STERLING TOOLS LIMITED
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By NEAPS	By Listing Centre
National Stock Exchange of India Limited "Exchange Plaza", Bandra–Kurla Complex, Bandra (E) Mumbai-400051	General Manager **BSE Limited** 1st Floor, P. J. Towers Dalal Street Mumbai – 400001
Security Code No.: STERTOOLS	**Security Code No.: 530759**

Date: 11th February 2025

Sub: Transcript of Analyst/ Investor Conference Call

Dear Sir/ Madam,

Pursuant to regulation 30 (6) and 46 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, we wish to inform you that a Conference Call for the analyst and investors to discuss the financial and operational performance of the Company for the Third Quarter and Nine Months ended 31st December 2024 was held on 5th February 2025 at 11:00 a.m.

Following Management Attendees attended on behalf of the Company: -

1. Mr. Atul Aggarwal- Managing Director
2. Mr. Jaideep Wadhwa- Director
3. Mr. Pankaj Gupta- Group CFO

We further Confirmed that no unpublished price sensitive information was shared/discussed in the meeting / call.

Please find attached herewith the transcript of the aforesaid call. The same is being placed on the website of the Company i. e. www.stlfasteners.com.

This is for your information and records.

Sincerely,

For **STERLING TOOLS LIMITED**

Abhishek

ABHISHEK CHAWLA

Digitally signed by ABHISHEK CHAWLA
Date: 2025.02.11 17:53:11 +05'30'

Abhishek Chawla
Company Secretary & Compliance Officer
M. No. A34399

Encl: As above

"Sterling Tools Limited

Q3 & 9M FY '25 Earnings Conference Call"

February 05, 2025

E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on 5th February 2025 will prevail."

MANAGEMENT: **MR. ATUL AGGARWAL – MANAGING DIRECTOR – STERLING TOOLS LIMITED**
MR. JAIDEEP WADHWA – DIRECTOR – STERLING TOOLS LIMITED
MR. PANKAJ GUPTA – GROUP CHIEF FINANCIAL OFFICER – STERLING TOOLS LIMITED

Moderator: Ladies and gentlemen, good day, and welcome to Sterling Tools Limited Q3 and 9 Months FY '25 Earnings Conference Call. 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 touchtone phone.

I now hand the conference over to Mr. Pankaj Gupta, Group CFO. Thank you, and over to you, sir.

Pankaj Gupta: Thank you. Good morning, everyone. On behalf of STL Group, we extend a very warm welcome to all of you for this quarter 3, 9 months FY '25 earnings call. I'm joined today by Mr. Atul Aggarwal, our Managing Director; Mr. Jaideep Wadhwa, Director. We uploaded our presentation yesterday, and I hope you had a chance to look at the same.

I'll request Mr. Aggarwal for his opening remarks.

Atul Aggarwal: Thank you, Pankaj. Good morning, everybody. Welcome to our call for Q3 and 9 months results for FY '25. Let me start with a brief overview of the industry.

During Q3, FY '25, the overall automobile industry witnessed a tepid growth of 3.1% year-on-year against the corresponding period last year. Our standalone business grew 8.7% year-on-year, which indicates that we continue to outpace the industry growth. India's automotive industry is experiencing a transformative shift driven by technological advancements, changing consumer preferences and a rising demand for hybrid and electric vehicles. The electric 2-wheeler industry grew by 37% in Q3 FY '25 and on the back of sustained demand, coupled with OEMs launching some affordable options as well.

The company registered a steady state performance with a consolidated top line revenue increasing by 24.5% year-on-year to INR832 crores in 9 months of FY '25. The top line growth is mainly driven by SGEM's performance, which has witnessed an uptick of 56% year-on-year growth to INR345.9 crores in 9 months of FY '25 against corresponding period last year. The fasteners business also improved on the back of rising share of business with our existing customers, along with our catering to new clients.

We are excited to share that we have recently forayed into energy sector through our wholly-owned subsidiary, Sterling Tech-Mobility Limited. We have partnered with China's Zhejiang Meishuo Electric Technology Company Limited, where we locally manufacture latching relays, which are crucial in reducing power consumption and extending the lifespan of key components across smart metering systems as well as industrial and white goods applications.

These relays facilitate remote connection and disconnection of power to a consumer's premises, utilizing a latch mechanism that minimizes energy consumptions during operation. Initially, our production will focus on manufacturing latching relays for energy sector, industrial grids and other applications in India. This collaboration marks a major milestone in localizing the production of latching relays.

As we expand beyond our automotive expertise, we are poised to meet India's increasing demand for advanced technology in the energy sector. By reducing dependence on imports, we aim to foster innovation and improve efficiency. This initiative aligns with our commitment to Make in India vision and directly support our strategy to deliver cutting-edge solutions to our customers.

This collaboration is projected to generate INR200 crores plus revenue in FY '30 and Sterling Tools will bring niche technology to manufacture and assemble latching relays locally at a new facility in Bangalore with an initial investment of around INR20 crores.

We have transitioned and straddled EV value chain from our legacy business to manufacturer of cold forged high tensile fasteners to entering new businesses such as partnership with Jiangsu GTAKE to manufacture MCUs for 2-wheelers, 3-wheelers, LCV and Heavy Commercial Vehicle segments, MOU with MOTIVELINK, (Erstwhile Yongin Electronics) to manufacture magnetic components for India's EV and electronics manufacturing industry, partnership with Kunshan GLVAC to manufacture HVDC contactors and relays and then our recent announced, which I discussed, partnership with Meishuo Electric to manufacture latching relays for energy sector, industry grids and other applications in India.

