



Divgi TorqTransfer Systems

Divgi TorqTransfer Systems Limited

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November 21, 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 November 18, 2024

Ref.: Regulations 30 of the SEBI LODR Regulations

Dear Sir / Madam,

Further to our letter reference no. DTTS/Sec/24-25/65 dated November 07, 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 **November 18, 2024**, in respect of the Unaudited Financial Results of the Company for the quarter and half year ended September 30, 2024.

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 TorqTransfer Systems Limited
Q2 FY '25 Results Conference Call”

November 18, 2024

“E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on 18th November 2024 will prevail.”



MANAGEMENT: **MR. JITENDRA DIVGI – MANAGING DIRECTOR – DIVGI TORQTRANSFER SYSTEMS LIMITED**
MR. HIRENDRA DIVGI – WHOLE TIME DIRECTOR – DIVGI TORQTRANSFER SYSTEMS LIMITED
MR. SUDHIR MIRJANKAR – CHIEF FINANCIAL OFFICER – DIVGI TORQTRANSFER SYSTEMS LIMITED
MR. DEEPAK VANI – CHIEF OPERATING OFFICER – DIVGI TORQTRANSFER SYSTEMS LIMITED
SGA – INVESTOR RELATIONS ADVISORS – DIVGI TORQTRANSFER SYSTEMS LIMITED

MODERATOR: **MR. MIHIR VORA – EQUIRUS SECURITIES**

Moderator: Ladies and gentlemen, good day, and welcome to Divgi TorqTransfer Systems Limited Q2 FY '25 Results Conference Call hosted by Equirus Securities. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touch-tone phone. Please note that this conference is being recorded.

This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions and expectations of the company as on date of this call. These statements are not the guarantee of future performance and involve risks and uncertainties that are difficult to predict.

I now hand the conference over to Mr. Mihir Vora from Equirus Securities. Thank you, and over to you, sir.

Mihir Vora: Thank you, Shweta. Hi. Good morning, everyone. So, on behalf of Equirus Securities, I welcome you all to the Q2 FY '25 post-results call of the Divgi TorqTransfer Systems. From the management side, we have Mr. Jitendra Divgi, Managing Director; Mr. Hirendra Divgi, Whole Time Director; Mr. Sudhir Mirjankar, CFO; and Dipak Vani, COO.

Without further ado, I now hand over the floor to Jitendra sir for his opening comments. Over to you, sir.

Jitendra Divgi: Yes. Thank you, Mihir. Good morning, and a very warm welcome to everyone present on this call to discuss the Q2 and H1 FY '25 performance of our company, Divgi TorqTransfer Systems Limited. As mentioned earlier, I have 3 of my colleagues with me, our Executive Director, Hirendra Divgi; our CFO, Sudhir Mirjankar; and our Chief Operating Officer, Dipak Vani. And we, of course, also have SGA, our Investor Relations Advisor.

We have uploaded our presentation on the stock exchanges and the company website, and I trust you have had a chance to review that and prepare your questions for this -- to make this session productive for all of you.

So, to begin with, let me tell you that in the next couple of months in January '25, Divgi TTS will be presenting its next-generation products at the Bharat Mobility Global Expo 2025, which is being held at Dwarka, in New Delhi. This is India's leading global mobility show and is a sort of convergence of the world's leading automotive OEMs and Tier 1s. We are privileged to be part of this event, which will sort of set the stage for the future of mobility in our country and the world in general.

There is a Slide in this presentation. I think it's Slide number 13 that gives the details about our participation. And I wish to take this opportunity to invite all of you to attend and learn more about our products during this expo. So please do visit us and see how our new technology-driven products will propel mobility in Bharat in the future. As they say, 'seeing is believing'. So do take the opportunity to come and visit us at our stall at Auto Expo 2025.

Let me now shift to the agenda for today. I'm going to sort of make remarks pertaining to our performance, business updates and also talk about the next-generation transmission products where work is underway. -- a little bit about our core transfer case performance and EV business and then also hand the proceedings over to Sudhir Mirjankar, our CFO, and we'll then open the proceedings for Q&A.

So, as you may have noticed from our presentation, we have made a significant EBITDA improvement in the second quarter. And this was based on sort of renegotiating for the lower volumes that we are seeing in our business. So, while the sales were sort of flat, I think our cost control and the tough work of renegotiating contracts. I must tell you that this was done within the framework of the original contracts that we had in place, which had a provision for compensation for lower volumes.

