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VARROC/SE/INT/2023-24/118 February 11, 2024

To,

The Manager- Listing
The Listing Department,
National Stock Exchange of India Limited
Exchange Plaza, Plot No. C/1, G Block,
Bandra-Kurla Complex,
Bandra (East), Mumbai-400051.
NSE Symbol: VARROC

The Manager – Listing
The Corporate Relation Department,
BSE Limited
Phiroze Jeejeebhoy Towers,
Dalal Street, Fort,
Mumbai-400 001.
BSE Security Code: 541578
[Debt: 975062]

Sub: Transcript of Investor / Conference Call pertaining to Unaudited Financial Results for the Quarter and Nine Months ended on December 31, 2023

Dear Sir/Madam,

Please find Transcript of Investors / Conference Call held on Wednesday, February 7, 2024, in respect of the Un-audited Financial Results for the quarter and Nine months year ended on December 31, 2023.

This is for your information and records.

For Varroc Engineering Limited

Ajay Kumar Sharma

Digitally signed by Ajay Kumar Sharma
Date: 2024.02.11 12:06:05 +05'30'

Ajay Sharma
Group General Counsel and Company Secretary

Encl: a/a

"Varroc Engineering Limited
3Q FY2024 Earnings Conference Call"

February 07, 2024

ANALYST: **MR. AASHIN MODI – EQUIRUS SECURITIES**

MANAGEMENT: **MR. TARANG JAIN – CHAIRMAN & MANAGING DIRECTOR – VARROC ENGINEERING LIMITED**
MR. ARJUN JAIN – WHOLE TIME DIRECTOR & CHIEF EXECUTIVE OFFICER – PTI – VARROC ENGINEERING LIMITED
MR. MAHENDRA KUMAR KARUMANCHI – GROUP CHIEF FINANCIAL OFFICER – VARROC ENGINEERING LIMITED
MR. BIKASH DUGAR – HEAD INVESTOR RELATIONS – VARROC ENGINEERING LIMITED

Moderator: Ladies and gentlemen, good day and welcome to Varroc Engineering Limited's Q3 FY2024 Earnings Conference Call hosted by Equirus Securities. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Aashin Modi from Equirus Securities. Thank you and over to you Sir!

Aashin Modi: Thanks Manav. Good evening all participants. Thanks to Varroc Engineering management for giving us the opportunity to host the call. We have with us the senior management represented by Mr. Tarang Jain, Chairman and Managing Director, Mr. Arjun Jain, Whole Time Director and CEO, BD-I, Mr. Mahendra Kumar Karumanchi, Group CFO and Mr. Bikash Dugar, Head Investor Relations. So I would now like to hand over the call to Tarang Sir for his initial opening remarks. Over to you Sir!

Tarang Jain: Thank you team Equirus for hosting the call and good evening to everyone for joining the call. Starting with the current macroeconomic situation the Indian economy continues to sustain its growth momentum with a GDP growth of 7.6% in Q2 FY2024 exceeding market expectation. The automobile production in India during Q3 FY2024 grew on a year-on-year basis for all the segments. Passenger vehicles grew by 5%, commercial vehicles grew by 5.9% whereas the three wheeler and two wheeler segments registered strong growth of 13.4% and 19% respectively. This growth was due to the strong economy and the late festive season this year. Sequentially there is quarter-on-quarter we have seen degrowth in all the segments. Commercial vehicles has degrown by 8.3%, passenger vehicles by 10.9%, three wheelers by 8.9% and the two wheeler saw a degrowth of 1.5%. The degrowth on a quarter-on-quarter basis seems to be mainly due to the year-end phenomenon.

Our operations in Q3 of FY2024 mirror the industry situation. Our revenue in India grew by 20.1% which is higher than both two wheeler and passenger vehicle industry growth on a year-on-year basis. However revenue from our overseas operations had a degrowth as two wheeler production levels went down in certain markets like Vietnam and Italy. In addition, our customer concentration in these markets impacted our revenue. As we look forward in our overseas business our focus is to drive customer diversification in the order book and hence mitigate our customer concentration risk. We also drive cost actions through insourcing and working capital optimization. These efforts are likely to lead to a gradual recovery in the overseas markets and improved financial performance in the medium term. Despite degrowth in the overseas markets in Q3 the overall revenue from operations grew by 9% on a year-on-year basis to Rs.18846 million. The reported PBT for the quarter was Rs.708 million which includes profit from our joint venture of Rs.250.7 million. The PBT margin improved by 300 basis points on a year-on-year basis and came in at 3.7%. Last year we created an impairment provision for the loan and equity invested in our Dutch entity VCHBV for a four wheeler lighting operations which we divested. We have now written off the loans in Q3 as we have completed the FEMA-related compliances for write-off with December 1, 2023 as the effective date. This is well supported by opinions from two independent senior legal counsels also. As a result the profit after tax was much higher due to recognition of the tax benefit from the aforesaid write-off.