Happy to share that our new manufacturing facility in Bangalore for HVDC contactors and relays has made good progress. We expect to commence production in Q2 FY '26. Building on these developments, we remain focused on offering a comprehensive product portfolio and expanding our presence beyond the automotive sector.

By leveraging our core strengths, we aim to capture incremental market share. Moving forward, we will continue exploring new growth opportunities and delivering sustainable performance through both organic expansion and strategic initiatives.

Let me request Pankaj to give brief insight on the financial performance. Thank you.

Pankaj Gupta: Thank you, Atul. I'll now give the financial highlights for quarter 3 and 9 months FY '25.

Starting with standalone financial highlights for quarter 3. Total income grew 8.7% year-over-year to INR155 crores in quarter 3 FY '25, against INR143 crores in same quarter last year.

EBITDA for the quarter stood at INR20.5 crores with EBITDA margin of 13.2% in quarter 3 FY '25. Profit after tax stood at INR8.3 crores in quarter 3.

9 months performance of standalone, total income grew by 8.9% at INR486 crores in 9 months against INR446 crores in FY '24 (wrongly said, kindly read it as 9M FY24).

EBITDA increased by 7.6% year-over-year to INR69.9 crores in 9 months as compared to INR64.9 crores in 9 months FY '24. EBITDA margin stood at 14.4% in 9 months FY '25.

Profit after tax witnessed a growth of 18% year-over-year, reaching to INR31.6 crores in 9 months as compared to INR26.8 crores in 9 months FY '24. Profit after tax margin stood at 6.5% in 9 months FY '25.

Coming to the consolidated financials for quarter 3 FY '25. Total income grew by 12.3%, reaching to INR263 crores in quarter 3 FY '25 as compared to INR234 crores last year. Adjusted EBITDA, which is before ESOP for the quarter increased by 13% year-over-year, reaching to INR32 crores with a margin of 12.1% in quarter 3 FY '25. Profit after tax stood at INR13.6 crores in quarter 3.

Consolidated performance for YTD 9 months FY '25, total income grew by 24.5%, reaching to INR832.3 crores in 9 months.The growth is attributed to SGEM performance, as Mr. Aggarwal said.

Adjusted EBITDA increased by 25.8% year-over-year, reaching to INR105.6 crores compared to INR84.2 crores in 9 months FY '24. Adjusted EBITDA margin stood at 12.7% as consolidated for 9 months.

Profit after tax witnessed a growth of 26.5% year-over-year, reaching to INR49.5 crores in 9 months FY '25 compared to INR39.1 crores in 9 months FY '24. Profit after tax margin stood at 5.9% in 9 months FY '25.

Thank you, everyone. We can now begin with question-and-answer session, please.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Ravi Gupta from InCred Equities.

Ravi Gupta: As Ola has demonstrated its mid-drive motor instead of putting hub motors in their new third-generation scooters, are we supplying them?

Moderator: Sorry to interrupt you, sir. We cannot hear you clearly.

Ravi Gupta: Okay. Now it's clear?

Moderator: Yes, please go ahead.

Ravi Gupta: Yes. So Ola has demonstrated its new Gen 3 scooters in which they have put mid-drive motor instead of putting -- instead of their previous motors like hub motors. Are we supplying to them for that?

Jaideep Wadhwa: So as of now, the Gen 3 models have been announced, but they are not in production yet. We do not -- the Gen 3 model has an integrated controller. So, Ola will continue with a mix of Gen 2 models and Gen 3 models into the foreseeable future.

Ravi Gupta: Sir, can you also explain how the content per vehicle changes and what are the technologies upgradations are needed? And also, if you can share and yes, what are the components also which is going to be there?

Jaideep Wadhwa: That's a very broad question. I'm not sure we can address this in this forum. But very quickly, what I will say is that electric vehicles are seeing greater consolidation of individual components. Now this trend is -- has -- can take different parts, but OEs are finding that by integrating multiple components into one unit that they are able to save cost. They are able to make packaging or vehicle architecture much easier.

And therefore, it's a trend going forward. And this can happen. There's -- you talk about motors and controllers getting integrated and there are other people who are looking at integrating chargers and DC/DCs and so on and so forth. So that's a trend that's happening in the industry.

This is a trend that will take several years to actually play out. It's because already companies have locked in programs for the next couple of years. So, as these new -- so it's the programs that are going to come in FY '28, FY '29 that will have more integration. And that is why -- and I'll also say that it's difficult to predict exactly how this will map out because there are downsides also because as the more integration you have, if you do have a failure, that means basically you're replacing the entire vehicle.

So, we'll have to wait and watch it as to how this will happen. But the fact that there will be integration, I think, is undeniable. And that's why Sterling GTAKE strategy has been to look at building powertrain competencies so that we are able to serve our customer requirements with integrated products across -- whether it's integrations with motors or it's integration with chargers and other areas, we are able to meet those requirements from our customers.

Ravi Gupta: Thanks for the detailed answer. Can you also put some colour on the content per vehicle as well for the mid-drive?

Jaideep Wadhwa: I'm sorry, Ravi, you'll have to speak slightly louder. Your audio is very...

Ravi Gupta: Can you put some colour on content per vehicle as well, please?

