Commercial Vehicle Solutions

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Date	November 19, 2024

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Trading Symbol: ZFCVINDIA

ISIN : INE342J01019

Dear Sir(s),

Sub: Transcript of the Investor Call for the quarter ended September 30, 2024

In continuation of our letters dated 06th November 2024 and 12th November 2024 pursuant to intimation and recording of investor's call, we hereby inform that the transcript of the call has been uploaded on the website of the Company and the same can be accessed through the following link:

ZF CV India Investor Relations - ZF

Request you to take the above information on record.

Thanking you,

Yours sincerely,
For ZF Commercial Vehicle Control Systems India Limited

MANOHARAN MUTHULAKSHMI

Digitally signed by MANOHARAN MUTHULAKSHMI
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Muthulakshmi M
Company Secretary

ZF Commercial Vehicle Control Systems India Limited Q2 FY'25 Earnings Conference Call

November 12, 2024

MANAGEMENT: **MR. P. KANIAPPAN – MANAGING DIRECTOR**
MS. SWETA AGARWAL – CHIEF FINANCIAL OFFICER -
MS. MUTHULAKSHMI M – COMPANY SECRETARY

MODERATOR: **MR. ANNAMALAI JAYARAJ – B&K SECURITIES INDIA PVT. LTD.**

Moderator: Ladies and gentlemen, good day and welcome to the ZF Commercial Vehicle Control Systems India Limited Q2 and H1 FY'25 Earnings Conference Call, hosted by B&K Securities India Private Limited.

As a reminder, all participants' 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. Annamalai Jayaraj from B&K Securities. Thank you, and over to you, sir.

Annamalai Jayaraj: Good afternoon. Thank you for joining us today and welcome to ZF Commercial Vehicle Control Systems India Limited's Call to brief you on the Quarterly Journey.

Today, the 2nd Quarter earnings for FY 2024-2025 will be presented by the management team of ZF Commercial Vehicle Control Systems India Limited.

Your hosts today from ZF Commercial Vehicle Control Systems India Limited are Mr. P. Kaniappan – Managing Director; and Ms. Sweta Agarwal – CFO; and Ms. M. Muthulakshmi – Company Secretary.

I will now hand over the call to Mr. P. Kaniappan, who will provide further insights into the results. Over to you, sir.

P. Kaniappan: Thank you, Mr. Jayaraj. Good morning to all of you. I warmly welcome you all to ZF Commercial Vehicle Control Systems India Limited's 2nd Quarter Results for FY 2024-2025.

Certain forward-looking statements that we'll make today are based on management's good faith expectations and beliefs concerning future developments. As you know, actual results may differ materially from these expectations as a result of many factors.

ZF Commercial Vehicle Control Systems India Limited's Results for the Quarter ending September 30th, 2024, were published on November 8th, 2024. They are available on the website www.zf.com, under the ZF CV India Investor Relations section. We hope that you have had an opportunity to go through them.

A transcript and the recorded audio of this call will also be made available on the website www.zf.com under the ZF CV India Investor Relations section.

I am happy to talk to you today as we give you an update about the business of the Company.

Economic Update:

I would like to start with a quick update on our operating environment, which is influenced by economic factors and the development of the commercial vehicle industry.

The global economy remained resilient and is expected to maintain stable momentum over the rest of the year, amidst downside risks from intensifying geopolitical conflicts. In India, real gross domestic product (GDP) registered a growth of 6.7 percent in Q1 2024-25, driven by private consumption and investment.

The Reserve Bank surveys indicate an improvement in consumer and business sentiments. Government expenditure has improved in Q2:2024-25 and this trend is likely to continue during the rest of the year in line with the budget estimates. Private corporate investment is gaining steam with seasonally adjusted capacity utilization improving in Q1:2024-25, and healthy balance sheets of banks and corporates.

The two major drivers of GDP are consumption and investment which is expected to sustain the momentum observed in Q1. Consequently, the real GDP is projected to grow at 7.2 percent in 2024-25 with Q2 at 7.0 percent; Q3 at 7.4 percent; and Q4 at 7.4 percent.

Source : RBI's MPC (October 7-9, 2024)

Indian Commercial Vehicle Industry:

The commercial vehicle industry's shift towards Intermediate Commercial Vehicles (ICVs), continued into Q2 FY 24-25. This trend, coupled with other factors including decreased Government capex on infrastructure projects, cautious buying behavior, muted demand during the initial phase of the festive season, decline in the mining sector due to excess rainfall adverse and increased Medium & Heavy Commercial Vehicle (M&HCV) inventory levels, led to lower sales thus impacting the overall performance. Consequent to this, Commercial Vehicle Production (> 6 Ton) has seen a degrowth of 17.5% from 102,514 vehicles produced in Q2'24 vs 84,542 in Q2 25.

