



SONA BLW Precision Forgings Ltd. (Sona Comstar)

Q1 FY23 Earnings Conference Call Transcript July 28, 2022

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

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

Moderator: Ladies and gentlemen, Good day, and welcome to Sona Comstar's Q1 FY23 Earnings Call. Please note, all participant lines are in the listen-only mode for 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. We request that you to mute your line except when you are asking a question.

Slide 2:

Going on slide number two. 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 question or confirm or deny any customer names or relationship due to the confidentiality reasons. Please refrain from naming any customer in your questions.

Now I will hand over the floor to Mr. Kapil Singh. He is the head of consumer and digital commerce research, India and lead auto analyst at Nomura. Kapil, please go ahead. Thank you.

Kapil Singh:

Slide 3:

Good day everyone. To take us through the Q1 FY23 results and answer your questions with us, we are pleased to welcome the management team from Sona Comstar. We have with us Mr. Vivek Vikram Singh, MD and Group CEO; Mr. Kiran Deshmukh, Group CTO; Mr. Sat Mohan Gupta, CEO of the Motor Business; Mr. Vikram Verma, CEO of the Driveline Business; Mr. Rohit Nanda, Group CFO and Mr. Amit Mishra, Head of Investor Relations. I will now hand over the call to Vivek for his opening remarks and the presentation. Over to you, Vivek.

Vivek Vikram Singh: Thank you, Kapil and welcome everyone to the earnings call of the first quarter of financial year 2023, where we have achieved our highest quarterly revenue numbers ever, so far.

We believe that when talking to our shareholders, bad news should take the elevator while good news can take the stairs, so we will begin with the negatives. In the last call I had said that we expect margin pressure to continue in the near term, and so it has. We had another steep steel price increase in April and also faced cost issues due to power outages. On the demand side, two of our major markets, Europe and Asia, were severely impacted due to the Russia-Ukraine war and the Covid lockdowns, respectively. Because of all these issues, despite strong revenue growth, our EBITDA margin has been pushed to what is its lowest level in the last six years, barring the two covid quarters. And this is all after cost pass-throughs to customers, as Rohit will explain in his slide later.

Having said that, we believe that the good news outweighs the bad. Raw material prices for steel, copper and aluminum have begun cooling off, and we expect to see the benefits from the current quarter itself. Freight rates too have started moderating, and power availability is also much better now. On the growth front, despite the slowdown in Europe, We continue to expect FY23 to have the same kind of strong revenue growth as we have seen in the last few years, especially in the second half of the fiscal. This is given that a strong order book will start converting into revenues in the second half.

Q1 was also special for being our second-best quarter ever for business development, led by significant new EV Program wins for final drive differential assemblies and two-wheeler traction motors both from large and established OEMs.

Slide 4:

Beginning with the numbers, we have had good revenue growth sequentially and a robust growth of 18% on a YoY basis. On the EBITDA front, RM cost increases and some one-time expenses that Rohit will elaborate upon later, have kept growth down to 3%, while net profit has risen by 5% year on year. We are seeing margin pressure beginning to ease off during the July to September quarter, and we hope this reversal in inflation continues.

The revenue growth has once again been led by our BEV revenue, where we have grown by 68% and reached 29% revenue share in this quarter.

Slide 5:

As I mentioned in my opening line, this was our best quarter from a revenue perspective. Our growth becomes even more remarkable when seen in the context of our industry. The automotive industry has gone through an unprecedented, and I know this word gets tossed around very lightly these days, but I use it sparingly, and this fits the occasion that it has gone through an unprecedented tough run for the last three years. In fact, at 18 odd million of light vehicle sales, Q1 sales were merely 12% higher than Q1 FY21, which was the very height of the Covid pandemic.

When we compare on a YoY basis, from where we were last year to now, global light vehicle sales have declined by 17%, while we have outperformed by delivering 18% of purely organic growth in the last year. All credit, as always, to Vikram and Sat for their leadership and our fantastic teams that keep delivering against all odds.

Slide 8:

Now an update on our biggest strategic priority, electrification. Our BEV revenue share has increased to 29%, and in absolute terms, this has grown by 68% to over 1.6 billion rupees in the last quarter. We continue to build on our EV order book, and in Q1, we have added 6 new EV programs from 4 new EV customers.

To enumerate them, in India, we have won a motor program from a new age electric two-wheeler customer, one EV differential gear program from a CV customer, who is an existing customer for their ICE business, but are new EV customers. Internationally, we won an order for a unique non-differential drivetrain part from an existing large global EV customer. Now, this is not very significant commercially as a program, but it demonstrates rather vividly, how much faith our customers have in our customized and solution-led approach that they are willing to entrust us where other suppliers could not deliver and even with products that we do not traditionally make.

The remaining 3 program wins are substantial enough that we would like to elaborate upon them in the next slide.

Slide 9:

We really wanted to highlight these two wins to you, our shareholders, as they are significant for the future of both businesses, commercially as well as directionally. The first one is a large volume traction motor program that we have won from an established and leading Indian two-wheeler OEM; this is for their flagship EV two-wheeler. The program has come after a yearlong technical engagement with the customer, and this has resulted in this is our largest ever order win for our traction motor. This program is slated to begin serial production in this financial year itself, end of Q3 or early Q4. This win is a major confidence booster for our motor business. I mean, all of you know that the traction motor business we really began two and a half years ago, and we have taken a new electrified direction. So this is a major reaffirmation of our endeavour and our intent.

Saving the best for last, we have won two new EV programs for final drive differential assemblies from a European OEM, one for their sedan line and one for their SUVs. This is an existing customer for their ICE models, but with this, we have added them to our list of EV customers. We will be supplying to all of their global manufacturing locations, and in value terms, this is the second largest single order win we have ever had. So yeah, quite significant from a future perspective. Our engineering and marketing teams

went through eight months of rigorous technical discussions, process audits and finally overcame extraordinarily stiff global competition to land these programs.

