



Divgi TorqTransfer Systems

Divgi TorqTransfer Systems Limited

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February 06, 2024

To, BSE Limited, Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai - 400001 BSE Scrip Code – 543812	To, National Stock Exchange of India Limited, "Exchange Plaza" 5th Floor, Plot No. C-1, G Block, Bandra Kurla Complex, Bandra (East), Mumbai – 400051 NSE Scrip Code - DIVGIITTS
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Sub: Transcript of Earnings Call held on February 02, 2024

Ref.: Regulations 30 of the SEBI LODR Regulations

Dear Sir / Madam,

Further to our letter reference no. DTTS/Sec/23-24/100 dated January 24, 2024, pursuant to Regulation 30 and other applicable provisions of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("LODR Regulations"), please find enclosed herewith the transcript of the Earnings Conference Call held on **February 02, 2024**, in respect of the Unaudited Financial Results of the Company for the quarter and nine months ended December 31, 2023.

The transcript can also be accessed on the Company's website at the following link:

<https://divgi-tts.com/earning-call-transcripts/>

This is for your information and records.

Thanking you,

For Divgi TorqTransfer Systems Limited

Sanika Nirgude
Company Secretary and Compliance Officer
M. No: A71466

Enclosed: As above

Divgi-TTS Q3FY24 Earnings Call Transcript

Aashin Modi: Yeah. Hi, good evening, everyone. On behalf of Equirus Securities, I welcome you all to the Divgi Torq Transfer Systems Limited Q3FY24 Earnings Conference Call. Today with us, we have from the management side, Mr. Jitendra Divgi, Managing Director. Mr. Hirendra Divgi, Whole-Time Director, Mr. Sudhir Mirjankar, Chief Financial Officer and Mr. Dipak Vani, Chief Operating Officer. We'll start with a brief opening remark, post which we'll have a question-and-answer session. So, without further ado, I hand over the floor to the management for their opening remarks.

Jitendra Divgi, Managing Director: Yeah, thank you very much, Team Equirus. For those of you who are new to this Investor Earnings Call, my name is Jitendra Divgi and I'm the Managing Director at Divgi-TTS. It's been nine months now since our IPO and as we go into this presentation, I thought it would be a good idea to just take a couple of moments to recap very quickly who we are, what we do, where we are located for those of you who might be new to our company. So, Divgi-TTS is based in Pune. We are close to 60-year-old company and our vision is to be recognized as a world-class Indian brand in automotive systems. That is, of course, supported by a foundation of values and it informs our day-to-day work. But the important thing, I think, because we'll be sort of making sure we come back to what this vision means to us and how it is actioned in our day-to-day work. We have four locations in India. I'm speaking to you from our head office, corporate office in Bhosari, Pune. We have two other plants in Pune and a very large facility in Sirsi in the North Kanara district of Karnataka. Our newest plant where we make our EV transmissions and where we also intend to make automatic transmissions in the near future is located at Shirwal. So, as you can see, we are sort of located on the arterial corridor of part of the golden quadrilateral between here and Bangalore. We like to sort of present our product portfolio in this manner. Call them four verticals or four quadrants as we like to call them, manual transmissions, four-wheel drive applications, electric vehicle transmissions and automatic transmissions and key components thereof. And I think this is the space that we will be coming back to again and again in this call and in future exchanges that we have. These are the sort of typical applications. They include primarily SUVs but also smaller cars as you can see in the bottom left-hand corner and commercial trucks, pickup trucks, vehicles of that type. We, our play is global and our market footprint as you can see from the west to the east is extensive. We have recently added the markets of Western Europe in Portugal and sort of reclaimed markets in Mexico where a lot of our US customers are now setting up manufacturing facilities. We were a pioneer in China more than 20 years ago and we continue to have a role there. So, not just India but across the world and with some good interesting diversity. Our board of directors that supports me and the enterprise is a very distinguished group of individuals headed by our chairman Praveen Kadle who actually needs no introduction to the capital markets of Mumbai. We have a well-rounded management team and I'm sure you people will connect the dots to what this team handles because without such a well-rounded organization, it's difficult to do what we have set out to do. So, I just want to take a moment and point out that we have a function dedicated to growth and launch and as you'll see through the presentation, we are applying resources seriously to scaling up our business. So, with that, we'll dive right into the meet of the presentation. I'm going to just give you a quick executive summary, a revenue walk of what's happened in this year so far including of course last quarter Q3. My colleague Sudhir Mirjankar, CFO of our company will then talk about financial performance business highlights and our COO Dipak Vani will then give you an update on some of the new equipment that's coming in, how that relates to some of our new programs and I will then summarize with what I call the big idea takeaway for us. So, let's get going. My brother Hiren Divgi is not actually here on the team today, there are three of us. He is attending the Bharat Mobility event that is going on in New Delhi today. So, three of us here. So, Q3 was a little bit of a mixed bag, tactically we had some unforeseen market headwinds that we were not expecting especially in our EV business that had sort of taken off in Q2. By all indications, the schedules we have now received seem to suggest that Q4 will come back to some sort of normalcy but later on in the presentation I'll

