SONA BLW Precision Forgings Ltd. (Sona Comstar)

Q1 FY22 Earnings Conference Call Transcript

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The webcast recording and the presentation referred to in this transcript are available on website of the Company and can be accessed on the following link:

https://sonacomstar.com/investor/investor-presentations

Caihua Chan: Good-evening ladies and gentlemen, good day and welcome to Sona Comstar's Q1 FY22 earnings conference call. Please note all participant lines are in the listen only mode as of now, there will be an opportunity for you to ask questions after the presentation concludes. Please note that this call is being recorded.

Slide 2:

Some of the statements by the management team in today's conference call may be forward looking in nature and we request you to refer to the disclaimer in the earnings presentation for further details. The management will also not be taking any specific customer related questions or confirm or deny any customer names or relationships due to confidentiality reasons. Please refrain from naming any customer in your questions. Now I'll hand over the court to Mr. Kapil Singh, auto sector analyst at Nomura. Kapil please go ahead. Thank you.

Kapil Singh: **Slide 3:**

Good afternoon everyone. To take us through the Q1 FY22 results and to answer your questions, we have with us today, Mr. Vivek Vikram Singh – MD & Group CEO, Mr. Kiran Manohar Deshmukh - Group CTO, Mr. Vikram Verma, CEO of the Driveline Business, Mr. Sat Mohan Gupta, CEO of the Motor business and Mr. Rohit Nanda, Group CFO.

I will now hand over the call to Mr. Vivek Vikram Singh for his opening remarks and presentation. Over to you, Vivek.

Vivek Vikram Singh: Thank you Kapil, and good day everyone. On behalf of Sona Comstar, I would like to welcome all of you, to our first earnings call post our listing. So, first let me begin with thanking all of you for making our IPO so successful. Since it is our first time doing this, please forgive us if we miss something important, and hopefully we can cover it in the Q&A section.

Slide 6:

So we will begin as we usually do with our vision. Why we exist as a Company is, to become India's most respected and valuable auto technology Company. To make a Company that India can be proud of for its engineering skills and solving complex and customized engineering problems for our customers and in enabling the future of mobility.

Slide 7:

And our story is a testament to this long term vision. There are three phases to our story – the first, or the foundation phase, where we began as a single product Company, but even then we had a huge technology advantage of precision forming. Our differential gears were not only much better; they were also much more economical. And this unbeatable advantage is what allowed us to grow at nearly 50% CAGR in the first 12 years of our journey.

Our second phase was what we call our consolidation years when the Indian auto industry growth was quite slow and our growth too moderated to a CAGR of 10%, but we improved our EBITDA margins from an average of 21% in the first phase to around 25%; and we also very importantly moved up the value chain into making differential assemblies as a new product.

Our third phase was the one which was truly-truly transformational. In organic terms alone without considering the Comstar acquisition, in organic terms alone, we massively expanded our export business and grew a customer base from 22 to 37 customers. We introduced 3 more products in this 5 year period. We also started our EV journey here, with gears for electric cars, and later vertically integrated into making the final drive differential assembly. At this juncture, we also realized that ultimately the driveline will merge with the motor and having electrical capabilities would be critical in the electrified axle. So, along with our tremendous organic growth, we also did a highly value accretive acquisition of Comstar, and these two combined together, have helped us achieve over 32% CAGR growth in this 5 year phase, while simultaneously increasing our EBITDA margin to an average of nearly 28%.

While our fourth phase begins now, with all your blessings, I will like to highlight that in our past 22 years we have grown at an incredible rate of 36%, while always sustaining excellent margins; and at any phase in our story, we have exceeded the industry growth rates by many-many times.

Slide 8:

Our results on growth, profitability and returns, rest on the foundation of our values, of "Integrity above all, Vitality, Agility and Frugality". For us growth, margins and returns are all important - and it takes enormous discipline from the management team to maintain this healthy balance. And it's because of this focus I think, we have managed to demonstrate over 32% revenue growth, nearly 28% EBITDA margin, and at least 28% returns consistently, and we expect that these metrics will continue to stay strong in the future as well.

Slide 9:

And by staying true to this mission that you saw, and the values, we have managed to achieve something quite unique. We are among a handful of companies globally and perhaps the only one in India to have all three which is large EV revenue share; good scale and high growth; while achieving and maintaining remarkable financial performance. I will touch upon, each of these aspects, in the context of our recent quarter, in the next three slides.

Slide 10:

First EV. So our revenue share from Battery Electric Vehicles (BEV) has gone up to 19.9% in Q1 from 13.8% in FY21. Our EV revenue has shown very strong growth in absolute terms as well and has reached almost Rs. 97 crore. It also gives me great pride to say that 1 out of every 8 BEV differential assemblies sold in the world today, are made in our Manesar plant at Sona. If you look at sequentially also, 33% growth in our battery electric vehicles revenue. Now the EV industry is forecast to grow at a 36% CAGR for the next 4-5 years, and with 17 EV programs already awarded to us, we believe that our EV business will grow at a very robust pace.

Slide 11:

Second, is our future growth and this is slightly a new slide, a new information. Our net order book at the end of Q1 stands at around fourteen thousand crore or nearly $1.9 billion dollars. So first, let me explain what net order book we mean by. So this is the aggregate value of the next ten years revenue from all programs that are either yet to commence, or have begun recently in the last few months and are still in the process of ramping up. This minus the negative impact of all the programs that will be reaching end of life in the next 10 years, so hence the "net" value. We have also applied a reasonable discount to accommodate some unforeseen delays etc. to make it more realistic. And I want to clarify that when we say order book, first we do not include, running programs that are already established and already in production; so this is over and above our current revenue run rate. I also wanted to mention that while we have chosen only 10 years to show the pipeline, for many people choose lifetime value. We have chosen 10 years, many of our programs, especially in the driveline business typically last longer than 10 years but we thought we should have some kind of end date for this.

Also want to mention that the order book is obviously dynamic and will keep growing as we win more new business and keep shrinking as we consume it as the next quarter comes and they come into serial production, it keeps getting lesser and it gets replenished as we win more business. I hope I've explained it adequately. But if not, we can take it up more in the Q&A. And because this is a fairly information dense slide, two aspects wanted to highlight:

First, 57% of our order book is EV – Battery-EV or Plug-in Hybrid. And while a majority of the value is passenger cars segment, with 8 programs from 5 different customers; we now also have 3 Electric 2&3 wheeler customers and also one commercial vehicle electric customer.

Second, our non-EV business pipeline is also quite robust with 69 exciting programs starting in the future across 31 different customers across the 3 segments of PV, CV and off highway.

Slide 12:

Third, I come to our financials, which are the results of our efforts and our strategic actions. Given the challenges that we face this quarter from the second wave of Covid in India, the global chip shortage, that's been affecting the entire world, but especially our US customers and the exceptionally high material prices that we saw. So I have nothing but pride in my team that we managed to deliver such standout numbers given the context.