OE Sales:

The company's OE sales were at INR 366.5 crores this quarter, compared to INR 449.4 crores in the same period last year, a decline of 18.5%. This decrease was mainly due to reduced vehicle production, and lower content per vehicle driven by a shift in the vehicle mix toward buses and ICVs. Due to these challenging conditions and our strategic exit from low-margin products, we initially anticipated a Value Per Vehicle (VpV) of INR 40,000. However, we raised our VpV to INR 43,000 through targeted product launches. These products include Electronically Controlled Air Suspension for coaches and electric buses, an increase in penetration of OptiDrive AMT by extending it to additional vehicle platforms, upgraded Air Processing systems for a leading OEM, and a new Pressure Control Valve for transmission systems.

An uptick in vehicle registrations in October 2024 signals a positive trend, and we are optimistic about sales growth in the coming quarters based on the following assumptions:

1. The anticipated resumption of infrastructure projects and favorable policy decisions, including the acceleration of EV bus tenders under the PM e-Drive scheme (successor to Faster Adoption and Manufacturing of Electric Vehicles - FAME-II)
2. Focus on new products like Lift Axle control system, Pressure Control Valve for manual transmission, and penetration increase of AMT OptiDrive kit position us well for stronger sales performance.
3. With increased demand for buses, we are focusing on bus-specific aggregates, such as door control systems, and increasing the penetration of Electronic Stability Control (ESC)
4. The company's strategic decision to focus on supplying Trailer ABS kits to trailer manufacturers, enhancing trailer safety.
5. Expanding our footprint in EV aggregates, including e-compressors and EBS, aligning with evolving market trends and customer demand.
6. Proactive collaboration with original equipment manufacturers (OEMs) in anticipation of potential government mandates on Advanced Driver Assistance Systems (ADAS), including features like Advanced Emergency Braking and Lane Departure Warning.

Aftermarket:

Turning to the aftermarket segment, our performance in Q2 FY 2024-25 shows a positive trend, with aftermarket revenue reaching INR 122.6 crores, over 118 crores over the corresponding period in the previous FY, representing a 4% growth.

The slowdown in growth can be attributed to

- STU sales dropped by 10% in Q1 and 14% drop in Q2 due to financial constraints among some state transport undertakings.

- Export sales were down by 33%, impacted by supply chain disruptions arising from geopolitical situation in Bangladesh and Sri Lanka.

- In the western region, demand for general spares declined due to excessive rainfall

- Decline in the trailer segment affecting overall performance.

- Additionally, Diesel Exhaust Fluid (DEF) supplies were disrupted due to technical-grade urea price stabilization in Q1 and the implication of BIS certification requirements to be enforced in Q2.

However, we are taking proactive measures to achieve our growth objectives, and implementing several strategic actions:

• We are intensifying efforts to secure more orders for Door Control Systems, by working with ARAI-approved bus bodybuilders and targeting additional revenues to offset the decline in traditional products.

• Securing advanced schedules from export markets, to improve supply chain management and transition from a (-33%) decline to a positive growth rate.

• Working closely with EV bus manufacturers to provide diagnostic software and brake components and we aim to grow our presence in this expanding sector.

• Additionally we are expanding our offerings for harvester combine machines, which will help increase the average value per vehicle.

Exports of goods:

In Q2 of FY 2024-25, the company achieved export sales of INR 299.4 crores, a 3% decline compared to the same quarter last year. This decrease was primarily due to a drop in OE Exports, driven by decreased EV production in Europe.

Despite these challenges, Inter-Company sales grew by 9.3% year-on-year, supported by the start of production for heavy-duty clutch compressors and actuators for major global OEMs.

We anticipate growth in heavy-duty compressors and actuators in the coming months, which will contribute to modest overall export growth.

Export of services:

In Q2, the export of services grew by 25%, with a service income of INR 116 crores compared to the same period in the previous fiscal year. This growth was driven by an increase in engineering and related support activities provided to our global teams.

Digital business:

In Q2 FY 2024-25, our digital business achieved a business income of INR 9.2 crores, a growth of 47% compared to the corresponding quarter in the previous FY. This performance was driven by additional business acquisitions in connected ADAS and Driver Monitoring Systems (DMS) from a major fleet operator, along with a steady increase in customer subscriptions for our existing connected services. Subscription revenue increased 53%, with active connections rising by 36% in H1 FY 2024 - 25. The growth was further supported by strengthened field support and targeted customer awareness initiatives.

R&D and Engineering:

ZF CVS India recently developed a state-of-the-art Electronic Stability Control (ESC) test track, with a steering pad, at our existing proving ground. This facility, certified by TUV Rheinland

and ARAI, positions ZF as a comprehensive, end-to-end systems solution provider for advanced braking and active safety systems. The new track is specifically designed to facilitate the end-to-end implementation of ESC solutions, accelerating their adoption in the commercial vehicle market. This addition complements our existing ABS test track and provides a controlled environment for testing the stability, agility, and handling performance of vehicles. Our facility will support testing across a wide spectrum of vehicle types, including two-wheelers, passenger cars, light commercial vehicles, heavy commercial vehicles, and tractor-trailers. This development aligns with ZF CVS India's strategic objectives to enhance safety and sustainability in the long term.