show you some of the detail. But overall, it was down a little but stable compared to last year. We did bag new export orders; we have put out a press release I think yesterday or the day before and our order book on exports now stands on an annualized basis at almost 90 crores right now. Our new facility at Shirwal has matured further and I believe has now achieved a critical mass in terms of giving us a cohesive resource base for advanced transmission systems that includes EVs and automatics DCTs that we have been looking at. In the area of EVs, the work that we have done has given us proven products and a demonstrated track record in manufacturing operations in the market segments of hatchbacks, sedans, micro-SUV and last mile light commercial vehicle segment. I sincerely believe from the data that is available with me that we continue to lead in this area in India. We are Tata's currently only transmission supplier in the country and by virtue of their market share in India, I believe we continue to be India's largest EV transmission maker in terms of the portfolio and the manufacturing capacity that we currently possess. So, that puts us in a kind of pole position and I'm sure that will help us tide over the tactical challenges we are now facing. On the couple of developments that have happened, Tata Motors while facing some challenges on the EV side has done well. Most of you may have noted that the press release that Tata Motors now has surpassed Maruti Suzuki in terms of market cap and I'm pleased that we have a long and deep track record of innovation and technology development at Tata Motors. MG Motors in Halol Baroda is an important customer to us. They have been in a little bit of a churn with some corporate restructuring going on and we can talk a little more about it during Q&A but the important point is that it is accelerating its indigenization and that means strategically more opportunity for suppliers like us. So, in terms of while we faced issues of growth that we were expecting, there were some significant achievements that have both tactical and strategic significance. Our transmission dynamometer which is just a technical jargon you might say for test equipment that we use to test durability of transmissions was successfully commissioned and it is now in active use in validating new products for us. Using that we have we've launched the Tata Nova project which goes on the new Punch and we are already tooled up for the E-Jeeto at Mahindra. On export businesses acquired earlier which we had announced in the last earnings call, we have almost completed the setup of the production system. Parts have been submitted for approval and we expect that business to start this quarter. At least shipments to our warehouse in North America and as I alluded to earlier, two new export businesses have been acquired. So, despite the difficulties we ran into, I think with some tough cost control, we have kept the EBITDA around close to 26% and as you will see later in the presentation, investment in capacities and capabilities to take on new opportunities that is going apace and we will be updating you every quarter on the progress that we are making. So, with that, let me shift gears as it were and talk a little bit about the revenue, what happened on the revenue side. So, as you can see, there were sort of two or three areas that are growth, the components, E-gear drive and transfer case and compared to Q2, it's a little bit of a mixed bag components, grew marginally but the big shock came to us on the E-gear drive, the EEV transmission and we'll talk about that in the Q&A, I guess. But essentially, it was I think a combination of factors, year-end new products getting launched at Tata, a little bit of teething challenges in the launch. So, there was especially December was a bad month in terms of shipments but I'm pleased to report that we are seeing a quick turnaround and this quarter will almost bring us back to normalcy of what we saw in Q2. So, that led to somewhat of a decline in terms of the quarter comparison but compared to last year, it was practically at the same level. So, on a nine-month comparison, it's almost head-to-head but operating sales was down a little bit mainly because of a little softening in Q1 on transfer cases and then the EV business faltering a little bit. So, I'll now hand over the proceedings to Sudhir, our CFO and I'll come back to later on to wrap up the discussions.

Sudhir Mirjankar, Chief Financial Officer: Good evening to all. I will just take you to the financial highlights for the Q3. So, revenue were at 67 crores which were down 8% quarter-on-quarter but up 4% year-on-year. So, as explained by Jitendra Divgi, due to market headwinds in this quarter on defense business, four-wheel drive business and EV project, we lost around 16 crores to the

estimated business and on profitability, the gross margins were down 4% compared to quarter-on-quarter and year-on-year. Basically, this is due to the sales mix and but we were able to maintain our EBITDA at 26% quarter-on-quarter by doing certain control over fixed costs. On PBT, profit before tax, depreciation was impacted due to additional capital expenditure. So, on capital employed, we have been spending on our growth CAPEX. So, we had spent around 17.8 crores for this quarter. We maintained the debt-free company and ROC definitely because of investment in growth CAPEX, it's at 11.5% on an annualized FY24. On working capital management, I just want to update you from the last earning call that we have started recoveries of our pending receivables for the defense business. But on inventory front, we do have inventory piled up and that's to ramp up our new programs which are expected in the fourth and the coming year. So, cash reserves of the company right now are at 259.87 crores. So, I just hand over the updates of new manufacturing equipment to be given by Dipak Vani.