Both Q1 last year and this year were Covid impacted, so it is quite credible that we have grown by 226% YoY to deliver over Rs. 500 crore revenue this quarter. We had a healthy 27.7% EBITDA margin despite headwinds on material margins etc. and over 16% net profit margin, however Rohit will explain to you there is some adjustment here. While our returns as always continue to be best in class, even more importantly, at least for me personally, we managed to improve our global market share in both Differential Gears from 5% last year to 6% and in Starter Motors from 3% to 4.6% in the first half of calendar year, 2021. This nearly phenomenal market expansion has come via our increased business development efforts in Europe, China and North America; and also due to our customer's grace in awarding us with the largest share of wallet in their programs.

Slide 13:

Now, having covered the immediate term we wish to share with you our medium term strategy and priorities.

Slide 14:

As we mentioned in our RHP and in our interactions so far, we have four priorities – Electrification, not only because it's the biggest automotive megatrend, but because we sincerely believe that ESG is important and we believe in doing well by doing good.

Second - Global market significance because if one is a product oriented Company like ours with a small but laser focused product portfolio, the only way to grow for us is by commanding a significant global market share.

Third - Diversification because for any healthy business, it is important to not be over dependent on any single product market or technology.

And last but not least, - Technology, which is how innovative companies like ours continue to delight our customers and improve the world one product future at the time.

Slide 16:

On electrification, I just wanted to explain our strategy and how we are approaching the market. So our strategy is to use our core strength in each business and approach the electric mobility market from both ends of the spectrum. First, the driveline business where our USP is high torque and high power density products. Because of which, it is natural for us to currently focus on the performance and high performance segments of the electric passenger car market. We provide our gears, differential assemblies and final drive assemblies to our customers in US, China and Europe, for carmakers making 100 kilowatts and upward electric vehicles. In the future, we intend to expand our driveline product range to also cover the small and mid-segment battery electric market. The motor business core strength has been always making lower voltage motors with high power density and high performance. So we have extended this strength to first making traction motors and controllers for Electric two wheelers and three wheelers, and we've already been quite successful in the Indian market. We have also in the last two years developed extensive software and power electronic capabilities to develop higher voltage systems like the 48 watt BSE or the 30 kilowatt plug-in hybrid motor and controller. These are both currently in testing phase with different customers in India and China, and hopefully in the next couple of years we should see a decent commercial success here. The longer term aim for motors will be to keep moving upwards along the power axis and hopefully get into traction motors for full battery electric vehicles as well. So overall, to sum it up, the strategic intent is to grow along our strength areas and eventually offer both categories or products to all segments of all markets.

Slide 17:

So far our single mindedness and almost obsession with EVs has yielded good results and while the revenue share has grown 15 times in the last three years to reach 1/5 of our revenue today, in absolute revenue terms, the growth is even more impressive, at 22 times. And this is annualized hopefully we will beat the annualized number and give you a better result, and looking at our order book and the fact that 57% of that is EV, I am fairly confident that this segment will grow the fastest for us.

Slide 19:

Yes, I already talked about it and you can see that we continue to increase our market share globally, both in differential gears and starter motors. And I would also like you to appreciate how rapid this space has been from just 4.5% to 6% in just a matter of 1.5, 2.5 years, it's quite credible and 2.5% to 4.6% is almost doubling on a world market while all this turbulence is going on, I think our business development teams and both driveline and starter CEOs Vikram and Sat both deserve a lot of credit for their efforts. And in India as before we continue to be dominant and hold a very-very large percentage of the differential gear market in India.

Slide 21:

Coming to diversification, we first begin with products and we are happy to report that our journey from being components players to subsystem and system supplies is proceeding well. Our revenue share from differential assemblies has grown from just about 5.6% in FY20 to reach 17.6% in FY21 and now it has reached 23.5% at the end of first quarter. The second notable point here is that the revenue share from ICE starter motors is a declining trend now.

Slide 22:

We then move to the revenue cut by powertrain. Here increasing BEV share is the dominant thing. This trend is secular and we see the BEV revenue share continuing to increase in the foreseeable future. The second and reciprocal almost trend is our exposure to ICE, reducing in every single period, going from 35% in FY19 to 20% at the end of this quarter.

Slide 23:

Moving on to geography, our marketing efforts in Europe and China are now showing results and as you can see, China has improved now to almost 17% of the revenue pie. However, to be absolutely frank, I must point out that this quarter, there are also two factors that are abnormally affecting the market mix. First was that due to the second Covid wave the Indian market was affected much more than any other market. That's what explains the relative share shrinking from 25% to 21%. Second factor is that the global chip shortages is affecting all customers, but it is affecting our North American customers more than others and that's the biggest reason that the share has gone from 36% to 27%. Now, both these factors are temporary in nature and we expect that revenue from these two markets will normalize in the next few quarters.

Slide 24:

Finally, the one mix that one mix that has remained constant in these dynamic times and I don't have to explain too much. Our vehicle segment diversification remains fairly, similar to what it was all of last year. The only thing of note perhaps on this page is that with CV demand starting to pick up now, we can expect that in the medium term it could provide an additional lever of growth apart from our battery electric segment and our International market growth.

With that, I'll turn the call over to Mr. Kiran Deshmukh, our Group Chief Technology Officer to discuss our approach with technology. Over-to-you sir.

Kiran Deshmukh: Thank you Vivek and good evening everyone.

Well, the automotive industry is on the cusp of a far reaching change. We are witnessing a disruption of the magnitude not seen in 100 years. Societal concerns around convenience, safety and environment, led to the decline of horse drawn carriages in the early 20th century. The same three dimensions of humanity's anxiety are driving today's revolution in mobility. Tomorrow's car will be safer, take less personal time and emit less or no exhaust fumes. The car of the not so distant future will undoubtedly be connected, autonomous, shared and electrified.

Slide 27:

Sona Comstar's technology roadmap is fully aligned with this disruption; we will continue to develop new products that increase our revenue share from EVs, while reducing our dependence on ICE vehicles.

In the recent past, we have moved from our core products of differential bevel gears and starter motors to include those that address the needs of electric vehicles. Today, we supply differential assemblies to electric passenger cars, e-Axle to electric 3-wheelers and drive motors and matching controllers for the electric 2-wheelers.

We will continue this journey and make more products to support the electrification of the drivetrain. Our engineers are developing net shaped spiral and hybrid bevel gears that would be significantly stronger than their machine counterparts. We are developing other products for electric vehicles such as epicycle gear sets and reduction drive units.

We are developing high performance, high efficiency and high power density motors of different types with compatible liquid-cooled state of the art, high voltage inverters.

We aim to leverage our core strengths and create a range of integrated electric drive units to meet the highly demanding requirements of electric passenger cars and commercial vehicles of all types.

Slide 28:

Recently, we joined hands with Israel's IRP Nexus and India's iCreate to co-develop a new powertrain that will not use magnets.

