CARRARO India

13th February, 2025

The Manager,
BSE Limited,
Phiroze Jeejeebhoy Towers,
Dalal Street,
Mumbai - 400 001

BSE Scrip Code: 544320

The Manager,
National Stock Exchange of India Limited,
Exchange Plaza, Bandra-Kurla Complex,
Bandra (E),
Mumbai - 400 051

NSE Symbol: CARRARO

Sub.: Transcript of the Earnings Conference Call held on Monday, 10th February, 2025 in respect of the Company's Q3 FY 2024-25 Unaudited Financial Results.

Ref.:

1. **Regulation 30 and Regulation 46(2) (oa) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("Listing Regulations");**
2. **Intimation of Earnings Conference Call dated 03rd February, 2025 (Earnings Intimation");**
3. **Intimation of Rescheduled Earnings Conference Call dated 07th February, 2025 ("Rescheduled Earnings Intimation"); and**
4. **Intimation of Audio recording of Earnings Conference Call held on Monday, 10th February, 2025 dated 10th February, 2025 ("Audio Recording Submission")**

Dear Sir/Madam,

Pursuant to above-referred Listing Regulations and in continuation to Earnings Intimation, Rescheduled Earnings Intimation and Audio Recording Submission, we are pleased to submit transcript of the Earnings Conference Call held on Monday, 10th February, 2025 in respect of the Company's Q3 FY 2024-25 Unaudited Financial Results.

The transcript has been hosted on the Company's website at:
https://www.carraroindia.com/investors/investor-information/continuous-disclosures.

You are requested to take this intimation on record.

Thanking you,

Yours faithfully,
For Carraro India Limited

Nakul Shivajirao Patil

Digitally signed by Nakul Shivajirao Patil
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Nakul Shivaji Patil
Company Secretary and Compliance Officer
Membership No.: A39990

Encl.: As above.

"Carraro India Limited

Q3 & 9 Months FY '25 Earnings Conference Call"

February 10, 2025

E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the Stock Exchanges on 10th February, 2025 shall prevail.

MANAGEMENT: DR. BALAJI GOPALAN – MANAGING DIRECTOR – CARRARO INDIA LIMITED

MR. DAVIDE GROSSI – WHOLE-TIME DIRECTOR & CHIEF FINANCIAL OFFICER – CARRARO INDIA LIMITED

MR. ASHOK RAI – DIRECTOR OF SALES – CARRARO INDIA LIMITED

STRATEGIC GROWTH ADVISORS AND INVESTOR RELATIONS PARTNERS

Moderator: Ladies and gentlemen, good day and welcome to the Q3 and 9 months FY25 Earnings Conference Call for Carraro India Limited.

As a reminder, all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing the star then zero on your touchtone 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 do not guarantee the future performance of the Company and it may involve risks and uncertainties that are difficult to predict.

I now hand the conference call to Dr. Balaji Gopalan, Managing Director of Carraro India Limited. Thank you and over to you, Sir.

Balaji Gopalan: Thank you very much and very good morning to all of you. This is Balaji Gopalan, I am the Managing Director of Carraro India Limited. I am joined today by my Whole-time Director and CFO, Mr. Davide Grossi and also my Sales Director, Mr. Ashok Rai and other senior members of my team with Strategic Growth Advisors, our Investor Relations Partners, today.

First and foremost, I would like to express our gratitude to all the investors who participated in our IPO. Carraro India successfully listed on NSE and BSE on 30th December, 2024 with an IPO size of INR1,250 Crores. Our parent, Carraro International is fully committed to Carraro India and will play an active role in overseeing the growth of the business at the strategic level.

As this is our first earnings call post-listing, I would like to provide a brief overview of our Company before discussing our financial and operational performance for Q3 and the ninth month of this financial year. Carraro India is in India since 1997 with a three-decade experience of a technology-driven integrated supplier specialization in development of high-precision engineering solutions for all leading OEM customers in India.

Ladies and gentlemen, it’s very important to note that we are catering to almost all the big tractor brands in India and we have a very, very monopolistic position in the non-captive supply of gearbox and axles in the off-highway vehicle segment wherein we have backhoe loaders, which is one of the biggest vehicle in that segment.

Our journey began with the manufacturing of transmission systems in 1999, followed by axles in the year 2000, and thereby we started laying the foundation for our industry leadership. Today, we are a tier one supplier offering axles, transmission systems, and gears primarily for agriculture tractors, and construction vehicle industries in India.

We have an in-house R&D design and manufacturing capabilities because of which we are able to provide customized high-performance solution tailor-made to meet our customers' future needs. Our parent, Carraro S.p.A., is a global leader in transmission systems for off-highway vehicles catering to the agriculture and construction segment.

We are in the sweet spot in India because the focus is on development of infrastructure and also working on food security for the growing population in India. We are very happy that we are in this emerging sector where technology upgrade is being sought by the market, and Carraro is one of the most significant players with a global exposure to bring in the technology that is required for the Indian market.

So, this is a phase where from a low technology, the segment is moving to a high technology, and there is market absorption of the technology that we are tailoring based on our R&D in India to meet what exactly the customer, that is the OEMs needs and what the end customer also needs.

Our competitive advantage is that we are one of the pioneers in India's agriculture and construction vehicle components market with our 27 years of presence, which has helped us develop a deep understanding of customer requirements, soil conditions in India, duty cycle of the vehicles that are being used in India, and we have built long-term partnership with most of the leading OEMs, and we have been able to establish a robust local and international supply network.