As part of the global footprint expansion, our Ambattur facility has been designated as a Centre of Excellence (CoE) for ICE Compressor testing. This facility will serve as the global competency center for validating ICE compressors ranging from 160 CC to 704 CC. The expansion will enhance our ability to cater effectively to both domestic and international projects.

IT and Digitalization:

I'd also like to share that we are accelerating the transition to data-driven solutions through several projects leveraging data science, machine learning, and deep learning to address critical business challenges. Additionally, we're building a strong team of data scientists, platform engineers, and data engineers to advance our capabilities and ensure future readiness.

Light Commercial Vehicles:

I'm pleased to inform you that ZF CVS India will be entering the light commercial vehicle (LCV) segment, with our product portfolio and expertise from the heavy commercial vehicle sectors. Our offerings will include products such as Hydraulic AS, vacuum brake boosters, vacuum pumps, ADAS, and lightweight calipers. This move is anticipated to contribute around €90 million in annual revenue, with double-digit profit margins, over the long term.

ESG:

On the sustainability front, our facilities in Ambattur, Mahindra City, and Oragadam are now fully powered by 100% renewable energy. This significant achievement has been made possible through a combination of onsite rooftop solar installations and group captive power supply through renewable energy sources, underscoring our firm commitment to minimizing our environmental footprint.

Our new manufacturing plant in Oragadam has received LEED Gold certification for design and construction, making it the first ZF plant worldwide to receive this recognition.

Additionally, our Ambattur site has received the First Prize in the CII National Energy Efficiency Competition, which further reinforces our dedication to advancing sustainability and energy efficiency in our operations.

ZF CVCS India in IAA 2024:

ZF CVS India successfully hosted the ZF India Day at the Jeversen Test track during IAA Transportation 2024. More than 30 customer representatives from OEMs, including CXOs and teams from engineering, purchasing, and marketing, participated in this event. During the day, customers could witness demonstrations and also experience ZF's latest products and advancements in e-mobility, advanced safety, and vehicle motion control technologies. The feedback from our customers was highly positive, and this event has significantly strengthened our ongoing technology discussions with them.

Additionally, ZF welcomed several Indian OEMs at our booth during IAA 2024. We presented a range of advanced technologies and facilitated over 15 one-on-one meetings between the senior management of OEMs and ZF CVS leadership. The feedback from these meetings is very encouraging and will reflect strongly in our future discussions.

Awards and Recognition:

ZF CVS India has been honored with multiple prestigious customer awards this quarter, underscoring our leadership and commitment to innovation, safety, and customer excellence.

- The TATA Motors Technology and Innovation Award recognizes our pivotal role in developing advanced active safety technologies, including implementing India's first Advanced Driver Assistance Systems (ADAS) with Active Braking in commercial vehicles—a milestone that sets new industry standards.

- Ashok Leyland presented us with the "Impactful Innovation – Gold Award" for our role as a Technology Partner in introducing Electronic Stability Control (ESC) for their bus range, which our team applicated and homologated in record time to meet regulatory deadlines.

- Additionally, VE Commercial Vehicles (VECV) honored us with the Outstanding Contribution in Field Support award, acknowledging our dedication to customer commitment, reliability, and service excellence.

- Olectra, a leader in e-mobility, recognized us with the Quick Development Partner and Strategic Supplier award, reflecting our partnership in providing advanced systems—including ESC, EBS, and ECAS—for their e-bus platforms

In the second quarter of FY 2024-25, ZF CVS India received notable recognition in TEI engagements. The teams from our Ambattur facility won the Platinum Award in CII's Digitech Award under the categories of Productivity, Maintenance, and Energy Management. Additionally, the Ambattur site earned a Platinum Award in the CII National Six Sigma

Competition. Our Pune plant also achieved distinction, by winning the Gold Award in the QCFI Case Study Competition.

Our employees actively participated in external Total Employee Involvement (TEI) and related competitions, winning 5 National awards, 4 Regional awards, and 8 State-level awards across various categories. These accolades were earned through our commitment to excellence and participation in competitions organized by Confederation of Indian Industry (CII), Automotive Component Manufacturers Association (ACMA), and Quality Circle Forum of India (QCFI) among others. We remain dedicated to our pursuit of excellence.

CSR, Corporate Social Responsibility:

In Q2 of FY 2024-25, the Company continued to make a meaningful impact in surrounding communities through dedicated corporate social responsibility initiatives. We installed off-grid solar power systems at seven Primary Health Centers in Chengalpattu, ensuring reliable, uninterrupted power for essential healthcare services. In Barabanki, Uttar Pradesh, we contributed to a more conducive learning environment by enhancing infrastructure at a Government Inter College. Additionally, we provided advanced servicing and testing equipment to two State Transport Undertaking workshops, supporting improved maintenance of braking systems and contributing to safer transportation.