Dipak Vani, Chief Operating Officer: Good evening, everyone. As Jitendra Divgi explained you, for us, our vision is to be a globally recognized world-class brand. And for us, product leadership is core to us. And that product leadership mean four things to us, continuous invention and innovation, superior solutions, distinctive products and world-class manufacturing. So, I'm here to talk a little bit about how we are pushing the envelope towards world-class manufacturing and what are the equipments we have added into our new plants in this quarter. So, horizontal machining centers have been added into our Shirwal facility. So, these are for EV transmission, housing machining. These are very sophisticated equipments which we have imported from Japan and these are very highly productive equipments and precision which requires for EV transmission. So, these housings are basically tooled up with Makino in Japan and these two machines we have installed in our Shirwal facility. Along with horizontal machining centers, we have also installed vertical machining centers for medium-to-medium volume productions. And these are the equipments which have pallet changing facility available for achieving the highest productivity. So, that while loading and unloading of the components into these machines, one set of pallet goes inside and machining always, the machining of the component is always on inside the machine while operators are doing loading unloading outside. Then gear grinding machine is very critical for electric vehicle transmission manufacturer for NVH reasons and the new addition into our plant is gear grinding machine from Klingenberg, Germany. And there are two models, one is already installed in the facility and one more is on its way to our Shirwal facility. So, Divgi-TTS is manufacturing our own proprietary designs and these equipments play a very important role in order to control the tighter NVH standards that electric vehicle transmission demands. NVH is noise, vibration, harshness. So, in simple term, it is when any electric vehicle run on the road, there should not be any noise, which is audible by the driver. And it has to be a silent because there is no IC engine, internal combustion engine noise in the electric vehicle. So, this silent transmission plays very important role in electric vehicles. And in order to control that noise, these machines play a very important role. These machines are customized to produce the Divgi-TTS parts. And this also has facility for automatic loading unloading. And there are special features available in these machines to achieve these highest NVH standards. Apart from this, we have invested into a sealed quench furnace, which is installed in our Sirsi facility. So, this is used for heat treatment of transmission components like gear, shafts. And this equipment comes with different equipments like washing machine, tempering furnace, preheating furnace and sealed quench furnace. Basically, this is a batch production furnace. So, at one time one batch goes inside after heat treatment, we have to do washing, tempering. So, it is installed in one cell. And this particular cell is also designed protected for future expansion, so that we can add more and more furnaces as our business grows. Then there is also addition of bore and face grinding into our Shivare facility. For these machines, we have installed for transmission components, which has higher lengths. So, this is for shaft transmission shaft. And these equipments are equipped with in-process auto gauging. And these equipments are known for very high precision grinding operation. And two of these machines have been installed and they are running for

components that we manufacture. Then in our Sirsi plant, we have installed state-of-the-art hobbing machine. It can hob two gear sections at a time. So, that's the speciality of this lever hobbing machine. And we are using this equipment for gear hobbing of shafts. So, we call it combi-hobbing. So, it can hob any two-gear section at a time in one second. It is also equipped with automatic loading unloading to achieve highest productivity standards. Then we have received export component award from one of the North American customers, and there was a specific requirement from them for short pinning. And this short pinning operation is basically done to improve residual compressive stress of any gear. And there was a specific requirement from them. And we are installing this equipment in our Sirsi facility. Apart from this, for any gear manufacturer, measuring of gears is very important aspect, especially for EV business, wherein we have to control the gear manufacturing with very high precision standards. And for that reason, we have ordered Klingenberg gear measuring equipment. Which is actually in transit, and which will be installed in this month in our Shirwal facility, where all our future gear grinding will also be done in the Shirwal facility. In our Shirwal facility, we have also installed a state-of-the-art dynamometer durability test stand. It can do multiple testings like transmission durability, transmission efficiency tests, differential durability test, high speed tests, temperature performance of any kind of transmission. So, this transmission is one of its kind. And as of now, there is no nowhere this type of a transmission installed neither at OEM nor at tier one level, because this test bench can simulate IC engine as well as high speed electric motor testing. So, it can go up to 17,000 RPM, and which can test our EV gearboxes, which we manufacture in our Shirwal facility. And it can do variety of tests. So, one test stand, which can test from passenger car to commercial trucks. So, all kinds of transmissions like manual transmission, our transfer case, then automatic transmissions and EV transmissions. All these transmissions can be tested on these durability test stand. And this is successfully installed. This particular equipment is designed by a German firm called FEV. And they have manufactured this locally and installed at our Shirwal facility. So, this is overview of our capital expenditure so far. With this, I will hand over the stage.

Jitendra Divgi, Managing Director: Thank you, Dipak. Let's move on quickly to recapping updates on new business. And briefly, I'm going to be touching upon where we have taken orders, which we had one earlier. Broadly speaking, we have three cycles of business in our enterprise. The first process is market and selling. The second involves developing and launching. And the third is what we call supply and support. And these three business cycles or processes are always going on concurrently in our enterprise. And what I'm going to touch upon in this section is updates on market and sell and develop and launch. So, because of NDAs that we have signed with some of these customers who are very sensitive, we have to be a little discreet about the names of these companies. Because these presentations eventually go out into the public domain. But this is something that was won in December. And it's for a pickup truck in North America on one of the most popular models. Those of you who are somewhat familiar with the nature of the automotive industry of North America, primarily the United States and Canada, would know that pickup trucks based on SUV platforms are the most popular models there. And being a supplier as we are on components that are unique to these is a matter of privilege. Because we are sole suppliers. And to date, we have won almost five orders in the last one year for these kinds of applications in North America. So, this is what is called a drive yoke that drives the propeller shaft of a pickup truck of the type that you see here. So, this is another gear for again an SUV pickup truck. This will be starting up later this year. And it's a new customer this time. And a new line is expected to be ready by March latest. And you can see that the time schedule shows getting ready by June of 2024. In the next four to six weeks, we should be submitting the first prototypes to our customer in the United States. So, this business was announced in the last earnings call. We are now sort of getting ready. The line is ready now. And there are two of these parts, one for North America and the other one for the United States and the other one for Mexico. So, this is, as you can see, for the Mexican application. We had announced, I think, also in our prospectus that we were a big chunk of our funds were going

