the products that Automotive Axles is manufacturing and supplying to them?

Ranganathan S.: I'll take this question, Ranganathan here. So, I don't know what Meritor HVS numbers are in terms of the final numbers. So definitely, we are working towards it because [inaudible 0:36:38] has given a mandate. Definitely, we will be working on the solutions we are discussing with the Board, JV partners as well as all the customers.

And so the -- as per the mandate, the going concern will take a new shape from 1st of April. So most likely, we will be concluding final everything by first week of April or second week of -- sorry, first week of March or second week of March. Then most likely to -- we'll have a clarity about things are happening. So, we are discussing all. It's going in a full swing.

Gargi Singh: Okay. The third question was that initially, we had gotten land in Madhya Pradesh for supplying to VECV and then we had stopped it. So, what was the reason for that? And on an average, VECV is doing 6,000, 7,000 units per month. So, what is our share of business with them? And how do you plan to increase it?

Ranganathan S.: See, land -- see, I don't think -- we didn't buy a land only for VECV. We have another business strategy just to position ourselves as a part of the business plan, we had the land. VECV, one of the objectives of just to cater the VECV and how to improve the business with them. But nevertheless, as we see, we are not doing any business with VECV at this moment of time.

So that's how it is. So that's the reason we said there is no need. And we looked at the medium term, there's no requirement for the land. If you remember last year, 2024 -- '23-'24, we have sold the land. And with the new requirement, we don't hesitate to invest also. But the business plan, I need to suggest that. And yes.

Gargi Singh: Sir, just wanted to reiterate, if I heard it correctly, we are not doing any business with VECV as of now. And a little bit if you can highlight on whether you plan to increase or get more -- get business from VECV in the near future?

Kishan Kumar: This is Kishan. Like you mentioned, they already have installed capacity. They make almost all variants of axles that is required in the M&HCV segment where they play, which leaves us very limited opportunities for discussion. Nevertheless, there are a few products, the advanced products that they are interested and these are in talks, including a range of brakes. So, in the long term, I do see an opportunity with them. But to be -- in the current scenario for the last couple of years, we don't have any active business with them other than the spare parts for the previously supplied axles.

Gargi Singh: Sir, last question. Today, we are doing around INR200 crores sales in the exports market. So, your plan -- what is our plan to expand the sales in the exports market for the axles? And also for the brakes business, are we doing any exports for the brakes and anything if you can highlight on business opportunity there as well?

Kishan Kumar: Axles right, you are right. We have a very clear plan for expanding our export in that area. Coming to the brakes, if you see India, we are all drum brakes. And the global, whether it is North America or Europe, where we have the largest markets, they have all migrated to disc brakes and they have enough installed capacity.

So, the opportunity in drum brake space would be for components that we are already discussing and putting up a plan together. But as a whole brake system, because the markets are different and the brakes what we make in India are different, I don't see that being a focus area for us.

Moderator: Next question is from the line of Amit Hiranandani from PhillipCapital India.

Amit Hiranandani: Sir, in your opening remarks, you said the CV industry will remain flat in FY '26. So, can you just give a rationale behind what is happening on ground?

Kishan Kumar: So a couple of things here. Post COVID, I think there was a surge. So, we saw that slowly getting into the market dynamics. 2023, for example, the overall market was around 420, 425, range. And what is happening is 2 things. One is the fleet efficiency and the good roads. So, the same amount of tonnage the vehicle industry used to carry back in 2018, the peak time with 480,000 vehicles is already met.

So, the demand is being met with the number of vehicles we are making with improving -- improvement in infrastructure, the better vehicles, better -- lower downtime. So, this is all in a way hampering the number of vehicles increasing. So, what we -- even a flat market is good under these dynamics. That's how I will see.

And 400,000 is still a significant volume for the Indian market. And '25 and '26 being flat, and then that is how the cyclic demand comes in, right? So that is where we are expecting a moderate CAGR of 10%, 11%, taking us to 500,000 vehicles by 2029 time frame. And this is how all the developed economies behave. And I don't think we are any different in this space. I hope that has answered your question.