Financial Updates:

For your reference, the results were made public at 15:30 hrs on November 8, 2024. I hope you have had a chance to go through them.

Our overall product sales in Q2 was INR 788.5 crores vs INR 890.9 crores in Q2 FY 2023-24, a degrowth of 11.5%. Though the market is facing headwinds in the near term, our fundamentals remain strong which is reflected in Profit Before Tax of INR. 146.5 crores & Profit After Tax of INR 109.1 crores in this quarter with growth of 3.7% & 3.3% respectively. Our PBT in Q2 FY 2024-25 is 18.6% of product sales & our EBITDA for this quarter is 22.7% which was 19.0% in the same quarter of the previous FY.

We continue to carefully review the environment and our performance to consider further opportunities. Thank you. We now welcome your questions and feedback.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Mukesh Saraf from Avendus Spark. Please go ahead.

Mukesh Saraf: Sir, before the question, the export number that you mentioned just for clarity, is it Rs. 299 crore, sir?

P. Kaniappan: That's correct, Mr. Mukesh, Rs. 299.4 crores.

Mukesh Saraf: So, just coming back to the question, sir, I think in the previous quarters you have mentioned about certain new products in the export segment, especially the new compressor project, the new actuator, as well as I think, yes, so two new actuators. So, could you give some sense if we have started seeing revenue contribution from these new export orders that we had spoken about.

P. Kaniappan: Yes, please. So, in the case of compressor, as I have earlier said, originally, we started only with the Volvo, supplier compressors to Volvo globally for their heavy duty platforms. Then almost last one year now we have been steadily increasing our supply to the top groups, top compresses. Basically, we started with own version, 440 CC, now we have moved to 560 CC. We are expecting it to further raise to higher capacity compressors, maybe twin-cylinder with also clutch version of compressors. So, steadily raising our position in terms of the size of the compressors and also the volume is also increasing.

Most recently, about a month or two months ago we have started producing compressors for Daimler truck globally from our MWC site. This is also a very high-end compressor, it's a twin cylinder compressor with a clutch. In terms of value, it is much higher. So, this is actually in line with the evolution that we have been working, and actually sharing with you all.

In terms of actuators, again, the position is further strengthening, volumes are increasing. We have added one actuator line in our Oragadam site because the current MWC site is full and there's no space. So, now we are expanding. In my view, it will continue to expand, because few customers globally have decided to increase our market share, very close to 100%, at least one of them. So, these two are the growing segments.

One area we are degrowing is our air supply unit which used to supply to the NASCAR, primarily BMW type of customers because of their global maybe volume reduction in the EV site. But we expect that to, in our view, require as we move forward. So, right now, despite a major drop in the BMW air supply unit business, the drop is almost about 50%. We are able to recover very close to our earlier numbers through the increase in the other areas, other product lines. Which we think, going forward, both BMW business also will steadily recover, and compressor we see more volumes as we go forward.

Mukesh Saraf: So, if I understand, sir, excluding the BMW air supply unit decline, the compressor and the actuator business from here on should only ramp up further because of these new orders, is that correct?

P. Kaniappan: Yes, that's correct. Right now we are in the ramp-up phase in both areas, and we are also building our supply chain and addressing certain issues with supply chain to speed up the ramp-up.

Mukesh Saraf: And the second question on the domestic business, I think in the past you have mentioned that while ESC is mandatory in buses, still on the implementation side there is still a lot of gap in terms of the OEMs doing it or the bus body builders doing it, generally there has been some gap in the implementation. Is that now being fixed? Because you were working with the Ministry on trying to set things right there, so how is that situation now, sir?

P. Kaniappan: Actually we have some improvement, but formally government has taken a stand to cover more buses from September 2025. But till then this application is slightly increasing, but not to the full applicable volumes. We are in the range of currently selling about 1,000 ESC systems, but you know the applicability could be at least three, 4x of that.

Mukesh Saraf: Sir in continuation to this, any visibility on when the ESC regulations will be applicable for trucks as well? I mean, generally there is a gap of one to two years.

P. Kaniappan: Have not got any communication or message from the government on this. I am not in the position to give you any update on that spot. But on the bus side there is clarity that from September 2025 more buses also will get covered.

Moderator: Thank you. The next question is from the line of Lakshmi Narayan from Tunga Investments. Please go ahead.

Lakshmi Narayan: Sir one question in general. Sir, we hear a lot about challenges in Europe with respect to some of the auto OEs as well as Tier-1 companies such as Bosch and ZF in terms of how things are going on. Now I also see that ZF is planning to split into two or three companies like ZF Lifetech or something. Now just want to understand what is the implication this has, not in particular to the ZF transaction, but in general what is your read for the Indian auto ancillary companies, particularly to German companies such as yours? Is it an opportunity or is it actually curtails their growth? And whether it actually helps them to improve export markets? Just your thoughts on how to think about this.