Inspired by the Atmanirbhar philosophy, the project will provide us the advantages of supply security, cost reduction, and product recyclability. Most of the world's rare earth magnets come from China. Dynamic geopolitical situations cause their prices to fluctuate dramatically and erratically. Further, the permeant magnets are difficult to isolate during the recycling process. Having a motor without magnets is an intelligent way of overcoming all these problems with one shot.

Sona Comstar will have the exclusive rights to manufacture the systems in India for selling it to the global two- and three-wheeler market.

Slide 29:

The Company is committed to following the best practices in ESG and will commence the formal reporting next year using the framework being defined with Deloitte.

This slide shows our contributions to preserving the environment, our commitment to society and the impeachable governance framework that we follow.

A substantial part of our revenue as you have seen comes from EVs which help reduce CO2 emissions. We are a zero-water-discharge company, 90% of the steel that we use is produced from recycled material.

We are supporting startups and clean air initiatives through our partnerships with IIT Delhi and IIM Ahmedabad. A robust governance framework protects all our stakeholders' interests.

Slide 30:

Discussion about our social interventions will be incomplete without talking about Covid. Our foremost priority this year was to ensure the health and safety of our employees.

We have ensured 100% vaccination of all our eligible employees. We provided help to the employees and their family members, who were unfortunately infected by the pandemic.

Our small contribution during this year consists of free vaccination for all employees and their family members, critical medical equipment to the hospitals in our neighborhood and over 1 million free meals to the needy and underprivileged.

With that, I will hand over to Rohit, our CFO, to cover the financial update. Over to you, Rohit.

Rohit Nanda: **Slide 31:**

Thanks Mr. Deshmukh. Good evening ladies and gentlemen. It's my pleasure to present to you the first quarterly results of Sona BLW, post listing.

Slide 32:

During the first quarter of the financial year, our consolidated revenue grew YoY by 226% to Rs. 5 billion. We have seen significant growth across most of the product segments, but growth of 565% in our EV revenue deserves a special mention.

It's pertinent for me to point out that both the quarters being compared here had effects of Covid breakout. The first quarter of 2021 was a period in which there was a nationwide lockdown which impacted both our operations and revenue adversely. Revenue in the first quarter of financial year 2022 was adversely affected by the second wave of COVID in India, although the operations of the Company stayed uninterrupted. Revenue for this quarter was also adversely affected by semiconductor chip shortage in the North American market.

If we annualize the first quarter revenue and compare it with the last full year revenue, it shows a growth of 28%. Our revenue growth has to be seen in the context of the de-growth which we witnessed in the global light vehicle market over the last two years. In that background, we have managed to grow our revenue by expanding our global market share in the existing products as well as by growing exponentially in our EV business. As you may recall from the slides which Vivek had presented earlier, these drivers of growth are aligned with our growth strategy.

Slide 33:

Our EBITDA grew in the first quarter of FY22 by 375% YoY and because of the growth in our revenue in general and international revenue in particular. Our EBITDA margin also improved from 19% to 27.7% because of better product mix and operating leverage. Our operating team needs to be applauded for not only ensuring uninterrupted operations, but also for not allowing the margins to slip up in the wake of surging input and logistics costs.

Slide 34:

Our profit after tax grew from near nil in the comparable quarter of the last year to Rs. 822 million in the first quarter. As for this quarter includes exceptional income on account of reversal of IPO expenses of Rs. 132 million adjusted for this exceptional income, profit after tax would have been Rs. 723 million against nil in comparable quarter. Our adjusted PAT margins was 14.4% against nil in the comparable quarter of the last year.

Slide 35:

Now we come to the QoQ comparison, this quarter we saw our EV revenue grow by 33% to Rs. 967 million has compared to Rs. 730 million in the last quarter. However, our total revenue for the quarter declined by 7% due to a decline of 24% in the India revenue owing to the second wave of COVID. On top of that there was also a decline of 11% in the North American market due to semiconductor chip shortage.

Revenue from other markets like Europe, China and certain other geographies in Asia was higher by 5% over the previous quarter. In spite of this fall in the overall revenue, our EBITDA during the quarter was lowered by only 1% due to better sales mix. EV revenue in the first quarter was 20% of the total revenue against 14% in the earlier quarter. Share of revenue from our International market was higher at 79% in the April June quarter, as against 74% in the Jan-Mar quarter. Our EBTIDA margin also therefore improved from 26% to 27.7% in spite of increasing steel prices and logistics costs.

Our adjusted PAT grew by 3% in spite of this decline of 7% in revenue on a quarter on quarter basis. Our adjusted PAT margin also grew from 13% to 14.4% for the very same reasons. For proper comparison of PAT on a QoQ basis, we have adjusted exceptional expense item of IPO expenses Rs. 139 million in the previous quarter and exceptional income pertaining to reversal of these IPO expenses amounting Rs. 132 million in the first quarter of the current financial year.

Slide 36:

Let me now give you a snapshot of the key ratios which we intend to report every quarter. I will start off with a ratio of value addition to employee costs (VA/Employee Cost), which we closely track internally. This ratio demonstrates the robustness of the profitability through number of times material margin covers our employee costs, higher the better. As you can observe, our value addition was 5.4 times the total employee costs in the first quarter and we have seen this ratio improve continuously over the three periods which we have presented here.

Return on capital employed (RoCE) has improved to 35.3% in the first quarter, from 34.8% in the full financial year 2021 and the primary reason for that is the improvement in the EBIT which we have seen in the first quarter.

Return on equity (RoE) stood at a healthy 33.5%, although it's a tad lower than 36.4% reported for the full financial year last year. This was mainly because of the primary issuance of Rs. 300 crore which has resulted in the expansion of equity base in the first quarter of this year.

Net Debt to EBITDA ratio has come down to nearly zero as we use the primary proceeds of the issue to pay off the entire term debt which was outstanding.

Next in line are the turnover ratios. So we have shown working capital turnover and fixed asset turnover ratios here. Working capital turnover ratio was 3.9 times and fixed asset turnover ratio was 4.3 times respectively, mainly on account of growth in the annualized revenue of the first quarter over the previous two financial years as shown in the line chart here.

With this, we come to the end of the quarterly earnings presentation and I will now hand the floor back to Vivek.

Vivek Vikram Singh: Thank you Rohit, there isn't much of a floor here, so thank you for yielding the screen. I think we can take questions now. We have taken half of the time. Nomura team over to you guys to get the Q&A.

Caihua Chan: Okay, thank you everyone. We will now open the floor for Q&A session. If you wish to ask the question, please use the raise hand function at the bottom right of the WebEx page, we will unmute your line and prompt you to speak, or you may also submit your questions via the Q&A chat box addressing to our panelists. Kindly to be reminded to keep your questions to a maximum of two questions initially, if you have more questions, you may please return to the queue. Thank you.

The first question will be from Mr. Nitin Arora of Axis Mutual Fund. Nitin, your line is unmuted, please go ahead thank you.