So, we took advantage of that and were able to successfully renegotiate for the lower volume. In terms of some other achievements, we recently signed an MoU with one of the world's largest Tier 1 transmission manufacturer to conduct a feasibility study for producing over 200,000 automatic transmissions in India.

This is underway right now and will set the stage for future direction of our automatic transmission business. The general expectation is that this localization will have to be in place sometime in calendar 2027. The localization of automatics is a high priority for the government of India as well. And you will hear this buzz if you visit the mobility show in January 2025.

So, I'm very pleased that our study is targeted to try and come to some decisive conclusions that hopefully we should be able to share with some of our critical customers starting January. I'm also pleased to report that we secured new export business from China, a pretty significant one. And we have followed that up with some critical visits of senior members of our sales organization to China to explore further opportunities to build on this success.

And with the recent data, if I may say so, and the thaw in the otherwise difficult relations with China. It's interesting that we are seeing quite an uptick in the interest which the Chinese are showing in the kind of competitive solutions that are available for them from India. And it's a matter of pride that our company is in the front rank of Indian companies who are delivering this value.

I'm also pleased to report that we have submitted a bid for what is called a 3-in-1 electric drive unit for a multinational OEM in India to explore the opportunity to deliver the entire powertrain system. You would appreciate that normally such deals are bound by nondisclosure agreements. So, I do not have the liberty to divulge more details as to who the players are. But suffice it to say that all our assertions are backed up by document objective evidence. So, everything that I'm saying here is backed up by objective evidence.

So, it's not a loose sort of pie in the sky assertions that I'm making. So, discussions are underway, and this is a very significant diversification of our EV work that is going on. Moreover, we are actively advancing many other strategic projects, as I said, including automatics, but also focused on dedicated hybrid transmissions.

And I think we had briefly reported on this in the last earnings call. And what I wish to say is we are currently starting a concept feasibility study because one of the things that has to be done is these solutions being highly engineered for the engines of the OEMs. We need to examine what is the degree and extent of fuel efficiency improvement we can deliver.

So, it requires very detailed engineering and simulation studies to establish that improvement. And if anybody tells you otherwise that they can pick off-the-shelf solutions from China or wherever in the world, I think that would be a clear statement to make, a DHT or a dedicated hybrid transmission cannot be developed. There's no such thing as an off-the-shelf. It is a highly engineered solution for the specific OEM application. Some of the hardware is fungible and can be laterally deployed. But a lot of the configuration in the software is actually tailored for the specific application at hand. And that is the kind of work that we are currently doing.

So, as you can see, whether it is automatic transmissions, battery electric vehicles or hybrids, your Company is very much in the thick of not just exploring opportunities, but actually actively doing studies and quoting on business. And I'm pleased to report that on both DHT and battery electric vehicle, the 3-in-1 EDU, we have actually quoted on opportunities.

Coming to the overall financial performance, my colleague, Sudhir, will give you more specifics, and we'll have a chance to discuss specifics if there are any questions. But as you are aware that the past few quarters have been challenging due to several factors. The Indian automotive industry sort of faces ups and downs. Our focus being a little niche, I think, has been buffeted by some of these pressures.

But there are clear winners and losers in the industries. And the market has been complex and unpredictable. Recently, I think other than Mahindra, the other OEMs have faced significant either flat sales or significant downward trend. And we, in particular, have been affected by a slackening in the EV demand at Tata, which I think is well known in the industry.

And the continuing sort of a lack of growth in the Mahindra 4-wheel drive business. But I'm going to address that and in terms of what steps are underway in the Company to address that. So, these 2 factors have been the principal factors that have affected and not enabled us to grow in the second quarter.

The third important revenue stream that we have under development is component exports, and there has been a little bit of a delay, a little bit meaning a couple of months or so in the whole approval process because many of these programs are China-Plus-One kind of risk mitigation assignments that we have got. And so, the Tier 1s in the U.S. are not necessarily under any launch pressure.

So, if it takes an extra month to get their approval, they are taking that, which is why we are seeing a little bit of a delay. But approvals, we have obtained all the approvals and production is going on full swing at our facilities in Sirsi, in Shirwal and here at Bhosari in Pune. So, I think to address these challenges, and I'll go step by step. And if it's not adequate, please do ask the questions, and we will make sure that you get all the latest updates as best as we can.

