



SONA BLW Precision Forgings Ltd. (Sona Comstar)

Q3 FY22 Earnings Conference Call Transcript February 1, 2022

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>

Moderator: Ladies and gentlemen, good day and welcome to Sona Comstar Q3 & 9MFY22 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. We request that you place your lines on mute except when asking a question.

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 question.

Now I'll hand over the floor to Mr. Kapil Singh, 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 evening everyone, to take us through Q3 & 9MFY22 results and to answer your questions, we are pleased to welcome Mr. Vivek Vikram Singh, MD and 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; Mr. Rohit Nanda, Group CFO and Mr. Amit Mishra, Head Investor Relations. I will now hand over the call to Mr. Vivek for his opening remarks and the presentation which will be followed by a Q&A.

Vivek Vikram Singh: Thank you Kapil and good day everyone on behalf of Sona Comstar I'd like to welcome all of you to our earnings call.

Slide 4:

So, we'll begin with the not so good news. After many quarters of strong growth and financial results, the effects of the semiconductor chip shortage have caught up with us in this quarter and we have had a quarter

with flat revenue growth and decline in EBITDA. And although there is a 4% growth in reported net profit, it includes a one-time tax benefit. Now, despite the low sales and headwinds on material prices, freight costs and all other input costs, we managed to maintain our best in class margins at the same level as last quarter and I'm quite proud for our team which has done a stellar job of managing costs improving and while they're good in good times, they are quite exceptional in tough times and the one note of optimism that I would like to add here would be that in our opinion December 2021 was the lowest point of the chip crisis and from here on we should start seeing gradual improvement every quarter, although full resolution remains a few quarters away. The massive silver lining in this environment was our battery electric vehicle revenue growth, where we more than doubled our revenue. And this also shows how much the conventional business has fallen this quarter.

Slide 5:

To demonstrate that point further, if we were to look at the data of US and Europe, our two largest markets, sales are down 22% year on year. In fact, the last quarter was the second worst quarter of auto sales in US and Europe after the global financial crisis of 2008. So yes, we've had a flat performance. However, we hope that it is seen in the context of our industry and its situation. And another data point worth noting here, is that even for the nine month period of this fiscal, these markets are down by 1%.

Slide 6:

While in quite stark contrast to that, we managed to achieve 54% growth in revenue, 65% growth in net profit in the same nine-month period. And this has happened due to our consistent business development efforts with our customers and improving our share of wallet and global market shares which have reached 6.3% for Differential Gears and 4.6% for Starter Motors at the end of calendar year 2021, which is a solid improvement over our position at the end of calendar year 2020.

Slide 9:

Now for the better news, the update on our strategic priorities beginning with EV. So, our BEV revenue share has increased to 23% on the 9M period. It was 14% in FY21. In absolute terms, it has grown by 168% to reach over Rs. 355 crore in the first 9M of this fiscal, and it gives me great joy to report that we've added 4 new EV programs from 3 new EV customers just in this quarter alone. And these are all large wins. The new wins are, differential assembly program from an existing customer for Europe, an E axle program for an Indian three- wheeler new customer, a motor and controller program from another new Indian three-wheeler customer and a very unique and new product program for a new customer for the European market which I'll elaborate upon a little later. With this, we reach 24 electric vehicle programs across 14 unique customers.

Slide 10:

Now we've made this chart to help provide more transparency and clarity on the penetration of our electric vehicle programs. And as you can see, our EV story is quite global, quite deep and with 17 programs not yet in serial production, quite indicative of strong future growth.

Slide 11:

And now let us share with you about the new order win, for an entirely new product for us. And although this new product has nothing to do with propulsion since the end vehicle is electrified, we've included it as an EV program. So, what is happening is that with the advent of electrification and autonomous vehicles, there are many new, interesting, and challenging opportunities. One of them is around smarter suspension. So, the product we are making is the integrated motor controller module or IMCM, which goes into something called a Predictive Active Suspension system. Now, we don't make the whole system, we just make the motor controller plus software module of it. Now, let's see a short video that demonstrates this product because it's hard to explain in a short time what the product does. So Pratik, if you could please play the video.

Video Plays:

So, this is a futuristic suspension system which has our Integrated Motor Controller Module which senses every bump and speed breaker and then independently responds to all external disturbances. In simplistic terms, the motor generates an exact counteracting force to mitigate the impact of uneven road surfaces so that the vehicle glides over all kinds of roads. This capability extends further to anticipating oncoming potholes or road disturbances through the geospatial software and react with lightning speed. Now, whether the passengers are in the front seat or rear seat, the ride becomes much smoother with complete avoidance of motion sickness. In fact, it's several orders of magnitude smoother than a vehicle without a Predictive Active Suspension.

Video Stops.