Nitin Arora: Hi everyone and thanks for the opportunity and thanks for the detailed presentation. My first, I actually have four questions. My first question is you know, you touch base on the way you manage the chip shortage impact and still able to grow, can you throw some light, how much more impact you are seeing across your clients and you know in the same context if you can tell you know, given that you gave some flavors of CV production in India, picking up globally, you know if chip shortages is sorting out so how one should look at the run rate to commence because North America as you said, you have a big North American client, you know, he also faced some issue. So you are already doing, you know, you started with the 500 crore run rate. So keeping in mind the chip shortage, few clients ramp up will start in the second half whatever the production shortage they would have done. You know, how we should look at run rate going forward? It should improve from here, because already the, you know, despite the impact your, your reporting, you are starting with the 500 crore run rate. So that's my first question. Then I'll take all the other three after this.

Vivek Vikram Singh: Nitin there are a lot of questions in that question. But yeah, it will improve, it will improve. We are already in the middle of the second quarter, we've already seen those improvements. It will continue to improve from here, by how much I can't predict and we're not giving like I said, QoQ future guidance as you can appreciate we are trying to focus on the medium term and the way the market becomes so dynamic it's hard. And when I had said North American, it wasn't one customer actually, we have about 7 or 8 big customers in North America. For some reasons, most of them or half of them got impacted pretty heavily, like our European customers did. I think this thing is not going away. To be honest, this global chip shortage will continue in our opinion for anywhere between 12-18 months. So this is the new normal law of operations. We started seeing that last quarter itself and I think whatever plans and budgets we make, we have already factored that in and I don't, I don't see it improving too much to be honest.

Your second part was on which segments do we see becoming more promising. Even on the Indian CV, that's what I said, that it's green shoots, but I would say it will take medium term. You know, the peak that we reached in 2018 calendar year with CV, India CV, I think there is still till 24, calendar year 24 is when we will get back to that. That's what we are budgeting for if it comes earlier, great news. But I think we'll be conservative there.

Nitin Arora: Getting it. My second question is, you know, at the time of the IPO you know, you talked about new products as well and those are some of the products was also you know Motors for example. You know if you can talk about something on the new product roadmap where we have reached you know on those on those products, any new customers you know you are talking to, you only shared a very big backlog number. You know any new customer acquisition which is going through, let's say in a territory where you are not present right now.

Vivek Vikram Singh: Sure. I will ask Mr. Deshmukh to take the product one. But just another reminder to you, and I'm also looking live at the Q&A box, people are , despite our request naming a specific customer. We will not name a customer or confirm or deny that we work with a specific customer. We had sought permission from certain customers during our IPO process to disclose their names, that permission actually was very specific to the IPO process. Once that's over, we will not be taking those questions. Our number of customers as you saw just in the order book, I think we disclosed 43 customers

I think, anyway, it's faster for us to say who's not the customer because we're working with pretty much everyone and who we are not, as I would like to say, everyone in the world is either our customer or a prospective customer. So we don't want to disclose their name. There are confidentiality reasons, there are supply chain confidentiality issues. So let's not go there. But product roadmap Mr. Deshmukh, you can touch upon any progress in the last quarter.

Kiran Deshmukh: Yes. I think the product roadmap I broadly showed during my presentation, but during last quarter we have moved on the periphery of the blue circle which was shown. So if you can see this slide, the dark blue is our core products, the light blue is the current products and the white is where we are moving. So last quarter we have just moved into the white area. So we have currently they are very early stage of development, but we are working towards, as you all know, we are working to develop this motor without magnets. That work has already started, we are already developing inverters which are liquid-cool. We are developing Active Biased Differential. We are also developing the net Spiral / Hypoid gears. So work on these are started. We are not yet come to a stage where we can say we have a product which is working, which is tested and proven etc. because as you know, our R&Ds, you got to do many things and, the rate of success there not be 100% and there could be failures, there could be successes, so you have to try many things. But, all this and a quarter is a very short time for R&D. So all that I can say is if you look at this chart, the products that you see close to the boundary of the blue circle is where we are currently moving.

Caihua Chan: The next question is from the line of Mr. Hitesh Goel from Kotak Institutional Equities. Hitesh, your line is now unmuted. Please go ahead.

Hitesh Goel: Thank you. Thanks guys very interesting presentation, very detailed one. My question is two-fold. First, just a housekeeping question. We have talked about Rs. 2,000 crore annual revenue, that is more annualised or is it a guidance?

Vivek Vikram Singh: It's annualized strictly. It is not a guidance at all. We hope to beat that for sure.

Hitesh Goel: Okay. My second question is on the European geographies. So can you touch upon what is the prospects of European revenues increasing from the BEV side? So basically we know that you are quite strong in the U.S. and China side. But what are the plans on the European OEMs basically?

Vivek Vikram Singh: Interesting question. Actually, most of our new order wins in the last 6-9 months in EV have come from Europe, it will increase, but the thing is because we have won them recently and I mean Hitesh, you have been following auto for a long time, you know that 23-24 is when they will become sizable in revenue terms. But yes, interesting developments in Europe now in battery electric.

Hitesh Goel: Because I mean by I'm asking this question, that is a key question that investors are asking us that you know, what is you know, your trajectory going to be with the European OEMs because you know, that is also going to become reasonably big in BEVs, right. So that is one thing I think I know one customer in Europe that you have won and any new customer, you've won, how many customers would you have in Europe? If you can answer that.

Vivek Vikram Singh: If we can go to the order book slide, I think we have 2 European programs.

Hitesh Goel: Two European programs. Okay. And my last question is on the starter motor side. So we have seen a pretty good progress, there was despite, you know, certain customers actually have a very high sharing the starter motor business, but you know, despite chip shortage, you guys have actually diversified with other customers. So how many customers now are there in Starter motor business that you are supplying to and your single largest customer is a very big proportion of that number. So any plans to reduce it to say less than 50% over next 2-3 years. Can you give some color on that?

Vivek Vikram Singh: We are pretty I think coming towards that mark by the way already. So forget next 2-3 years, I think within the next 15 to 18 months it should reach that number. Our total number of customers, Sat, over to you on Starter motors, but I think is about 7-8, 8 I think, Sat?

Sat Mohan Gupta: Yeah, Vivek, it is around 7.

Vivek Vikram Singh: Yeah, I thought that much. Hitesh is making us count.

Hitesh Goel: Great, Vivek. Thank you. Thank you very much.

Caihua Chan: The next question is from the line of Mr. Satyam Thakur from Credit Suisse. Satyam for your line is now unmuted. Please go ahead.

Satyam Thakur: Hi, Good evening everyone. Thanks for taking my question. So, the first question that I had was on just understanding the margins better and of course, great performance in a tough quarter. And when we have seen margin expand sequentially as well. So, if you could just talk about, you know, the moving parts behind this, so what happened on the commodity, how much was the commodity hit in the quarter? And how much was the offset from the better mix, because of India, you know, some of the Indian OEMs being lower and the EV share going up and other factors as well, for example, FX would have a play as well?