Amit Hiranandani: Just a follow-up on the same, sir. So, are you seeing the -- currently any impact due to DFC at present?

Kishan Kumar: Very marginal, 5% to 10%, not more than that, very marginal. That is already plugged in. So, when I said that 500,000 market projected in '28, '29, '30, that's plugged in. We see about 5% to 10%, not more than that.

Amit Hiranandani: Right. Sir, my second question is, so if you are aiming to double the revenue by FY '30, so what would be the annual capex you have assumed? And what margins you aspire to achieve?

Nagaraja Gargeshwari: Okay. So I'll talk on the capex and margin, will come back. So, we are looking at initially next 3 years, as I mentioned, INR300 crores and of which about INR72 crores is already approved. So, we are presenting our plan to the Board. I believe our capex is probably going to increase year-on-year for sustenance probably from the current level of 1%, 1.5% to anywhere near 3% because as we start talking about efficiency, lean manufacturing, automation and then Industry 4.0, so our capex, there will be an uptick in the capex in terms of percentage, which should help us to modernize the plant.

With respect to margin, I think what we need to understand is we are in a highly competitive business. This investment what we are going to make and also the product and then new product introduction is going to kind of help us to maintain the current margins. If we don't do this, our margin is not going to be there. So, even with the increased revenues, we'll be able to maintain and then slightly improve upon like what Ranga mentioned, probably another 1% to 2% upside is available there. So that is what we are aiming for.

Amit Hiranandani: Right. So I mean, if you double the revenue still 12%, 13% is some margin you are estimating, right?

Nagaraja Gargeshwari: Yes.

Amit Hiranandani: Understood. Sir, last one question. Product gap exists in our portfolio at present?

Kishan Kumar: India as an M&HCV market, it's very, very fragmented in terms of the vehicles and the OEM specification itself is not -- nonstandard. And that is where the product gap comes in. It's more than a product gap. It's just the number of variants. And that has been our strength. We have the highest number of variants to support to a specific tonnage itself. Globally, if I talk about the products that we have, I don't see we have any product gap.

Even talking about let's say, when the industry or the market moves to 400 horsepower and above, we already have products in place in global. It's just about setting up a business case and bringing those product ranges to India. Otherwise, I don't see anything that is different that has already happened in the rest of the world not happening in India. So, it's just a matter of time.

Amit Hiranandani: No, I was just understanding that we were...

Moderator: I request you to join back the queue.

Amit Hiranandani: Just a follow-up. You were missing in the buses axle side. So, now we are entering the buses axle. Like is there any other piece like construction equipment or anything we are missing over there?

Kishan Kumar: No. The bus is the only segment. And that was also strategic. We did not focus on the bus because we knew our strength lies in the M&HCV, the heavy-duty axle. That was the priority given. Bus is only now looking at the future and the growth in bus is also cyclic, right? So that's the only gap we had, which was strategic. Now we are addressing that.

Moderator: We'll take our next question from the line of Aaryan Dadhich from Taurus Mutual Fund.

Aaryan Dadhich: My question was answered.

Moderator: We'll take our next question from the line of Shashank Kanodia from ICICI Securities.

Shashank Kanodia: So just wanted to check, recently, as per your press releases, I think your related party transactions are kind of rejected by the minority shareholders in terms of the dealing that we used to do with Meritor HVS India Private Limited. So, 3 parts to the question. First is, what is the further recourse -- bigger recourse do we have for us? And does it change the way we operate in India right now? And is there a possibility of subsuming that entity within the listed Automotive Axles?

Nagaraja Gargeshwari: Sorry, what was the second question?

Shashank Kanodia: Is there a possibility of subsuming that entity within Automotive Axles listed entity given that it has a common promoter group?

Nagaraja Gargeshwari: Yes. See, I'll answer the second question. That's -- I don't know, that's not on the cards at this moment of time. So, the status quo remains same. 2 entities will exist because consciously, I think we have explained it in our postal ballot notice also further clarification also we have given because the value addition what Meritor who owns a brand and IP is quite enormous. So, whatever we talked about it so far is about a new product introduction.