P. Kaniappan: Yes. So, the points what you said about the events globally, particularly in Europe, more so in German companies is correct. For us, my view, these are all maybe short term topics because it is driven by many geopolitical problems. Particularly for us it's more to do with the debt and servicing the debt at a higher interest rate etc., which I think our leadership is addressing it. But opportunity wise, though it is not specifically related to this short-term development, but otherwise the opportunity is very much open in multiple ways. Because India, with its cost advantage and produce, and also meeting the global standards in terms of quality, there's an opportunity manufacturing side, in at least in many of the product lines where we have already established here and some other area also we are looking like whether we can make India as a manufacturing hub not only for India, for even global markets. So, that continues the direction. And our success is largely driven by how we actually show that compelling value proposition to our parent. This is on the manufacturing side.

So, we see, for example, now we make electric compressor, e-compressor. So, in the truck segment we are launching a lighter version. So, we are trying to launch it as a global product. Some markets where it is applicable, we are seeing opportunity. Like that certain other products we are, as India also is now evolving. So, if you see in India also the vehicle configuration, the market, everything is moving towards global. And so in terms of engine power, torque, the transmissions and all those things, that scenario makes the ZF products very much relevant to the Indian market. Which was not the case earlier because the Indian commercial vehicles were at a very much lower in terms of configuration, in terms of engine power, etc. Typically, recently now we have, of course in the transmission whatever happens is outside of the listed Company, but then it gives us an opportunity. We are now launching a product called transmission control valve. It's already launched to one of the customers. So, the transmission needs certain power assistance control, etc. So, it gives us an opportunity. Similarly, AMT, now the market is moving more and more towards 9 speed and in some cases 12 speed. So, this will seek support of products like AMT. So, this evolution will also help the listed part of the business.

The other area where we see an opportunity is in the engineering, as you see we keep on adding our resources in India to support the global parent, because India is the best cost location in terms of competency, also at a high level in many areas. So, it becomes easier for them to really set up, expand those things here. So, it will be an opportunity, but the opportunity is not only driven by the recent developments, recent developments in my view are short term, one or two years. But otherwise, from a longer-term perspective itself, we are looking at India as a center of excellence for engineering, manufacturing, etc. So, that will continue.

Lakshmi Narayan: Sir, I think from exports point of view, how India will become more relevant given this particular transition?

P. Kaniappan: Can you say it again, I couldn't get the full.

Lakshmi Narayan: My question is like how this actually helps exports from India, if there is a slowdown in the Europe, if you can talk about it that would be helpful.

P. Kaniappan: Yes. So, basically we are trying to capture the market globally in the area of compressor, let's say, two products, compressors and actuators. Actuators were developed in India, compressors of course a global product developed in India, compressor is a global product but manufactured in India now. So, these areas, if we want to increase our market share globally, you need to supply those products at continuously improving and reducing cost structure. So, that is where we are becoming solutions to our parent organization to position like that. One example is compressor, what we started as one customer, now we have moved to three customers. And now that further gives us the opportunity, the scale gives us an opportunity to further improve pricing, etc. Because this cost structure, because on the quality, as long as we meet the quality standards of global OEMs and the cost is compelling, then you become an automatic manufacturing site. So, that will continue to drive the growth for us. And in few product lines that is already happening. We are looking at more areas because ZF has many more product lines than WABCO. So, more opportunities we are looking at.

Lakshmi Narayan: And also, earlier we were doing some DAF compressors also, now we also started doing compressor for BMW car application. Now, how this thing has actually expanded in the last two years? Have we succeeded in developing it? And what is the kind of volume we are expecting on a steady state basis?

P. Kaniappan: So, we started our compressor business with Volvo. It was about 180,000 compressors for per year to Volvo, heavy duty compresses. But then today it has come to almost 100,000 because the evolution, the vehicle configuration changes and induction of other supplies at a global level, etc. At the same time, we have started supplying it to DAF, DAF we are in the range of about 5,000 compressor, now we have come to about 100,000. Soon we expect it to be another 100,000 compressors. But this is higher configuration, twin cylinder. After some time we are going to go for a twin cylinder with a clutch. So, the size and the complexity of the product also keeps increasing. Now we are also, as I said, we are also in the last two months we have started producing compressors for Daimler Truck AG, DTAG.

Lakshmi Narayan: Sir, this Volvo you talked about is for cars or truck?

P. Kaniappan: Trucks only, all are trucks, heavy duty air brake compressor. And so now we are supplying it to Daimler truck, in a small way we have started about I think it's a 3,000 number per month type of volume we will be soon moving to, which will keep increasing, both customers will keep increasing. Though there is a reduction in the Volvo, but other customers, other businesses increasing as such overall is a growing segment.