So, despite what has happened with H1, we are optimistic about a gradual recovery in H2 and continuing on to FY '26. Our forecast sort of shows that because of the sort of slow nature of the market, we have to sort of revise the overall forecast for the year. So, while H2 will be about 8% to 10% over H1, the overall performance for FY '25 will be more or less in line with FY '24. But '26 appears to be more promising because a lot of the work that has come in will stabilize in FY '26.

And we get the benefit of the full year then to bring in the revenue. So, I think in components, you have already seen the increase. And in a very guarded way, I can say that assuming all the things go forward as planned, and our customers don't have last-minute surprises. In Q4 of FY '25, we expect revenue share from exports to be about 20% of our revenue. And that trend then will continue in FY '26.

I just want to take a moment to address our core transfer case business. As you are aware, our main customer launched a 2-wheel drive version to address the competitive trend in the market. But the new models that are launching have significant 4-wheel drive. And so, for example, the Thar ROXX showed, I think in recent bookings of over 170,000 units, some 30% for 4-wheel drive booking. I think this is sort of public domain information. And so that shows that over the next several months, there is a healthy order book at Mahindra on 4-wheel drive.

We are also seeing that whatever bottlenecks there were in the supply chain for the defense work have been unraveled. And so, in the last quarter, we expect to see a significant uptick in our defense work. I am also pleased to report that work is underway to tap global opportunities on our transfer cases both in the U.S. and also Southeast Asia. And as we make progress, we will provide updates on that.

So, the core transfer case business, core synchronize, our business continues to remain strong because the global upheaval in ICE in the several tens of millions that are made means that both Tier 1s and OEMs now need very different imaginative solutions to the kind of cost pressures that they are facing. And therefore, new solutions have to be designed in their supply chains. And I think that is a big opportunity for us.

We have been approached by both OEMs and Tier 1s from Europe in this regard and that exploration and investigation continues, not just in 4-wheel drive transfer cases, but also manual transmissions and synchronizers. As far as the EV is concerned, I think you are aware that the transition to improve fuel efficiency, less emissions continues to reshape the landscape of the automotive industry.

So, while challenges such as range anxiety, reduced government subsidies, and insufficient sort of charging infrastructure have tempered growth. Our Shirwal plant continues to remain the largest EV transmission manufacturing facility in India. I had reported in the last earnings call that we have a new model under development for higher power and torque range, which is where the industry seems to be gravitating whether you take MG or Tata.

And over the next 9 to 12 months, we hope to add -- not hope, I should say, that's the wrong phrase- we plan to add 5 new vehicle models to the portfolio and realize the vision of having a

complete portfolio of solutions from about 35 to 40-kilowatt to 120-kilowatt from the little A-class car to a complete full-size SUV. So both 4x2 and 4x4 electric. So, this portfolio, I must add includes only the transmission portion of it, not the electric side, and we continue to work with the country's leading motor and inverter manufacturers to help them provide a complete solution to OEMs like Tata Motors.

I would also like to report that EV 3-wheeler segment is gaining traction, and it is generally acknowledged that in the next few years, 2 to 3 years, maybe the large majority of the 3-wheeler industry will be fully electrified. And we are leveraging this opportunity to sort of bring in new product opportunities.

This segment is marked by a lot of activity by start-up companies. And it is a segment which appears ripe for disruption. There are many -- so the whole industry has been disaggregated. You have specialist vehicle designers, you have powertrain suppliers, you have vehicle makers. And then, of course, they have figured out different marketing and distribution ideas and methods.

So, there is a certain amount of disruption that will happen as a result of this disaggregation and it's important that your company is plugged into this segment. As many of you are aware, the Indian 3-wheeler industry is the largest in the world. And we don't want to lose the opportunity to be a player here and bring in the economies of scale for our business.

So, we have new designs that are under prototyping right now. And we continue to work with a variety of players, both I must add in India and overseas because these -- what we -- what the Indian 3-wheeler industry needs is also needed by the global ATV manufacturers. ATV refers to all-terrain vehicles, or utility task vehicles as they are called UTVs that have the powertrain specifications of what you might find in India's 3-wheeler industry.

So, we have both domestic and overseas opportunities in this segment. So, all the different things that I've referred to, there is a certain synergy in the area of manufacturing and design in all of these areas. So, we are able to leverage the experience that we are gaining continuously as we work on different programs and sort of cross-fertilize that into different segments.