Jaideep Wadhwa: So look, I mean, currently, what we are supplying, I can tell you what we are supplying today. We -- our lowest cost MCU would be about INR3,500, INR4,000 and our most expensive motor control unit would be more than INR4 lakh. So, going from low-speed scooter to heavy commercial vehicles, we span the entire spectrum.

In terms of the percentage of the BOM, we are anywhere between, I'll say, between 3% and 10%, depending on -- I mean, if the vehicle is -- if you're talking about a truck or a bus, obviously, the cost is that much more. So, even INR3.5 lakh may not be as high a percentage, whereas in a scooter, INR8,000 to INR10,000 is 10% of the BOM. So, it varies a lot depending on what vehicle we are talking about.

Moderator: The next question is from the line of Chirag from White Pine Investment Management. Please go ahead.

Chirag Shah: Just a clarification on the earlier participant's question. So, in something like Ola Gen 3, which is integrated, will you be supplying components, if not the entire MCU?

Jaideep Wadhwa: So, we are not participating in the Gen 3 with Ola. We are -- we continue to be single source on Gen 2.

Chirag Shah: Gen 2. Okay. And sir, secondly, what are the...

Jaideep Wadhwa: Again, clarify that. As of today, the production -- I mean, at least -- I mean, of course, Ola has announced this. But I mean, as of today, the production is essentially of Gen 2.

Chirag Shah: Yes. Fair point. And the second, what are the alternative uses of MCU because industry is putting up with good amount of MCU capacity and nobody would like to rely on one stream of utilization for MCU. So, are there -- are you looking at alternate uses of MCUs or alter industries or alternate segments?

Jaideep Wadhwa: Okay. So I think today, we've got some really big questions. When I say big questions, I mean questions that require a lot of detailed answer. So look, let me -- what is an MCU? An MCU is essentially an inverter, which converts DC power to AC, right? And as we are -- and then also controls and regulates this.

Any permanent -- any motor which requires such controls technically has some form of motor control unit. Therefore, a BLDC fan that is installed at home also has a motor control unit there as do a number of motors that are used in different applications within an automobile. So, if you look at the core technology, the core technology is used very broadly.

People are -- you say are people putting up technology. According to us, if you look at Sterling's strategy, we don't see ourselves only as an MCU manufacturer, and we've talked about this in the past. We see ourselves as developing a power electronics competence because all of EV is about changing -- is about power electronics. It's about changing either the current or the voltage.

So that's why we talked about chargers and so on and so forth, right? So, when you say that there is capacity coming up, yes, there is capacity. But the EV penetration in India is still very low. It will definitely grow much faster. And I think that there is a lot of headroom for further growth within this industry, too. So, I hope I've answered your question.

Chirag Shah: Yes. Sir, last thing, you have been indicating in the past that you are trying to diversify outside of the single customer for MCUs and related products. So, any update you would like to share? Any technical validation with any of the traditional or other OEMs? The larger -- of the larger 6 players which are there in the market, you have been trying to penetrate them. So, any update if you can share on that?

Jaideep Wadhwa: So I mean, I'm sorry, I'll have to correct you to say we are not a single customer this thing. We have more than 30 active customer programs. We pretty much every LCV in the market today -- electric LCV in the market today is powered by our MCU. We had -- we are supporting even heavy commercial vehicles, both electric as well as hydrogen based on this. We have a fairly decent market share across 3-wheelers. And in 2-wheelers, we have a number of customers.

So yes, Ola is a big customer for us. Ola also has 50% -- depending on the month, they have anywhere between 25% and 50% market share, right? So, because there are big -- and because if they are 50% of the market, then obviously, they will also dominate our production.

But it is not to say that we do not have a very wide customer base. We are there with established with start-ups, obviously, because that's part of the EV ecosystem, but also with the incumbents in the 3-wheeler and as well as the light commercial vehicle and 2-wheeler space.

Moderator: The next question is from the line of Raunaq Sabharwal from PhillipCapital.

Raunaq Sabharwal: Just wanted one question on the fastener side. The margins in the fastener business, the EBITDA margins have dropped this quarter. Any reason for this...

Moderator: I'm sorry...

Jaideep Wadhwa: I'm sorry, Raunaq you'll have to repeat that, please.

Raunaq Sabharwal: Just one question on the fastener side. The margins in the fastener business have dropped this quarter. Can you please help us understand the reason for this?

Atul Aggarwal: So, I think firstly, before I get to the quarter, I just want to mention that if you look at our 9 months margin structures, operating margin structure, they're pretty much in line with what we had last year. And I think our guidance was that we'll be hovering the full year around 15%. I think we are still on track. I think the number for Q3 FY '25 at 13.2% is an anomaly for that quarter because of certain one-time expenses on business development.

We know we have signed contracts successfully with 2 different companies in China for making latching relays and DC contactors. So, I think there were some success-based fee structures we had with advisers working -- helping us to identify product lines, et cetera. So, I think those were one-time charges.

But basically, we are not worried on holding our guidance that we will -- our margin structures for the full year will be around 15%. So, we still hold that. I am not unduly worried of what happened in the third quarter because there were non-operating reasons, more of business development strategic costs, which we have incurred in that particular quarter. So, just to give you a sense, if you take them out, our margin structures, our margin for the third quarter is on track as per the guidance given for the full year as well.