We have more than 250 suppliers who cater to our business in India, and this first mover advantage has enabled us to develop highly customized solutions that create high switching cost for customers, reinforcing our market leadership and customer loyalty. What this means is for any OEM to decide and procure our transmission system, they need to work with us and our R&D works with their R&D, the customer's R&D, over a period of 2 to 2.5 years, after which there is testing validation, and finally our transmissions are launched in the new vehicles of customers.

This means that once we get an entry into a vehicle of the OEM, then in all probability till the life cycle ends of that vehicle, it is always our source for axles and transmissions, because for them to change would require a lot of testing validation and 2 years or time that is there to market, and secondly, there would be a lot of logistical confusion when vehicle - same brand of vehicle, same model goes for servicing with two different gearbox and axle system.

So that gives us the guarantee in a way --in a logical way, that once we get the customer, we stay with the customer, and this has been our history, that in the last 15 years, we have not lost any customer.

There is a feeling that our portfolio is exactly aligned with what the market needs, and as the technology absorption happens, that is where the growth for Carraro is expected to grow within India. Our market leadership and customer position, we are a leader in non-captive, four-wheel drive, agriculture tractor transmissions and axles, and also for the construction vehicle segment. As I said, we have long-standing relationships with our customers, which include almost all the big OEMs in India and also the global players around the world.

Our early move advantage, deep market understanding, and diversified product portfolio has helped us in being the preferred tier one supplier, because we also have the distinct advantage of manufacturing transmissions in India, which most of our competitors are not able to offer to them directly in India as of now.

They need to import it, or they have to manage other ways of meeting the customer's requirement, whereas Carraro in India has its own R&D and can give a one-stop solution for both axles and transmissions in India, whereas the other competitors can only compete with us largely in the axles segment and not in the transmission segment. So, customers prefer to deal with Carraro, because we are a one-stop shop offering axles and transmissions for any of their vehicle requirements.

Number two, it is important to note that we become a mission-critical supplier for the OEMs, because our products of axles and transmissions on an average will constitute 25% of the cost of the entire vehicle. So, we become a very important partner. We become a technology solution provider for the OEMs. And that is where, ladies and gentlemen, we are betting on the future that we have the technology that needs to be absorbed by our customers in India.

Now, I will quickly go to the R&D and technological advancements that we have. We set up an R&D center in 2006. I'll be very quick in this, so that we can focus more on the financials. And I would be very happy to share with you that the R&D center started in 2006 in India, and it was part of our global R&D network, which included, Argentina, China and Europe, that is Italy. And they worked with the best international standards and procedures and processes.

And in 2003, October 1st, Carraro Group decided to transfer the exclusive IP rights of roughly 153 products that are sold in India, which are manufactured by Carraro India. Thereby, not only did they remove the royalty by passing on the IP to us, they also strengthened the local R&D to become a platform manager or a platform leader to manage the entire product range directly from India, so that they are able to work closely with the OEMs, make any adaptations, changes required to meet what the customer needs.

So, time to market has been reduced, and the designing and development is happening in India, because our Indian design engineers know the Indian market and the environment very well. So, this is seen as a big competitive advantage for us, and this is also helping us in positioning ourselves as a strong technology partner for OEMs, because our other competitors fall short of this competence that we are having in Carraro India in our R&D center.

Our manufacturing capabilities, first mover advantage, we have 53 acres of land in Pune, out of which roughly about 84,000 square meters is for our gearbox and axle assembly line, and we have around 78,000 square meters for our gear manufacturing plant. We have in-house heat treatment. We have in-house water-based paint shop.

These are very, very exclusive facilities that we have, which are very well appreciated by all the OEMs that we are able to provide them with all the technologies and manufacturing capabilities in-house, whereby we can assure them quality and performance of the product that rolls out of our factory.

We now come to the Q3 and 9 months performance and operational highlights. I would request Davide, our CFO, to run you through the numbers and give you an overview of where we have reached, how we have reached, and what is it that we are looking to close our March 31st results.

I think this will give you the confidence, because I would like to set the context right. There seems to be a little bit of concern, a little bit of panic on the way this quarter results have come, but I would want all my listeners to be assured that we are a very professional company. We are a very ethical company. We have been in India for more than 27 years, and we have consistently grown.

Our growth in the last 5 years, if you compare 2020 to what we are today, we have close to doubled our revenue in the last 5 years. Now, this comes with a lot of challenges for us, but it gives us a lot of strength also that we are penetrating the market, and the direction in which we are going is very well as per our plan and our strategy. What is required is a little bit of patience, and I know when it comes to the market and the sentiments over there, they look at numbers in isolation. We are a long-term player. We are not here to cheat the market.

We are confident. We have a very good infrastructure. We have very good technology. All big OEMs, name the big OEMs in India, the largest tractor manufacturer right from Mahindra to Sonalika, to name it, everybody is our customer, and they respect us. We conduct technology day conferences for all these OEMs, so we have a big standing.

So, ladies and gentlemen, please do not gauge and get discouraged by 2 months, 3 months performance. Please look at it at an annual level and look at it at the 3-year level. We are very confident, and today we are not at all concerned or worried about what has come on paper today as a result. These are some things we have the capability, and we have the professionality, and we have the support of our customers that we will overcome this.

These are part of the business cycle. I'm sure when you look at it from a 9-month perspective, things will look more encouraging. When you look at it at 12 months, it will still be reasonably good, but the future is very clear. We are committed to give you a double-digit EBITDA. We are committed to get into a next 3-year plan. I have a very clear target of achieving 15% EBITDA in the next 3 years.

So, please support us. We will achieve it. Our processes are complex because, as I explained to you, it is not something that I move the key and you can see the results in the balance sheet. We are working as a technology company, as I said, it takes 2 years, 2.5 years, for us to test, validate, and start ramping up our products into our production.