I've already talked about briefly the progress we are making in the next-gen transmission projects. Next gen essentially means hybrids and automatic transmissions. These product lines are marked by a fair degree of hardware design, global supply chain management and software complexity. And I'm pleased to report that we sort of continue to remain in the front rank of companies in India that are doing this kind of work. I think our projection is that the year 2027 is a critical watershed year. India will introduce new emission norms in 2027.

So, a lot of the OEMs are under pressure to have their multi approach, multi-pronged approach to electrification and carbon neutrality worked out before then. And so, speed of execution is a very critical competence that will be needed over the next 2 years.

So, this is a space which is very dynamic. I might even add explosive and needs to be watched carefully.

And it's also fairly competitive because we have many Indian companies now that are beginning to watch this space, and we also have players from overseas that are coming in. I would say that your Company has the advantage because we are one of the few players who has been a successful Tier 1 transmission system solution provider.

And therefore, we have the execution capability, demonstrated proven execution capability, both in ICE and the BEV segments. And therefore, I remain optimistic and confident that we will pull through with a successful program in the next 2 years. So, I think I've touched upon all the relevant points.

Let me now hand over the proceedings to my colleague Sudhir. And if I have missed out anything, we are available after Sudhir's presentation to answer any questions that you may have. I have myself made some points that I want to. But let me defer till Sudhir finishes his, and then we'll take up some additional points in the Q&A session.

So, with that, Sudhir, can you please take over?

Sudhir Mirjankar:

Thank you. Good morning to all. Now speaking on the financial performance of H1 FY '25, total income for H1 FY '25 stood at INR119 crores as compared to INR135 crores in H1 FY '24, lower by 12% on a year-on-year basis. This was largely affected by the lower offtake in volumes from major OEM customers in core transfer case business.

Talking about the revenue mix that transfer case business has seen a degrowth of 29%. Our EV transmission business has registered a strong growth of 25% on a year-on-year basis. Our component business is consistently performing well, growing by 56% year-on-year basis. It will continue to grow further on the back of strong domestic and international order book and top-notch technology for drivetrain systems and components.

EBITDA for H1 FY '25 stood at INR31 crores as against INR37 crores in H1 FY '24, a year-on-year degrowth of 17%. Lower volume offtake led to lower absorption of fixed costs impacting EBITDA. EBITDA margin stood at 25.7%. Profit after tax for H1 FY '25 stood at INR14 crores as compared to INR21 crores in H1 FY '24, a degrowth of 35% on a year-on-year basis with PAT margins at 11.6%. PAT was lower on the back of lower operating profit and higher depreciation.

Now coming to Q2 FY '25 performance. Total income for Q2 FY '25 stood at INR59 crores as compared to INR73 crores in Q2 FY '24, lower by 19% on a year-on-year basis. It remained flat on a quarter-on-quarter basis. EBITDA for Q2 FY '25 stood at INR17 crores as against INR19 crores in Q2 FY '24 year-on-year degrowth of 13%. It is up by 19% on a quarter-on-quarter basis. EBITDA margins for the quarter stood at 28%, improved by 463 basis points on quarter-on-quarter basis.

This quarter, we regained our margin profile level and expect to maintain going forward. Profit after tax for Q2 FY '25 stood at INR8 crores as against INR11 crores in Q2 FY '24, year-on-year degrowth of 27%, and it is up by 32% on a quarter-on-quarter basis. PAT margins for the quarter stood at 13.2%, improved by 321 basis points on quarter-on-quarter basis.

That's it from my side. I now can open floor for questions and answers.

Moderator: Thank you very much. We will now begin the question-and-answer session. We have a question from Mihir Vora from Equirus Securities.

Mihir Vora: So basically, we saw a very good order book for the Mahindra Thar 5 door . So just wanted to understand whether are we seeing initial -- like OEM would have given us an initial order for some unit, but do we see a ramp-up there? Like are we seeing an increase in the orders for the Mahindra Thar specifically?

Jitendra Divgi: Yes. Thank you. I think that's a very important question. I did allude to the pretty impressive order book that they have garnered with the ROXX. It's a double-edged sword because it has also affected the 3-door Thar while, of course, registering this impressive number on the 5-door version. The way we are seeing and unfold -- there's a bit of an echo -- Mihir, there is a big of echo that I'm getting -- maybe somebody needs to put phone on mute.

Mihir Vora: Yes, you can go ahead.