Slide 10:

With this addition of 6 new EV programs, we have reached 36 EV programs spread across 23 unique customers. To increase transparency and data quality, we have added a table that shows the program and customer distribution, also across vehicle segments and product groups, and the fact that we have 19 EV drivetrain programs across 10 unique passenger vehicle customers and that we already have 10 EV motor programs across 9 customers, should hopefully demonstrate how deep and diversified our EV penetration is becoming on a global basis.

Once again, the fact that 26 of the 36 are yet to enter serial production also demonstrates how much future EV revenue growth remains to be realized right now.

Slide 12:

This quite neatly brings me to our net order book. We did consume some parts of the order book as some programs entered serial production or ramped up to full volume, and frankly, that is the reason for our sequential growth in a declining market; and as I mentioned before, this was the second-best quarter for new wins, and with the addition of 28 billion worth of new orders last quarter, at the end of Q1 FY23, our net orderbook has expanded to 205 billion rupees. If you actually were to compare this to last year full year, this is almost 9.6 times the full FY22 revenue, which is quite a good number to have.

In addition to the six EV programs discussed earlier, we have also added seven programs for non-EV applications, but they were smaller in size. With this, now, the EV portion has reached two-thirds of the orderbook.

Slide 14:

Now to diversification, and usually, this is more information sharing, but this time, it is actually quite relevant because of the disproportionate effect on markets. So first, we will begin with revenue mix by powertrain. One can naturally see the significant progress on BEV share in the last three years going from merely 2% to 29%, while ICE-dependent revenue has decreased in the same period from 27% to 17%. What is special or what is notable in this quarter is a large reduction in the micro-hybrid and hybrid category, which I believe bears explaining. So, a majority of our micro-hybrid and hybrid sales happen in the European and Asian markets, which is natural as these are the two markets which have the highest proliferation of hybrid vehicles, and as the next slide will show, this quarter, sales in both these markets were severely impacted due to the Russia-Ukraine situation and inflation in Europe, and due to the stringent covid lockdowns in China.

Slide 15:

As you can see in this chart, Europe and Asia, which constituted around 40% of our revenue in FY22, were reduced to only 21% in Q1, and at the cost of repetition and of perhaps sounding like we are beating our own drum, I think this chart truly reveals the resilience of our business model. It truly tells one that why is the diversified revenue mix important, that despite the fact that we had such a huge drop in our third and fourth largest markets, they nearly halved, we actually managed to grow our revenue by 18% on a total basis, and you know, we hope that it makes our shareholders as proud and pleased as it makes us and the team.

Coming to product mix, the same geographic factor is visible as micro and plug-in hybrid starters fell from 26% to 17%. The other notable trend here and that it also repeats itself in the vehicle segment revenue mix is the happy discovery that traction motors and hence electric two-wheelers have reached 4% of revenue, far ahead of our own internal estimates to be honest. I think in the last quarter call or the last-to-last quarter call, I had said that we expect it to be mid-single digits at the end of FY23. We are getting there faster, which is a testament to one our market share is higher than we estimated it to be, while electrification remains at the same level but at least for our customers, it is working out well.

With this, I will turn the call over to our Group CTO, Mr. Deshmukh, to discuss the progress on technology. Over to you, sir.

Kiran Deshmukh:

Slide 16:

Thank you, Vivek. Good evening, ladies and gentlemen.

Slide 17:

Research and technology development is exciting and enthralling, yet it is a crusade of patience and perseverance. R&D is not for short term; it's for long term. Not many changes in its status occur in a quarter. So, I am presenting the same chart many of you would have seen before.

For those attending this call for the first time, our technology roadmap addresses two revolutions in mobility: Electrification and Automation. Our vision is to become a significant player in electric, autonomous, and connected vehicles, and the road map displays these very intentions.

The map shows our past, present, and future product offerings, depicted by the dark area for our legacy and core products, the blue area for the products we developed in recent years, and the white area for our aspirations for the future. The chart lays out the way forward for our technology development and the acquisition of competencies.

Several products in the white region are currently under development in our R&D centres and will move to the blue area as their development fructifies. Last year, for example, three products entered the blue zone: an

integrated motor controller module for the predictive active suspension and spool gear and epicyclic gear set for the EV drivetrains. The first product has allowed us to expand into the growing autonomous and connected space. The other two have allowed us to extend our reach in the various EV drivetrains' architectures.

While the right side of this chart is relatively crowded, one can see ample space in the autonomous and connected quadrant on the left. We are currently exploring acquisitions and potential technology partnerships to enable us to address the emerging sensing, perception, and telematics needs of autonomous vehicles.

With that, I will hand over to Rohit to cover the financial update.

Rohit Nanda:

Slide 18:

Thank you, Mr. Deshmukh. A very good day to you all. It's my pleasure to share our first quarter results with you.

Slide 19:

Our first quarter revenue has grown by 18% year on year to 589 crores, which is the highest ever revenue reported by us. Our BEV revenue continues to show strong growth as it grew by 68% year on year. This now constitutes 29% of our total sales. Our non-BEV revenue also grew, though it grew by 6%, but that's despite our top three geographies of North America, India and Europe, which actually saw a decline of 14% in the light vehicle sales over the same period.

Our EBITDA at 142.5 crores grew by 3% year on year, whereas EBITDA margin has declined by 3.5%. 3.4% of the margin decline is explained by the increased raw material prices. This is despite cost pass-through for a major part of the material prices because of the arithmetic effect of it. Besides this, there were also some additional non-routine costs incurred during this quarter which have neutralized the positive impact of operating leverage. These include 2.1 crore incurred due to severe power outages and one-time expenses on new tech partnerships about Rs. 1.3 crore.