The ramp-up in our industry happens very slowly, unlike an auto industry. Although we are clubbed with auto industry as a sector, but in the auto industry, off-highway has a completely different perspective. The off-take is slow. For example, when a vehicle is launched or a tractor is launched, probably only 100, 150 numbers of tractors per month get feeded into our suppliers, dealers, whereas in an automotive, you will have probably 10,000 vehicles or 5,000 vehicles going into the dealer pipeline.

So, things are a little bit different. It takes time for us, but we are very stable as an industry because the fluctuations will not be very high in our revenue. But because of product mix and the localization, which is the main driver for our EBITDA, now the products that we probably dispatch in this quarter could be of those that are not localized.

So, it depends on the product mix also that goes in that quarter. So, please, on the overall situation, we are very much within the parameters that we have defined in the past. For example, we started with localization content of around 67% 4 years back. We committed to cross 72, 73 this year. I'm very happy to share that we have touched 76% localization, and we are doing well.

And this localization means it is a saving for me, and it is an improvement in the margins for me.

So, ladies and gentlemen, please be patient. I am again and again repeating, we are in the right track. If there are certain deviations in the numbers, it is only a momentary thing that is happening because of certain business conditions like product mix. Things will change when the right product mix comes into the picture, and our marketing department is pushing to ensure that the healthy product mix is included in our order book.

Having said this, let me now pass on to the CFO to give you real numbers, okay. Thank you.

Davide Grossi: Thank you, Balaji. Good morning to everyone. So, I will quickly walk you through the numbers, and then we'll leave some room for your questions, of course. So, starting from our top line for the 9 months for the financial year 2025, our total income reached 13,755 million, so INR1,375 crores, compared to the 14,109 million for the 9 months of the financial year 2024, thus marking a reduction of 3%.

Again, in the 9 months of financial year 2025, our revenue contribution from agriculture vehicle was 6,529 million, which approximately accounts for 48% of the total. While on the construction vehicles segment, we registered INR5,561 million, equal to 41% of the total sales. Therefore, the other products, including gears and spares, and the rest is around 11%.

On the domestic front, we had registered revenues for the 9 months of 8,958 million, thus 66% of the total revenues, with an export share equal to 34%, meaning INR4,674 million.

In terms of total income for the quarter 3 of the current year, we stood at 4,528 million, compared to the 4,397 million of Q3 for the FY24, marking an increase of 3%. And then, in terms of EBITDA for the 9 months of FY25, we stood at 1,375 million, or 137 crores, reflecting a 26% year-on-year growth from the INR1,091 million registered for the 9 months of 2024. So, we also reported EBITDA margin for the 9 months, which is 10%, versus the 7.7% of the 9 months of last year.

Looking at EBITDA for Q3, we registered 365 million, compared to the 429 million of the last year Q3, with an EBITDA margin of 8.1% for the current quarter. The Q3 EBITDA for the current year was impacted by a lower volume driven by the weakness in international business, and a lower share of peer business, and to some extent, a lower-turnover discount rebates that we received from our suppliers, especially in Q3, mostly due to a lower level of purchases for the current year, compared to what we originally planned.

We anyway expect Q4 to be better than Q3, and as Balaji already mentioned, we are targeting to close the financial year with an EBITDA which will remain in double digits.

Regarding profit after tax for the 9 months of the current financial year, we stood at INR645 million, with an improvement compared to the 9 months of last year, where we registered INR444 million. At the same time, profit after tax for the current quarter Q3 was 148 million, compared to the 194 million of Q3 for the financial year 2024.

I will pause here, and Balaji, feel free to add, and then I will leave.

Balaji Gopalan: Thank you, Davide. Before we open it up for questions, I would like to give some concluding remarks about how the market has behaved in the last couple of weeks. I think the situation from a business, from an organization point of view, is more or less stable, and there has been no adverse actions or activities that have happened, which justifies the kind of drop that has happened in the market.

In fact, we are doing very well. Our sales and the order book are looking very healthy. Our localization is going on very well. We are working on new projects. And also, I would like to assure all of you that other than the conventional things that we have been working on and that we have shared as activities, actions for improving our marginality to reach the 15% EBITDA range, it is important that we are continuously fine tuning our strategy also, because we realize that our R&D has got such a strength.

And since from 1st October, it has become part of Carraro India Limited, we are able to leverage on them to meet our customer needs. And we have even started engineering services. We are outsourcing for our OEMs engineering service. That is, we are providing engineering services for electrification of tractors and others for our OEMs.

We already have got one engineering services contract for one of the leading players in India. We are seeing that engineering service outsourcing is also giving us a good revenue stream. And in that, the cog value will be much lower. So, it adds directly into my margin. So, these kinds of initiatives that we are taking is surely taking us very comfortably in the path of our EBITDA to 15%.

Plus, I would also be very happy to share that we had spoken about certain big contracts that we are getting for the Teleboom Handlers business, TBH business. Teleboom Handlers is a new segment that is emerging in India. And today, it is only 1% of the total construction market in India. And this is expected to reach at least around 7% to 8% of the market.

And we are again having the early bird advantage of a technology which exists within Carraro Group and is deployed globally. And that technology, we have been able to supply to a very big global player. And I would be very happy to share that we have already dispatched. We have done a pilot dispatch to them of more than 40 axles in the last 1, 1.5 months.

So, this is an indication. This has a very big potential. It could grow to about EUR30 million business in the next 3, 3.5 years. So, I am trying to give you a smell, an indication that all is well in this organization inside. It is the market sentiment that we need the support. And we need the patience of investors to understand that we are slow and steady.