to be used for mobilizing our capability for EV transmissions. And after the Tiago model, we in pretty short order, we have developed now the model, the gearbox model for the Tata Punch and that's just been launched. The first production lot was actually delivered in January. And at the end of this quarter, we will have further updates for you. I'm also pleased to report that a little bit of the decline that we had seen in December has been reversed. And we're seeing schedules come back to a more healthy level, starting January and continuing on into February and March. The Punch model from Tata is truly an exciting car. It has excellent drive and handling and acceleration capability. And being the transmission supplier for this, I must say that for one particular trim level of the Punch, we are the only supplier in the world, there is no import option available. On the higher trim level, there's an alternative of units coming from China, that in months to come, we will be localizing. So, it is a matter of some privilege that we are in a market full of competitors, especially from overseas, that an Indian company is leading the way, a matter of pride for us. Using, again, our design architecture, we have developed off that same architecture, we have developed another product for, you can see it's a little commercial truck. And this will be going into production in a couple of months from now. Again, all the critical components, the housings, the gears, all design, develop and manufacture by us. So, I think, as you will see through our periodic exchanges, that the diversity in terms of products, in terms of applications, in terms of geography, in terms of customers, this is appropriately widening, to make our business model more resilient. And this is another good example of an application for three-wheelers. We are also working on a product design for three-wheelers, because this segment is expected to accelerate in terms of electrification. And I'm very happy that we have the capability and the capacity now to provide some very creative, cost-effective solutions for our customers in this area. So, work is going on, and hopefully, I should be able to report out some good news in the next call. I want to now take a moment and touch upon two other verticals that we have not reported on in the past, and give a quick update on what's going on in this area. And namely, manual transmissions and automatic transmissions. So, we are talking to about four different customers, both in India and overseas, for manual transmissions, both rear-wheel drive and front-wheel drive. The rear-wheel drive configuration is very complementary to our existing transfer case business. And the example of that is what you see there on the right. On the left, we have our new six-speed transmission model. This was designed and developed a couple of years ago, in anticipation of market conditions that we had foreseen. And I'm pleased to say that one of India's leading truck makers now, we are working with that company to help them find a solution. So, instead of making two different products, that they are currently doing with one design, and appropriate configurations or sub-models of that one design, we will be able to handle multiple applications that they have. So, from a spare parts and overall product management standpoint, it will be a more efficient process for that OEM. And this is what we mean by bringing innovation to give superior solutions, and then convert them into world-class products. So, this six-speed transmission is a very good example of that principle. So, this is an example of a six-speed manual transmission for a compact SUV. And we are working with at least three customers and help. And it's taking time because what we wish to do is rather than have three very different designs, we want to have one rationalized, standardized architecture, of which we develop multiple models. And then we are able to manage the product family more efficiently, in terms of overall bill of materials management and component manufacturing. Moving on, just a quick view of our seven-speed DCT. This is the 350 Newton meter model for SUV applications. Again, here, given the complexity of a product like this, where we also have customers who are multinationals, it is taking time because a lot of coordination and consultation has to happen with their home headquarters. In terms of finding the right approach, the knowledge and the technology may be available, but how we align in their business model is what is taking the time. But I assure you that the work is going on at a pretty frenetic pace to eventually realize this business in India. This is just to give you a better idea of how such an automatic transmission looks, and how we designed it, how we are sort of wrapping our heads around the complexity of a product like this. And in the interest of time, I won't go into details, but if there are any questions, I'd be happy to answer them. So, in conclusion, I think what

we are bringing is a very interesting sort of disruptive model in a world that is becoming increasingly unpredictable and complex. And in the interstices of this kind of state of flux that is emerging in the automotive industry, there are enormous opportunities to be exploited. That, of course, requires a certain amount of knowledge base that you need to have, you need your infrastructure in place, you need a good team in place, experience, of course, so that you can go about in an agile fashion and with speedy execution. I think what we are learning is that there is a flip side to this state of flux. And given the competitive dynamics, the numbers can sometimes go up and down. But I think it's important that we don't lose sight of the strengths that we are gaining as we go through our business and build that capability and the competencies that are needed. So, speed, agility, they're all cute sounding words. But to us, they mean specific things that what needs to happen underneath in the organization to eventually acquire these attributes. And I assure you, that's our focus. So, what that means is, if that's the goal and the focus, that every quarter, every half yearly, every year, there's a little bit of incremental progress, sometimes fast, sometimes slow, but steady progress towards getting to certain milestones. And I think the Shirwal plant, for us is a game changer. We have beaten all of the world's multinationals in creating an integrated facility of this type. There are not many players even in the world who those that are there, of course, the well-known ones, the Tesla, the Chinese companies, of course, Shanghai Auto and other companies, but they are few and far between. And across the world, I think we would count ourselves, if not very large, but certainly a significant player in EV transmissions. And I think as we go from quarter to quarter, I can only see this strength by a process of accretion, sort of multiplying faster and faster. I just want to give you a quick example of what I mean by what I just said. The first generation of our product took about 18 months from conception, which in itself was pretty fast, from January of 22 to July of 23. The latest product that we have launched, from award of business to production readiness, it happened in four months. And that's what I mean, in a world of EVs and this new automotive industry that is coming, product life cycles are going to be short. And therefore, the ability to move fast in product development is going to separate the winners from those who get left behind. And I think we are certainly getting there. And at a very practical level, very practical level, if I'm saying all of these fancy words, what does that mean in very simple language? So, let me just say that in our market and sell management process, we have what we call new business opportunity, NBO is what we call it, tracking in our business development register, BDR in our SAP system. We track new business opportunities that we unearth, the RFQs that we get from our customers. And over the last two to three years, we've noticed about a strike rate of 14%. We've converted. So, if I go by the RFQ volume into the prices that we negotiated and won business at, it's an opportunity bag of around 400 crores, and about 2500 crores is being actively pursued. So, if I apply the same strike rate 10-15%, you'll see what that means for the business. And I think as we go forward, the chunks of the new opportunities that are going to come are going to be bigger in size. I think there's a lot of qualitative change underway in the way supply chains are going to be built out of India, in the next three to five years. It was with this hypothesis that we started our sort of reinventing our enterprise back in 2014-2016. And whatever has happened till now seems to vindicate that view and the hypothesis that we came up with. So, I sort of conclude here and just want to leave this thought that what we bring to our customers, our shareholders, other stakeholders is the discipline of product leadership that we think is unique in this part of the world. So, thank you very much for listening to me patiently. And we would be happy to take any questions that you have.