Our PAT stood at 75.8 crores which is higher by 5% compared to the adjusted PAT for the first quarter of last year. Reported PAT of last year had actually a one-off impact of Rs 10 crores for reversal of IPO expenses and the same was disclosed last year as well. Our lower finance cost this year has improved the margin transmission from EBITDA to PAT.

Slide 20:

Given that the drop in our margin is coming from RM price inflation, we would like to once again demonstrate how inflation and input prices, even with a 100% cost pass-through, lead to lower margin due to arithmetic effect, and we will do it through this illustration that you can see on the screen.

As you can see, for a company with a 55% material margin, if RM costs were to increase by 25%, even with a full cost pass-through, the margin for the company would drop by 560 basis points. The company will make the same amount of material margin, which in this illustration is 55 rupees, but the margin percentage would drop because of the arithmetic effect.

Slide 21:

Now from the illustration, we move on to how RM prices have actually affected EBITDA margin for Sona. On this slide, we have used indexed alloy steel prices for Sona to show you that while cost of the largest raw material consumed by the company has gone up by 25%, our margin has fallen only by 350 basis points over the same time.

It clearly establishes how the company has managed to largely contain the adverse impact of RM price inflation through various measures like cost pass-through, growth, mix and other cost-saving initiatives like value engineering and value addition.

The market news flow, as well as the global macros along with the spot prices, indicate that we may have potentially seen the highs in the metal prices and like Vivek has already mentioned in the beginning, if this inference is correct, we should expect the metal prices to come down and for its impact to unfold over the forthcoming quarters.

Slide 22:

Finally, we move on to the last slide, which reflects our key ratios.

We start off with Value Addition to Employee Cost, which now stands at 5.9 times. It has shown continuous improvement over the past three years, reflecting the strength in the P&L and the ability of the company to withstand shocks.

Our Return on Capital Employed (RoCE) now stands at nearly 29%, which is similar to March-20 levels. It has declined from the higher levels we have seen in March-21 and -22 due to increase in the working capital and capex undertaken by the company as we undergo the expansion process.

Our Return on Equity (RoE) is strong at 29%; however, it is also lower than the previous periods because of the base effect coming from the primary equity issued in the IPO last year.

Our Net Debt continues to be negative, reflecting a significant headroom to borrow in case a need were to arise.

Working Capital Turnover is stable at 3.9 times, confirming that the growth in working capital is in line with the revenue growth.

Fixed Asset Turnover ratio is slightly lower at 4.5 times due to capitalization of some of the new projects by the company.

With this, we have come to the end of our Q1 earnings presentation, and I will now hand the proceedings back to the Nomura team for Q&A.

Moderator: Thank you very much. We are now at the Q&A portion of this presentation. We will now open the floor for Q&A session. If you wish to raise a question, please use the raise hand function allocated at the bottom right of the Webex page. We will unmute your line and prompt you to speak up, or you can submit your question via the Q&A chat box addressing to all panelists. Please be reminded to keep your questions to a maximum of two questions. If you have more questions, please return to the queue. Thank you.

Kapil Singh: Deanna, by the time the question queue builds, I'll just ask a couple of questions. So Vivek, congratulations, first of all, you know, we have seen strong order wins for this quarter, and in some sense, this was one question we had asked you many times, you know, in terms of your differential assembly order wins for other global customers. So, what more can you tell us about this order in terms of either the segment or, you know, why do you think you won this order, you know, that some of that insight would help?

Vivek Vikram Singh: So, I don't want to give anything away. What we realized recently is that our customers and competitors also read the transcripts of these calls, so we don't want to give any competitive advantage away, but, you know what, also the spotlight should be on Vikram. He is the man who deserves it. So Vikram, if you want to say something, anything that doesn't get us into trouble, you can share more on that win with Kapil.

Vikram Verma: Like all global OEMs do assessment of many new suppliers like us, and they, we qualified in comparison with all the known big suppliers of the similar products which they make. So, we were selected to be one of the bidders for this big global OEM while, as Vivek explained that there was a rigorous technical audits' qualification in terms of future-ready products available with us that brought us onto the spotlight to bid against those big Tier-1 suppliers and finally, we won against mostly on the technical ground, I think this is an opening for more such things happening in future.

Vivek Vikram Singh: So, to add, Vikram is unusually modest today. So, I'll add a little bit. One, we have replaced the incumbents who were always the drivelines suppliers, which is big deal in Europe, bigger than we have always found American customers easier to enter into than Europe. So, this was one big thing. It has mainly come on our technical provenance because, you know, the six-year head start that we have, working with our original, the first customer we started working with, has taught us a lot of things that only come by doing millions of types. I think that has, you know, helped a lot in the technical part. We weren't the best commercially, to be honest, but we still won because technically, that advantage was far superior.

Kapil Singh: Okay, that's great to hear. Could you give some more insight? When you say technically more superior, what exactly does that mean?



Vivek Vikram Singh: I don't even think most people will understand it. It is to do with processes. It is to do the processes of making the final drive differential assembly lighter and able to transmit more torque. In the end, if I had to simplify it, more torque per gram, in the end, that's what it comes down to. It can require many skills. There are some parts of how you put it together which are not as strong. So, you change the process of doing it and to make it stronger. So, yeah, I mean, we will be getting into engineering design and metallurgy if I had to answer that.

Kapil Singh: That much is good. I don't think I'll understand too much beyond this. Second, I also wanted to check on, you know, the domestic two-wheeler order that we have won and, you know, there is this concern which is there that there is a lot of competition in motors and, you know, there is so many motor manufacturers, but what you highlight in case of differential assembly has been that, you know, it's not just about the price. So, is it the same thing for the two-wheeler OEM order as well that we have got that It's not about the price that at which you are supplying, but more about the technology that you are giving?