Raunaq Sabharwal: One more question on the latching relays and the HVDC side. Have we got any customers or any customers for this or any interest on these segments as of yet?

Atul Aggarwal: Yes, yes. So, a lot of work has been done on that in the last 1 year. What you're seeing today crystallizing into a business plan and operating business going live in Q2 FY '26 is based on about 12 to 15 months of work, working with different customers, working with different customers on product lines, product specs, pricing, etcetera, etcetera. So yes, when we get into operations, Q2 FY '26, we will be operating with live customer orders based on interactions and the confidence we have for the business for that product.

Jaideep Wadhwa: If I can just add to what Atul said, as far as HVDC contactors are concerned, we expect to be the first company in India to manufacture these locally. Right now, the entire requirement for the EV industry is being served by imports. And obviously, you have different numbers of these contactors used in different vehicles. It could be 1 in some vehicles, it could be 3, it could be up to 8 in a charging station. So, different applications require different numbers. And as I said, all of these are being imported as of today.

Moderator: The next question is from the line of Shristi Jain from Niveshaay Investment Management.

Shristi Jain: Sir, in this budget, the government has reduced the BCD on the fastener side. So, I just want to ask if you are expecting any BIS implementation on the fastener? And if at all we expect like OEMs who are currently importing from China and if they start sourcing from the domestic vendor, what can be the opportunity size for Sterling Tools?

Atul Aggarwal: Can you repeat the first part of your question?

Shristi Jain: If we are expecting any BIS implementation on the fastener because the government has reduced the BCD.

Atul Aggarwal: So, just, Shristi to -- on the BIS QCO, all our fastener plants are certified under BIS QCO. We are working with all our existing customers under the new certification. We don't expect -- because of this BIS and QCO order, we do not expect any imports as a threat at all.

In fact, it adds another barrier for foreign manufacturers to export fasteners into India because they need that certification, which pretty much -- most of them don't have. So, we don't see any threat on that. Did I get my second part of the question, when you say something about Mexico on the second part of the question?

Shristi Jain: No. So, the second part is like if OEMs who are currently importing from China, right, so they start sourcing domestically from domestic vendors. So, what can be the opportunity price for Sterling Tools?

Atul Aggarwal: Yes. So, the current fastener imports are very minimal. I don't think most of the OEMs are importing anything of material value from China for automotive fasteners. I think what's coming as imports, if I look at the spectrum would be Toyota Suzuki Group is still importing fasteners. They're coming from Japan and Thailand.

Volkswagen is still bringing in its kits from Europe maybe. Hyundai, Kia is substantially domestic with their transplants in India. There are some imports coming from Korea. Broadly, Tata and Mahindra, who currently have a double-digit market share in the passenger vehicle business, their buying is, I would say, dominantly Indian, from Indian sources itself. So fortunately, we don't see imports a threat as in the past and going forward on the automotive fastener category. And I think a layer of BIS and QCO is adding another barrier for imports to come in.

Shristi Jain: And is this the same for wind energy fasteners like the windmill fasteners?

Atul Aggarwal: Can you repeat that question again?

Shristi Jain: The import scenario, is it same for the windmill fasteners or the higher size M25 to (inaudible) fasteners?

Atul Aggarwal: So, the wind mill fasteners, I believe certain percentage of windmill fasteners are imported. I don't have a number on that. We are not -- we don't have a presence in that segment. So, I may not be able to comment much on that segment. But I think, yes, there are -- I think a certain percentage of fasteners are being imported.

Just to add on to your first question on opportunities because of BIS and QCO, in fact, the RFQs we have from Japanese customers have gone up for the fasteners they were importing from Japan and Thailand. So, there's an opportunity, but these opportunities take about 24 months to crystallize into revenue. You start from RFI stage to RFQ to commercial closure to sample development, building capabilities and eventually building revenue over time. So, I hope I answered my question then.

Moderator: The next question is from the line of Manan Vandur from Wallfort PMS.

Manan Vandur: Okay. So, my first question would be that there is a company called EKA. Do we supply MCU to that company? That company also deals with LCV buses and 3-wheelers?

Jaideep Wadhwa: Okay. Well, I just -- I'm not really supposed to mention customer names, but I'll repeat my earlier statement that except for one customer, we are supplying MCUs to all LCV manufacturers. And I just quickly did a quick check with Pankaj and he said, I can mention, yes, the answer is yes, we do -- we are working with EKA and our units are being qualified in their model. Sorry, I just needed to reconfirm that before I could answer that directly.

Manan Vandur: No issues. That's great. That's great. Sir, second question would be, have we started supplying to Hyundai for the fasteners as well as MCU because last quarter, you said that we have acquired Hyundai.

Atul Aggarwal: Yes, we have. In fact, we're getting more RFQs and LOIs from Hyundai as we speak. So, I reconfirm like in our past calls, Hyundai is a medium, long-term opportunity for our fastener vertical, and it's on track.

Manan Vandur: Okay. Got it. And sir, the third question would be that even for the HVDC.

Atul Aggarwal: One second, Manan, I just want to add one more aspect to that. Our magnetics business with MOTIVELINK or Yongin Electronics is an anchor business with Hyundai and Kia. We are hoping to have manufacturing facilities ready for that as well in the next -- my guess would be 8 to 10 months. That is also with Hyundai and Kia. So, we are strengthening our relationship with Hyundai Kia as a customer group across different product lines. And I think that will help the fastener vertical as well going forward.