Aashin Modi: Thank you Jitendra sir for the detailed opening remark. Anyone who wants to ask a question can use the raise your hand option. Once you're done asking your question, please use the lower your hand option. We have our first question from Pranay. Please unmute your line and ask your question.

Pranay: Hi, good evening to all present. Am I audible?

Jitendra Divgi, Managing Director: Yes, please.

Pranay: So, my first question was with regards to your transfer case segment. So, I was not able to locate data on volumes of four-wheel drive and all-wheel drive vehicles anywhere. I know Chrysler has done an estimation, but that is again more of an estimate. We do not know the exact number. So, could you give us a sense on, at least on a FY23 basis, what was the total volume of four-wheel drive cars sold in India? And where were these numbers sort of five years back and 10 years back? Because I'm trying to understand fundamentally, is there any driver for this? Either customer preference, because this is mainly used in the hilly areas. I was also seeing the Google Trends data. I know where the search for this thing is happening. And it's mainly in like Mizoram, Himachal Pradesh and all those sorts of areas, right? Which is pretty niche. The reason I am asking this is that there is some inherent cyclicity in EVs anyway, and you are addressing 1% of that for your transfer case. So, I'm trying to gauge whether over a longer period of time the transfer case business can register a double-digit growth. And just trying to get some sense using the volume data, if that's available.

Jitendra Divgi, Managing Director: Yeah, yeah, no, excellent question. And I'll do my best, thinking on my feet here to answer your question, but I think I'll be able to do justice to it. I think there is, if I may say so, Pranay, I detect also a sense of concern. And that is legitimate, not knowing the full contours of the market, of where this business will eventually go. So, I think what I want you to remember is this, that the reason why we bought out BorgWarner in 2016, was precisely because our sense was that we were being locked into a corner doing only this segment of four-wheel drives. Our view was that the competencies which the Indian partner Divgi Metalwares at that time, we renamed the company to Divgi Torque Transfer Systems, was that we brought a complement of capabilities with which we could develop many other transmission products for the automotive industry. So, the first thing is, you're right, there is a limited market for this in India. Having said that, let me also say that the global market for transfer cases is about 14 to 15 million. And so this is spread out across Japan, South Korea, China, Europe, North America. And India is a very, very small, almost inconsequential kind of segment in this market. What is happening now is with the migration towards electrification, whether it's hybridization, battery electric, or future fuel cell driven electrification, the whole industry is getting shaken up. Combined with other geopolitical, geo-economic, demographic trends, it is becoming increasingly difficult for the incumbents to service this segment cost effectively. And I will only point out two examples from our history that give us the self-confidence to kind of stir the pot in this segment. Back in 2006, between 2006 and 2013, we were the first Indian supplier. Of course, at that time, we were part of the BorgWarner system to design, develop and supply transfer cases out of India to Ford in Thailand. Okay, then between 2016 and 2022, we were supplying transfer cases to Russia. Unfortunately, the Ukraine war severed that supply chain and affected what was a very good segment we were developing. And the Russian business was very, its development was a very significant marker, if I may say so, because we displaced the Chinese subsidiary of a Hyundai affiliate in winning that business. So, therefore, what we demonstrated is that our working out of India, it was possible to take on the tough Chinese Korean competition in a very difficult market like Russia and win in that segment. We hope that this whole I don't know what the future is going to bring in terms of the resolution of this conflict in Ukraine, and therefore the all the sanctions that have happened. But be that as it may, this proved to us that we could become a global player. Now, with the pressure that is coming on our multinationals operating in India, because of the government's sort of pressure to increase local content. One of the things that we are finding is, there are many multinational players now who are approaching us, exploring, using India to manufacture four-wheel drive transfer cases. So, while that is going on, we should not overlook the potential that Mahindra brings. Mahindra has kind of reinvented itself by sort of going back to what they call, going back to the knitting as it were, by focusing on what they're calling authentic SUVs. And whether it's the Scorpio N, or the Thar, and it's multiple versions that are going to come out in the next three to five years. We are tooled up ready