Jitendra Divgi: Yes. So, the total demand that we are seeing out of the first tranche of bookings is over 50,000 units of transfer cases. However, it's not just the transfer case that needs to be supplied. There are other supporting complementary components on the chassis. And I think Mahindra, that aspect of their supply chain is a little behind schedule. So, we are seeing fairly flat orders till March. Hopefully, after that, there will be a pickup in the numbers.

So, the current situation that we have on the 4-wheel drive business, we expect that to continue till March maybe in another 3 months in the -- for the next earnings call, we may have an update on where this business is headed. But right now, while the numbers are not up yet, there is the assurance that the order book going into next year is stable, maybe even a little on the higher side.

And that gives us then the opportunity to continue working on this foundation, looking at other opportunities. And as I mentioned, we are looking at opportunities in the United States and Southeast Asia that are sort of -- where some of the competition is not looking at these trends or the type of products that are needed because I think at low to medium volume, so in the range of 15,000 to 30,000 units a year, many of the world's big Tier 1s find it difficult to offer competitive pricing.

And that, therefore, opens up an opportunity for us to begin sort of selling our transfer case solutions and other 4-wheel drive products globally. So that, in a way, is your answer here.

Mihir Vora: So, got it. And other question was on this long range EV transmission. So where are we right now like we supply the low range right now with Tata and on? What is the progress on the long range? You mentioned some -- but some bit of more color on that like from when we begin.

Jitendra Divgi: So, I think overall, as a team, perhaps there was a misjudgment in initially concentrating our development resources obviously, at the behest of our customers on the lower end of the segment. Over the last 1.5 years, gradually, we've seen the market gravitate towards the higher

end. So, people want more range, they want more features, they want more power, where -- and that segment was given a last priority in the initial development phase of 2022.

So, at this time, those transmissions are still imported from China. But I'm happy to report that our prototyping has been successfully completed. We have very successful test results, not completed the testing yet, but the most important aspect of the test is what we call NVH, noise, vibration, harshness because that is a measure of the refinement of the gearbox. Remember that instead of a max 4,000 or 5,000 RPM engine, you have a 14,000 to 16,000 RPM electric motor driving the gearbox.

So if it is not designed and manufactured to the needed standard, these units tend to whine a lot. And no consumer is going to buy a car where there is this very irritating and objectionable whine noise coming out of the car. So that is what makes -- making EV transmissions a bit of a blackheart for the industry.

And that is where I think the DTTS team has mastered its craft because while the numbers, okay, are certainly disappointing, if you actually look at our execution performance, it is nothing less than spectacular. We have 100 on 100 scorecard from Tata Motors and zero PPM on NVH and many other quality parameters. So, we have a customer who's very happy with what we have done in terms of delivering cost reduction, better inventory management, but also significantly better quality standards.

So, we now want to take this across into the higher segments where this new transmission will do service on 5 new models. And this is what we will see unfolding through FY '26 and then later in FY '27. So at the end of it then, and this development, we hope to conclude by April, May of next year, what we will have is a complete portfolio of transmission products that will do service from the little Tiago, the Tigor, Punch, Nexon, Curvv, and including 2 new models that I think have not yet been announced. So, I shall refrain from mentioning them. But that's the way we are positioned.

I also want to say that those are not the -- Tata is not the only customer. We have active work going on with other OEMs. I mean you know who the players are. There are players from China, Japan, but also overseas, we are working with OEMs for EV transmission. The work there is primarily limited to a complete kit of parts rather than the full system. But we are assured of capacity utilization.

And on exports, generally, we know that the margins are better. So, while the current results are disappointing, we did not expect the Tata portfolio to be at such a low level. But I think it is still work in process, and we certainly have not lost heart. And we know that in the next 3 to 4 quarters, the numbers will go up and go up significantly.

Moderator:

We have a question from Kunal Shah from Anova Capital.

Kunal Shah:

Yes. I just wanted to ask in our hybrid and automated system, can you tell what stage are we currently in?

Jitendra Divgi:

Yes. So, as I mentioned, we have quoted on the hybrid system. It's a dedicated single speed, what's called a single-speed hybrid system. If we are awarded this business, it's -- SOP is sometime in '27. On the automatic, there is tremendous pressure on the industry and 3 or 4 critical players in India, OEM players who are currently importing automatics.

And I think the government is also seized with this issue because there is a disproportionate number of automatic units that are being imported when the capability does exist in India to make these products. So, we are engaged in, as I mentioned, now a feasibility study for one of the largest users of automatics in India who is currently importing these units. To exactly understand so it's gone beyond now technical development and all of that. This is real economics that's been assessed.