Now, of course, there are three reasons why this new order win is so important for us. First, this validates our faith in the power of innovation. This new product has only been successful due to our extensive R&D on Belt Starter-Generator or BSG, especially the thermal management and the software modules. And this also proves our hypothesis that owning and controlling our primary technologies gives us the ability to keep iterating and innovating and finding multiple different applications and products for the same technology. Second point is that with almost two million lines of code per IMCM, it also validates our belief that the ability to integrate hardware and software, will keep getting more important as vehicles and the systems inside them get increasingly smarter and more autonomous. And third, of course, commercially this is quite significant as it adds a

brand-new revenue stream for us as a Company. And with this first single order alone, this win alone adds up to Rs. 400 crore revenue per year. And it also means that our order book is shaping up in such a way that in FY26 we will be generating more revenue from Traction Motors and Active Suspension Motors than we did from Starter Motors in FY21, which is a complete flip from what this business used to be three years ago, which of course brings me to our net order book.

Slide 13:

On the back of these four new EV wins and some new non-EV wins at the end of Q3, we've reached 176 billion, or around \$2.3 billion dollars versus 136 billion last quarter. The EV part of the order book has increased from 58.5% and 79 billion at the end of Q2 to 66.4% and 116 billion at the end of Q3. And this ratio is expected to continue increasing. Another thing to point out here is that although we continue to win new orders in the electric two-wheeler and three-wheelers based in India, in value terms, almost 90% of our EV order book is still passenger cars and mostly from outside India. We want to mention this to illustrate that while we are and will continue to be participating and benefiting from the India EV story, we have a much-much larger growth driver in the shape of electrified passenger cars in the global markets.

Slide 15:

Now coming to diversification, we begin as always with revenue cut by powertrain. Here increasing BEV share from 1% in FY19 to 23% in the first 9M, underlines the dominant and secular trend and the reciprocal trend also that our exposure to ICE has been reducing in every period to reach now 19%.

Slide 16:

Moving to geography - this quarter had fairly disrupted schedules, so has changed the percentages a little bit, but overall, the mix remains balanced across all our four major markets which are North America, Europe, India and Asia. As I said last time this mix will keep changing from quarter to quarter depending on the performances of these four markets and more critically our customers' performance in these end markets. We are fairly-well diversified to mitigate issues that any one specific end market. However, the dynamic around the virus and the supply chain shortages which affect everyone will affect us like any other player in the industry.

On products - our revenue share from Differential Assemblies has grown from 5.6% in FY20 to 26%, which is a fairly-dramatic increase. In the coming years, we will also add the IMCM product that we just showed to this chart and hopefully keep continuing our journey from a components player to a subsystems and systems player.

Finally, coming to vehicle segments where there are three inferences. CV demand, especially in India is starting to gradually pick up, gradually being the operative word. Off highway segment has weakened. And thirdly, our efforts on the traction motors and controllers in the electric two-wheeler, three-wheeler space have finally started showing some results and they have reached a full percentage point for the 9M period. With that, I'll turn the call over to our Group CTO, Mr. Deshmukh, to discuss our approach to technology. Over to you, Sir.

Mr. Deshmukh:

Thank you Vivek. Good evening, ladies and gentlemen.

Slide 18:

Yet another revolution in personal transportation accompanying electrification is triggered by connected, automated, and autonomous vehicle technologies. While electrification has been fostered by the concerns about global warming and regulations, automation of mobility is driven by the technology, societal benefits relating to safety, convenience, reliability, and equity. Automation technology that performs at least some aspects of safety critical control function without direct driver input is not binary but there is a spectrum of levels of automation. So, the Society of Automotive Engineers International essay categorizes automated driving functionality into distinct levels summarized by the level of driver involvement during operation as depicted in this slide. We all know, I mean it is well known, cruise control, lane positioning have become standard features in many mainstream automobiles. The advent of sensor technology, connectivity, high speed computing, high-definition mapping, complementary infrastructure development and regulatory frameworks will transition automation to higher levels in the not-too-distant future. So as automation moves to higher levels many systems and subsystems in the vehicle will get smarter and closely, they will need computing inclusions in-situ memory, integrated sensing, and actuation functions. This presents many opportunities for suppliers like us who can and will integrate hardware and software to develop the new generation of systems.

Slide 19:

So, our technology roadmap which is now expanded as you can see compared to the previous call, addresses both the revolutions taking place in mobility. So, it displays our vision of becoming a significant player in electric vehicles and autonomous and connected vehicles. The product roadmap is intended to show our past, present, and future products, so the dark area here shows our legacy or core products, Differential Gears and Starter Motors. The blue area shows the products that we have developed in recent years and which we are offering to the customers which our current products and the products shown in the white area are currently under development in our R&D center, our aspirations for the future. So, our competence in hardware and software engineering, integration and thermal management have allowed us to expand our product range into the growing autonomous and connected space as exemplified by the

recently introduced Integrated Motor Control module that Vivek just now showed, which offers comfort and convenience to the occupants of the car. So, with that I will hand over to Rohit to cover the financial update.

Rohit Nanda:

Thank you, Mr. Deshmukh, a very good day to you all. It's my pleasure to share our third quarter and nine months results with you. Merger of Sona BLW and Comstar India has become effective on 28th January 2022 with 5th July 2019 as the appointed date. The reported standalone financials therefore are reflecting the merged accounts of the two entities for the first time and comparable periods have been restated accordingly. The merger, however, doesn't have any impact on the consolidated financials reported and being presented here.