to support them. And if you go back before 2020 if we did 20,000 units in a year, we would pat ourselves on the back. FY23, we did 65,000 units. Because of the four by two options that were introduced, there was a little bit of a dent, but we've still done more than 50,000. And as Mahindra expands its footprint in markets like South Africa, Australia, South America, Honduras, Ecuador, Chile, and eventually other markets. North Africa has been sort of part of Mahindra's footprint in the past, certain countries in Europe, this is likely to grow. So, the way I see it is, the four-wheel drive business has Mahindra as an anchor, Mahindra's robust product leadership, its cost structure, and the way they are expanding is going to drive a little bit of that. And together with that, there are other multinationals that are coming. I alluded to MG in my presentation. With MG, we have developed India's most technologically advanced four-wheel drive system for the Gloster. And as I think, as the restructuring resolves itself at MG, you may have heard that JSW now under the Jindals, they're taking a big share of that company. And as that restructuring resolves itself out, we will see MG coming back with these products. We are talking to other companies, including Japanese pickup truck manufacturers for transfer cases. So, in short, we have the domestic Indian market as a base, the global aspirations and plans of our Indian customers, and then global people coming to India for solutions in both components of transfer cases and four-wheel drive products and complete systems. So, and remember, all this is happening in a market, the total global space is around 14 to 15 million, even if that declines significantly, it is still going to be a game in several millions, but becoming increasingly difficult for the incumbents to operate in. They will need the support and help of people like us. So, the way I see it is more and more, there are going to be these symbiotic relations happening. And that is why having a global mindset, working in collaboration is going to be needed. One of the things I didn't mention in the presentation we have presence in Europe, United States, Korea, which is as, you know, the Koreans are very strong in the Indian marketplace. But I didn't mention Japan. And what's important to note is that we have an exclusive arrangement strategic alliance with Toyota Tsusho to market and distribute our products globally in the universe of Japanese OEMs. And in fact, in March, I'm going to be traveling to Japan to pursue certain leads that we have more actively. So, in short, then to conclude, that is our approach to handling the four-wheel drive quadrant of our business. But remember, that's not the only thing we are going to supplement and complement that with manual transmissions, components of that, EV transmissions, and automatics. And let me just say that if all this looks like as if we are biting off more than what we can chew, underneath all these products, there are horizontal competencies that are common. The way I test products, the way I manufacture the components, the way I do CAE work on them, those techniques are all common. And eventually these components go into products and they manifest into these different products of these quadrants. So, the whole trick is to create this sort of synergy. And we have used our base in four-wheel drive systems to learn the disciplines of product development, and then extend that into these other segments. So, I hope this addresses the basic intent and direction of your question.

Pranay: So, that's quite a logical thought process. And thanks for the elaborate answer. Yes, it does address most of my issues around that, if I may call it issues. Do you think I have time to ask one more question?

Aashin Modi: Yes, you can ask one more.

Jitendra Divgi, Managing Director: Yeah, we are here to address everything. Please go ahead.

Pranay: Sure. The second question relates to your EV drive business. So, right now, you guys are the only suppliers and then there are imports. And imports are mostly from China. I am thinking more from the perspective where more in the future, where the volume sort of expand, and at a time where Tata Motors would still have majority market share because of the early mover advantage. Mahindra and Mahindra would have come out with say two to three electric SUV launches. MG

would have sorted out its production issues and scaled up its electric as well. BYD, we don't know where they'll go. But what I'm trying to say is that the market will be exponentially larger than where it is now. That could be two years hence, that could be three years hence, and that could be five years hence. At that point of time, I'm just trying to gauge what could be the what are the factors that drive defensibility in your EV drive business, right? I understand the point around your expertise in gear making, that is clear. I understand your point around you guys had a long relationship with Tata Motors, and that also would sort of help you in getting the contract. That part is also clear. You have all the infrastructure ready for testing durability, NVH, that part is clear. What I'm trying to understand is why are there no other players making this? Because this is clearly exciting, right? The volumes are going to increase in passenger vehicles over time. And it's, it's a question of when rather than if. So, are any players trying to develop it in India? And if no, why not? And if I would think about those guys who are exporting it to India, right? If they were to, let's say, commercialize or try to produce those in India, what is the timeline that we're looking at? Right? I'm going to gauge in a nominal scenario, if you ask someone, they would expect that, okay, fine, you guys are allying with Tata Motors, you have high share, Tata Motors also has high share. But over time, even Tata Motors would lose share over time as other brands scale up and Tata Motors also would want to hedge some of their supply, right? So, I'm just looking at the defensibility.

Jitendra Divgi, Managing Director: Yeah, again, I think excellent question, because this discussion, I think will benefit the audience that we have here. So, you're right, I mean, we have no illusions, okay, that we are something unique or something, okay, we've got a first mover advantage. But I've spent more than a long part, more than 35 years in this industry. And I know how competition creeps up what the dynamics is. So, we are very down to earth, we know that this lead we have is temporary, unless we keep reinventing ourselves and pushing the envelope further and further. So, a couple of things, I think the market is going to be big enough. From what I can see, the United States, Europe, Japan are fast becoming extremely expensive to manufacture. Increasingly, requirements not just for India, but for the globe are going to come into India. Right now, I can tell you, I mean, we have, I told you, we're working on an RFQ pipeline of almost two and a half thousand crores, it takes anywhere from six months to a year to convert these into, if they are major significant opportunities, from RFQs into purchase orders. Because many of these, gear making is not simple, it is when you identify a source and you give business for a global contract, it is extremely strategic. Today, there are only two parts in the world that are competing with the. The Chinese parts makers and Indian part makers, the others will not be able to run this marathon long term. So, we have the ability to sustain long term, in terms of the cost advantage. So, the answer to the question is, the market is big, it's not just India, we are looking at the globe. And when you look at global opportunities, the scale need not come through product ideas our foray into EVs started with making components for the world's most renowned EV maker, who for various reasons shall remain anonymous here. And that's how we learned the craft of making components for EV. And that contributed to assembling all the different competencies to make a full transmission product. So, the first mover advantage gives us the ability to showcase, cut time, and I'm telling you, we can, given an application we can make, we can go from design to launch now, in six months, there are not many people in the world who can do it so fast. So, that's point number one. Point number two, we have the financial strength now to scale for global volumes. So, if somebody needs 400,000 a year of a particular part, we can do it. So, that gives us global reach. Third, we bring electronics and software to the party, which very few mechanical component players can do. Now, you might ask, where does this have a role? Well, the safety legislation in India is still behind state of the art. Eventually, you are going to need a safety park lock system inside the gearbox that takes an electronic signal from the console, and electromechanically actuates the lock. This entire system mechanically has to be integrated into the gearbox. And because it is electronically controlled, it has to interface with the in-vehicle networking system, the data bus system in the vehicle. Again, a normal gearbox maker simply will not have the understanding of this. And I can tell you, we have the electrical actuator