Vivek Vikram Singh: Rohit, this is strictly for you, but I think FX was flat, I don't think there was any gain from FX, but Rohit?

Rohit Nanda: Yeah, so FX number for the quarter was about 19 million positive, which is again nearly half of what it was for the fourth quarter. And for the rest of the analysis that you're talking about, I don't actually have the detailed break up the way you are asking, but as I said, this is the improvement in margin is largely because of the change in the product mix, which is essentially going from lower revenue from the Indian geography versus increasing the International revenue.

Satyam Thakur: Okay, thanks, Rohit. Incrementally but how should one think about margins over the next few quarters? Because would the realized community costs go up for another couple of quarters and can mix help us further offset that in the next couple of quarters or so?

Rohit Nanda: So I think you know, as we have earlier also spoken, we look at an EBITDA range of say 26% to 28% is how we should look at it. I think with commodity prices staying firm and we expect them to stay firm in the foreseeable future, I think the margin would tend to be towards the lower end of this range, around 27% or so and with Indian revenues also recovering from second quarter onwards, I think this margin should be around that level.

Satyam Thakur: Okay, thanks for that. And the second question that I had was on, you know, you of course pointed out Vivek in the presentation as well, as one of the megatrends could be, you know, the powertrain, the scaly differential assembly set up and the motors all coming together, into an eAxle and eAxle seeing larger adoptions. So what has been the recent updates on that? I mean, do you think any signs that even EV Car OEMs are going to gradually go towards that or that remains a challenge with most EVs car OEMs deciding to do the traction motors themselves and only, you know, maybe in India for example, 3 wheelers for example or other smaller OEMs is where we hope to see that happen more.

Vivek Vikram Singh: So Satyam, good question, why we say that integrated things are Holy Grail is not because we will try to sell it as a product to everyone and everyone. The thing is, if you make that, what you have is every piece of that product. Let's assume there are seven or eight lego pieces that go into making that right, lego blocks. If we have the capability of making each of those, we have the capability of selling each of those to OEMs depending on what they want. There are people who will say I will keep the motor in-house. There's some people who might say I'll keep the drive in-house. There might be someone who say, you know what, I'm not interested in motor and the drive, but I want to keep the control in-house. So everyone will have their own unique configurations. What we found out is because there are so many number of programs across OEMs, everyone's requirement is very, very customized and very-very specific. So we are trying to have a system that can give the customer what they need depending on their thing and customize it to their taste, rather than trying to say I made this and I've been trying to sell this. That's the objective behind that. E. D. U. I think the journey and the pieces of it are more important than the final product to be honest. And you are right. I don't think there would be too many people who would buy the final one whole thing because as we've talked before, if you take this entire EDU, you add wheels, you add battery, battery also most of them don't make right, what will the carmaker make then? There will not be much left for them to do? Hence, I doubt if a lot of people will be outsourcing the whole thing unless some people take a call, some carmaker takes a call that my job is to sell and service vehicles and not manufacture the parts of it. But that's our approach, that's a thought process. How much more can we keep making of what is the heart of the electric vehicle.

Satyam Thakur: Yeah, that's there. Thank you for that. And last question, if I can slip in, on the magnet side, you know, this partnership with this firm in Israel, this seems very promising. But, I mean two questions here, you know, firstly, this technology, how does it compare on pricing and the efficiency itself? And secondly, this magnets supply, I mean, how big an issue that is? And is it a near term issue or you are just safeguarding yourself against, you know, more medium and long term future here.

Vivek Vikram Singh: Mr. Deshmukh, would you like to take this one?

Kiran Deshmukh: Yeah, firstly, I think, let us be clear that this is an R&D project. So currently this motor is not in existence. We are actually co-developing this product along with the Israeli partner, they have competencies in control algorithm, hardware, software. We have competencies and expertise in motor design and manufacture, we are coming together to develop this. Magnet supplies is a problem, it's a global problem because as I mentioned, 95% of the magnets come from China. So the prices fluctuate a great deal. A big portion of the cost of the motor is this rare earth magnets. So if you can make a magnet without, I mean, if you can make a motor without magnets, definitely, you will have cost advantages. But more importantly, you will have the security of your supplies and you are not at the mercy of somebody who will dictate the prices of the raw materials. In terms of efficiency and performance, we have set certain benchmarks, certain targets to achieve. We hope that we achieve them, they will be quite high. But at this moment I cannot say what is the kind of efficiency, what is the kind of performance we will get because there's a product which is going to be developed.

Caihua Chan: Okay, thank you. Just a reminder. Can we please request all participants to restrict yourself to two questions each.

And I will move on to the next person in queue. The next question is from the line of Mr. Sonal Gupta from L&T Investment Management. Sonal, your line is now unmuted. Please go ahead.

Sonal Gupta: Good evening everyone and thanks for taking my question. Just a couple of questions. One, just to understand this net order book a little bit better. So, I mean the way to look at it would be that we would sort of over a ten-year period. I mean this order book implies we should do about Rs. 14,000 crore of revenues. Is that the way to look at it or how to, I mean like because you are taking out the existing order programs which over a period of time will ramp down. So I'm just trying to understand like is how is it, in terms of what exactly will it predict?

Vivek Vikram Singh: So, I expected this one. So let's say we did a FY21 a Rs. 100 right? That Rs. 100 continues for these 10-year period. Because if this were going down, like I said, I've already netted in the order book, then you add to this, whatever comes from that order book in that year. Right? So 'A' is Rs. 100 that you started with, if there is any underlying industry growth, let's say a 'x' percent, it goes 100 plus X percent plus whatever comes out of this order book for that year will be that year's revenue. That's how to look at it. The base continues. So this is over and above the base.

Sonal Gupta: Just over and above, just to put it like a Rs. 2,000 odd crore annualized number or whatever right.

Vivek Vikram Singh: Right, correct. So this is let's say I annualized this 2,000 for 10 years, which is already 20,000, this is 14,000 above that.

Sonal Gupta: Okay, got it. And just the second question for everybody's benefit, could you explain us what's the pass through on the commodity cost side and how much lag is there and what all can you pass on in which business?

Vivek Vikram Singh: Steel is the, perhaps the only raw material. I mean there are some water (inaudible), but it's almost the entirety of the driveline business. It's completely passed through. I'll let Vikram explain that bit just after I finish and in the motor business, the copper is fully passed through; the steel and aluminum bit is not passed through. So Vikram, you can explain the lag and the effect and how these settlements are done and Sat you can chime in with the motor business also.

Vikram Verma: So most of the domestic business, the lag is only to the extent of, OEMs coming to agreement of how much is the increase, and there afterwards it takes between a month or two. And, since we have a 60-day payment cycle, probably is not much of a difference. Coming back to International business, we have a six monthly adjustment which goes through either CIAM or MMR route. So it's all fixed, so every six months we adjust both for, in some businesses No forex adjustment but in some of the business we have forex and steel price increase. Some do it based on domestic, some do it based on international reporting. So net-net, I would say there is a lag of a month to three months or four months.