What is the kind of investment that's needed. And it's gone beyond the original 40,000, 50,000, 60,000. This is numbers that are getting topped up well over 200,000. But even if you discount that number for, let's say, greater penetration of hybrids or battery electric vehicles, it will still remain a number well over 100,000. So it is not a trifling opportunity. So, we have committed to the customer that we will complete the study by the 20th of December. It may take a few days here and there.

But as you can see, it's a question of weeks and months. And it is important that this project has kicked off in the first few months of '25 because the OEMs want the saving and by '27. Earlier, the better, but that is the best that can be done, rather. It will require a 2-year gestation period because the capacity has to be put in place. And it's precisely for opportunities of this magnitude that we have done this fresh issue.

And so, in a way, we'll come back a full circle and realize the original goal of putting capacity for automatic transmission manufacturing in India. So that's where it is right now. I cannot say anything more than this because we have strict NDAs with both the multinational Tier 1 and the OEMs -- but this is where the status is.

Kunal Shah:

And in Mahindra Thar ROXX has got a very good response in the market among all PVs actually. So, have we started supplying for the same?

Jitendra Divgi:

Yes, we have started. What has happened is the Thar ROXX also has a better price realization, marginally 8% to 10% higher price because it is not the same unit. It has to -- it has been designed to handle much higher speeds, on-road speeds. All -- the bulk of the Mahindra transfer cases that we are shipping now are for the ROXX. But -- and so the 3-door has completely stopped.

All our transfer cases are now going for the 5-door. So -- but the monthly rate has still not picked up that you would expect from the initial booking that Mahindra has got. So, we should be at around 4,000 a month. And even then it will take more than a year to execute the quantity they have garnered in the first booking.

So we understand that, that is because there are other elements and other suppliers who have not yet come up to speed, but that will happen in the next few months. So yes, the ROXX -- the Thar ROXX is a superb vehicle. It has -- I think it is rated the highest in India now on safety as well.

It has retained its distinctive styling, and there is nobody else right now in the industry globally who can offer such a spectacular package, the distinctive styling at the price that Mahindra is able to do. So, we clearly have a winner on our hand. What is interesting is almost 50% of the Thar ROXX is also automatic. So, I'll let you draw the implications of this.

Kunal Shah: Yes. And in the earlier question, hybrid and automatic systems. I just wanted to know if there is any order wins announcement you have to make in those segments?

Jitendra Divgi: No, as I said, not yet we have the statuses that we have quoted on the business. Work is underway. And at the right time, we will be making announcements. I do want to add one important statement. So, when I say that we are doing something, I want the audience to know that everything we say here is backed up by objective evidence, of course, which is internal.

So, it's nothing we have said so far is like a wild blue yonder kind of idea. It is backed by objective evidence, and we made our long-range plan only on the basis of concrete things that are going on. So, to that extent, I think we are on solid ground.

Moderator: We have a question from the line of Kartikeyan from Suyash Advisors.

Kartikeyan: Thanks for the elaborate commentary, opening commentary was quite helpful. Just wanted to understand one small piece, there are several irons in the fire. And I suppose there would be a critical time point where you notice critical mass. I'm unable to get that you've given some details to the previous question also.

So, can you talk about, say, for example, the export business jumping up meaningfully? And therefore, when do you see the overall business achieving critical mass also because part of your core business is still in a state of flux? Therefore, I'm asking you this question.

Jitendra Divgi: Yes, thank you. That's an excellent question. And I think the answer will help the -- all the participants in this session. So, it's like this that on the export front, we have concrete, we have quoted on RFQs, okay, for both components as well as transfer case systems, that is a new development. In fact, later this month or early December, I am scheduled to travel to Southeast Asia to pursue some of these opportunities and to try and bring them to closure.

If the system-level business kicks in next year, we could see exports at more than 30%. Without the systems business, the revenue -- export revenue will be well over 20%. I think it's 22% or 23%. So, there is a whole stream of programs that are transitioning from the development phase into the steady-state supply and support sales. These are opportunities in Mexico, in the United States, in Europe, in places like Portugal. We have China. We have a little bit going on in Korea. And the big one that we are working on is in Thailand.