Manan Vandur: Right. Understood. That's great. Sir, the third question would be in the HVDC side, I know that your presentation says that by FY '30, we are going to have a certain amount of revenues coming from it. But even as you said that in Q2, we will start the commercial production. So, could you give some sort of color that in FY '26, how much could we do? And what would be the margins from that side because we are the only ones making it in India. So, we would be the only ones making it in India. So, could you please explain something on that?

Atul Aggarwal: Yes. So I think on an FY '26 basis, we're looking at a marginal revenue of about INR30-odd crores only. So, you've got to understand all these products need a lot of testing and validation at the customer's end, which is -- which obviously take time. But at the same time, it creates barriers to entry for other players to come in. These are all safety products. The customers need to build a comfort factor in technology and technologies, technology and the processes we have.

So that -- we have already started closing business with our customers on that and we go into production. Going on the margin structure, I think on a steady-state basis, we will probably -- because of low revenue in the first 24 months or so, we'll have some operating losses. But I think on a steady-state basis going third, fourth year, this business is going to have a healthy double-digit margin structure.

Manan Vandur: Okay. So you're saying for the first 2 or 3 years, it can be a loss-making?

Atul Aggarwal: Yes, first couple of years operation-wise, yes, this business will be losing money because the volume build-up will take about 18 months to get there.

Manan Vandur: Okay. So you're saying that we can see profitability by FY '27 or '28, when fully set?

Atul Aggarwal: So, I would probably say more like FY '28 because we get operational in the second half of FY '26. So, on a full year basis, FY '27 will be the first full year. FY '28, second full year, we'll be in profits.

Manan Vandur: Okay. And this case would be for the rest of the contracts also, like first few years, we would be loss-making and then profitable?

Atul Aggarwal: No, I don't think I want to generalize for every product. I think the magnetics will have a different outlook. And so -- and latching relays as well. So, each product line will have a different timeline for profitability numbers.

Jaideep Wadhwa: It depends in part on how big the line capacity is and what the utilization is. So, because these are -- all these lines are fully automatic -- I mean, not all, but some of the lines of, the HVDC line is fully automatic. And we need that for -- to be able to maintain the quality that we need to deliver to our customers.

Manan Vandur: Right. Got it. Just one last question would be that in the future, let's say, 4 years from now on or 5 years from now on, our margins are currently at around 11%, 12 percentage kind of. So, let's see 5 years from now as a business-wise, our margins could be what.

Atul Aggarwal: So our margins are not 11%. Our margins are around 12.5% plus. And our effort is we want to stay there on a consolidated level or maybe even improve on that number.

Moderator: The next question is from the line of Karthi Keyan from Suyash Advisors.

Karthi Keyan: I wanted a couple of clarifications. One is, would GTAKE have the ability to deliver an integrated motor? Would that help in any case? I mean I'm just trying to understand if the market moves entirely to mid-drive motors, would we have an offering that we meet the requirements either independently or with the help of GTAKE?

Jaideep Wadhwa: So, we've actually displayed our 3-in-1 and a 2-in-1 at the Bharat Mobility Show, which means that we displayed a motor integrated with a control unit as well as a motor integrated with a control unit and a gearbox. Both these were displayed at Bharat Mobility. These have been developed along with GTAKE and we will be in production with these. I think obviously, we'll have different variants, but at least the first variant will be in production, we hope, by the end of this year.

Now as far as will we move away from hub, look, the industry is still -- you have to understand the industry is still going through its growth phase and an early phase. So, we started off -- if you leave out the early stage when you had companies like Hero Electric and Okinawa who are making vehicles at that -- those companies were using hub motors. When Ola came in, Ola launched with a mid-drive motor and our controller and pretty much everyone followed their lead.

Government then changed the FAME policy and reduced dramatically the amount of subsidy that was made available. This forced the industry to change their -- to change their vehicle architectures. And instead of a 6-kilowatt rated type of power rating, the power rating dropped down to 4-kilowatt because we wanted to -- the industry wanted to be able to run with smaller batteries.

When the 4-kilowatt models were launched, they were all launched with hub motors because everyone again copied Ola's lead largely. Ola very recently announced that they wanted to move away from hub motors back to mid-drive and there are several reasons for it, and I'm sure Ola will explain that in their call. So, let me not try and venture that. But for several reasons, they decided to move away from hub to mid-drive -- back to mid-drive.

Now maybe industry will follow their lead or maybe you will have different companies following different parts. I personally believe that all technologies will coexist. You will have hub motors and hub motors will exist for certain applications and mid-drive motors will exist for certain applications.

And -- but our -- like I said, as far as Sterling GTAKE is concerned, we are positioned to be able to respond very quickly to customer requirements and the integrated motor and controller units are available from our stable as of now and we will be in a position to make -- start making supplies in the not so long -- not so distant future.

Karthi Keyan: And when you said production by end of this year, did you refer to the current financial year or the current calendar year or the next financial year, sorry?

Jaideep Wadhwa: So we are looking at the next financial year. I mean, I'm sorry, I'm already thinking about the next financial. Thank you for that clarification question.

Karthi Keyan: Yes. The other questions are again slightly perspective kind of a thing, which is do you believe that there is a thawing at the government level towards Chinese entities? And therefore, would there be a rethink on whether these would remain as technical arrangements? Or is there a possibility that you could go back to a joint venture structure? Just trying to understand how you see that situation, read that situation.