Sonal Gupta: So just on that. So the six months you are saying then in the six months so you take the average of the six months for the copper price and that will get reflected in the next contract, the next six months, correct? So given that the commodity prices have been moving up quite sharply would we as of now be seeing any adverse impact because of that?

Vikram Verma: I don't see any adverse impact, except for percentages as shown has an effect. Whenever the steel price it's a base and the X gets added on both directions of percentages have an effect. But it's same thing happens when it comes down. So we see this trend only for last one year. So prior to that there was a downtrend also. So we are not counting on those points. Having said that, I think that affects only were from a percentage point of 1% as a percentage, but net-net we don't see any loss for us except for the delay because when it reduces also, there is a delay in giving also. So it's a fair, I think agreement with the customers, is an open and clean agreement with all customers.

Sonal Gupta: Got it. Great, thank you so much.

Vivek Vikram Singh: See most of our customer relationships are over 15 to 20 years given that we are a 20 year old Company. What we observed is that over the entirety of that period all of these things average out and that's how we look at business. We can't afford ourselves to look at 3-4 years of quarter on quarter because each relationship is going to be 20-30 years, even our programs and 15-15 years. Right. So over the entirety of a program, all of this evens out.

Caihua Chan: The next question is from the line of Mr. Priya Ranjan from HDFC Mutual Fund. Priya, your line is now unmuted. Please go ahead.

Priya Ranjan: Vivek you mentioned that the chip shortage will probably continue for around 12-18 months. But what is giving you confidence? Because ultimately our products are going to be used in production of those vehicles. So if the overall market is not so great, I mean in terms of production, so at some point of time you might also be suffering in terms of volume. I mean I'd like to say the second quarter, I mean the third quarter for calendar year and everybody across the world has given lower production guidance. So how do you look at that?

Vivek Vikram Singh: Yeah, that's what I said. I don't see it going away as a problem. So we are fully cognizant and whatever we know, look, we very humbly submit that I don't know when this will get solved. I only know what our customers tell us and from what they tell us, it doesn't look like it's going away. So when I say that we should continue to give strong number, it is despite and in spite knowing this, I'm not saying that I'm saying no it won't be there. It is there it is a problem and it's a massive problem. But whatever our performance is and it's going to be we are cognizant of that environment when you say this in the background, maybe it won't even go away after 18 months. Who knows?

Priya Ranjan: But this business probably, I mean this will be more impactful to our starter motor business rather than others BEV business.

Vivek Vikram Singh: No, it will be actually impacting all businesses to be honest. We have 47 customers. Barring 3 or 4, I think everyone's impacted. So when we say that this quarter is looking better than the next quarter that is while knowing that. So, see there is not just one aspect of growth which is underlying industry growth, right? We also have new orders. You saw the order book, there are new businesses coming online. Yes, they could have been 100. There will be 80 when they start but it is an additional business for us, right? So we are now saying that almost all of what we are seeing is by not taking into account any industry growth. We are assuming that things will continue the way they are right now, there'll be no improvement and hopefully nothing gets worse from here. Uh It is in the background and context of that that whatever we say, we say.

Priya Ranjan: The baseline assumption for a global industry will be around 80-85 million production?

Vivek Vikram Singh: I think it will lower than that, the vehicle production in CY 2020. But yeah, it could be, could be?

Priya Ranjan: The technology for the permanent magnet and it can always be replaceable by induction motor. But what is preventing, I think the tie-up, experiment with the Israeli company, is it more related to the induction side because I mean the way it was coming in between for induction motors, why it will be opened.

Kiran Deshmukh: Induction motors are there and that technology exists today. But induction motors have certain disadvantages in terms of size in terms of heating and thermal management etc. These development with Israeli companies specifically for 2W and 3W applications and induction motors typically are not used there because the space available and the control system which is required, you typically use a permanent magnet synchronous motors there. So the new development is not going to be, induction motor it is going to be something different. What it will, we will come out when we actually have the product developed.

Vivek Vikram Singh: Yeah, so Priya just to add to that it is a revolutionary new concept, if we can get it done. As in the nature of any invention, this is one of the things that we as a Company do. We are not afraid to fail. Doing may not work out at all. That's how inventions work right here. They either happen or they don't. If it does, a large cost of the BLDC motors, will not need magnet. Second, it becomes lighter, it should become more efficient in all theory but we need to get it done before we can say more about it. If we can it contains the marketplace to be honest. Uh, we could look at a much cheaper, BLDC motor and hopefully propel the electric mobility for 2W much faster.

Caihua Chan: Okay, thank you. The next question is from the line of Gunjan Prithyani from Bank of America Merrill Lynch.

Gunjan Prithyani: I had to two follow ups, firstly on the margins. You did talk a lot about the commodity pass through within that, but I'm thinking more from a, you know, slightly from a medium term perspective, how should we think about it given you are also trying to win new customers, new geographies, and there's clearly, you know, the margin levels that were operating at, there is bound to be more competition. So, you know, if you can give us some color on how we should think about both from the competitive landscape perspective and winning new customers.

Vivek Vikram Singh: So, Gunjan, we have this line for, you can always expect it to be in a mean 27-14 what we said, 27% EBITDA & 14% PAT. If you look at anything for your period, that's where you will find it. Yes, there are some businesses, some programs that might have lowered, some will have higher, but it averages out to this range. So far, given the order book we have and all the business we have already won right, we are fairly confident that we should stick to this range.

Gunjan Prithyani: Okay, and the second follow up I had was on the order book, you know, I am also struggling a bit to really understand this. Is there a way that you can share what part of this order book is more at an advanced stages or let's say, you know, something which can go under implementation in the next two years, you know, there's more to get a perspective on the revenue visibility for the next 2-3 years, you know, given we already have given them the (inaudible) anything that you can share around that on the order book.

Vivek Vikram Singh: So Gunjan, that's my intent that we don't want to, you know, why. Look with the world that we live in today and how dynamic it is and with the expectations of coming to this half year, this thing happened. There are big big programs, if they get delayed by a quarter, it could have a big impact if we try to make it to short term. Just for your clarity, yes, it is not obviously like the pipe, we showed you like a rectangular box, it is slightly more croissant shaped with the middle of the first 3-4 years are obviously more loaded because a lot of programs, the negative effect is more towards the later end, so it will be it will keep increasing but it is my intent that we don't want to give it because in that essence, if I give it year by year, I'm literally giving guidance for P&L for the next 10 years. So that's the reason we want to stick with this.

Gunjan Prithyani: Okay, But just quickly if I can ask, you know, on the 48 watt BSG product any update on that because that's something which can be very can be a big change on the, you know, on the motor business in terms how the growth profile gets looked at in that segment. So if you can share any update on that?