We continue to have strong order wins from our customers in the nine months of FY2024. Our customers continue to trust us with sustainability for their new products. In nine months of FY2024 our new lifetime order win is Rs.67.57 billion and on an annualized basis Rs.11.99 billion. In Q3 of FY2024 our existing customers in the EV space have given us further opportunities as the market continues to evolve. These new orders will enable us to increase our revenue better than industry as the content remains five to six times higher than supplying to the ICE variants. Our revenue from supplying to EV vehicles in Q3 of FY2024 was approximately 5.3% of our overall revenue against 4.4% last quarter. Now I will ask M K, our Group CFO who will walk you through the presentation which is already uploaded on our website and submitted to stock exchanges also. Over to you!

Mahendra Kumar K: Thank you Tarang. Good evening everyone. I will first take you through the highlights slide which is slide number four. So as Tarang mentioned the year-over-year revenue growth was 9.4% in Q3. Indian operations grew by strong 20.1%, this is in line with what we have been saying all along about Indian operations; however, we had some challenges in the overseas businesses largely impacted by degrowth in certain markets in Europe and also because of lower offtake by major customers. The customer concentration is also a factor which impacted us this quarter. However we have been working on action plans to achieve gradual revival and we are hopeful of seeing gradual revival over the medium term with various actions put in place.

Coming to revenue from EV customers it was close to 5.3% during Q3, this is also helped by strong performance from some of the key customers in EV segment. Coming to profitability the EBITDA margin was slightly lower this time at 9.2% compared to close to 10% that we reported in the last two quarters, but this was again due to the impact of the overseas dip in growth and revenue, so the absolute EBITDA during Q3 was about Rs.173 Crores with PBT margin close to 3.7% which is still higher compared to last year by about 3%. As our CMD mentioned PAT was also helped largely by the deferred tax asset creation for the write-off of loans which we actually gave to the divested entities in the earlier year. We created provision last year which is what we kind of get into write off I will explain about this in greater detail in the subsequent slides. In terms of lifetime business won in the nine months it was close to Rs.67 billion with annual peak revenue potential of close to Rs.12 billion.

Now coming to the industry numbers year-over-year business growth was good for all the industry segments. The two wheelers grew by 19%, three wheelers by 13.4%, passenger vehicles and commercial vehicles also grew by around 5% to 5.9%. However interestingly or unfortunately the quarter-over-quarter saw a degrowth in all the segments. Two wheeler had a degrowth of 1.5%, three wheeler 8.9%, passenger vehicles also went down by 11% so that is something to be noted. On nine months basis also most of the segments if not all the segments registered either single digit or double digit growth. Two wheelers grew by almost 6% or 5.7%, three wheeler by close to 19% and passenger vehicle by close to 6%.

Now going to slide number six where we showed the consolidated financials. The Q3 PBT was 3.7% and of course EBITDA was 9.2%. Revenue growth of course we explained. PAT also we will discuss subsequently. There was an increase in net debt also which I will explain in the subsequent slides. Looking at the nine months performance the total nine months PBT was coming to 3.7% and EBITDA at 9.7% but if you really look at the cumulative year-over-year growth in nine months the revenue grew by close to 7.4%, EBITDA grew by 24% and PBT by almost 400% plus.

Moving to the next slide this is where we are talking about the net debt number. As you may recollect in the last investor call we mentioned that the net debt was pretty close to Rs.1000 Crores it was at Rs.1006 Crores. This quarter it actually went up marginally to Rs.1062 Crores an increase of about Rs.56 Crores. This was largely because of various reasons. One we also invested in renewable energy like how we explained earlier this was meant to achieve cost reduction which will help us in the next year and there were certain final payments to be made to the divestment-related consultants which is what we completed during this quarter. There is also temporary increase in working capital because we had to correct some of the GST rates on certain parts so there was some time lag between the payment to GST authorities and the collection from the customers, a major part of that has now been collected, part of it was done in Q3 and a significant part was also collected subsequent to Q3 in the current month. We are hopeful of collecting everything this quarter so that should actually correct the temporary mismatch in the working capital. There are also certain arbitration costs relating to China JV which we had to pay during the previous quarter so because of this there was an increase in net debt. We are hoping that this should get corrected in the coming quarters, so because of this and also helped by the recognition of deferred tax asset and the improvement in net worth the net debt equity is now pretty comfortable at 0.7. Our net debt to EBITDA is below 1.5. Return on capital employed of course had the impact of both on the numerator and denominator. Numerator because of the lower earnings and denominator of course now the capital employed is more because of the net worth addition which happened because of the tax benefit.