Vivek Vikram Singh: I mean, of course, as you know, ever since we decided to go public, we have been asked this question hundreds of times and, you know, some people are skeptical, some people are more believing, but let's understand a couple of things. One competition will be there. If there is anything that is a high-value part, it is going to have competition. It is going to have global competition. We have always had global competition in the two product areas that we were originally in. Also, we have always been top ten suppliers, if not the top five suppliers for the products we make; we are for all of them. Even in this new one, think about it, if you are a vehicle maker and a two-wheeler maker, what is important in the vehicle, to be honest, apart from the battery, the traction motor, the motor controller and the BMS? I don't know how much more innovation or product differentiation you can bring apart from these four. I am not saying other things are not important. Seats are important, aesthetics are important, wheels are important, everything has importance, but there are some products that are more equal than others. Traction motor is one of them. If your entire vehicle differentiation rest on 3 or 4 things, won't you want them to be best and not just the cheapest? I mean, we are not dealing with commodity parts, and hence just as oh it is cheaper hence will be more. And as we transparently share, our average motor production right now is about 13,000 motors. All of you have the Vahan data and e-two-wheeler data; the market share calculation is not that tough. We like letting the numbers speak for us, and we firmly believe that what we do is who we are and not what we say, what we believe, or what we desire to be. A lot of people will say things; our numbers are there, you can see it. Just the fact that and we are an independent motor maker, we are not aligned with any particular OEM or group or anything; we still tend to win usually on product quality. Of course, you also have to be commercially competitive. That goes without saying. But yeah, we have, again in this case, displaced an incumbent global supplier, which is our competition almost always. In life, it is a choice

when looking at competition that whether we choose to compete with those we consider above us or do we look at people who are not as good and then just be happy with where we are. We have taken the first path. We respect the competition. We are almost always very, very conscious of any new competition coming and we believe it's great. Competition forces product innovation. It makes us better, it makes our process iterative, it makes our board, our shareholders question us and makes us want to improve. So yeah, I am sure it won't end the questions on competition or, as I have learned a new phrase - right to win. What is your right to win, they keep asking? So, but that's okay, right? I mean, we will keep doing and hopefully, what we do will prove the skeptics wrong and the believers right, and that's the way we want it to be.

Kapil Singh: Thank you, Vivek, for the detailed answers. Yeah, Deanna, we could take the Q&A.

Moderator: Okay. I will go through those participants who have raised hand. Just a reminder that please keep your question to two questions maximum, and then you can go back to the queue. We will start off with Gunjan Prithyani. Hi Gunjan, your line is unmuted. Please go ahead.

Gunjan Prithyani: Yeah, Hi, can you hear me?

Vivek Vikram Singh: Yes, Gunjan, go ahead.

Gunjan Prithyani: Okay. So, thanks for taking my questions. I just had a couple of clarifications. Firstly, on this two-wheeler, clearly a pretty big win. So, I remember during the last conference call, we had spoken about 6-7% revenue share coming from this category by the end of F23. Do we think that, you know, this category can be even more meaningful, given this is quite a big win? So how should we think about the ramp-up of this segment in terms of revenue contribution?

Vivek Vikram Singh: We like to stick to that guidance; if there is another happy surprise, great because this program begins end of Q3 or early Q4. So, it will just be a quarter, right? So, I don't know how much it will change in percentage. Also, in the second half, we have a lot of other programs coming up in the driveline business. New programs launching and these relative percentages, Gunjan, are always tricky.

Gunjan Prithyani: Okay, got it. And okay, now that you brought up that, you know, some of the other programs will get into serial production. I mean, this order book is really very impressive. I am just trying to get a little bit more colour on this, you know, how should I think about the magnitude of programs which can go into serial production in the next 12 months or 18 months because, you know, this is a pretty big order backlog or orderbook which can be executed over the next 8-10 years. But if I have to think about next 2-3 years, you know, if you can just help us, how should we think about the magnitude which can go under execution within the next two years or so?

- Vivek Vikram Singh:** This is FY23. So, they will, I know for the fact that there are three large programs entering production this year, but they won't fully ramp up, none of them, because they are all in the second half. But if I take FY26 also, so 23, 24, 25, 26, that is majority of them should have ramped up.
- Gunjan Prithyani:** This is you are talking about the three large, you know, programs.
- Vivek Vikram Singh:** Yeah, I don't want to give away the whole thing; otherwise, you know, I might as well just give the revenue of each of these years, think about it. It is, just to help you, it is shaped like a croissant like I have said before. It is slightly thin in the beginning, very thick in the initial half and then it is a longer tail. So yeah, 24, 25, 26 are the three big years of pipeline conversion.
- Gunjan Prithyani:** Okay, got it. I don't know how to think about the croissant parallel that you draw, but I was just trying to understand in terms of the value opportunity because there are clearly three large programs, but you know, I don't know the value, and if I look at this order book, it is very impressive. Almost nine times the revenue that as you yourself quantified. But anything that you can help us understand, you know 20%, 30%, what goes into execution within the framework of next three years, four years, I mean I am fine if you give by F26 as well.
- Vivek Vikram Singh:** Pratik, would you be able to help with that? I would not know this number top of my mind, but I know that 3-4 big programs, and not the one that we talked about today. One of the motor ones is in that, but there are two very large differential assembly programs that are going into production in FY23. They won't fully ramp up, but yeah, second half has two big new programs and the motor, so three, yeah. Pratik, can you give a percentage, rough percentage, or range, FY23, 24, 25 in these three years, how much of this pipeline is getting into production?
- Pratik Sachan:** I will need to just calculate it.
- Vivek Vikram Singh:** Right, okay, so we will try and get back. But my estimate would be that maybe almost half.
- Gunjan Prithyani:** Sorry, almost?
- Vivek Vikram Singh:** Half.
- Gunjan Prithyani:** Okay, got it. And the last question maybe from my side is the market shares that, you know, you usually give us some sense on maybe diff assembly, motor, how have we trended? I know quarter to quarter, these are not numbers that I should bother with but, you know, directionally, if you can give us some sense. Is it progressing in terms of gains? Still within across segments, particularly the diff assembly?
- Vivek Vikram Singh:** Yeah, that's I think it's where it was because nothing material has changed. So yeah, it is where it was. Motor, what had I said, 15% odd? I would think it would be slightly higher. So, I think let's be on the safer side of it and

continue to say 15. Also, if you know, this quarter, some incumbent electric two-wheeler makers did not produce enough. I guess the ones who were affected more by the China lockdowns and hence we may have a temporarily higher market share because of that factor because, you know, people, our customers have a more India-centric supply chain. So, I think that right now, it's much higher than the 15% number, but I think we'll stay that for a longer-term guidance.