Vivek Vikram Singh: Nothing yet, Gunjan. Nothing positive or negative to report yet. Once we do have good news, all of you will be the first to know.

Gunjan Prithyani: All right. Thank you so much.

Caihua Chan: Thank you. We had a question from the Q&A box. The question is from Mr. Binay Singh of Morgan Stanley.

Hi team, impressive market share gains a few questions on that a) process and USP when does Sona Comstar gets involved with new platform development and what is the USP.

Second question is, where do you see most market share gain potential and how sticky are the customer relationships?

Vivek Vikram Singh: Okay, that's four questions. So I'll take the last part. How sticky. Uh We've never lost a customer in our existence. 13 of our top 20 customers have been with us for over 15 years. I showed in my story slides how we have kept adding customers over time. Some of them are less than 15 year relationships. But that's because you know, we acquired those relationships only in that last 10 years or so. So sticky, I don't know what else to say from that, that I assume that they are very, very sticky. It is a lot of investment to develop big drive lines or motor products and a lot of time taken from the OEMs engineering department. So the switching cost is very-very high and that serves as a moat. So unless you do something very unreasonably imprudent on cost or quality, you tend to be far stickier. I think the question, the other parts of the question, I think Vikram can take, what is the process of onboarding or getting onto a program and what is typically the length of when you go from program inception to S. O. P. But just a reference, Hitesh had asked about an European EV passenger vehicle customer; we began conversations in 2019, I think we started working on the project 2020 but the product will launch in 2022. So it's a very-very long and very involved process for engineering teams. But Vikram, you can explain the onboarding process a little more.

Vikram Verma: Well as Vivek mentioned programs, some new entrants, their programs are really very-very fast and probably within a year or year and a half, but more people are between 2-4 years. So it varies between customer to customer.

So I would not say anything less than two years it matures. An effort goes until two years. If you are replacing someone, probably it takes an year. But if it is a totally new program, it will vary between 2- 3 or 4 years.

Vivek Vikram Singh: Caihua, was there any part of the question we did not answer? I think there are four parts. I think we did two parts. I think there's a question on markets size, I'll answer that. See we in the driveline business we have a large share of India of course and we also have a decent share of the North American market, 7 to 8% of the North American market. We have to grow a lot more in the European market where we have very negligible market share and the Chinese. In the motor business, we have a large chunk of the European market and a small chunk of the American market. The strategy is to grow in both of these. As I already explained we are now 6% and 4.6% of the world in both these products. So I think a large part is still open, right, 95-94% of the world is open for us to try our best and if we are better and we are cheaper and our engineering team can prove (inaudible), there's no reason why we can't expand on this market share.

Caihua Chan: Okay, Thank you. We have another question online in the Q&A box. This question is from Mr. Nishant Vass of ICICI Securites. The first question is, can you break down your EV order book between BEV and PHEV and MHEV? Thank you.

Vivek Vikram Singh: Okay, so there is no MHEV in that. when we say like EV order book, it's basically BEV plus plug-in hybrid. And I don't think there is much plug-in hybrid also, to be honest, because there's just one program, right, which is a plug-in hybrid program in this. That's it. So it will be I can't tell you off hand but it will not be a significant number. Most of it is pure battery electric. There is one passenger vehicle program with one customer which is a plug-in hybrid apart from that, I think it's all battery electric.

Caihua Chan: Okay, thank you. The second part of the question is, on standalone revenue you seem to have not seen much QoQ impact of covid shutdowns. Can you explain the drivers behind the same? Also, the other expenses have dropped significantly QoQ in standalone. Is there any one-time impact or this cost base is sustainable? Thank you.

Vivek Vikram Singh: Yeah, I think Rohit explained that one-time thing that we got some one time IPO reimbursement expenses, but our margins are fairly sustainable and I think that's the point I was trying to make in the stories slides, that for 22 years our EBITDA margins have been you know in this range, in the last 10 years, certainly between 25 and 38. So it is the norm. Rohit can explain further. The standalone business, why we did not go down the standalone business, if you look at it is the drive line business, it is far more exposed to India. So theoretically it should have been most impacted. But a lot of new programs were starting in this quarter. So that took away the impact, the negative impact of the India market declining quite a lot. So we did get impacted. It's just that because we made it up, it seems that you know, we were static, it's like that duck that you see that it's swimming so smoothly and so calmly, but underneath it's paddling quite frantically. So it was a lot of new things that came in and allowed us to average it out. But it wasn't that we didn't get impacted. I mean, has anyone who follows, if we were purely India related, it would have been a fairly big hit. Actually if like Rohit mentioned, I think we were sequentially down 7% over last quarter. If you count the decline of the India revenues and we made the same revenue from India that we made last quarter, we would have been flat even this quarter and our profits would have grown much more than the 2-3% they've grown sequentially, so of course it did have an impact on us.

Kapil Singh: Hi, Vivek how much time do we have? Would you like to take the last question now?

Vivek Vikram Singh: I can take as many as you guys determine. I'm, I'm talking to my bosses, shareholders. So it's your wish.

Kapil Singh: Yes. Yeah. So we have actually quite a few in the Q&A box, so let me take one from Kunal. What is your growth estimate range in the coming 2-3 years? Apart from the covid or chip shortage, what is the risk you think that can derail growth?

Vivek Vikram Singh: So we are not giving any future guidance. Like I said, we would update you every quarter and we continue to focus on our medium term priorities which are increasing EV part of our revenue, increasing diversification, increasing our global market share. Our track record is before you. That's why I think I wanted to write story slides. On risk, these are the two visible risk. If there are risks that we don't know about. Maybe there is a third wave of Covid, maybe there is a new disease altogether. Maybe there are other things that we don't know. So I can't comment on other risks, but I mean two years ago, if you had asked me, I would have been a fairly confident person who would have said, you know, there aren't opportunities and world economy is doing well, but there's no way I could have seen Covid coming and what happened even an auto cycle going down? I don't know, there could be. All I can say is your management team will try it's best as it has always to hold the margins to try to do maximum revenue and be as resilient as possible and something that went unsaid in the presentation was; if you noticed, even in the first quarter last year, our profit was zero. That's it. Which is actually quite commendable that we did not make a loss even when the entire world was shut down in the first quarter last year. If a Company could do that in the worst of the worst times that the auto industry has had, perhaps in ever, I think we are atleast a strong business model a resilient Company that can defend itself well. How we will grow? There are a lot of factors and hopefully we will perform as well as we have in the last 22 years.

Caihua Chan: Okay, thank you. The next question from the Q&A box will be from Mr. Jinesh Gandhi of Motilal Oswal.

Considering robust order book and expected order wins, what should be your capex intensity? Thank you.

Vivek Vikram Singh: Rohit, you want to take this one?

Rohit Nanda: Sure. Currently we are expecting to do about Rs. 650 crore of capex for the current year and the next two years another roughly about Rs. 300 crore.

That's the current visibility on the capex between now and FY24, and this is based on the current order book. So as we go along, you know, as we add new orders on the further end of the spectrum, I think the capex requirements will go up.