Our entire program management with the customers is there, they're the expertise of the product. So that probably will continue. And [inaudible 0:48:18] definitely seek their technical and advisory on all these aspects of it because AAL, its expertise is to manufacture and distribute and sell not beyond that.

So having said that, definitely, the going concern is not an issue. I mentioned in the beginning of the call that we are accepting the shareholders' mandate, we are working on a model. We are talking to the customers as well as the Board members and JV partners. We will be concluding this somewhere in the first, second week of March to make these things operational and keep running from 1st of April. So that's a statement we can make at this moment of time.

Shashank Kanodia: Okay. So that entity also makes up like 7% kind of EBITDA margins. And I think primary objective is to sell our products that we manufacture. So is there a thing to be discussed that some kind of margin should happen for that community to the listed part, eventually benefiting the minority shareholders?

Nagaraja Gargeshwari: Sorry, at this moment, I can't comment on that. It's too early to comment on that.

Shashank Kanodia: Okay. And second, sir, any progress on the eAxle front? I think we kind of have developed the capabilities, but we were still not supplying to the OEMs, right? If you can update us on the eAxle front?

Kishan Kumar: Okay. The first part here is the eAxle is not part of the JV. It's a product portfolio that we have in the global Meritor family. And the second part is to that answer is currently, it's only the buses, and that's how it's been even globally. And there is a softening of the entire market, what we are seeing that even the global OEMs are pushing their dates of SOP. So with that, we don't see we should look at any -- there is no viable business case with the current volumes of 3,000, 4,000 buses. And they are all on the central drive remote mount configuration and we are already supplying the mechanical axles for these OEMs.

Shashank Kanodia: Right. And sir, lastly, if you can share your share of revenues within the major customers. So, do I believe Ashok Leyland still continues to be having a majority of 50% share of revenues? And if you can name the others as well, sir?

Kishan Kumar: You are right. Ashok Leyland is a major customer for us. And then we have Daimler and Mahindra. And also we do supply to UD for their foreign operations. These are the major customers.

Shashank Kanodia: Any inroads in Tata Motors?

Moderator: I request you to join the queue, please as we have other participants waiting. We'll take our next question from the line of Saket Kapoor from Kapoor Company. We can't hear you.

Saket Kapoor: Yes, sir. Sir, when you were mentioning about the growth in the business going ahead, what are we factoring in, in terms of diversifying the revenue streams in the defense and the off-highway application? And also continuing to the previous participant question on client concentration rates, what steps are we taking for customer concentration rates to be warded off with the introduction of new OEMs like Tata Motors, if you could just put more color on the same?

Kishan Kumar: Sure. I'll probably need a little bit more clarity on the second question, but let me answer the first question. Diversification in the defense space, we are already present. We are already supplying axles to some of the defense OEMs in the rigid axle space, like, for example, Stallion with Ashok Leyland and the other platforms like FATB, we already supply to them. And then off-highway, we have reviewed the opportunities that is in front of us many times strategically.

And what we see is the overall market, even though we have products available globally, the overall Indian market is still in the 100,000 units. And only about 40% of them are wheeled applications. And when I say wheeled application, that is -- where the axles are used. And even in that wheel applications, 60% is backhook and which is a majority share is with one OEM, which is vertically integrated. So strategically, that is still not something that has created interest and multiple times, it's been reviewed in the Board meetings.

Can you elaborate on the second question? I did understand, but I just wanted to know exactly what you are expecting.

Saket Kapoor: Sir, as the earlier participant spoke and also there is evident that we have a strong customer concentration of 50% to 60% coming from a major player, Ashok Leyland. So other than that, what steps are we taking in order to introduce or lower this risk going ahead? And one more question in continuation to this, sir, taking the product profile of our company, what -- can you name a peer comparison in terms of the same product profile?