So going to slide number nine so this is where we explained the logic behind the write-off of loans. We actually consulted a couple of eminent legal experts. We took opinion from Mr. Arvind Datar and Mr. Ajay Arora who represent Wise Associates. We have been working on this for some time now. We collected a lot of evidence to basically just file our case for opinion. We also consulted our authorized dealer to basically complete the formality in relation to FEMA regulations, so we would complete all this and based on this we actually took this benefit in Q3. The underlying logic was like these investments which we made in the overseas entities were more in the nature of trade investments. These were not made just for the sake of earning dividends or capital gains so that was the major underlying logic and similarly the Indian operations also benefited significantly in the past due to technology sharing between four wheeler lighting and two wheeler lighting operations. We also derived benefits from supply chain support and also the access to global OEMs under the Indian operations helped the Indian businesses. In addition to that the guarantee commission and interest earned on those loans they were actually offered for taxation in India in the earlier periods so that is also another reason why we think we can actually claim this reduction in India and one more thing is the divestment of course all of you know the kind of challenges we had at the time of divestment including macroeconomic scenario, so in a way the divestment of these businesses also helped safeguarding interest of India business, so considering all this the legal experts felt that we have a good case for claiming this reduction so based on this we went ahead and recognized this benefit.

Coming to slide number 10 which is about the revenue breakdown, the strong performance in India and of course the degrowth in the overseas business is a change of the business mix with respect to segments. The lighting business of course is now at close to 21% it used to be close to 25% earlier. Similarly the outside India business also shrunk now to about close to 14% it used to be about 18% to 19% earlier and the strong EV performance also resulted in Bajaj percentage going to 44% compared to 40% earlier. In terms of new lifetime order wins in the nine months we have close to Rs.67 billion of order wins. If you really look at the breakup Bajaj-related order wins was close to 54% and then interestingly the EV percentage of the total lifetime revenue is now close to 50% so which is a strong sign for our future growth. Then we have also certain awards which we won in different segments of the business, so let me close with this and now we can take some questions. Thank you.

Moderator: Thank you very much. We will now begin the question and answer session. Ladies and gentlemen we will wait for a moment while the question queue assembles. We have our first question from the line of Abhishek from Dolat Capital. Please go ahead.

Abhishek: Thanks for the opportunity. Sir as there is a onetime tax reversal and write-off of loans of around Rs.2.96 billion will these flow into our balance sheet so just wanted to understand what is the impact on the BS and the cash flow of this particular write-off and tax reversal?

Tarang Jain: If I understood your question correctly you wanted to know the impact on balance sheet and cash flow am I right?

Abhishek: Yes.

Mahender K: In terms of balance sheet this will boost the net worth because to an extent of improvement in PAT it will result in improvement in net worth and then of course it also results in creation of deferred tax asset on the asset side. Coming to cash flow yes that is the whole intention is to save cash so that is why we are going for this.

Abhishek: So post these transactions what would be the cash in our books?

Mahender K: Yes this is basically about write-off of Rs.1350 Crores so we will be switching over to the new tax regime where the effective tax rate comes to about close to 25% so then you can compute the benefit which will spread over the next two to three years based on how we grow our profits.

Abhishek: So in the next three years what would be the effective tax rate?

Mahender K: Switching over to the new regime but effectively our intention is not to pay actually tax in terms of cash flow for the next two to three years will be closer to Zero.

Abhishek: So the benefit will be flow for the next three years in terms of that tax benefit right?

Mahender K: Correct.

Abhishek: In non-Bajaj segment we have seen flat growth in nine months FY2024 so what's the reason for that?

Tarang Jain: If you really look at our business wins for the nine months which is almost Rs.1200 Crores out of this 54% is Bajaj and it is also because of largely because of lot of the businesses we won with high content like EV and clusters and lighting but the other 46% is actually a non-Bajaj which is also quite significant which is also close to almost Rs.550 Crores so we are actually growing our business wins also with other customers and whether it is on the two wheeler side our focus of course we have said always is that one is that for whatever the products we do today including our traditional products we are focusing on capacity utilization and of course this capacity utilization is not only coming from Bajaj Auto the two wheeler is coming from all the other customers two wheeler OEMs in India and on the four wheeler side also our focus is on the plastics and also on the lighting business where also we are kind of winning business and we are also kind of utilizing those capacities but yes going forward I think we have seen a lot of good interest from all the OEMs and also a few new startups permanent startups on our EV powertrain products and we had reported actually a couple of wins on the EV powertrain in the last quarter and we are strongly engaged with a few other two wheeler OEMs also and we are hoping that in the coming months or coming quarters we will succeed in winning some more business when it comes to EV powertrain. When it comes to products like lighting and also the instrument clusters that is something we are anyway actually driving higher and higher sales and so basically whatever is the content based which is more to do with electronics and EV we are very well engaged with customers and we are winning businesses so I would like to say that when it comes to the India story it is very much intact and growth oriented. Even if you see our growth in Q3 our Indian operations has grown 20% year-on-year versus 15% for the overall industry and even at nine months we have grown 11% as against 6% of the industry growth so we have been actually growing quite well I would say when it comes to the market and yes Bajaj yes is our major customer and whatever we can do with Bajaj we will do but it does not mean that our efforts are not all with the other OEMs and going forward you will see that we have won some very interesting business with the other OEMs as well two wheeler and four wheeler.