Gunjan Prithyani: Okay. And Rohit, could you just...

Moderator: I am sorry, Gunjan, we would like to keep the question to two only for each participant. Please go join back the queue. Thank you. We will go back to the next person asking question is, Gautam Sinha Roy. Hi Gautam, your line is unmuted; please go ahead with your two questions.

Hello? Okay, so we can't hear you at all. Can you please speak up because if not, we go to the next speaker? Next investor Aryn Pirani. Aryn your line is unmute.

Aryn Pirani: Hi, thank you, can you hear me?

Moderator: Very good. Go ahead.

Aryn Pirani: Thank you. First of all, thanks for continuing to give the impact of RM and how it impacts margins. I think that is something which is very useful, but my question was on overall EBITDA and EBIT growth vs Revenue growth. So, I mean, it looks like other expenses have seen a lot of inflation. So, if you can help us understand what is happening there because EBITDA growth, EBIT growth is actually quite muted compared to the overall topline growth.

Rohit Nanda: Hi Aryn, yeah, so I think the increase in other expenses is primarily because of a change in mix as, you know, we have two business lines, so, you know, one business line is primarily more an assembly line and the second one is the manufacturing, so one has a higher material costs and the other one has higher manufacturing expenses. So, you know, the shift of revenue from one business to another leads to this. Apart from the two cases that I mentioned, the higher power cost, which is about 2 odd crores, and one-time expenses related to tech partnerships, that's about 1.3 odd crores, so these are the two expenses which were slightly, I would say out of the ordinary. Other than that, other expenses have actually not gone up. That's primarily because of the shift in the mix in terms of the revenue growth vs EBITDA comparison etc. I mean, actually, the answer is in the slide that we showed because when the material inflation happens so, there is an inflation that is coming into the revenue also, so some bit of the revenue growth is also coming from the material price inflation.

Aryn Pirani: Great, that's helpful, and again on the orderbook side, when we think about the orderbook that you, you know, talked about two quarters back on the ADAS and even today, so a lot of this is starting in FY25-26. So, sorry for just going back to, you know, where Gunjan was trying to probe, how

should we think about, you know, revenue development because it looks like 25-26 could be really large revenue years and, you know, 24 and 23 probably, you know, may not be like that, is that the correct way to think about it? Or even 24 and 25 could have very strong, you know, year on year on revenue traction.

Vivek Vikram Singh: So, define strong.

Amyr Pirani: Okay, so you have been growing at a CAGR, you know, as you yourself, you know, show at a very high double-digit CAGR, last few quarters. Obviously, you know, because of not everything in your control, you know, the revenue momentum has been slower there, you know, the end markets have not done well. So, you know, when we think of 23 and 24 compared to 25, it looks like 25-26 could have like 30-40% revenue growth kind of a year, whereas near term could be 15-20%. Is that the correct way to look at it, or we are getting it wrong?

Vivek Vikram Singh: Amyr, 23 will be higher than 22 by double-digit, 24 will be higher than 23 by double-digit, 25 will be higher than 24 by double-digit, and 26 will be higher than 25 by double digits.

Amyr Pirani: Okay.

Vivek Vikram Singh: What those double digits are? Are they 15 or 40? It will depend on many things outside our control, and I am not trying to be vague; I am genuinely saying. Like, there was a very large program supposed to start in July for us. Now, it most likely is going to start in October. What if it gets pushed to January? If I had said to you that we are going to grow by 40% and we don't, it makes us seem disingenuous where we are not. We are trying to help you, but these are not things in our control, and a lot of these new programs have actually got delayed. So, when we talk about 3-4 years, it is far easier for us to take a guess that any new launch doesn't get delayed by more than two quarters but within a year, and within this quarterly confined thing, it's very hard. I mean, as you rightly said, we win programs which are going to come in 25, 26. What is going to come in 23, we actually won in 20 or 21. Whatever we as a management team are doing right now is going to come into fruition 2-3 years later. So, when you view us with the quarterly lens, we also don't find ourselves fitting into that approach because it's not really anything we practice.

Amyr Pirani: That's fair, very much appreciated. I guess as we see more and more quarters of orderbook and revenue momentum, I guess we will get better at getting a, you know, a forecast sense of the same but thanks for the explanation.

Moderator: Thank you for your question. We move on to the next participant. We will go on to Basudeb Banerjee. Your line is unmuted; please go ahead. We have two questions. Go ahead.

Basudeb Banerjee: Yeah, so I just have one question to understand from Nanda Sir. As you very well explained, the optical effect on gross margin for the 25% steel alloy inflation and, typically for your starter motor business where there is no pass-through in general, so, that is valid only for the gear part business - DGAs and DGs. So, to segregate that now in the genuine raw mat deflationary period, the starter motor margin should come back to the prior levels, whereas to just to calculate the optical effect won't make much of difference because revenue will also get deflated. So absolute EBITDA won't matter. But for the starter motor part, the absolute EBITDA delta should matter. So, if you can help us to segregate in that way and if you can explain that aspect.