We are a transparent Company. We are not manipulating any numbers. We do not want to get into performance marketing. We do not want to get into something with influencers and things like that. We are simple. We are engineering people. We are into giving solutions to our OEMs. And we are focusing on that. So, please give us that opportunity. Give us the time. And we will give you the results that we have promised you.

That is from my side. Thank you very much for the patience to listen to me. We are ready to answer all your questions. Please. Thank you.

Moderator: Thank you very much. We will now begin the question and answer session. Anyone who wishes to ask a question may press * and 1 on their touchtone telephone. If you wish to remove yourself from the question queue, you may press * and 2. Participants are requested to use handset while asking a question. Ladies and gentlemen, we wait for the moment while the questions queue, assembles. The first question is from the line of Kumar Rakesh from BNP Paribas. Please go ahead.

Kumar Rakesh: Hi, good morning. Thank you for taking my question. My first question was around the margin sequential movement. So, your EBITDA margin has declined by more than 250 basis points quarter-on-quarter. Can you just take us through the margin walk of what has happened during the third quarter over second quarter? And also, within those, what are the one-time impact which you see reversing in the fourth quarter?

Davide Grossi: When we look at Q2 to Q3, we identified a few major contributors for the drop. And as we said, as we already mentioned, one of the reasons is the lower volume of gears. Gears is a category that often is seen as a residual. Nevertheless, despite not being so relevant in terms of top line, can be quite relevant in terms of contribution margin. And therefore, this quarter, we have seen a drop.

Overall, it has not been a great year for gears, but we have particularly seen it in this quarter. We can assume that Q4 could be a bit better. And therefore, we also see next year to be definitely better than the current year compared to, sorry, in terms of gears.

Another reason when we look at Q2 versus Q3 is the fact that, as we mentioned, we have started this hopefully new revenue stream of engineering services. In Q2, we had our first revenue from engineering services. And as you can easily imagine, this is something that goes directly to the bottom line, having no major costs associated.

We didn't have such kind of revenue in Q3. We are working on a couple of new projects that might generate some revenue in Q4 or might not. As I said, it's a new revenue stream, so it's a bit difficult to have an accurate forecast on that. But this is also one of the explanations for the Q2 versus Q3.

Then, as we already mentioned, there is a low contribution from supplier rebate that we usually see in Q3. But this year was not very favorable to us because the overall, it's not a very good year in terms of volumes. And therefore, also, we didn't meet all the targets that we had in terms of purchases and therefore in terms of rebates.

There is a minor flexion also in terms of spare parts business. And this is also something that is not so relevant in terms of turnover, but it can be evident when we look about the markets. So, those are the main elements that would explain Q3 versus Q2 performance in terms of profitability.

Kumar Rakesh: So, Davide, if I got it right, the four impacts which you spoke about, two were related to weaker revenue mix from lower contribution of gears and lower contribution of spare part business. Both of them are higher margin. And then you also spoke about the new revenue source which has kicked in. And related to that, you may have incurred some of the cost and then the lower supply rebate. Is it possible for you to quantify what was the impact of each of these four? And among these four, what are one time that you see reversing in the fourth quarter?

Davide Grossi: Okay. So, gears would explain pretty much 0.3% of the drop. And supplier borrows is half a point. Engineering services, another half a point. And spare parts, another 0.2. So, overall, you explain a couple of points.

Kumar Rakesh: All right. So, that explains 150 bps of margin decline sequentially. Rest of it would be top line driven?

Davide Grossi: Sorry, can you come again?

Kumar Rakesh: So, you spoke about what you quantified. In total, I asked about 1.5% point of margin decline sequentially. EBITDA margin decline was about 250 basis point, 2.5percentage point or slightly higher. So, the rest of it would be driven by the top line -- weakness in the top line?

Davide Grossi: Yes, I mean, more or less, it's also a mixed component. We do not have the full breakdown 0.1 by 0.1. But yes, those are the main ones.

Kumar Rakesh: Understood. Thanks. And among these, how do you see them panning out in the fourth quarter in terms of gear mix and especially the supplier rebate and the new revenue source that should start contributing to revenues? So, some of this should start reversing in fourth quarter, right?

Balaji Gopalan: Yes, see, we don't want to over commit or give a very rosy picture. We want to be honest and we want to be transparent. So, our intention is not to make somebody very happy by showing a lollipop, but be more fair and honest in our disclosures. Quarter four should be better than quarter three, but nothing very dramatic, okay.

So, which means that it will kind of take us to a closure of our EBITDA of 10% plus. How much is the plus is the efforts that we are putting in now, because it also depends on the product mix that can change. Like we said, there is a gap of 1%, which will be probably because of the revenue that comes in. But product mix plays a very important role. And it also depends on how the OEMs are wanting to close their financial year.

So, there could be a push that could come into the fourth quarter for us to dispatch more axles and transmissions. Having said this, we are very, very clear that the revenue should be stable or increase in the last quarter. And the year spanning ahead will be much better because all of you should also remember that since we are in the infrastructure segment, the current year of elections has been a little bit of a dampener for us because a lot of projects and tenderings got delayed because of the election process. And that takes time to reopen and start getting the demand pull from component suppliers like us.

So, my feeling is, my estimation is more or less the fourth quarter will land us in a total EBITDA of more than 10% for the full year. And the next year seems a little bit more promising for us. We are looking at a significant revenue growth. We would cross close to about EUR215 million to EUR220 million as our estimation now.

We need to firm up on these numbers in the next couple of weeks, which is happening. So, next year certainly is going to be a better year. But the fourth quarter, as I said, we will not jump saying that it is going to be a very fantastic one. It should be something that will take us through and end the year with a clear double-digit EBITDA.