system, we have the electronic controller, the software, everything ready for production today. So, we are well ahead of the market. So, what I'm trying to tell you is for now, we see what strengths we have. But that does not mean we underestimate competition. We have to be up there pushing. And that's, I think what we are doing. So, I hope that addresses your question.

Pranay: Great, sir. Thanks again for the elaborate answer. And I'll get back to the queue. Wish you best of luck.

Jitendra Divgi, Managing Director: Thank you very much.

Aashin Modi: We have our next question from Aarush, please unmute your line and ask your question.

Aarush: Yeah, hi, I just had one question. So, with all the incremental growth capex coming in, do you have any visibility in the kind of revenue for the next year?

Jitendra Divgi, Managing Director: Yeah, so, I hate to do crystal ball gazing. If you look at our history, we have always delivered on growth steady, okay? And the reason I say that is that despite the best of everything that we did for execution, the market forces were so unpredictable. Just like that we lost a huge chunk we should have been well past the 300-crore mark for this year, but we might fall slightly short of that for FY-24. So, your question on FY-25, coming into this meeting, I knew that that would be a question we would have to address. I can, I think, I sort of alluded to it when I said that, if you look at the last three years with the strike rate that we have, if I just look at the RFQ volumes, and what we have converted into orders, it is worth 400 crores. But I also know that for various there's competition between customers, customers are facing all kinds of challenges. So, that will dent this pretty significantly. But even so, we are looking forward to at least, you can say that's a target task, obligation of ours to deliver at least a 20% growth.

Aarush: All right. Thank you, all the best.

Aashin Modi: We have our next question from (inaudible at 01:09:52), please unmute your line and ask your question.

Male Speaker: Hi, sir. Very, very good evening. We have been really putting all of our trust on you and the story of the EV transmission and transfer cases. So, my question as far as I was reading the annual report that you published this year, the company was targeting revenue of 1000 crores, a turnover of 1000 crores by 26-27. Are we still on track with that revenue?

Jitendra Divgi, Managing Director: Directionally, we are working towards that. I mean, maybe it's not 1000 crores, but it will be significantly more than where we are today. Remember, I said, if you look at the RFQs we are working with today, over and above that, what we have converted with our strike rate, that is about 2500 crores. So, the opportunities, this is not just some somebody's flight of imagination. It's pretty concrete stuff that we've quoted on, we are engaged with customers around the world that we need. So, even if it is a little guardedly, we are optimistic of getting to that figure. It may not happen in 26. Maybe it may take a year, year and a half more to achieve that rate. But that is absolutely the direction we are committed to. I hope that addresses your question.

Male Speaker: Yes, yes, it does. Indeed. I have a couple of more questions. One relates to the transfer case system. Considering that, I think 100% of the revenue from last year has been through Mahindra itself. And considering that the Mahindra sales volume is still intact, what resulted in a flatter transfer case system or a considerably considered decline in the transfer case system this quarter? Also, the defense revenues haven't showed up, I feel.

Jitendra Divgi, Managing Director: So, I think, let me answer that. We were expecting about in excess of two to two and a half crores from MG, which sadly has not happened. And the defense business, I think ran into, it tends to be episodic, it is there. I mean, it's not that we've lost it because we messed up in execution or the demand has gone away. This is a tactical issue which our vehicle making customers are facing with the government in terms of cash flow. Sometimes the payments don't come on time from the government. So, they stop inverting inventory, because now we have a situation where they're not able to pay us on time. But it'll resolve itself. We know from experience that it'll resolve itself. What I can tell you is that these vehicles on which we have developed these transfer cases were the center of attraction in the Republic Day parade that happened just a few days ago on 26th January. So, it is the pride of the Indian Army. The four-wheel drive systems that go into those vehicles, the control systems, electronic are all designed and developed by us. So, what you should feel, I think all of us, because we could not have done this without the support of our shareholder community. We should feel proud that in those vehicles, if there is any significant indigenous content other than the vehicle structure itself, in the powertrain, it is the Divgi-TTS transfer case, designed in India, developed in India and manufactured in India. So, this is a long, and remember, those configurations, those defense transfer case configurations are completely unique. You cannot buy this configuration anywhere else in the world, even if you had the money today. So, that gives us a global play in the not just the defense, but the civilian light commercial speciality vehicle market around the world. These transfer cases also sell for four or five times the price of an ordinary low GVW transfer case. So, the potential in terms of the market, the business is extremely well ring fenced. You cannot emulate this business model that easily. So, yes, there are challenges and I think the gentleman Chatterjee who asked the question about what was going to happen to four-wheel drive transfer cases, I explained that at length. What we are now seeing is there are certain tactical things that happen, I think in a trajectory of a longer duration. And what you're now seeing is just over three quarters. But remember, if you go back to 2020 or before, we were one third of the volume of where we are today. So, if you look at three years from today, four years from today, this volume would go to double of where we are today. The good news is that we now know how to go about managing this business for scale. That's the important part.