Rohit Nanda: So, we actually do not give business-wise separate revenue or segregate this. Vivek is smiling because that's not the data we separately publish. So, your conclusion is correct, but to be able to give how the numbers would look like would not be possible.

Basudeb Banerjee: No, no, just it will help us explain that yeah...

Vivek Vikram Singh: Yeah, yeah, I will give you guidance, don't worry. So steel is not that big a component for the motor business, to be honest. It is big, but not as big as it is in the driveline. Copper, steel and aluminum all three matter for the motor business. There, also the price of chips and magnets matter. So, there are many more things because they are also bought-out parts. However, you are absolutely bang on that the speed of absolute EBITDA and margin recovery in starter motor is far more rapid than it is in driveline. On a revenue basis, it's anywhere between 60-40 driveline to motor to 50-50 in some quarters can be there, but between 40 to 50 if that helps.

Basudeb Banerjee: So, it will help us like overall on a blended gross margin decline of 560 basis points what you highlighted, how much has been the top to bottom decline in motors margin, that will be more helpful. Just motors margin decline in this whole raw material inflation.

Vivek Vikram Singh: And I am being completely honest with you, I don't even know this number because we don't actually measure it because, for us, it doesn't really matter because we can't control it or have any action that can offset it, right? Where you have contractual pass-through, you anyway get it; where you don't have it, you can go to customers and ask if it's something exceptional. But beyond that, there isn't much. So, I also don't know the answer. I don't know if Rohit knows it, but I doubt it.

Basudeb Banerjee: Sure, So the second question is the traction motor for the two-wheeler order; what you have got is BLDC or PMSM, sir?

Vivek Vikram Singh: Sat, would you like to take this? Again, I know the answer, but I just want him to also speak about it because it is his win.

Sat Mohan Gupta: Yeah, thanks, Vivek. It's a PMSM motor.

Basudeb Banerjee: Okay, sure, thanks.

- Moderator:** Thank you for your question. We move on to the next investor, Chirag Shah. Hi Chirag, your line is unmuted.
- Chirag Shah:** Yeah, thanks for the opportunity. I hope you can hear me. So, my first question is, again, follow up on the raw material side. So, if I have to adjust the YoY increase in raw materials which you explained, it appears on a like-to-like basis that the revenue growth is single digit, and I presume that is driven by sharp fall in Europe and China. Is it anyway possible to indicate what would be the drop in Europe and China revenue YoY basis, given the macro environment, which was completely out of your control? I mean, on a like-to-like basis, is that the right way of looking at it? That your revenue growth, if I had to adjust for the raw material pressure, is actually only single digit or volume growth is kind of single digit.
- Vivek Vikram Singh:** I would say yes. I haven't done the math myself, but it would be far less than the 18% because the 18% also has some empty sales built in, right? Which is just basically, we paid more for steel, we gave it to the customer, and that is not adding to margins anywhere in the system. So yes, that would be right. How much has the absolute fall in revenue from Europe and China been? I think it can be calculated from the data we have provided.
- Chirag Shah:** Yeah, I was under the impression that the product mix across region would be reasonably different.
- Vivek Vikram Singh:** Yes, it is.
- Chirag Shah:** So, on average basis, we can calculate, but if you can somehow, that work I have done but, you know, because of the difference in the product and also maybe the raw material pricing also, given the currency, they have behaved, it could have been, fair point, I have done that, I would take it offline. Secondly, I don't know whether you would like to share, but the new order wins in the European market that you have shown this quarter, can you indicate one or two competitors who were there against whom you won the order?
- Vivek Vikram Singh:** No, no, no, that's not right. That's not right. I mean, look, in life to take other's name and to say things about them and especially, I mean, you should be graceful in victory as well as defeat, I believe I should not take anybody else's name.
- Chirag Shah:** Fair point, sir. So then, if I can just squeeze in one more question - the PSM order that you indicated, what could be the broader realization that we can assume if you can indicate a broad range if not the absolute number? I understand the strategic reason being but a broad a way of looking at the realization.
- Vivek Vikram Singh:** So, we should make about 14-15, type of thing, margins, but as you know, in these businesses, in the traction motor business, the margins are lower. The returns are much higher. So, in our traditional business, if you know, for every rupee we would spend in, let's say, differential assembly or differential

gear, for every rupee of capex, you get about 2 rupees of revenue. In these motors, it is much better. I would say for every rupee you get anywhere between 5-5.5 back. So the return is much higher, and as management, you know, we have to try to balance growth, margin and return, all three, so that's also one of the reasons. I know, and I genuinely empathize with analysts who have to do this so that they can figure out how it will look like in the future. We don't because, for us, it has to be a basket where we take a decision, right? There will be some, which will be high growth, low margin but high return. There will be some, which are high margin, but lower return, and you have to balance this to make the company's performance better.

Chirag Shah: So, I was more referring to realization per unit, you know something of that because I understand the business model, it's a high return, high asset turn business so margin would be lower.

Vivek Vikram Singh: Revenue per unit, *(in Hindi) aap keh rahe ho?* [English translation: you are saying?]

Chirag Shah: Per unit, yeah.

Vivek Vikram Singh: Okay, Sat. *(in Hindi) Range de dijiye* [English translation: Please give the range]

Sat Mohan Gupta: Yeah, it will be in the range of 12,000 to 14,000.

Chirag Shah: Yeah, this is helpful. And can we assume that the new order that you win, you are building in this raw material issue, you know, that in general the starter motor as you indicated the pass-through is not as good as it is in driveline, but the new orders that you win, they are on similar lines or over there, you are taking care of this pass-through issue so that you are not affected by the vagaries of commodity.