Jaideep Wadhwa: Okay. So at a macro -- at a geopolitical level, obviously, it's very evident what's happening. Flights are going to restart between China and India. We hear that visas will be allowed for Chinese business visitors in the near future. And generally, the announcements that are coming out from both China and India are positive. So yes, there is a thawing.

No, as far as we are concerned, we don't believe that we now want to revert to a joint venture structure. The structure that we have right now is very good for us. It works well for us and has served us well. Also, as we are adding new -- we are hoping to add new products in our portfolio, we will have other partners, too.

So, we consider -- I'm not saying that we rule out a joint venture in the future with the Chinese or other company. But as of today, we see that technical licensing agreements is the way to go for us for the bulk of our growth initiatives.

Karthi Keyan: One quick clarification, sir, and then I'll get back in the queue. So, the integrated motor with the motor control unit, of course, would the import content be higher there versus your stand-alone MCU? Or would there be no additional imports on that side?

Jaideep Wadhwa: If you look at the total BOM cost, if you look at the total BOM cost, it will be lower.

Karthi Keyan: Yes. But there will be some part -- you are saying -- you're implying that some part will be imported.

Jaideep Wadhwa: I'm sorry. I was speaking over your other thing. So can you repeat your question, please?

Karthi Keyan: I'm sorry, I shouldn't have spoken. I was asking you, so the motor would be locally sourced? Or do you believe that parts of those will also come from China?

Jaideep Wadhwa: So that's... So look, it's not sourced. I mean we will make the motor, right? And in terms of components, by and large, I mean, of course, the permanent magnets have to be imported from -- mostly from China. But a lot of the other parts in a motor are localized. So that's why I said that the overall local content in an integrated unit will be higher than the local content in an MCU because in an MCU, all the actives and passives are imported.

Karthi Keyan: Next question is from the line of Sanjaya Satpathy from Ampersand Capital.

Sanjaya Satpathy: I'm listening to your call for the first time. So, can you please kind of give a broad picture in terms of your top line growth ambitions for next couple of years? And you have already said something about the margin that you were going to just maintain or slightly improve it. But in terms of top line, can you just help me get some kind of a hand?

Atul Aggarwal: So Sanjay, let's do one thing. I think we have a lot of people on the call. This is a much longer conversation. I'll request Karan at SGA to set up a separate call. Maybe you and I can spend some half an hour together to give you a big picture, but that's a long conversation.

Sanjaya Satpathy: Sure, sir. Okay.

Atul Aggarwal: In the meantime, if you have any particular specific question?

Sanjaya Satpathy: Specifically, I just noticed that your number was sequentially down while some of your competitors, they have managed to maintain the numbers and some kind of growth, dipping has happened. Is there anything that you want to specifically highlight?

Atul Aggarwal: Can you be specific as to what number is down?

Sanjaya Satpathy: The revenue number?

Atul Aggarwal: I think revenue number, we are up at both at the consolidated level and stand-alone level.

Sanjaya Satpathy: I'm talking about previous quarter, that is September quarter.

Atul Aggarwal: Even what is the September quarter. September quarter on a revenue basis, yes, was INR284 crores and we are at INR260 crores in the third quarter. But third quarter is always a weaker quarter. If you go back, if you look at the industry performance also in automotive industry overall, third quarter is a weak quarter because December is a huge shutdown month for large OEMs. And third quarter normally is always the weakest in the 4 months we have. So, it's not a unique phenomenon for Sterling Tools only.

Sanjaya Satpathy: Understood. Okay. I'll look forward to our engagement later.

Moderator: The next question is from the line of Dhiral from PhillipCapital. May we request you to please connect on the handset mode because your voice is sounding very muffled.

Dhiral: Sir, on the new partnership that we have announced in the last few months, maybe we have given a revenue target of around INR200 crores to INR250 crores to be achieved by FY '30. But let's say, sir, what will be the capex requirement for each of the partnerships maybe over next 2 years at least? And what could be the revenue potential for FY '26 and FY '27, although you have mentioned INR30 crores figure for the HVDC relay, but maybe overall for the partnership that we have announced, what could be the revenue potential for next 2 years at least?

Atul Aggarwal: So, next 2 years are very short term and we're starting a new business. But from a capex perspective, we are looking at a total capex for both the product lines coming under the same entity of Sterling Tech-Mobility, STML. We're looking at a INR30 crores-odd capex in the next 18 months.

Dhiral: Okay. So this will be across the partnership that we have done or it will be individual, INR30 crores?

Atul Aggarwal: Both the product lines put together.

Dhiral: Okay. Okay. And sir, on the latching relay side, you also mentioned it's a play on the import substitute. So, how big is the import into India, particularly for this relay?

Atul Aggarwal: Can you repeat that last question again?

Dhiral: Sir, on the latching relay, you talked about it's a play on the import substitute. So, just wanted to know how big is the import into India?

Atul Aggarwal: Currently, all the imports are coming in from China. Our estimation is that the current imports are in the range of about INR150 crores to INR200 crores from the customer we know plus, there are a lot of -- this number is not tabulated fully, but my guess...

Jaideep Wadhwa: Can I just take a minute?

Dhiral: Hello?

Atul Aggarwal: Yes. So, imports are about INR200 crores right now as of today. But understand the market is really growing both in terms of EVs, hybrids, smart metering, et cetera. It's across different applications. So, the market growth is dramatic going forward in the next few years.