Moderator: Thank you. We have our next question from line of Prateek Poddar from Nippon AMC. Please go ahead.

Prateek Poddar: I was saying you have won Rs.3000 Crores of orders this quarter right is that fair understanding?

Bikash Dugar: Yes.

Prateek Poddar: The second quarter is when I look at FY2025 I am on slide number 10 you say start of production from FY2025 is around Rs.4600 Crores what is the average life of these orders in the sense in how many years or when does this peak out?

Bikash Dugar: That is what in initial speech also CMD spoke about that the peak annual revenue of this is around Rs.1199 Crores.

Prateek Poddar: By when do you get that like when do you achieve this?

Arjun Jain: Prateek the peaks will take place over different years. It depends on multiple factors but primarily also when the OEM will SOP and really when the OEMs would SOP but you could expect whenever an order win is declared you would expect it will be generally within let us say 12 to adverse case 30 months.

Arjun Jain: So here what happens I will tell you is that when it comes to the two wheeler market normally you normally it is much faster the development cycle so there I think it could be within a year also but when it come to the four wheeler segment there it could even go up to one-and-a-half to two years because that is the way the order wins are and for four wheelers normally they take a longer time on the development compared to the two wheeler so that is the reason that we are giving the lifetime and we are also saying annualized basis but on annualized basis also you are right two wheeler and four wheeler if you break it up I think how much is the four wheeler out of the total business win.

Arjun Jain: Rs.1124 Crores.

Prateek Poddar: 16.6% yes it is there in your presentation slide 10.

Tarang Jain: So 16% to 17% would be more the four wheeler business win in this and the rest would be more the two wheeler and three wheeler.

Prateek Poddar: Which would ramp up fast right as you just explained 12 to 18 months?

Tarang Jain: Faster.

Prateek Poddar: The second question was on your China JV I have just seen the PAT has increased sequentially quite strong could you just explain this?

Mahender K: Yes so this is largely helped by the revenue growth as well as the margin improvement. There were certain price increases also which happen so all this enabled us to throw a decent **number.**

Prateek Poddar: Is this sustainable Sir going forward also the Rs.25 Crores kind of run rate?

Tarang Jain: So normally what we see in the Chinese market, see for them it is more of a calendar year so the last quarter it is always very strong and then that would mean like January to March will be Q1 for them but because of the Chinese New Year obviously the sales would be less in the Q1 which is for us the Q4 but having said that yes it is not that the Chinese market the sales obviously you can see the market has not really been growing that well compared to the earlier years but we are concerned going forward I think that we have had some very interesting business wins so we are looking a decent growth in the coming year and years so it will be more like more of increase in our market share in the Chinese market but the growth of course it is not more than 5% in the Chinese market definitely.

Prateek Poddar: Understood that is very helpful. The third question was Sir on your other expenses I think we have been highlighting about reducing our fixed costs and that is an exercise which has started from may be start of this financial year but as of now I cannot see any improvement so how should I think about reducing your fixed costs?

Mahender K: See the other expenses are not entirely fixed cost as you know it has some variable costs elements also, in fact a significant part of that is variable cost including your fuel, freight, and packing cost but having said that some of the onetime fixed costs also we had to pick up like I was explaining earlier that the arbitration-related cost and all we had to actually pickup so those things are more like one time they are not sustainable or continuing fixed cost so that should get corrected in the coming quarters.

Prateek Poddar: Can you call that out how much would be the arbitration costs for the one time fixed cost which have picked up this quarter?

Mahender K: For example it is close to about Rs.8 Crores to Rs.10 Crores.

Prateek Poddar: Got it. You also talked about in your presentation about lowering of electricity cost by investing in renewable energy and our understanding was that should have started effecting from Q3 so has there been a delay over there or it is already getting reflected?

Tarang Jain: No it was not Q3. It was always scheduled for actually kind of commission around March but we should start seeing the benefit if not from April at least from May onwards.

Prateek Poddar: How much can this help us by?

Mahender K: We do not want to give micro level details but yes.

Tarang Jain: The numbers are quite interesting.

Prateek Poddar: The numbers will be?