Kishan Kumar: Okay. So let me answer the first question about diversification. So, the first strategy that we are putting in place and focus is on diversifying in terms of reducing our risk of domestic market cyclicality. And that is where all the modernization, quality improvements with that, what we want to establish is a better export opportunity within the family of companies in North America and Europe. That is the first thing.

Second thing, it is not that we are not doing business with Tata. We have about 40% market -- 44% share of business with them for brakes. And we are in discussion with them for a long-term agreement where we want to push this to closer to 50%. So, we already do business with them for the brakes.

Coming to axles, we do have a very small share of business when it comes to exports that Tata wants to do from India. So, the export vehicles typically have our axles. But otherwise, Tata is also vertically integrated. They have -- if you ask me, they are our competition from an axle standpoint, if you want to take out the other competitors, Tata is a competition when it comes to axles because they make all axles, almost all axles in-house.

The other competition that we have, as you know, Dana and American Axle play in some of the M&HCV market, where there are equivalent products. And even though we have about more than 50% share with Ashok Leyland, as a company, Ashok Leyland also has a dual sourcing strategy, barring some of the products where we have -- we enjoy 100% share of business with them.

Saket Kapoor: And sir, between Axle and...

Moderator: Request to join the queue, please as we have other participants waiting for their turn. We'll take our next question from the line of Shubham Bhatra from Ambit AMC.

Shubham Bhatra: My question is on the lines of how do you look on the export market doing in the next couple of years? Do you see a demand revival happening there? And particularly, which region will we be focusing on?

Nagaraja Gargeshwari: So like I said, the export opportunity is always there. It is the question of when we can -- when that market goes up and we have an opportunity to expand our share of business. So, we are continuously working on that. So, we are mainly focused in the -- for Europe and North America.

That's where the opportunities are there and that's where our products and capability to kind of complement those requirements. So, we are confident probably this is -- like I mentioned, Europe is still soft and we are expecting North America to come back sometime next year in '26 -- end of '26, '27. So that's where we get opportunity.

Shubham Bhatra: Okay. And looking at the -- so you highlighted that the e-buses axle market is very small currently. However, it's a growing market. So, does that product have a higher margin compared to the normal axles that we supply? Is there any margin difference in that product?

Kishan Kumar: Margin from a technology standpoint and the content we have, the value definitely is high, but margin depends on many things, right, what we are competing with, what we are comparing with? Is it central drive powertrain system or anything else. So, it's very hard to say right now. As I said, Indian market is still in its nascent stages. And -- we categorize eAxle as a high-end product and the market is not ready.

So, we have reviewed it in multiple timelines, and we still see the volume doesn't justify. So, margin is going to be an end result of how we strategize, what volumes we bring in and how much we can export to other markets. So, a lot of things will be deciding that. And as of now, it is not something the JV is responsible for this particular product.

Moderator: We'll take our next question from the line of Viraj from SiMPL.

Viraj: Just a couple of questions. First is if you can just -- I think you talked about the new models we are working on with the private entity in India. But can you also give some color how the model work when it comes to exports and aftermarket? That is one. Second is with respect to exports and aftermarket, what will be the current revenue scale, if I look on an annual basis, what kind of revenue we will be earning at Automotive Axles India? And when you talk about doubling your top line over 4 to 5 years, how would the owner portfolio concept look in terms of export and aftermarket, indicative, not exact.

This is, when it comes to export, typically, what we see is the journey is at least a 3 to 5 year either you talk about new product development or even the supply to the Meritor ecosystem globally. So, where are we in that journey? And what is the value proposition we bring to them that gives you that confidence that you'll be able to achieve that scale which we are looking for? These are the 3 questions, and I'll come back for a follow-up.

Nagaraja Gargeshwari: Yes. That's a very long question. Let me try to answer on the financials, of course, Ranga is going to pitch in. So first of all, we export only to the rest of the Cummins drivetrain business system plant. So, that's how Meritor has been renamed [inaudible 0:59:38]. So, because we already have a business there, we always sell it to the business based on their needs.