On the BMW what we are supplying is, it's an air supply unit, it's a small compressor and electric motor. It's an air supply unit for, we call ECAS, electronic control for air suspension for such high end cars. There, because of the slowdown of EV vehicles globally, my assumption, but I am not having the direct understanding of exactly why there's a reduction, but there's a reduction in the BMW solution that we used to offer, which in my view will come back. Because this product is not so much only for EV, but it is for all the applications. But this is, again, I understand it will start recovering. So, some products it is continuously improving more, some products there is a reduction, but overall, we see a growth trend.

Lakshmi Narayan: Sir, on the ESC opportunity, I think around 60% of the buses are actually applicable to, and that is a mix of hydraulic and pneumatic, right?

P. Kaniappan: Yes.

Lakshmi Narayan: So, what has been the traction there in terms of the ESC?

P. Kaniappan: ESC, there are two parts for ESC, one is for the air brake-based ESC, pneumatic ESC we call it, then hydraulic ESC. Pneumatic ESC used to be in our portfolio from the beginning because all the air brakes are Wabco portfolio, and now it is ZF. The electronic control system for that is applicable for certain applications of the buses. The actual fitment, it also had a lot of challenges because they tried to exclude it for the city usage, school buses, etc., they were trying to avoid because of different interpretations. Also, body building was done inside or outside, so who's accountable, etc., such confusions were there. With all that today we are selling about 1,000 ESCs for the buses, roughly about 4,000 buses maybe produced, so we are in the range of about 1,000, so about 25% applicability is there now. This is on the on the pneumatic buses.

But then the government has understood this and then from September '25 they were also making more vehicles applicable, which will increase the penetration. I am not in the position to say exactly how much, but then directionally it is going to increase. This is on the pneumatic. On the hydraulic, it is applicable for the category of vehicles below 6 tonnes and maybe above 3 tonnes type of vehicles. So, we are now supplying it to a few customers like Forge Motors. Again, the applicability is good in some customers. And most recently, it has been released for Mahindra. So, already we are supplying 400 per month, this will go to about 700-800 per month. So, all put together we are talking about 1,700 ESCs. It will only continue to increase because ESC as the technology will reduce significantly the rollover accidents. More and more the market will realize the value that the technology provides and adaptability will keep increasing.

Moderator: Thank you so much. The next question is from the line of Nirali Gopani from Unique PMS. Please go ahead.

Nirali Gopani: So, if I look at our numbers, normally historically every quarter we outperform the OE sales. I know one quarter is nothing to indicate, but can you highlight like why couldn't we outperform the OE sales this quarter, and do you see this trend continuing?

P. Kaniappan: Yes. Thank you for the question. So, basically, not only the volume came down, normally when the volume comes down, two things happen. One is, the mix automatically comes down because the more of light duty vehicles are produced, that in our case as I've said we have that in the intermediate commercial vehicle. So, the medium and heavy comes down, you can see roughly from 62% it has come down to 54% during this period. So, mix is unfavorable to us. Similarly, the bus volume and the light duty volume increases because the content is much lower than the MHCV. This is point number one.

Point number two, the trailer production also comes down. Tractor trailer combination production also comes down. When the tractor trailer production comes down we miss the opportunity of the increased value because we add value to the trailer, we also add value to the tractor. You have a trailer ABS, you have got tractors ABS, plus you may have all the braking system for the trailer, you have the braking system for the tractor. So, the percentage of trailers came down about 15% versus last year.

The third dimension is the electric buses production stopped because the government, not in that quarter at least, they have not announced the policy on FAME and other things, the new government did not start the tender. So, the electric buses in which our content is quite high, also volume came down. As I said, the mine mining actively also stopped, again, through multiple things, one of that is flooding in certain parts of India. All that led to, while the numbers were there, but then mix was completely unfavorable to us. Of course, some of these projects are ECAS and some customers moved from normal air processing to advanced air processing. So, those things supported us. So, we are in the range of in this quarter about Rs. 43,000 value per vehicle. So, that is the reason.

Plus, few commodity type products we are also exiting, because those things are bleeders in ours. So, we want to be, both customer profitability and product profitability we are now reviewing, and more and more we would like to move to technology, more technology products. Of course, wherever we are able to reduce the cost and still maintain the margin, we would like to supply even commodity products. But then where we are not able to do, and customers are not willing to compensate few products like air tank, hoses etc., which also we have decided to exit. So, all these things led to this change. But you see, our focus, as I said, was largely on the margin. We would like to really grow the margin. We were I think the highest was about 17%, now we have gone to of course some ForEx supported us. Even without ForEx we were very close to 16.9% margin, probably one of the very highest in any quarter as a percentage level. Of course, ForEx was also favorable to us, almost 18.6% we delivered. So, the focus more and more we are shifting to margin and try to see how we will keep improving that part.

Nirali Gopani: Sir, when you say that the content per vehicle has come down to Rs. 43,000, so what could have that been say three quarters back? Like from what number have we come down to Rs. 43,000?

P. Kaniappan: Typically if you see, we were in range of Rs. 45,000, and our plan is to outperform at least 10% year-on-year. So, we want to keep improving. Because in the last two or three quarters when the volume comes down, as I said, the volume, it's not number, the mix is also very much it becomes unfavorable in such times.