Tarang Jain: They will be quite interesting for you. We do not want to let you know at the moment. I think let us first realize those numbers which we feel should properly materialize more from the month of May.

Mahendra Kumar K: Also it will come in phases. It is not just a onetime kind of. There is more to do in this area also but it will happen over a period of time.

Prateek Poddar: Got it. Sir with this creation of deferred tax asset obviously the cash which you pay does that mean the repayment of debt will be quite fast in the sense that let us say if you are planning in two years with virtually no tax payments for the next three years the cash payments we can assume a very fast debt repayment and may be by the end of next financial year we could be very close to net debt zero net debt?

Mahender K: I do not want to give a future prediction but yes that is the objective. The object of this is to conserve cash.

Prateek Poddar: Just a small book keeping question, we have seen a sharp increase in depreciation and the idea was always capex should be lower than the depreciation are there one offs over here which you are writing it off?

Mahender K: It is not because of additional I would say capex-related depreciation but it is somewhat related to that. We commissioned a new plant in Chakan here in Pune so it was the leased facility so the leased depreciation and interest are accounted in both depreciation as well as interest so that is the reason.

Moderator: Thank you. We have our next question from line of Naveen Baid from Nuvama Asset Management. Please go ahead.

Naveen Baid: Thank you for the opportunity. Sir the speaker before me I was just confirming whether the orders for the quarter were to the tune of Rs.3000 Crores so if I look at the order bills for the past nine months that is if I look at order win for the past two quarters they are roughly Rs.4700 odd Crores and for nine months it is Rs.6700 odd Crores so the numbers are not adding up so this quarter the orders are likely to be Rs.2000 Crores and not Rs.3000 Crores is that correct?

Bikash Dugar This quarter the order has been around Rs.3000 Crores.

Naveen Baid: There have been some cancellation like how do we explain that?

Bikash Dugar: Six month numbers are around Rs.3700 odd Crores and this quarter it is closer to Rs.3000 Crores.

Naveen Baid: This Rs.6700 Crores obviously includes the order win from the EV side?

Bikash Dugar: Yes.

Naveen Baid: Gross margins?

Mahender K: Gross margins from these orders?

Naveen Baid: What is the gross margin this quarter?

Bikash Dugar: It is around 36.3%.

Naveen Baid: Thank you.

Moderator: Thank you very much. We have our next question from line of Jyoti Singh from Arihant Capital Markets Limited. Please go ahead.

Jyoti Singh: Thank you for the opportunity. My question is on the debt side like earlier a quarter we have committed like we have been going to reduce our debt but now it has increased this quarter so like what are the objectives going forward on the debt side?

Mahender K: No like how I explained in the earlier presentation, part of it was because of some temporary reasons because of the working capital mismatch which we had. It should actually go down from here after that is our intention so the objective is still intact. We are very much working on debt reduction.

Jyoti Singh: Sir any target that we are keeping for the debt reduction that we can disclose it?

Mahender K: We do not want to give a number to it but what like we said there is no reason for us to borrow more for any of our business requirements so whatever cash that gets generated out of business will only go to reduce the debt.

Jyoti Singh: Thank you and Sir earlier also we commented that the H2 will be stronger but somehow Q2 quarter was not that great so what is the expectation for Q4?

Tarang Jain: You are talking about the topline?

Jyoti Singh: Overall Sir I am talking about margin and topline.

Mahender K: We do not give any guidance like that but normally Q4 the industry should be reasonably well so that should also reflect in our performance but then like our CMD explained recovery in overseas segments will take some time.

Jyoti Singh: Thank you.

Moderator: Thank you. We have our next question from line of Tirth Gosar from Svan Investment. Please go ahead.

Tirth Gosar: Thank you for taking my questions Sir. Sir I have a couple of questions. My first question is relating to our growth so we have seen on quarter-on-quarter almost all segments have seen a slip, two wheelers have seen a better performance than the other segments and in fact if you see EV two wheelers have seen a growth across all your customer category so can you explain and we have gained some good order book also over a period plus we also dwelled upon that our content per vehicle or value per vehicle have also increased incrementally than the new order so can you explain why quarter-on-quarter the growth will be muted and what is going ahead, how do you see this movement ahead in the next three to four quarters going ahead?

Tarang Jain: So here I think it was more to do I think with the season and everything there was a degrowth in all segments so the way we see quarter-on-quarter the industry I am talking about India now the industry degrew 3% but we grew 3% and we have always maintained that we are going to be at least 4%, 5% and 6% more than the industry so that is intact and I think that today the auto market is still doing quite well and I do not see a reason why it will not continue to grow by what percentage I do not know but I think the growth story definitely is intact in India across segments even for commercial vehicle because our GDP growth is quite good so I do not really see any kind of an issue really in future growth when it comes to the Indian market. We are quite bullish and like I said earlier we are very well engaged with all the customers on the two wheeler and on the four wheeler side and we feel pretty confident.