Dhiral: Okay. Okay. And sir, on the fastener side, what is our current capacity utilization? And what is the utilization, particularly for the South plant that we have?

Atul Aggarwal: So, the South plant is currently probably operating at about a level of 60%. Like I said in my earlier call in the last few quarters, with the capacities we have laid out, we can do a revenue of between INR800 crores to INR850 crores, depending on the product mix. So, I think we still have a headroom for about another INR130 crores of revenue coming from where we are right now.

Dhiral: Okay. So maybe for the FY '26, particularly, what kind of fastener growth we are envisaging?

Atul Aggarwal: So like I said, repeating what I said in my calls earlier, fastener is a very mature business with us. We'll be up 7%, 8%, 9% this year. Industry is only up 3%. Our guidance going forward for the fastener business maintains the same that we will grow at a few percentage points faster than the industry. But this business is not going to grow radically at very high growth. Having said that, it has steady-state margin structures. It generates a lot of free cash flow. And our customer profiles are very good, and we're adding more and more critical products as we go forward.

Dhiral: Okay. And sir, lastly, on the margins of the fastener side. So, maybe from Q4 this quarter onwards, we will be again bounce back to 15% kind of a margin that we have seen in the Q3?

Atul Aggarwal: On a full year basis, we'll be close to 15%, yes.

Dhiral: Okay. And maybe next year, once the South plant also gets utilized.

Atul Aggarwal: One second. Just to add, if you see our 9-month numbers, we are at 14.4% vis-a-vis 14.5% last -- same period last year. So, we are on track what we did. Third quarter was an anomaly, like I said, because of business development strategic costs we had, which are one-time, which have gone to our P&L. But operationally, our margin structures are close to 15% and our guidance going forward is still 15%. On a full year basis, we'll be close to that.

Moderator: The next question is from the line of Chirag from White Pine Investment Management.

Chirag Shah: I'm coming back to the integrated motor unit that you indicated, 2x1 or 3x1 that you had showcased at Bharat and they were really good products actually showcased. Sir, what I wanted to understand is how does the pricing or the kit value changes? And in that, what would be your -- in the current product that you have sold, what is your value addition or your major contribution over there? Because some parts would be kind of an assembly part of business given the current capabilities that are getting evolved.

Jaideep Wadhwa: Okay. So I'll just say this that, first of all, a motor and controller unit is slightly cheaper for the end customer than the separate units.

Chirag Shah: Yes.

Jaideep Wadhwa: I won't say hugely, but there is a cost saving. And there is also obviously a cost saving for the end customer because they don't have the cabling and all of that. So, they actually save money there also, okay? Now in terms of what is going to be our value add, I think it's a little early for me to be able to give that detail. That's homework that we are doing currently. I don't have that number.

I'll say that it's going to be higher than, as I said in a response to an earlier question, the value-add for the integrated unit will be higher than the value-add for just an MCU. And the second -- the second thing I'll say is that in terms of the make buy, I think there's still a lot of homework to be done. It will be very difficult for me to predict that right now. Maybe in 3 to 6 months, I'll be in a better position to answer that with some specifics.

Chirag Shah: And sir, if MCU is INR100, the current MCU, how does 2-in-1 cost change? Will it become INR200 or it will be INR300? And how does the 3-in-1 cost would be? So on indexation basis, how does it change, if you can help us understand?

Jaideep Wadhwa: Yes. I hope I don't -- I hope I get this right. Typically, you would have the MCU would be, say, INR40 to INR45. I'm talking -- I'm talking about stand-alone and the motor would be INR55 to INR60 approximately. The motor is slightly more expensive than an MCU, typically for a given power rating.

So, let's just say it's INR45, INR55 adding up to INR100. An integrated unit will possibly be somewhere like INR90 or INR95. So, there will be a 5% to 10% reduction in the cost of the 2 units as compared to say, 10% for the time being. So that's what we can see in an integrated unit.

Chirag Shah: And when you do a 3x1 kind of a display that was really exciting, the 3x1 display. So, this INR95 will go to what, INR200?

Jaideep Wadhwa: No. Again, now that we have a lot of variables because the unit that we've developed right now is 5.6:1 gear ratio. Now as different gear ratios have different --the gear ratios will have different cost, though not very much. But I would say -- and again, I don't have the numbers in front of me.

I'm going to say a gearbox would be maybe that would -- in a stand-alone unit would go up to from INR100 to, say, maybe INR125 or so. And an integrated unit, the gearbox will still be about say, INR90 plus INR20, maybe INR110, INR115. And again, I have to say I don't have numbers -- exact numbers in front of me. I'm just giving you a very approximate idea.

Chirag Shah: No, this is really helpful, sir. I understand it will change. I understand it will be a bit different. But in the initial phase, this is really helpful to understand.

Jaideep Wadhwa: Yes. And the other thing, obviously, the revenue potential for companies like us who are doing integrated units, the revenue potential is nearly double because instead of doing one part of the unit, you're doing 2 parts of -- 1 part of the powertrain, you're doing 2 parts of the powertrain or even 3 parts of the powertrain.

Chirag Shah: And I presume you would have already started the discussion or showcasing the product to the customers for -- that process would have started, right?

Jaideep Wadhwa: Yes. We've been very busy since Bharat Mobility.

Moderator: The next question is from the line of Mukul from Neumerc Research Lab.