Nirali Gopani: And sir, in your experience, how does the next few quarters, when do we see the trends changing the favorable mix for us?

P. Kaniappan: It's also not very predictable, but actually we are seeing some signals already started improvement. If volume improves automatically it indicates that economic activity is more and the profitability, everything is improving, so people start buying. So, we see the few things we have already started seeing signals, one is electric bus tenders have started and one of the customers, at least for us, they started buying our products already this month. And we see that extending into other customers soon.

In the trailer segment we are also initiating action to really increase the adoption of ABS, because ABS has to be mandated, all trailers should have a trailer ABS. But somehow the market was, because largely this is not so much of an organized sector. People are not following it up following it. But when we had discussion with the trailer manufacturers, they were suggesting, because we are giving an alternate option of fitting without ABS, the end customers, they chose that path. But because it's mandated one, and we as a Company have a commitment to drive safety in this country, we have decided to now supply only with the ABS largely. It will take some more time maybe in my view another few months it will take for us to increase the adoption from about 25% to progressively ideally we should be 100% because of the regulation. We are working on that. So, trailer side also we are trying to sell trailer ABS, which gives much more value. Today that adoption is only about 3% in the trailer, there there's no mandate but then customers themselves see a good value there.

Also, the trailer numbers are also increasing. Few signals. I am not saying that there's a big uptick in the market, etc., but these are all few signals. Our view is, it will only go up because last year it was down, the downward movement started in October and continued till August 2024. Whereas this year the improvement starts now, though it is a very small increase, but then last month the wagon sales number is also quite decent. It is at least 3,000, 4,000 better than the production numbers. We see the things to improve, because certain things are also, based on the government's decision to disburse fund for the construction and other projects. This is also starting, this has already started I think. So, all these things indicate that things are in the positive direction.

Nirali Gopani: And sir, just one last question, if I look at the service income that has grown very well over the last few years, so how do we see this trend going ahead?

P. Kaniappan: Yes, I would request our CFO to answer this, yes.

Sweta Agarwal: Hi, Nirali. See, the service income is a direct linkage to the number of people that we are employing in the IT, infrastructure we are using for R&D purposes. And ZF CVCS India has a location where the R&D services or the quality of R&D is quite competitive, equivalent to anything that they would get from a colleague anywhere in the world. And hence we see that growing steadily over the next quarters as well. We currently have about 1,200 R&D colleagues on board in our Company and we expect to see this increasing as more and more of the R&D services are rendered from India.

Moderator: Thank you. The next question is from the line of Rahil Shah from Crown Capital. Please go ahead.

Rahil Shah: Sir, based on the current environment, the situation where you say the market is kind of facing headwinds in certain business segments, but then you also just said that you see uptick and some positive indications. So, what are your growth expectations then for the next second half? So, like for full year FY '25 what are your expectation for FY '24? And then you also mentioned you are focusing more on the margin, so what kind of margins do you think you can end the year with?

P. Kaniappan: Thank you. So, first question, we look at the calendar year for our number. So, next year Jan to December we are planning about 7% growth in vehicle production. And because our target is to outperform by about 10%, from a longer-term perspective, I won't be able to commit for a quarter or a year. So, these are the numbers we are planning. And in terms of margin, there are multiple areas we are working, but one is, of course, we are trying to see how much we can keep addressing some of our bleeders and part level, if you are not making money we are trying to see if we can reduce the cost of the supply chain or manufacturing and things like that. Also, there are challenges we talk with the customer and see if improvement. So, this process is one.

And per say, we are a continuous improvement culture driven Company. We are a TQM Company and all that, we were the first in India to get the dimming price, etc. So, that fundamentally puts the DNA in our system that we look for improvement in everything that we do. So, factory productivity is something that we continuously see how do we improve our efficiency in the system, supplies also the same. So, at the same time there is also pressure from the market, from the customers to pass on some reduction every year to them. With all that, at least what we are trying to do is, me and Sweta our CFO, if you see last few quarters we are in the range of 16%, very close to 17%. At least we will protect this level first level.

Rahil Shah: Yes. So, the first question which you answered, did I hear you correctly when you said you are trying to beat the vehicle production growth rate which you are expecting in the market which is 10%?

P. Kaniappan: Yes. So, what I said was, in our planning that next year vehicle numbers will be about 7% better than this year. So, this year if you look at, there's a steep drop versus what we originally planned around 17% drop in this quarter itself. It won't fully recover, but at least we believe next year as a full year there will be a growth of 7% in our planning that's what we have taken. But then our focus always is, because market growth is not in our control, we have many new technologies, many products which are in the very advanced stage of releasing by customers, example, advanced driver assistant systems by one of the top customers in India, JMT and so many products. We want to outperform. Our standard objective is to continuously outperform the market by about 10% year-on-year. So, that is what I said. So, next year also we would like to outperform. If the market grows 7%, we outperform about 10%. That will drive our growth in the OE segment of India.