Male Speaker: Thank you for the detailed answer. So, I just have a follow up question on this regarding the numbers. When are we projecting this defense revenue business to come back? And also, what would be the life cycle revenue from this? Just a short answer.

Jitendra Divgi, Managing Director: I think the indication is that in the next couple of months, the bottleneck in the supply, the cash flow situation that has resolved itself out. And we've been told that for FY25, there are renewed orders coming in. So, the life cycle, I think will be there as long as the army has high speed tactical mobility requirements. And my submission to you is this, the Indian army operates across quite a diverse range. So, the market will be there for years to come.

Male Speaker: All right. My last question, it's, I would like to know the realization revenue per transmission that we supply to Tata Motors. And you can also weigh it upon two different power motors that we supply, basis different models, Tata Motors supplies to the customer.

Jitendra Divgi, Managing Director: Yeah, so broadly, let me just give you mota, mota directional, which will help you understand and answer the question also, that a mechanical shift transfer case, a simple one that might go into something like the Thar is in the region of 22 to 24. An electric shift transfer case can go anywhere from 35 to 42 in that range. If it's depending upon the application engineering, it can even be higher. And a very sophisticated talk on demand a transfer case of the type that goes into the Gloster could be 50 to 55.

Male Speaker: And what about the EV transmission that we supply to Tata Motors?

Jitendra Divgi, Managing Director: EVs low end varies between 10 and 12, medium segment between 14 to 16. And high-end SUV would be around 18 to 22.

Male Speaker: All right. Thank you for the answer, sir. We really are weighing upon your vision and the company's vision. And we really hope that you deliver. Thanks a lot. I will move back to the queue.

Jitendra Divgi, Managing Director: Thank you. Thank you.

Aashin Modi: We have a last question from Ritwik Seth. Please unmute your line and ask the question.

Ritwik Seth: Hello. Hi. Good evening, sir. Am I audible?

Jitendra Divgi, Managing Director: Yes, Ritwik. Please go ahead with your question.

Ritwik Seth: Yeah. Hello, sir. Sir, just one question from my end on the DCT. You mentioned in the last couple of con-call that we have indigenized DCT and we are ready to commercialize it. So, anything that you'd like to talk on DCT and when can the commercialization happen, whether from a domestic OEM or a global OEM?

Jitendra Divgi, Managing Director: Yeah. So, we are broadly looking at the original inspiration for this was bringing the convenience of automatic transmissions. And therefore, we had selected DCT as the way to do it. We are talking both to multinationals, as well as domestic players. Interestingly, there are more multinationals right now than domestic players that we are talking to. And broadly speaking, the pressure is on companies to take a decision to do this by to be ready by end of 25. So, that to middle of 26. So, the pressure is mounting. Because I think the Indian market, if you observe players like Hyundai, for example, Mahindra have in their SUVs, a significant penetration of automatics. And what is happening is, if you look at the import duties, they used to be maximum 10%, seven and a half to 10%. The Indian government has now made it at 15. The rupee keeps depreciating 2 to 3% every year. So, the cost has just, there has been like a snowballing effect on the cost. So, that affects profitability. So, our sense is that the case for localization is so strong, that these companies can save on an annual basis, 200 to 300 crores, if they localize automatics, no wonder the pressure is building up.

Ritwik Seth: So, are we under the approval stage currently with these OEMs?

Jitendra Divgi, Managing Director: The difficulty we are facing right now is there has to be a lot of coordination with, the product development is done in for these multinationals in their home bases, which could be Japan, which could be Germany, or Europe or US, of course, there are no US players left. So, it's taking some time to take the message there and do a little bit of selling on that front as well. That's one of the reasons I'm going to be in Japan for a couple of weeks in March.

Ritwik Seth: And so just one final question, you mentioned that January has been better for the EV supply to Tata Motors. So, what utilization is the Shirwal plant running at currently on the EV side?

Jitendra Divgi, Managing Director: Excellent question. We think it's at about 25 to 30%. So, you might, it's a double-edged sword in the sense that it's good news and bad news. Somebody might say, oh, it's only such a low, but remember, if you're turning in an EBITDA of 20% plus with this

capacity, what will happen if I raise that, if I scale that up three times, right? So that's the good news of the current situation.

Ritwik Seth: Okay. And would it be fair to assume that in 12 months from now, we can be at close to 80-90% utilization?

Jitendra Divgi, Managing Director: Maybe not in one year, but certainly, it will be significantly better, maybe we should be double of what we are doing. What is becoming difficult is the competitive dynamics is so unpredictable. And then the technology changes that are also happening the Nexon is now in its third generation already, in like four to five years, third generation of its motor gearbox technology. So, this constant shifting has sort of delayed the localization of the gearbox on the Nexon a little bit.

Ritwik Seth: Okay. Got it. Okay. Thank you, sir. And all the best.

Jitendra Divgi, Managing Director: Thank you, Ritwik.

Aashin Modi: Due to time constraint, that was the last question. I now hand over to the management for any closing remarks.

Jitendra Divgi, Managing Director: No. Again, thank you. I think hopefully, this was beneficial to the larger audience, the questions that were asked. And it gave us the opportunity to clarify, which sometimes is difficult if you're just presenting. And through a conversation like this, I hope we can bring better insights, better perspective, and generally make it more enlightening for the people who take the interest in time to come for our earnings call. So, thank you very much.

Aashin Modi: Thank you. On behalf of Equirus Securities, I conclude the call.