Vivek Vikram Singh: So, we are. I mean, nobody is perfect, and neither are we, but as we learn, we try to improve ourselves. So, the new contracts we enter into, we try to improve them and make them more legit and try to remove volatility. We are not people who understand commodity or forex, and it is not our job to speculate in those things. So, we try to build in as much pass-through as possible, so we are responsible for what we do and our value addition and not of these things. Having said that, I don't blame the legacy contracts also because, to be honest, the last three years, the kind of volatility has not been seen. In the driveline business, we always had those contracts because it was all more coming from an Indian and Japanese legacy; hence they were always there.

Chirag Shah: Thank you very much. All the very best. I will come back if I want to ask more questions.

Moderator: Thank you. We will go to the next investor, Jay K. Your line is unmuted. Please you go ahead with your two questions.

Jay K: Hi Vivek, hi entire management. Congratulations for this enduring the storm and coming back through the storm. I just had one question on, you know, how the whole contracts work and what is the kind of preparedness? Because when you said that, you know, for example, you won this order, so what is the expectancy and preparedness of the client? Like, the product line ready on even their part, and what is your preparedness as in how do you decide what will go in production when, because, you know, sometimes when you are saying that something will go into production in FY 24-25, you know, I mean no assumptions, but there, there might be things that might, you know, even delay a certain contract or even it can lead to cancellation of certain contracts. So, then, you know, how does the whole structure work when you want to go into production after signing?

Vivek Vikram Singh: Good question, actually. So, second order question in some sense. So, what can one do in a scenario where you know that very rarely would a product launch be ahead of time? Very rarely are program volumes higher than the customer indicates in the beginning. It's almost always delayed. How much by is what you have to build in, and it is usually lower than what customer indicates. So, what we do, while budgeting and planning our production plans or our order book that we show you, we build in discounts to what customers say, basis our experience of how that customer's projections have panned out in the past. We have been in this field for a while - two decades. So, we know that let's say, customer X says we will do 100,000 vehicles. They are right; 95% of it usually comes. So, you build that in. In production planning, the biggest thing you can do is try to make your capacity as fungible as possible, which means that for various customers' different products, you can use the same capital equipment. To build in that fungibility that if some markets, some customers go up and down, I think, I mentioned in the diversity or diversification of markets and products. It is also important that your capital equipment or your capacity is multimodal and can serve different end products. That is what we can do. Rest as you know, customer is king and when they decide to launch is when we have to service them.

Jay K: Fair enough. So basically, you are saying you would prefer more, I mean not exactly, but more like a process leader than a product leader. You can say in some sense.

Vivek Vikram Singh: Sorry I didn't. I didn't quite follow.

Jay K: I think, like you said, the fungibility of the capacity is basically so if there is some delay in the order, that same capital equipment can be used, you know, to ramp up another order that is already in the pipeline or in production.

Vivek Vikram Singh: Yeah, it's not a process thing. It's because we are super focused and do only a few products and have a large enough market share. So, you are producing in millions and millions, and no one very rarely would it happen that everybody is speaking at the same time? That's what allows us. If we were doing many, many products, this would be very hard to do.

- Jay K:** Thank you and all the best guys for the future.
- Vivek Vikram Singh:** Thank you for your kind words.
- Kapil Singh:** Vivek, I'll read out a few questions from the Q&A chat box that we have got. This one is from Shyam. He is asking - with severe energy crisis in Europe, how are you seeing the geography scaling up or down from 1-2 levels? I'll read it out one by one, I guess.
- Vivek Vikram Singh:** Yeah. So, hi Shyam, I can't hear your voice but thank you for the question. The real answer is I don't know. I am not going to be bold enough to predict what's going to happen in the next two months. It looks slightly better than Q1 from today, where we are sitting today, but things are so volatile that I can't know that if this will hold for another month. It is better than Q1, in short.
- Kapil Singh:** Then he's asking - are there production disruptions or SOP delays in Europe?
- Vivek Vikram Singh:** Not any that I know of. No.
- Kapil Singh:** Next question is - with steel prices softening, can we expect motor gross margins to improve materially back to Q2 FY21 levels from, say second half of FY23 since steel was not a complete pass-through?
- Vivek Vikram Singh:** No, because steel has not gone down to Q2 FY21 levels. If it does, I guess so, yeah. But as you know, steel has gone down from its high of April this year; it hasn't gone back to where it used to be a year back. There is a long way for it to climb down yet.
- Kapil Singh:** Yeah, then the next question is from Gautam. He has asked - DA has grown 37% YoY, how would have ICE DA business grown?
- Vivek Vikram Singh:** We don't have a ICE DA business in passenger vehicles.
- Kapil Singh:** Traction motor order wins - is this including controller? 913 crores would imply what level of wallet share?
- Vivek Vikram Singh:** Sorry, is this for that specific program win that we indicated?
- Kapil Singh:** Yes.
- Vivek Vikram Singh:** Okay. One, it is addition to order book only. In this case, this will be the lifetime value because it is beginning in FY23, and definitely, it's not a 10-year program. No, there's no controller in this.
- Kapil Singh:** Okay. And they have also asked - what is the wallet share in this? Maybe they are asking share of business?
- Vivek Vikram Singh:** Hmm, Sat?
- Sat Mohan Gupta:** It's very difficult to...