Tirth Gosar: Sir my second question is what do we expect your tax outflow percentage as we are moving towards the new regime for the next financial year?

Mahender K: No we do not give any forward looking guidance like that. All that we can say yes our intention is to conserve cash by taking this benefit but we do not give guidance on a future profit.

Tirth Gosar: Sir regarding our China JV arbitration which was there how is it moving forward; is there any positive news there?

Tarang Jain: So there is an arbitration on in Singapore with partners in between we have been trying to have a split with a partner, as you know that there are two plants and two entities we are trying to go in for a split but so far we have not been successful. I think the order on the arbitration probably will come in probably by July by half one so then we will probably know what the result is. We do not know what will really happen over here. Probably one partner buys the other or in between there is a kind of conditions get created for a split so it all depends on the tribunal so the moment we do not know but largely I would say or the arguments and all on this in Singapore are basically largely done. There is probably one more I think hearing probably in the month of May or June and after that I think probably there will be that decision taken so we will come to know probably in the first half of FY2025 we will know the result of this JV.

Tirth Gosar: Sir what was the capex in the first nine months and what is the capex expected for FY2024 and FY2025?

Company Speaker: The first nine months with spent about Rs.125 Crores. We may finally close the year with about Rs.160 Crores to Rs.170 Crores kind of. This is for Indian operations. Maybe another Rs.20 Crores for overseas so close to about Rs.180 Crores could be the number.

Tirth Gosar: 2025?

Company Speaker: It could be around this range only. We do not intend to take it beyond Rs.200 Crores.

Tirth Gosar: Thank you and that is all from my side. Thank you and all the best.

Moderator: Thank you Sir. We have our next question from line of Arvind Sharma from Citibank. Please go ahead.

Arvind Sharma: Good evening Sir and thanks for taking my question. Sir first question would be on the PLI incentives if you could share any views there, is there any accruals happening or when do you expect that I have second question on order books but first views on PLI?

Arjun Jain: We have not accrued anything for PLI yet but for certain products lines we would expect to do.

Arvind Sharma: Alright Sir. My second question will be on the order wins, we see the lifetime order of around Rs.67.5 billion that we have given are all these new orders so how many of them would be fresh orders and since you have shared the FY2024 and FY2025 onwards split is it possible to share till when what is the order life or what is the time these will be fructify?

Arjun Jain: So I will go one-by-one. This will be a combination of new, new programs as well as volume expansions on existing programs right or let me not necessarily call them existing programs but volume expansions where there is modification improvement so if we have declared X volume as an order win in the past and there is an expansion to that, that will obviously come that delta differential will come and what we will report now. The second one was in terms of the appropriate expectation I think we have already shared some information around when we expect peak to take place right.

Arvind Sharma: FY2025 onwards these things for how low it will continue?

Arjun Jain: So directionally like we said I think it depends on customers as well so two wheelers are generally a faster cycler, passenger cars are generally a longer cycle but they would generally take place within 12 to 13 months.

Arvind Sharma: 12 to 13 months?

Arjun Jain: Yes.

Arvind Sharma: Great. Thank you so much Sir. That is all from my side.

Arjun Jain: 12 to 13 months not from now but from the actual order book.

Arvind Sharma: Fine. Thank you.

Moderator: Thank you Sir. We have our next question from line of Prateek Poddar from Nippon AMC. Please go ahead.

Prateek Poddar: Just profitability of these new orders right we have won close to Rs.5000 odd Crores of orders may be slightly lower than that in the last six months the profitability is it could you just comment on it how should you think about it, is it higher or is it lower because the mix is quite interesting right in terms of EV players versus ICE so just trying to think about the profitability of these orders?

Arjun Jain: It is hard to comment on profitability specifically because every product line tends to have different product economics right really based on manufacturing process, engineering intensity, and overhead intensity so the way I would describe it is it is sustainable profitability right because we are strong in terms of threshold based on which we quote and that is what we respect.

Prateek Poddar: Just one small question and I am just going back to what even I was asking earlier in terms of the ramp up the way you are explaining that it takes 12 to 13 months from the start of production for the orders to ramp up it looks like FY2025 and maybe FY2026 where we realize bulk of this Rs.5000 Crores of new orders in the last six months, it could be quite substantial so we could see a far higher outperformance over industry growth over the next two years versus what we would have seen in the past basis that the order book which we have just gathered is that a fair understanding?

Arjun Jain: Yes that is our intention and we are hoping that whatever are the SOP dates the customers have told us if they get realized yes I think it will keep with our objective of actually kind of growing faster than the market. If a lot of these products are also high in content and next year we had mentioned probably in one of our earlier calls that our revenue towards EV we would like it to be Rs.1000 Crores and there is a very good possibility of achieving that in the next financial year.