Kumar Rakesh: Thanks, Balaji, for that. Point noted that there will not be a dramatic improvement at fourth quarter but to achieve 10% full-year EBITDA margin, the fourth quarter EBITDA margin will need to be close to 10% from about 8% currently. So, to achieve what you are talking about, it still needs a sharp improvement in profitability in fourth quarter.

So, anything that you are looking at right now in terms of, say, gear performance, which has started improving, your conversation with suppliers on the volume-based discounting that has started to come back, which is giving you that comfort?

Davide Grossi: Yes. So, we see some improvements in terms of gears.

Balaji Gopalan: The volumes are increasing, okay. And see the numbers that I am sharing with you, that it will be a 10% EBITDA year closing. Obviously, it means that I have to make up in the last quarter whatever is the gap. Looking at the product mix, looking at the fact that gear volumes have increased, the numbers in front of us very clearly indicate that we will close on the double digit.

Kumar Rakesh: Got it. Thanks a lot. Just one final clarification. In your domestic business, how much of it is indirect export?

Balaji Gopalan: Sorry? How much of it?

Davide Grossi: Around 15%.

Kumar Rakesh: 16% of domestic?

Davide Grossi: 15%, roughly. Then, of course, it can fluctuate, but you can say.

Kumar Rakesh: Got it. Perfect. Thanks a lot. That's all from my side.

Davide Grossi: Yes, thank you.

Moderator: Thank you. The next question is from the line of Deepak Gupta from JM Financial. Please go ahead.

Deepak Gupta: Hi, good morning, Sir. Thank you for taking my question. My question is relating to export markets. If you could give us some perspective of how you see export market opportunity for you as a company over the next few years. Though I've seen in your presentation that you're calling out for softness in export business in the coming quarters. But if you could give us a perspective from a 1 to 3-year perspective.

Secondly, also on margins of export business, how competitive they are versus the domestic market and some color on the indirect export opportunity also, which as you highlighted is 15% of your domestic sales. Thank you.

Balaji Gopalan: Okay, I'll give an overview and then Davide will supplement what I'm saying. Our exports are driven by our headquarter sales and business development team. That is because we need our team closer to the customer wherever they are. So, to that reason, Carraro group sales and business development offices all around the world are able to relate with the local customers, obtain the orders, and then pass it on to Carraro India.

So, we are coming under contract manufacturing for our group, for all the exports that are happening out of India. So, the margins are governed by the transfer pricing regulation, wherein we have to keep certain margins as per the Italian regulation, and we have certain requirement guidelines by the Indian taxation authority's regulation.

In all, it basically means that I cannot have a margin lower than my domestic margin. So, my exports have to be equal or slightly higher depending on the transfer pricing formula that fits in at that point in time. So, it's more dynamic that it keeps changing based on the local market data that we need to feed in, and we have to ensure that we don't go below the local sales margin. Okay, this is number one.

Coming to the outlook for the next 3 years, I would be very happy to share that Carraro group has very clearly earmarked Carraro India as the hub or the center of excellence for agriculture transmissions. It means that we have already invested in all our toolings, fixtures, process, assembly line, everything in India for the agriculture transmission market globally.

So, any order that we will get globally, it has to come into India because we have the infrastructure and processes already set up and tested in India. So, this gives us a very clear direction and a very clear confidence that the business will grow and that business will come into India because it has been earmarked as the hub for those products. Okay, have I answered all your questions?

Deepak Gupta: Yes, just you mentioned that currently export business is soft and you expect business to be soft for some time. So, give us some understanding about the reasons why the export business is soft and how much time do you think export business will take to recover and your order book for the business?

Davide Grossi: So, business is soft for reasons which are outside the control of Carraro. We have to be very clear about it. Especially when we talk about export business, we are talking about mostly mature markets like Europe and the US, which in our industry are quite cyclical. And today, as a matter of fact, we are in a moment of low level of this cycle, which is not regarding Carraro, it's regarding everybody.

When we look at the immediate future, there is some uncertainty that persists. But being a cycle and being Carraro so closely linked to all the customers, we are very confident about picking up our sales as soon as the market recovers. And I want to stress this again, Carraro, even in those kind of moments, never loses a single customer.

So, it's not that we lose business or we lose projects. It's just the fact that the end market gives less order to our customers and our customers pass less orders to us. But we are not losing vehicles. We are not losing business. The business is there. And as soon as the market picks up, our export sales will pick up as well. This is very different compared to the Indian market.

In Indian market, we have a more structural growth, especially in our reference market, because there is a structural change of the market, and Carraro is positioned to grab this structural change. And so, there are very different dynamics, and we are very positive for the domestic market in the future. For export, there will be some uncertainty, but as soon as the market recovers, we will be okay there as well.

Balaji Gopalan: Yes. And just adding, although the export is at the low now, and it has been since the last couple of months, we are seeing some inquiries where the customers, OEMs globally, are indicating us to get prepared for a ramp-up. But that will happen in a gradual way. We are expecting things to move, gain momentum at about 4 to 6 months from now. This is as far as the current situation is concerned.

Now, coming to the future, you were asking the long term. It is very important for all of you to also understand that there is a Euro norm that is being changed by the government of India, and that is likely to kick in in the year 2026, either in April or probably later during the year.

Now, this has a very, very positive impact for Carraro, because the Indian OEMs will be able to now export to all developed countries, which will be our indirect export, but in any case, contributing to our revenue. And that will open a big market for our customers to address all the developed countries.

Today, they have been taking transmissions, axles from Carraro and going to non-regulated countries as their supply, because it is not a problem with our technology. Our technology has got no problem with Euro 5, Euro 6. We are completely compliant because the norms are emission norms and related to the engine which the OEMs are using and not based on our transmissions and axles.