Rahil Shah: For this year, FY '25, you are not able to guide for a particular revenue growth?

P. Kaniappan: Yes, this year, as I told you, we are actually not even growing. We are growing with only market, in fact, about 1% less than the market growth is our number. That was because of some very significant drop in the mix, unfavorable mix. The actual mix is very unfavorable, plus drop in the trailer production, drop in the electric vehicle production. So, many things has affected us. But in the second half definitely we are seeing some signals of improvement. I am not in a position to tell you whether that we will be able to do 10%. Because the exact nature of the growth, everything we have to still watch for at least one or two months to come to a conclusion. But our intent is to put all our advanced technologies and ensure that we grow 10% over the market every quarter. Actually, last two, three quarters we could not achieve that because of the very unfavorable mix and other things, plus the new government and certain projects were not picking up, etc. Which in our view it's a very short-term type of issue, but then we will be back to our growth path as we move forward.

Rahil Shah: Okay. So, you will try to beat the market in any quarter, but it's not clear at the moment. But however, you will try to protect the margins at these levels?

P. Kaniappan: Yes, that's our intent.

Moderator: Thank you. The next question is from the line of Lakshmi Narayan from Tunga Investments.

Lakshmi Narayan: This ESC for trucks, right, when do you think it will become mandatory?

P. Kaniappan: For the which one?

Lakshmi Narayan: ESC.

P. Kaniappan: Yes, ESC is mandatory only for the bus. Trucks, we have not got any signal or any indication from the government, not in a position to really give any indication. But we are working with the government, but we have to wait and watch on this. First priority I think is buses, the next increase we expect by September 2025 where more buses are getting covered. Some of these where you have got some clarity was lacking, but I think that is being addressed from September 2025.

Lakshmi Narayan: So, for trucks which is the next regulation that is going to come, which would be beneficial to us in the next 12 months or so?

P. Kaniappan: Next 12 months we do not see any big regulation, but what we expect is next regulation is advanced driver assistance system, a part of that is AEBS, advanced emergency braking system, and the lane departure warning system. Which already the standards are actually finalized and ready with the government. In our view, this will come by 2026-2027, again, just our own estimate. But then when AEBS has to come, the basic braking system should be further improved, which includes an ESC also. And ESC is, in other markets, it has been a prerequisite to put AEBS. So, but then no clear visibility or a commitment date has been announced yet. These are all we are ready, we are working with the moment in all these areas and the discussions are completed and the standards are ready.

Lakshmi Narayan: Sir, one last question, you mentioned that you are getting into LPV segment. Now this is the segment which we had global product portfolio or is something which we actually developed in India ground-up? And you mentioned that it's almost EUR90 million per year is the potential, when do you plan to achieve that?

P. Kaniappan: Yes. So, if you see, in Sundaram Clayton itself we had certain portfolio of product for that segment, and we were supplying vacuum boosters for Tata Sumo and Mahindra Bolero type of applications, both in the aftermarket and OE, and some of the customers like Swaraj, Mazda, Forge Motors, we were supplying it to them. And then those customers shifted to suppliers who can supply the full system, including the tandem master cylinders, hydraulic ABS, etc. In Wabco days we were not having those technologies with us, we were having only a vacuum booster. But now we have the full access to all the technologies from setup. Many things, only the vacuum booster and the tandem master cylinder, hydraulic ABS is one part. But then we have many other things, very advanced systems, integrated we call it IBC, integrated braking control which incorporates all these things as a single solution. Like that many, many things.

So, the entire range, particularly on the braking side, entire range is available to the listed Company now because ZF has taken at the global level the decision to give this business to CVS in India. Within CVS, we would like to do it from the listed Company. It's a new decision very recently and opportunity is huge because in this segment the vehicle number is almost same as the MHCV number. So, we have to see the applicability etc. But what we immediately we have, few areas have already started. One such thing is the hydraulic ESC which we are supplying it to now Forge Motors, extending it to Mahindra. I talked about which was not in the Wabco portfolio or CVCS portfolio, which was a pass-car business which we actually brought to India because there was a mandate and by the time we Brakes India exited from ZF, so our parent asked us to really take responsibility and then go and support the customer. So, that product is being produced in Oragadam and now we are supplying it to Forge Motors, which is, as I said, extending it to Mahindra. That gives us an opportunity to take up more products. There are many other products available. So, all put together, we have already started there which can give us about EUR 90 million by 2030 with about at least double-digit margin, low end of double-digit. So, that's what we are seeing. So, it's a new area which is moving into the listed part.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today's conference call. I now hand the conference over to the management for their closing comments.

P. Kaniappan: Yes, I would like to thank all of you for having come and participated in this very useful discussion. So, I am sure we are able to clarify many of your questions. Thank you. Thank you for your participation.

Moderator: On behalf of B&K Securities, that concludes this conference. Thank you for joining us. And you may now disconnect your lines.