Vivek Vikram Singh: Corect. So this capex only allows us to address the new order book what we have today, we are obviously servicing the revenue that we have current. So this Rs. 14,000 crore order book to service that, that's the capex that is required, anything more it would be good news. If we add to Capex it would also mean, we did a lot of new business.

Kapil, Caihua, any more questions?

Caihua Chan: The next question is from the line of Mr. Jay Kale from Elara Capital. Jay, your line is now unmuted. Please go ahead.

Jay Kale: Thanks for taking my question and congrats on a great presentation. Sir my first question was regarding the motor, the tie up with IRP that you mentioned. If you can throw some light on that, there are many OEMs in India, two wheelers who are contemplating doing the motors in-house. how would this tie up change their mindset? Are you in discussions with them of changing their mindset of doing these motors in-house to kind of outsourcing? Would this kind of give you an incremental revenue opportunity of getting into the OEMs who are not currently thinking of making it in-house? And how easily could this be replicable in future? I mean, is it too different of a technology for the OEMs to replicate it and then again, make this kind of technology in-house or it provides a significant advantage to you increasing into more OEMs?

Vivek Vikram Singh: So Jay, I don't know how to answer that second part of that question. It had never been made. If something is never been made, and if we are the first to make it, how soon would it be replicable, is I mean, this is slightly very, very hypothetical to answer, we are trying to invent something that doesn't exist, right? Will it be replicable, we'll know after we existed. You know, it's like asking the Wright Brothers, before they invented the airplane that, you know, will, other people be able to copy it once you make it? The answer is I truly don't know how. We are just trying to do something new.

Second is, I think I mentioned in the order book, we already have 3 electric two wheeler and 3 wheeler customers from India. So not everyone is making it in house. I actually don't know how many people are making it in house. I think most of them are not because if I look at also not the order book, my BD pipeline, the people we are talking to, we are talking to six or seven more also for motors. So I'm not sure if there are a lot of OEMs out there who are making the motor in-house. There are a few, the majority wants to outsource motors. Sat, you want to add something here?

Sat Mohan Gupta: Yeah. Thanks Vivek. I think you are right, right now we are in discussion with more than 10 customers on 2 wheelers and 3 wheelers motor and controller. I have not come across so far anyone who is seriously looking at doing the motor and controller in-house together. So I think most of the OEMs are right now looking at buying motors and controllers from somewhere else.

Vivek Vikram Singh: Yeah, some are saying that they'll do controller, that is true though. But motor and controller both to make in-house. Maybe there are a couple that we don't know about. We obviously don't know everything about everyone. Maybe there are. But to the best of our knowledge, the majority of Electric two-wheeler and 3-wheeler makers out there are looking to purchase, not in-house.

Jay Kale: One question on your exports business. I mean, you did mention that exports is, you know, higher margin business than domestic. But if you can give some flavor, how good your exports you know, margin differentiate between your exports ICE business vs. exports EV business and would it be like the pecking order would be the exports ICE business is the highest margin business followed by the exports EV, and then the domestic business? In that context, do you have a target RoCE, you know, over the next 4-5 years that you will not go below this RoCE on a blended basis say a 30% RoCE on a blended basis, while you bid for new orders, especially on the EV side?

Vivek Vikram Singh: Yeah. I think there's a perception of EV businesses are low margin. I think the reverse is true for us at least, so far. Yeah, so actually, if I try to slice it dice it, any which way in the major segment, the margins are pretty much similar, actually even in domestic market, I think, Rohit said it was going to say that because exports higher. So you know what the difference is; it's about 0.5 to 1%. It's not as if the difference is you get 15% margin in one and 40% in one. So it isn't enough to really draw very meaningful conclusions from. There are programs within one customer in one program you have, let's say 40% margins with the same customer you may have a program which gives you only 20% of it. So I don't think if you slice it by that like ICE or EV or geography we will get many meaningful answers. On aggregate level, most of the major segments or cuts we do, most of them have 27%. EBITDA margins.

Jay Kale: Thanks and all the best.

Kapil Singh: Hi Vivek, I will take the last question. You know, on the differential assemblies, what I wanted to understand is you know, with reference to, you know, competition and other people also trying to make this, you know, what are you doing to, you know, improve differential assemblies? How about the changing in the next 1-2-3 years, what are the kind of improvements that are possible uh in differential assemblies?

Vivek Vikram Singh: Excellent question. And I'll let Vikram answer the technical part of it. There are, I think Mr Deshmukh showed you that we are trying to design something called an active biased differential. That's a way to improve what we offer, basically going to make it very, very simple. Are we better and are we cheaper? Every year, if you get better and you get cheaper, your value proposition come, you know, continues to be undeniable. In price we have found some cost levers and we are trying without diluting our margins to pass the don to our customers because what we try and do is if we get any value addition or any process improvements and we say, we save Rs. 2, we give one to the customer and keep on ourselves, so the margin remains similar. On the technology bit Vikram, you wanna add to that, that what are you doing to improve our differential assembly product?

Vikram Verma: I think we said in past also that our whole philosophy of technology is, can we give more torque per gram? So the whole differential assembly can be seen in many ways, whether you can downsize for the same torque or the same size can it increase taking more torque, because as the EV is evolving, the torque requirement is going up. Having said that, that is one route which we follow, but there are additional features which are possible within the differential assembly. One of them is today all the drive, final drives are normally bolted. If you give them the welded one that reduces the weight. Second is, you give features like electronic differential lock and also what Vivek mentioned that even without making a very complex differential assembly, can we make the gears which can perform on its own to do, to give that differentiation? Like the torque biased thing. I mean there are many things which is possible within the differential assembly as a product. So we need to only give the best what customer needs it as a function rather than giving it as the scope of work.

Kapil Singh: Thank you. Vivek do you have any closing comments because this was the last question.

Vivek Vikram Singh: Sure. So first, thank you. I think we still have managed to hold 163 people's attention so far. So thank you for attending this call and for showing interest in our Company. For those of you who are invested and you write about us, thank you so much for your support. We are committed to building a long term business that addresses the future of mobility.

We are a Company based on integrity as our first and bedrock principle. And I hope that we were able to demonstrate that and hopefully we'll be able to prove that to you over time. I also hope that you were able to get all your questions clarified and comments asked, if not, if you need any clarification please feel free to reach out to us or to CDR India who is our IR firm. And thank you once again, thank you very much. Thank you.

Kapil Singh: Ladies and gentlemen, on behalf of Nomura I thank you for attending this call and also thanks to the management team from Sona Comstar for giving us, so much time and the detailed presentation. Thank you. We can close the call now.

Caihua Chan: Thank you everyone for the time. You can now disconnect from the call.

<u>Disclaimer</u>: This is a transcription and may contain transcription errors. The transcript has been edited for clarity. The Company takes no responsibility of such errors, although an effort has been made to ensure high level of accuracy.