So when the engines become Euro compliant, 5 compliant, then they can access all the developed market itself. And that will be a big opportunity for increasing our exports out of India.

Deepak Gupta: Sure, noted. And so just lastly, is my understanding correct that for your margins to sustain in double digits and to go towards low teens to mid-teens, export as a proportion of sales has to increase over the coming years?

Davide Grossi: No, no, no. So, as we said, the profitability profile of our export sales is fully comparable to our domestic sales. So, there is not any differential. The share of exports, which today is around 35%, is going to at least remain as such in the long term. But in terms of profitability, domestic and export are similar.

Balaji Gopalan: Absolute numbers in revenue will grow. But because together with export, even the domestic is growing, we would more or less have that ultimate residual ratio of 65:35. It will be more or less in that range. And our target, as we have explained also, we are planning, we are expanding, we are bringing in the capabilities to help us reach EUR350 million in the next 5 years. So, the path is very clear. And new products are being tested.

Prototypes are being given to OEMs. So, when the product reaches the completion of homologation or the testing -- field testing, then the revenue stream starts picking up. So based on those pipeline of projects that we are having, we have a clear vision to reach that EUR350 million in 5 years.

Deepak Gupta: Noted. Thank you so much.

Moderator: Thank you. Before we take the next question, we would like to remind participants that push * and 1 to ask your question. The next question is from the line of Sonal Gupta from HSBC Mutual Funds. Please go ahead.

Sonal Gupta: Good morning and thanks for taking my question. Sorry, just to delve a little more on the point on the margin side, right? Like the supplier discounts, just to understand, these are volume linked or these are payment linked that you pay on time and you get some discount. I'm just trying to understand, like, because I think you mentioned that it depends on the volume. But I mean, if I look at the top line, it doesn't seem to suggest that the volumes would have changed quarter to quarter by quite significantly.

Davide Grossi: It's volume linked and often there is – those are defined on a 12-month basis. And the Q3 of the financial year is when we settle those things. So that's why we had targets which were a bit more ambitious in terms of total business to be generated for the year. And this is where we are a bit short.

Sonal Gupta: Got it. So, we are booking these on a quarterly basis. And therefore, I mean, like, because Q3 is the annual settlement period, there's a bit of a shortfall.

Davide Grossi: Yes

Sonal Gupta: And, okay, and just on the engineering services also, I mean, like, these are services that we are providing to the external OEMs or, I mean, because this R&D center has been there previously as well, right? So, do we work with the parent as well and we are expecting some revenues from the parent?

Davide Grossi: No, no, no, nothing as such. What we are saying that our R&D service was – the capacity of our R&D service was historically entirely used up for internal projects. Now, what we are trying to do is to use these capabilities also selling directly to customers from engineering services.

Sonal Gupta: Right.

Balaji Gopalan: Just to elaborate, our R&D service was captive and we were working locally with the team that was here but linked to the headquarter team. So, they were more focused on R&D as their core activity and reporting to the global R&D setup. So, the vertical was more focused on innovation, creativity and engineering.

The moment in last October that it has come under Carraro India as a 100% subsidy, this has enabled us to capitalize on that and integrate them into our business. When we integrated them to our business, we made them also go to our customers and offer our competencies for developing them.

So, we don't want customers to reinvent the wheel because we already have exposure of 150 horsepower tractor, 200 horsepower tractor, different technologies of semi-automatic, automatic. So, we are able to give them quick solutions. So, time to market is reduced by customers because they are now taking inputs from Carraro Technologies as a technology partner.

Secondly, for emerging technologies like electric tractors and others, which are still at a nascent stage, but there is a potential, although we are comparing electric tractor to a car or a commercial vehicle, but electric tractor has a utility aspect to it, particularly where you have the flower beds, where flower exports are there, greenhouses are there, you know certain places where you don't want pollution in organic farming areas and other places, it has its own niche market.

So electric tractor will not replace a regular diesel-driven tractor, but it will complement it by having a diesel tractor plus an electric tractor for specific applications like greenhouses and flower beds where there is a big export of vegetables, fruits. So, in that segment, we see that there could be a potential.

This is what the OEMs are doing their research and working on it. But Carraro is able to give them the technology and we are working on the proof of concept. We are also supplying them prototypes. So, all the testing activities are going on in consultation with Carraro.

And we are extending this not just to electrical, which is our strength, we are also extending it to higher technology and higher horsepower tractors where customers feel that they can come to Carraro because we have the experience globally in managing these kinds of vehicles and technologies.

Sonal Gupta: Right. So, my question was more from the point of view of, I mean, like you have R&D centers, let's say for Maruti, which will also be working on, say, with the parent. So, they do whatever work they're doing. There is some payment for those R&D services as well from the parent side. So, I'm just trying to understand, like, how does the – is there something like that for you? And because I think a majority of your R&D services would be devoted to working with the global team, right?

Balaji Gopalan: Yes. We have a proper agreement not only with Carraro in Italy, we have it at Carraro Luxembourg, wherein when we take their services, they invoice us. And when we are providing services to them, we invoice them. So, ours is a profit center. We are making profit in standalone Carraro Technologies as well.

Sonal Gupta: Got it. Got it. And just lastly, on the Teleboom handlers, like you've mentioned in your opening comments as well as in a press release, would there have been – I mean, like, as you were working on the sample and pilot, as of now is still the time the project is commercialized. Would there have been certain costs in this quarter related to that as well, which would have impacted?

Balaji Gopalan: Not in this quarter. We wouldn't want to attribute it in this quarter, because these are things that have developed over the last 2 years. And this is not a prototype. Prototype has already been given. It has already been tested. The dispatches now are for commercial launches only.