- Vivek Vikram Singh:** Yeah, I mean, for a product part that is not even in production today, to know exactly what is the wallet share two years later, it's kind of tough to predict. We don't even know what the customer will end up actually selling two years later, right?
- Kapil Singh:** I think this is for the two-wheeler order.
- Vivek Vikram Singh:** Yeah, I mean, there are two suppliers. I don't know what, it's us and somebody else, right? So, it's basically, no, we can't answer that today for sure.
- Kapil Singh:** And, any tax rate guidance for FY23?
- Vivek Vikram Singh:** Do you know more than we do? Because is tax rate changing? Rohit?
- Rohit Nanda:** So, I think you can take it around 24%.
- Kapil Singh:** Then, there is one clarification - Vikram sir said half of the order book shall get executed by FY25. Does that mean 10,000 crores?
- Vivek Vikram Singh:** No, no, no. Half of them will enter production, is what I said, and my name is Vivek. Vikram is also here, so he didn't say anything; I think I said it.
- Rohit Nanda:** And Vivek, don't talk about the croissant again.
- Vivek Vikram Singh:** Yeah, and that too because people have just put me under the gun, but Pratik will calculate, and so Gunjan and Aryn we will try and get back to you. What if I am wrong, and I may be wrong? I am just guessing off the top of my head.
- Kapil Singh:** One more question is - what are the sources of funds for growth capex? Will you raise any equity, or is that out of question?
- Vivek Vikram Singh:** Nothing is out of question ever. If we need the capital, every source of capital will be evaluated. Currently, with the capex plans we have and the cash outflows vs what we are generating, we don't see that happening. So, unless we were to do an acquisition, I doubt, I doubt that would be. So, there is nothing like out of questions; it's just not required.
- Kapil Singh:** Okay, and then - is there any impact of global recession on our orderbook in the upcoming quarters?
- Vivek Vikram Singh:** I mean, if there is a global recession, it would be the most predicted global recession of all time, and the impact on the order book would be that in the near term, not enough will convert. It will be product launches may get delayed, and the sales schedules that we have estimated would get compressed. So yeah, I mean, and I don't know how severe the recession would be if it does come. So maybe, it's just a vague way of saying I don't really know how bad the recession. If we have a recession like 2008-2009, all bets are off. You would have far more problems to think about than just how much of the orderbook is converting. I hope it doesn't come or get that severe, but we will see. All we can do as management is try to control

the factors that are in our control, which are our actions, right? We can manage our costs better. We can try that the decisions that are irreversible and require a cash outflow. We are very, very, very cautious on those, and we already are. Reversible decisions will continue to be agile and move quickly. So that's all we can do, and when it comes, I hope we weather the storm better than most and to the best of our ability. That's all one can say.

Kapil Singh: Deanna, I think I have run through all the questions in the box. You can take any of the investor questions. Thank you.

Moderator: Thank you, Kapil. We will go to the investor's live question, and we will go to Saurabh Tendulkar. Saurabh, your line is unmuted, and you go ahead with your two questions.

Saurabh Tendulkar: Hello, sir. Congratulations for the great set of numbers, and thank you for the opportunity. So, my first question is regarding this 10-crore item which is hedging instrument in cash flow hedge. So, what it is exactly? It is because of the rupee depreciation compared to dollar or something else?

Rohit Nanda: You are referring to the item in the OCI?

Saurabh Tendulkar: No, sir, in profit and loss statement. Yes, OCI.

Rohit Nanda: So, we have started following hedge accounting from this quarter. So, basis that what we are required to do is we are required to do mark to market of the outstanding forward contracts and to the extent the hedges are effective that will stay in OCI. So, when the corresponding underlying asset or liability comes to the P&L, that is when the relevant contracts M2M will also come to the P&L.

Saurabh Tendulkar: Okay, sir, got it, got it. Understood. And my second question is regarding the customer concentration. So, I just wanted to know if these OEMs will start insourcing the electric motors, which is around the 50% of the total cost so, and also the electric drive units. So, do you see any risk associated to it? Because we have like top-10 customers are contributing around 80% of the revenue. So, we have customer concentration. So, you see that risk?

Vivek Vikram Singh: So, instead of, I'll try and answer this. So, you have to understand the context of our industry, right? Every company reflects the industry it serves or operates in. We are not a FMCG or B2C players who will have thousands and millions of customers, right? There are only about 100 odd major OEMs in the world in the automotive industry. And if you look at the automotive industry structure, if you take passenger vehicles, for example, the top-10 carmakers control 80% of the volume. So, if you also are a truly global player, won't you mimic the industry you are in? So, our top-10 is also 80%. It is very hard for it to not be if you are global. If you are very local, it could be much higher. So, I think we are fairly well diversified, to be honest, in that sense. The second part of your question or the first part was insourcing. Again, this is a historical context that insourcing vs outsourcing, has existed in our industry for the last 70-80 years. When we started making differential

gears, they themselves were insourced for most people. Very few people actually bought differential gears from outside. Slowly, we have converted people from a make to buy. In traction motors, we only service two-wheeler customers, as you well know. If they do insource it and that happens, of course, we would be at risk. Why not? There, of course, we have far less customers. But just my personal opinion and this is no forecast, but I don't think electric drive units are going to be insourced anytime soon. Drive units or differential assemblies and drive trains have existed now for 100 years plus. Most people have, everyone started with insourcing and increasingly, it is outsourcing just because in the context of today's EV world where you are expected to deploy a large amount for electric vehicle, you know, development. As an OEM, if I were an OEM, personally, I would be more focused on how can I design and develop a much better vehicle and then sell service and distribute it rather than worry about, oh, let me try and make differential gears on my own because capital is not infinite. If you have, it is a capital allocation decision for the OEM. So that's my humble opinion, will it be correct or not, time will tell, our revenues will tell, and you know, performance will show if it is true or not.

Moderator: Okay, seems like we are reaching; we are at the end of the Q&A session. I would like to invite the management to do a quick closing remark.

Vivek Vikram Singh: Okay, So thank you as always. I would like to thank all of you for giving us your valuable time. Your questions are important, they make us better at presenting our performance and also give us indicators of what matters to you, and we will try and do better for you, our shareholders. So, and in case you have any further questions or feedback on how we can continue to do better and make these sessions more meaningful. Please feel free to reach out, and yeah, see you all in the next quarter. Thank you.

Kapil Singh: Thank you, everyone from the management team, and I thank all the investors for joining the call. Deanna, we can close it now.

Moderator: Thank you again. Thank you, everyone, for your time. You may drop off the line.

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