Mukul: Actually, I have a question regarding what is the current production -- what is the current production capacity for MCU? And is there any plans for like scaling this further?

Jaideep Wadhwa: Our current capacity is -- I mean, depending on how we configure the shifts, et cetera, is over 700,000 units. We had -- when we had started the expansion, we had talked about getting -- building up a capacity of 600,000 units, you may remember that. When we've actually laid out the plant and looked at the efficiencies, we actually feel that we can do more than even 600,000.

We do not anticipate adding more capacity to the lines right now. What we do see is more complexity coming in, in terms of models. So for example, if we add any other power electronics products or we add these multifunction units that we were just speaking about, then those don't have the same throughput as a stand-alone MCU.

So, depending on the product mix, you will see different capacities. But today, we could produce 60,000 units a month or 720,000 units a year with very little I mean, I would -- to use a phrase without breaking a sweat.

Mukul: Okay. And also, do we see like any risk in becoming too dependent on foreign technologies?

Jaideep Wadhwa: So, a very good question. I think we've talked about this in the past. The strategy that we've had at Sterling and from the very beginning of our -- we started in 2018 looking at EVs. Our strategy from the beginning has been to be early movers. And the reason to be early movers is that it helps us understand the market, understand the need. And it's very difficult to do a development in isolation because you don't know how the market is evolving. We talked about how the market moved from 6-kilowatt to 4-kilowatt and so on and from hub to mid-drive and so on. So, there's a lot of movement that happens in the market. And if you're doing a stand-alone development, you can very easily get it wrong.

So, our strategy has been to enter the market with technology partners, get into the market early, learn the customer requirements, work closely with the customer on the next gen. But in the next gen, we want to be independent. And you also are aware that we have announced in the past and we've even displayed at Bharat Mobility, a unit that we -- that was developed -- a motor control unit that was developed and produced by our team between Bangalore and Delhi.

So definitely, we are not looking at only importing technology we are definitely looking at building our own IP, but it's a phased thing. The first thing is get into the market, understand the market, serve the customer requirements and then build the capability basis what we've learned in the initial stages.

Atul Aggarwal: Just to add to what...

Mukul: And one last question I'll ask. Like we can see new verticals are making loss. And will it affect in the further like future quarter, will it affect the overall profitability of the business?

Atul Aggarwal: These are marginal numbers. The loss numbers are marginal numbers for the balance sheet size we have or the P&L we have. So, I don't think it's going to have any large material impact on our overall performance. So going to technology, I just want to add on what Jaideep was saying. We may be getting technology from overseas, but we are doing that to jump-start the business for customer acquisition, for understanding the product line, the technologies.

But our long-term plan is to get more -- to build centers of excellence to build our own tech center and build on top what we have and get more and more sophisticated and independent on all these things, which is what we have done in our MCU business. There's a lot more competence there.

The team has been able to develop an independent MCU now with IP owned by us. So, it's a process which takes some time to do, but we are very clear that we want to be independent, long term and create technology bases in our home country.

Moderator: The next question is from the line of Khush Nahar from Electrum PMS.

Khush Nahar: Sir, I just had one question. Considering the opportunities that we have ahead and the new products that we are introducing, what kind of CAGR sustainable revenue growth we see for the next 3 to 5 years?

Atul Aggarwal: So are you talking about on a consolidated level or a stand-alone level?

Khush Nahar: Consolidated level.

Atul Aggarwal: So Kush, our estimate is we are looking at -- we have a tough year coming up next year because we are bringing a lot more products into our portfolio. There has been a realignment of some customers or some product lines. It's a tough year. But I think if we are able to do a CAGR of about 10-odd percent in the short term, we'll be happy with that.

Khush Nahar: Right. And just to confirm with 15% sustainable EBITDA margins in the new product also consolidated basis?

Atul Aggarwal: Correct. So, I think the DC contactor and the latching relay business is at a double-digit margin structure. Fasteners will be hovering around a similar margin structure. Only the motor control unit business has a lower margin structure we work with...

Jaideep Wadhwa: But still double digit.

Atul Aggarwal: But still double digit. And at the same time, having said that, it's also technology-intensive business. But the return on capital is very healthy in all our businesses, especially in all our new businesses.

Khush Nahar: Okay. Just one last thing. Sir, you mentioned that new products we're going to introduce apart from the recent ones. So, these will be adjacent to the powertrain-related products only or anything else you're planning?

Jaideep Wadhwa: Yes, powertrain and power electronics.

Khush Nahar: In that segment only, we will be there?

Jaideep Wadhwa: Yes. And like I said, what is an EV? I mean the EV is only about changing either voltage or current, right? So that's what that's everything that we do in an EV.

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

Atul Aggarwal: So thank you, everybody. Thank you for taking your time out and spending this morning with us. We believe we've had a good quarter and last 9 months. We are on track to our guidance giving for the full year FY '25. I heard some questions on margin structures. Let me reinforce by saying the third quarter margin structures are not representative of the full year margin structures. They were more on strategic costs, one-time cost structures.

On a full year basis, our margin structures are still stable. So, there's no cause of concern from our side on the margin structures. And from a revenue perspective, we are on track to what we have projected for ourselves for this year, FY '25.

Thank you very much. If any questions, please reach out to our advisers, SGA, and we are happy to get on to a call one-to-one with you and take any more questions you may have. Thank you.

Moderator: Thank you. Ladies and gentlemen, on behalf of Sterling Tools Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.