So, we have passed the stage of testing, validation, prototype, vehicle configuration testing, field testing. All that has been completed in the last 2 years, 2.5 years. And we are ready with a product that is reliable and well-tested. And that is how the dispatches have begun.

Sonal Gupta: Got it. Okay, great. Thank you, Sir. Thanks for taking my question.

Balaji Gopalan: Yes, thank you very much.

Moderator: The next question is from the line of Hafeez Patel from Reliance Nippon Life Insurance. Please go ahead.

Hafeez Patel: Thank you for the opportunity. Sir, starting with the 3Q number. So, like you mentioned in your earlier remarks, the margins were impacted because of the lower mix of gears, engineering and spare parts. So, if I see your presentation, your others' revenue is down 18%. So firstly, what led to this sharp 18% decline in the others' revenues is what I wanted to understand. Did we have a loss of order? What exactly was the reason for this?

Davide Grossi: So, as we said, when we talk about others, we are exactly talking about gears and to some extent, spare parts and then some loose tools that we sell to our headquarters, okay. So, it's a big category. As we said, especially when we talk about gears, for example, we are in the category of indirect export cost. Those are supplies that we do in India to mainly one customer that then ships those gears abroad.

And as we said, we have seen a general reduction of the volume of this business actually for the entire year compared to the previous year. And it was even more evident in Q3. But there is no

-- as I said before, there is no specific reason linked to Carraro. It's a market situation. Those are volumes that will come back as soon as the market stabilizes.

Hafeez Patel: It is market led, then what should drive the margins in the fourth quarter, is what I want to understand? Because it is the mix which is impacted. If I see the agriculture mix or the construction mix that is only grown on a YoY basis, 3% for agriculture and 10% for construction.

Balaji Gopalan: No, the mix is not between agriculture and construction. In agriculture itself, we have probably a basic 2-wheel drive axle, which is on a phase out with very low margin to a well technology loaded 4-wheel drive axle where our margins will be different. So, within this segment itself, we have different configurations and each configuration has a different marginality.

So that is where we are saying it's very difficult. For example, if you take my agriculture, I will have more than 150, 200-part numbers or basically gearbox models and axle models. So, for a single axle that I will be saying that I have a Teleboom handler axle, there will be probably 25, 30 variations in that. And the variations, the margins are different because the loading of technology in each could be different, the features will be different.

So overall, looking at the order book that we have currently, because we have already finished January, we are in February. So, we have a clear visibility because all our OEMs have to give us a confirmed order of at least 60 days. So, there can be no change in the next 60 days. So, looking at all these things, it gives us when we convert it into numbers, we see that there is a comfortable quarter four wherein we will close at 10%.

Hafeez Patel: So 10% you mentioned for full year FY25 as well, right?

Balaji Gopalan: Exactly.

Hafeez Patel: Got it. So ideally in fourth quarter going back, I believe the other revenue should pick up because that is also margin accretive, right?

Balaji Gopalan: Which one?

Hafeez Patel: The other segment revenue.

Davide Grossi: We see as of now in our order book a certain improvement in terms of DRs, for example, in quarter 4.

Hafeez Patel: Got it. Sir, secondly, I just wanted to understand for the Teleboom handlers, when should we start booking revenues for those and how margin accretive are those?

Balaji Gopalan: See, Teleboom market is booming. It has to get absorbed in India, the technology that is coming as a Teleboom handler concept. It is a new segment that is coming in for the safety and we need high-rise buildings that are there in India now. So, these Teleboom handlers go up to around 120 to 150 feet height. So, these are the emerging requirements that is coming into India. And globally also these high-rises need what we call the mobile cranes and Teleboom handlers and all those kinds of applications.

Now, coming to your question, the revenue will start pouring in from probably 3 to 6 months from today. Although the revenue has already started, the trickling effect is already there, but we will be having firm orders wherein we should cross, in our opinion, in the next 3 years around EUR30 million kind of a revenue that will come from Teleboom handlers.

Hafeez Patel: So basically, from FY26 only. So, we are not expecting any revenue pickup from FY24, right?

Balaji Gopalan: No. This year, probably from July, August, September, it will become significant. In terms of million or in terms of crores, it will be there. Till then, we will be dispatching 50, 60, 80, 100, those kind of numbers that will be there, but it will reach that point of, you know, consolidation probably after September, October of this year. But in totality, we are expecting that the market will give us roughly about 30 million in 3 years.

Probably we will start with 5 million, 6 million this year, move to around 12 million, 14 million, 16 million the year after that, and then moving on to close to 30 million.

Hafeez Patel: Sure. And how should the margins look on these products, sir?

Davide Grossi: So, on the margins, you can put it this way. In our industry, margins are linked to the level of technology that the products have, okay. So, the strategy of Carraro is to focus more and more on high technology content products. And therefore, whenever we launch these kinds of products, you can assume that they will come with a margin which is higher than average of our portfolio. So, this is where we are moving. And this applies to the products that we have been launching and we will be launching in the future.

Balaji Gopalan: As investors, it is also important for you to understand the strategy in the business we are in. When we introduce new technology and there is an upgrade and absorption of technology that is taking place, if we try to be very greedy and keep a very high margin at the entry point itself, then the absorption becomes slow. Then the volumes become slow because the absorption will be based on the price factor.

So, it is always prudent that we go above our normal average because these are higher tech products. And then we slowly increase it by what we call as up-marketing. We add features to it. We add better technologies to it. We give them solutions because we are having the R&D platform to back us with these kinds of things. So, once we get the business, we capture the business, then we slowly start working on enhancing the technology.

And when you introduce technology, there is no wait. Like, speak up and bargain doesn't happen there. So, you give a feature, they see the customer benefit in it, and then they pay a price for it. So, the margins will also increase as we capture the market and the technology is becoming widespread in the field that we operate on.