So, both through '26 and '27, we expect this -- the components business to grow. And we are eagerly sort of awaiting the first announcement of a full systems business. But it's still a little premature. I'm pretty confident that in the next earnings call, we will have a more concrete update to give you. But I can tell you that the global players are taking us seriously.

And the reason for this is a whole slew of Indian Army vehicles today have our systems. The Indian Army does not induct suppliers without extremely rigorous testing that is done in the deserts of Rajasthan at sub sub-zero temperatures up at 16,000 feet in the Himalayas. And of course, the places like Assam and the Northeast where the rainfall is probably the highest in the world. So, our systems have to withstand these rather egregious conditions.

And therefore, suppliers across the world -- OEMs across the world are taking notice when we approach them with this track record. And of course, within -- on the civilian side, we've been doing this work now for well over 25 years with Tata and Mahindra. So, while the focus tends to be on Mahindra, please don't forget that companies like Tata Motors, Force Motors are also players in this field in India.

So, we will see this opportunity crystallizing. It is the lowest hanging fruit because there's a high state of readiness, there's capacity in the Company. And remember that all this is happening with significantly less than 50% capacity utilization. We are still able to turn out an EBITDA of over 20%. If we exploit this capacity to even like 50%, 60%, the opportunity is -- I leave you to imagine what it could be.

So, the answer to your question, export components, we think are on track. Systems is something, I think in the last 3 months, last quarter, this has been a major improvement. And on the electric side or let me say, next gen, we have work going on in battery electric vehicles. in hybrids and conventional automatics. And in all cases, there's a level of down-to-earth practicality in terms of the negotiations happening, supply chains being set up, okay?

In terms of the time frame, we are now approaching the end of '24. We have '25 and '26 in front of us, 2 calendar years. And a lot of this activity needs to be gathered up and brought together to realize solutions through the course of calendar '27. So there is a sense of urgency in the industry, in the OEMs and the supply chains. And so through '25, '26, '27, '28, there's going to be a tremendous amount of activity that is happening. And one thing I can assure you, these earnings calls are going to be interesting.

Kartikeyan:

Sir, the other thing is in the initial comments, one point was highlighted, which is basically that you've been able to negotiate slightly better terms with the OEMs and that's helping you improve your profitability. How exactly does this work, sir?

Jitendra Divgi:

Yes. Thank you. That's an excellent question. See, you have seen in the last couple of years, a lot of volatility in our business but that is the nature of the Indian market, okay? And knowing that, so when we were negotiating the last big -- the last time we were negotiating this with our OEMs, in our contracts, we try and negotiate a volume-based pricing scheme to the best of our ability.

Sometimes, we don't have the leverage to negotiate this because there's a lot of competition, first-mover advantage is strategic, and we need to go with what is presented to us. But in areas where we are established players, we know we are the world's most competitive supplier of units. We do -- we have a little bit of elbow room to negotiate volume-based pricing.

So the reason why this volume base was important was because these new programs back when we were doing the negotiation in '18 and '19 for launch in the latter half of calendar 2020, the investments required were pretty significant, unprecedented levels, because to meet the price targets and make vehicles competitive, we had to significantly localize. That required investment.

And given the track record of volatility in volume, we said that, look, if this happens, we need this premium for volume. And we were able to. So, this is not that some kind of an ad hoc impulsive whimsical negotiation because these things sometimes can have a long-term effect in terms of your customer sentiment.

But this was a carefully thought through, crafted and sort of negotiated provision in the main contract itself that was negotiated early in 2020. And we basically invoked that clause, okay? But it had to be adjusted for commodity changes, foreign exchange adjusted and so it took some amount of deft handling by our salespeople to bring this through. So, I will credit them for the hard work that they did.

Kartikayan:

And would there be any catch-up available, sir, for lost volumes?

Jitendra Divgi:

Yes. I think as they say once bitten twice shy, we are not forecasting a huge uptick till March. But long term, the prospects remain. And I'll tell you why I feel so, and it is logical. I would argue that in the world today, Mahindra is second to none in terms of its features that it is able to offer. And they offer all of this at breathtaking prices when you benchmark them globally.

If I were one of the big multinational OEMs, I'd be really scared of Mahindra because coming out of India, if they can show this kind of profitability at India volumes, imagine if they take big chunks out of the global volumes, what Mahindra can end up becoming. And knowing the sort of josh in that organization, I have no hesitation to say that they will go for it. And so therefore, Mahindra, we are a very, very well-regarded supplier in Mahindra.