So that growth we are going to see substantial, as you can see that when the sourcing opportunity is there and then China for China is becoming more of a reality, we have an opportunity to supply some of the needs of those, okay? So for aftermarket, we don't do it anything separately. For the aftermarket also, if there is -- it's all routed through the local CDBS business unit, okay?

So growth, like we mentioned, we will not be able to double unless we expand our export and aftermarket business. Again, we are focusing on the OES and the aftermarket, there is an opportunity there to capture that. Right now, we are focusing on the OES or basically the Meritor. We can also be looking at a later point of time for all makes versions. So that should significantly give us enhanced share of business. But again, our focus is to grow into the domestic market followed by, at the same time, exports and aftermarket.

Viraj: Just 2 questions. How does the unit economics compare versus exports...

Moderator: Sorry to interrupt. Can you use your handset? Your voice is not very clear.

Viraj: Yes, is it better now?

Nagaraja Gargeshwari: We should take it the last call because it's already been crossed over the time.

Viraj: Yes, is it better now?

Ranganathan S.: Yes.

Viraj: Just 2 questions. One is how does the unit economics compare for us in exports aftermarket vis-a-vis domestic OE, say, in terms of margin profile or terms of trade for us? And second question is, see, I understand that there's a value add which Meritor provides in the IP and the product and that may be more relevant from OE business point of view.

But from an aftermarket point of view, distribution, I'm just trying -- still trying to understand where does that value come from them? Because being in India, having that manufacturing and network setup at our end, why is it that something is still routed through them vis-a-vis going through the listed entity solely?

Ranganathan S.: No, I'll put it this way. I think probably Kishan or Nagaraj can pitch in and correct if something -- what I'm saying is not right. So, I look at it like this, okay? Who owns the brand and who owns the IP end of the day, as you see design, every element of design is a spec and through which we are manufacturing and supplying to them.

You should not see an aftermarket in isolation, especially with the core products, whether it's housing, whether it is gear set or whatever it is, it's purely come from the base design. That's the core of the entire axle itself. So, our expertise is about the manufacturer and probably we are just manufacturing to the spec. So that's about the product -- that's a component of the main product. So, it cannot be seen in isolation.

End of the day, the customers, for example, is buying the product is basically is a confidence that it's a Meritor manufactured product, they are -- we have a kind of an extended arm of manufacturing to the spec to the Meritor. So, it's how it is to be seen. And I don't think we should see differently. It's our internal view. And definitely, second piece of it is about the aftermarket business in India, OEs have their own setup in terms of selling it through the channels.

And Meritor HVS has got their own channels. They are opening -- they have the channels through the Meritor brand. They're selling it all over India. So, Automotive Axles is not into the distribution and selling to the end customers. That's what I highlighted. Naga, do you have...

Nagaraja Gargeshwari: Just to augment what Ranga has mentioned, we want to focus on our core competitiveness, which is basically manufacturing, sourcing and then managing the supply chain. And our focus with -- as you know, our resources are limited and we want to put our resource to the best of the ability to use them to enhance our supply chain effort and then bring that advantage to our OE customers and also the end customer.

So, we'll continue to invest and we'll continue to develop our manufacturing capability. At the end of the day, that is what is going to help us to double our growth and then at the same time, maintain or enhance our margins. So with that, probably we have come to the end of the session. So, I request Sailesh to conclude this.

Moderator: Yes, sir. Any closing comments from you, sir?

Nagaraja Gargeshwari: Again, just to reiterate, first of all, thank you very much for joining us in this call and then bringing in all those relevant questions so that we are able to bring in the clarity in terms of company's strategy, both short term, medium term and long term. Just as a part of our closing comments, so the last quarter, I think now even though the markets were soft, I think we have been able to deliver on the promises and maintain and a little bit enhance our margins.

So, the next year is looking -- even though the market is looking flat, we are focusing on introducing our new products and increasing our share of business and then that will help us to move towards achieving our growth -- long-term growth that we have planned to double by 2030.

Thanks again for participating. Have a great day.

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