Hafeez Patel: Sure, got it. Lastly, excluding the Teleboom Handlers revenue, if I were to assume, because the current macro seems subdued, so the export revenue growth will be lower than that of the domestic revenues. Is that a right understanding?

Balaji Gopalan: The revenue? Yes. The total revenue because export is only 35%, know?

Hafeez Patel: Yes. The revenue mix, I mean, sorry, the revenue growth rate.

Davide Grossi: It depends. I mean, for this year, for sure. For next year, yet to see, but maybe. Probably domestic market will grow more stronger. But again, it's a matter of time. It's a cycle. And whenever exports pick up, it might even grow stronger.

Hafeez Patel: Sure. And any thoughts, Sir, from your side? Because the market seems subdued, ideally, maybe it would take 3 months, 6 months for the export revenue growth to pick up or maybe grow at a higher pace than that of domestic.

Balaji Gopalan: Yes. We are expecting at least six months wherein things should stabilize. It is an estimation. It is a judgment because the world or the feeling is the situation has bottomed out. And they are seeing some upshoots that are visible in the market. So, it doesn't look like there is going to be a reversal because it is already bottomed out in the last couple of quarters.

So, the market is giving us signals to be ready for a ramp up in 6 months, because we also need time to set our supply chain in place, because there could be some important seals, important components that are coming with a longer lead time. So, we have been given indication to be ready for a ramp up post 6 months.

Hafeez Patel: Okay, Sir. That's it from my side. Thank you.

Moderator: The next question is from the line of Daljit Singh from Roha Asset Managers. Please go ahead.

Daljit Singh: Thanks for taking my question. So, I just want to understand your guidance. I heard two numbers in the call. You spoke about EUR215 million at one point of time. And then you spoke about EUR350 million in 5 years. What exactly is your guidance for near term, maybe FY26 and then for 3 years, 5 years, whichever way you want to.

Balaji Gopalan: Okay, see the 5 years is a plan that we are developing. We are looking, we are collecting data from the market. We are looking at the pipeline of R&D work that is going on with our OEMs. We are looking at the prototypes, the various stages of testing validation that is already going on. And we are having an estimate that we should touch around EUR350 million at the end of 5 years. This is the long-term perspective that I am sharing. It's a perspective, okay. And we are preparing our supply chain, manufacturing capabilities, everything aligned to reach that target of EUR350 million.

Now, when it comes to the year, next year, next financial year, we hope that with the elections, everything over the new ministries have been reconstituted. The road construction fell down very significantly in the last 6 to 8 months and we are hoping that Mr. Gadkari will push for the infrastructure development. The budget also has allocated significantly to this field.

Looking at all these things, we are more or less looking at a range of 220 million, considering also the Teleboom Handler business that will pick up from, say, August or September. All in all, domestic export, indirect export, all put together, we should be in the range of roughly EUR210 million, EUR215 million, EUR220 million, which is a realistic estimation that we have on our table.

Daljit Singh: Okay. Thanks for the clarification. And EBITDA margin for ‘26, as you mentioned, would be around 10%. And in 5 years, we will probably move to 15%. Is that correct?

Balaji Gopalan: Exactly. We will move to 15 in 5 years. We will close this March, hopefully, with a double-digit EBITDA. It may be a low double-digit EBITDA, but we want to sustain. As a group, our philosophy has always been consolidated and then move forward. So very rarely has it happened that we reach, say, 200 million and then go back to 175 million and then 225 million.

We don't have those kinds of fluctuations in the last 27 years. And the trend is our friend. We are growing in the last 5 years. As I said, we were around EUR115 million probably 4, 5, 6 years back. And today, we are talking of 210 million to 220 million next year. And this year, we are quite close to 200 million. We won't be touching 200 million, but we are inching very close to 195 million, 198 million.

So those are the numbers that we are looking at this year. So, the fact that we are growing from the current closing of this year, hopefully, around EUR195 million euro to next year, which will be around EUR210 million, EUR215 million, EUR220 million. These are realistic numbers that I'm talking about.

This shows that Carraro is very much on top of the things and our products are being accepted by customers because there is a steady growth that is coming in. So, in spite of a lot of uncertainty on exports and everything for next year, we are still very clear based on the data and order book that we have and indications that come from the customer that we should be in the range of EUR215 million plus minus EUR5 million.

Daljit Singh: Thank you very much.

Moderator: Thank you. As there are no further questions from the participants, I now hand the conference over to Dr. Balaji Gopalan for closing comments.

Balaji Gopalan: Yes. Thank you very much. Thank you all for the time. I won't take a very long speech for a conclusion. It is just a few bullet points that I would like you to understand.

The revenues are stable. We are growing next year. We are working on high margin contribution from probably spare parts. We are increasing our focus on spare parts. We are introducing new approaches to enhance the spare part business. We are working on engineering services. These engineering services also establish our credibility as a technology partner recognition by the OEMs.

So, we are sure of their association on us or dependence on us for their future needs. We are working very strongly with localization and that is growing. We have already reached 76%. The target is to reach around 86%, 88% in the next 3 years, which will help us with that margin target of 15%. So fixed cost is being absorbed. We will be growing, but we will not be increasing manpower. Our efficiencies are being worked on.

We have signed an agreement with the union where they have themselves agreed for a 20% improvement in our labor efficiency. So, all in all, I would assure all our investors to be patient with us. We assure you that your patience will not be disappointing. We will surely ensure that what we are committing is what we will deliver.

Moderator: On behalf of Carraro India Limited that concludes this conference thank you for joining us and you may now disconnect your line.