Prateek Poddar: Understood. Thanks for this and best wishes for the future. Thank you.

Moderator: Thank you Sir. We have our next question from line of Abhishek from Dolat Capital. Please go ahead.

Abhishek: Sir what was the operating margin X overseas business?

Mahendra Kumar K: No we do not give those subsegment level details.

Abhishek: So what is the margin for the domestic business right now?

Mahendra Kumar K: Sorry we do not share.

Mahendra Kumar K: But see we told you that 85% of our revenues were from India.

Abhishek: So my question was related with this overseas business basically that was a drag for the company finances so can we expect some more write-off in the coming days?

Mahendra Kumar K: No we do not see any need for write-off in fact our intention is to actually improve profitability and also growth in all these overseas markets so we do not see any need for any kind of write -off at this stage.

Abhishek: So how you will achieve the 10% kind of the margin target as there will continue to be pressure because of these businesses so what is your plan for that to achieving 10% or 11% kind of the operating margin?

Arjun Jain: So like our CMD already said right we work on derisking the customer base. We have already made moves towards insourcing and hence improving let us say some of the material margins and also we work given that supply chains globally are slightly better especially from a semiconductor standpoint. We work on working capital optimization also.

Arjun Jain: Plus we continue to work on cost reductions across our businesses.

Abhishek: My last question on the electronic business unit where we have seen a 15% growth in nine month so how much is incremental revenue from the EV business in this year and what would be the target for the next year?

Arjun Jain: What we explained at the total level EV revenue is about 5% of the total 5.3% and last year I think it was pretty negligible so the entire thing is incremental.

Abhishek: Thank you Sir.

Arjun Jain: It will grow as we move forward.

Abhishek: Thank you Sir. That is all for my side.

Moderator: Thank you Sir. We have our next question from line of Aashin Modi from Equirus Securities. Please go ahead.

Aashin Modi: Thanks for the opportunity. Sir my first question is regarding the India Lighting business so it is a very fast growing segment and with a lot of premiumization happening across so how do we see that business growing and with competition intensity increasing over here how do we see that business growing because nine months performance has not been that strong in intensity?

Arjun Jain: So I think when you read that nine months performance that is our global lighting performance including India of course as a percentage of our total sale right. Now of course like we have talked about and as you also see overseas is reduced as a percentage so that obviously impacts lighting as well but in India we do not see any roadblocks to lighting growth at all. In fact our lighting business in India continues to do well and that is largely driven like we said before right by the fact that we have been very early mover if not first mover especially when it comes to LED lighting so we continue to have program wins and we continue to see volume expansions whether in two wheeler, whether in passenger car and we expect that trend will continue.

Aashin Modi: Sure and Sir my next question is regarding the EV specific components so have we added any new products over there and where are we on the journey of adding other OEMs for our EV specific products?

Arjun Jain: So today practically in the product range that we already address and we already market, I do not we want to add any products beyond that. In fact we are clear we will not add products beyond that. Like we stated last quarter we were able to add two customers two further EV customers for EV specific components and we will see those realizations over the next 12 to 18 months. Of course these components essentially when you are trying to supply the EV powertrain it is extremely engineering intensive component and is also a very long sourcing timeline kind of component so we continue to have strong engagement with multiple other customers and yes hopefully we should have over the coming quarters we should have more to report.

Aashin Modi: Do we have enough capacity to have the growth that our major customer receiving on the EV side or do we need to put in more capacity for the EV specific component?

Arjun Jain: So I think we have already given visibility around what our total capex numbers would be limited to and within those numbers we are able to support any expansion the customer would like.

Aashin Modi: Yes sure. Thank you. I will join back the queue.

Moderator: Thank you Sir. We have our next question from line of Priyaranjan from HDFC AMC. Please go ahead.

Priyaranjan: Thanks just couple of questions. One is on the EBITDA margin if I look at the quarter-on-quarter the topline was flat still there has been 60 basis points so is it largely because of mix or there is something more to it?

Mahendra Kumar K: Yes it is largely driven by these challenges we had in the overseas market so that had an impact.

Priyaranjan: Where is this Rs.10 Crores arbitration charges is booked is it part of the other expenses?

Mahendra Kumar K: Correct.

Priyaranjan: So that explains the because if I do the Rs.10 Crores in the EBITDA then I think 40 to 50 basis point impact is because of that right?

Mahendra Kumar K: No see there was arbitration expense in the previous quarters also. It is not that it was zero earlier. It was maybe to a smaller extent so last quarter it was close to Rs.10 Crores arbitration plus a couple of other consultancy-related expense.

Priyaranjan: This is going to continue for couple of quarters or this will now because I think most of the hearing is done?