We have won last 3 years continuously awards for the kind of work we have done in the 4-wheel drive system for them. And remember that the Mahindra main strategy core, it's like they've gone back to their knitting as it were. They are saying that we are the real SUV makers because unlike some other people, they offer the 4-wheel drive feature. And what makes a Mahindra -- Mahindra is the Divgi-TTS solution and offering.

So, we do enjoy that visibility, tremendous amount of support and goodwill. And I think it has been earned by very good delivery and quality performance at Mahindra. So please bear this in mind as you look at -- so yes, it has been disappointing, but we go through these spells. At the end of the day, Mahindra had to do what it had to do to stay in the game in the ferociously competitive Indian market.

They did this to counter Jimny from -- and I think they -- you may know the numbers. They have very decisively vanquished the Japanese competition. And now they are getting ready. I mean, '26, they are launching the global pickup truck. Behind that is the next-gen Scorpio further. And we are on all those programs with not just with the transfer case, but the components

we supply for their manual transmissions. And hopefully, we might end up doing something in automatics as well.

Kartikeyan: Sure. Sir, one last question, sir, if nobody is in the queue, more of perspective. Assuming that the U.S.A. goes back on its EPA time lines, as they decided not to go ahead on first Jan '27 or whatever, would that change your prospects in any way, positively or negatively?

Jitendra Divgi: For EV?

Kartikeyan: EPA, sir. Environment pollution norms related to...

Jitendra Divgi: So, the United States, we are not -- see, we know the U.S. actually very, very well. I can tell you EPA or no EPA, the reality in the U.S. market is that remember, a big part of the U.S. has very severe winters, almost 6 months of the year. And in those conditions, lithium-ion battery efficiency is very, very iffy and questionable.

So, the U.S. has practically completely transitioned from hatchback and sedans now to SUVs and pickup trucks. Pickup trucks in the U.S. are very, very refined stylish products today. And Ford, GM dominate that segment. A lot of the component work that we are doing is for this segment with Chrysler, with General Motors and Ford.

And as far as I can see from my visits to the U.S., there is no letup in this segment. Those vehicles, they are very successful. They provide much-needed jobs and sort of keep the economy going. And with the Trump administration in place, everything will be done to promote these employment-generating sectors of the economy. And I'm pleased that I think Trump will -- the Trump administration will look at India as a countervailing influence to the domination established by the Chinese till now.

Kartikeyan: Sure. That is really a context of my question, sir. Thanks very much for indulging me and very best wishes, sir.

Jitendra Divgi: But your question, there is a corollary to your question, which is that if this is what is happening in the United States, does that affect our EV strategy? And my answer to that is no. We think that the Indian market has its own distinctive traits. There are consumer trends which are a little latent. There is government legislation that is coming. There are issues of, let's say, geopolitics and security related to energy that the government is seized with.

And therefore, this is quite a cocktail, okay? And India will see steady progress in the entire electrification movement and towards carbon neutrality in general. And we think the right approach for India is a multipath approach to electrification and -- or you could say, carbon neutrality, which is why the hybrid and the verdict is still out on which way sort of the -- let's say, the ball is going to move, whether it's -- it could be hybrids, it could be BEVs.

MG's introduction of this battery as a service is a very potent offering. And I think it has rocked the boat somewhat. And if you look at the numbers for October, these guys have come out of the blue and suddenly impacted Tata's market share because for the first time, you had somebody else other than Tata registering a sale of something like 3,000 units, which is what MG has



accomplished. And the Windsor is a very credible and a very potent threat to Tata's, it's almost like unassailable dominance they had on EVs. But I'm happy that we are doing work in both these OEMs.

Moderator:

As there are no further questions, I would like to hand the conference over to management for closing comments.

Jitendra Divgi:

Yes. Thank you. I think the Q&A session was helpful. I hope -- I certainly found the questions very interesting. And I think the -- having seen last 4 or 5 earnings calls, I feel the Q&A is the best. It gives us an opportunity to clarify many things and so that is much appreciated. Thank you again for the time and interest all of you take to come for this session. And I hope it was educative and informative for all of you.

As I said, the -- this year will continue to remain where it is. But hopefully, the next earnings call, which I think will happen in February. Yes. We will have more substantive updates on our exports on the global expansion of our transfer case and further updates on our EV and automatic transmission initiatives. So, continue watching this space, and I really meant that the next several quarters are going to be very, very interesting. So, continue watching this space. Thank you very much.

Moderator:

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