Mahendra Kumar K: It should not be to this extent is our expectation because like what you said most of the arbitration hearings have been completed but it will come down gradually.

Priyaranjan: In terms of overall capacity utilization of different plants so if you can throw some light on what are our operating capacity utilization and how much benefit as we enter next year with a very good order book and the order ramp up so should we expect meaningful operating utilization level going forward I think FY2025 and FY2026?

Arjun Jain: Yes so I think like we said in the past I would our blended capacity utilization because of course we operate multiple different processes would be around 65% and some places maybe around 70% but again right I think we have the order book. We have defined what our capex outlook is for this year and also for next year and within that we believe we should definitely be able to execute the order book and of course that will also lead to an improvement in capacity utilization.

Priyaranjan: As we move towards the greener energy so what is our plan so how much greener energy in terms of our internal utilization, what should be the percentage share from that?

Mahendra Kumar K: The proposed one which is under implementation should be somewhere between 35% to 40% in terms of the overall sourcing from renewable energy.

Priyaranjan: This will be supplied back to the grid and then whenever you require so you can utilize it from the grid?

Mahendra Kumar K: Yes we will get bill for the net amount of consumption.

Priyaranjan: Understood and in terms of the cash conversion to EBITDA that has been not so strong so any specific region is I think the only working capital-related issues is there because your EBITDA was I think Rs.175 Crores to Rs.173 Crores this quarter I guess with around Rs.40 Crores will be primarily driven to the capex?

Mahendra Kumar K: You are right I think I also explained it earlier in the slides. The temporary working capital challenges this quarter created that kind of disparity but if you see the earlier quarters it was coming out nicely.

Mahendra Kumar K: Quarter-on-quarter is better cash conversion you should look for a longer period so nine month the numbers looks good.

Priyaranjan: Thank you. All the best.

Moderator: Thank you Sir. We have a followup question from line of Prateek Poddar from Nippon AMC. Please go ahead.

Prateek Poddar: Sir may be if you could just spend some time explaining the overseas operations we have seen a very, very sharp decline let us say if I were to see from Q1 how should we think about its recovery I know you have explained it in bits and parts but the customer concentration risk which we have seen and you are trying to mitigate that how should we think about this business in the next two to three years or maybe next 12 months?

Tarang Jain: There abroad the major area for us is Europe and of course we have also Vietnam so see here the issues have been largely to do with the European market where we are concerned whether it is to do with two wheeler or whether it is to do with the electronic products and of course this has been a little bit compounded by concentration on a few customers and basically what has happened is that when it comes to two wheelers our focus has been more on scooters and where scooters have actually degrown more than the motorcycles in that segment so what we are doing is that now we are also winning businesses on the motorcycle front where it comes to Europe and also when it comes to our Vietnam plant the focus is now going to be much more with the Japanese OEMs, so today the competition is more actually with some of the European OEMs even in that market. Yes we have Japanese customers but now we would like that we are focusing more with the Japanese OEMs and also strengthened our sales team also for Southeast Asia. We already have our office in Japan which is also closely working on seeing that a lot of these businesses are very converted into orders for us, so there is a lot of focus where comes through more I would say Southeast Asia and where it comes to Europe yes the growth there will not be as high as Southeast Asia when it comes to two wheeler but when it comes to electronics our plant in Romania that is where we are looking at we are really focused on winning new businesses over there so one is of course the focus on sales wins on the overseas. The other is what we have done is that which includes China and also in Vietnam that we were so far though our margins were quite okay, I would say across distinct product lines but we did not have our own electronics so far when it comes to two wheelers products or the four wheeler lighting in China so now we have installed our own SMT to the extent of at least if it comes to two wheeler I think it will be almost 100%. When it comes to four wheeler it will be 30% to 40% so this will also increase margins to the extent of at least 3% to 4% so this is one big step so one is sales growth and utilization of capacities is there which we have seen in the last quarter go down and which will be impacted for the next few quarters also but we are working very proactively on sales wins which probably should happen probably let us say within a year’s time that we will see that growth taking place. On the other hand cost controls and mainly on the bomb side SMT in house SMT is what is going to drive margins up which will help the overall situation of a business division abroad.

Prateek Poddar: Thanks.

Moderator: Thank you. Ladies and gentlemen that was the last question for the day and I would now like to hand the conference over to management for closing comments.

Tarang Jain: Thank you very much so I just want to kind of say that the focus of the company remains to further strengthen the Indian operations, bringing back the profitability in our overseas operations, control on overall capex and generation of free cash flow and reduction in net debt. So with this thank you for joining the call and we will again meet soon after one quarter. Thank you.

Moderator: On behalf of Equirus Securities that concludes this conference. Thank you for joining us. You may now disconnect your lines.