Slide 21:

I will start with the Y-o-Y comparison for our third quarter results. Our overall revenue grew by 1% to Rs 4.94 billion, our BEV revenue however, grew at a robust pace of 108% to Rs. 135 crore, our non BEV revenue is however lower by 15% mainly due to a decline in the industry sales by 22% in our key markets of US and Europe. Our EBITDA margin at 26.4% is within our historical range. Better product mix had a 2% positive impact on the margin, whereas adverse impact of 5.5% came from increase in the material prices. Out of this 5.5%, 4.2% impact is despite the material price pass through to the customers because of the arithmetic effect of revenue and costs going up by the same value. Balance 1.3% impact is due to the material price increase wherein price pass through was not available to us. Our reported PAT of Rs. 864 million is higher by 4% on a year-on-year basis. Higher depreciation, lower interest and other income put together had an adverse impact of 0.4% on our PAT. In the third quarter however, we have a one-time tax impact which has increased our reported PAT, adjusted for this one-time impact, our PAT would be Rs. 738 million and PAT margins would be at 14.9%.

Slide 22:

Earlier in our presentation, Vivek had shown you the graph of Europe + US sales over the last 13 years or so. As you would have noticed one of the key takeaways from there is the seasonality effect on the sales from quarter to quarter within the year. In view of this, we feel quarter on quarter comparison may not be providing any useful insights and therefore we have decided to discontinue with it from this quarter in our presentation. So, I will straight away jump to the nine-month comparison now on a Y-o-Y basis.

Our 9M revenue grew to Rs 15.81 billion which is higher than the last full year revenue. Our BEV revenue grew by 167% and non-BEV revenue grew by 37%. And this is despite a 1% decline in the industry sales in our key markets of US and Europe over the same time. Our EBITDA grew by 41% to Rs. 4.24 billion with a margin at 26.8%. Positive levels for the margin where the product mix at 3.2% and operating leverage at 1.6%. However, there was

an adverse impact of 5.7% due to increase in the material prices out of which 4.3% is despite the material price increases pass through to the customer and balance 1.4% is due to price passed through not being available to us. Besides this, we also had a higher for forex gain in the comparable period last year, which had an adverse impact of 1.6% on the margin. Our PAT has grown by 65% to Rs. 2,569 million which is also higher than the last full year PAT. Depreciation, interest cost and other income had a positive impact of 1.3% on the PAT margin. One time tax impact and reversal of IPO expenses had a further positive impact of another 1.4%.

Slide 23:

Finally, we move on to the key ratios. Now here we have made some small changes from the last time to ensure a more consistent reporting. For return and turnover ratios in case of P&L items, we have now shifted to last 12-month numbers instead of the annualized numbers which we were using earlier and for balance sheet items, we have moved to average of opening and closing numbers instead of using only closing numbers which would appreciate the ratios calculated because it was at a given point of time.

VA/Employee cost in our case has improved to 5.6 times compared to the earlier two years and this needs to be appreciated in the inflationary background that we are in where in the material costs are going up.

Our RoCE and RoE ratios at around 36% demonstrate a continued robust return profile. Our Net Debt to EBITDA ratio has turned negative as we have paid off the long-term debt from equity proceeds raised earlier in the year and Capex for the year so far has been funded largely through the internal accruals.

Lastly, on the turnover ratio, the Company continues to demonstrate efficient management of its working capital and fixed assets as both the turnover ratios have further improved from the earlier two years despite the market headwinds.

With this we come to the conclusion of our quarterly earnings presentation, and I will now hand the proceedings back to the Nomura team.

Moderator:

Thank you everyone. We will now open the floor for the Q&A session. If you wish to raise a question, please use the raise hand function located at the bottom right of the WebEx page. We will unmute your line and prompt you to speak. Or you may submit your questions via Q&A chat box addressing all panelists. Please be reminded to keep your questions to a maximum of two questions. If you have more questions, please return to cue. Thank you.

The first question will be from Mr. Deepak Yadav, an individual investor.

Deepak Yadav:

So my question is for Mr. Vikram. So, I saw your interview with Bloomberg where you rightly mentioned that after a while being in EV auto ancillary will not be enough as this would be other communal. So how you look into

the future with respect to innovation? Like do you want to really go into connected vehicle space, autonomous vehicle space or supplying automotive software etc.? And would you think of extra (inaudible) for the same. Second question is, I believe two-wheeler EV adoption will be faster than four-wheeler, so how are you are planning this opportunity? What are your plans here?

Vivek Vikram Singh: So thank you Deepak, good question and thank you for watching me. So two parts, the second one I think we can address first. Pratik, we do have in our appendix slide which shows our strategy on electrification. Now Deepak to your question. If you look at the slide, we have always kind of positioned ourselves that in India it is the two-wheeler and three-wheeler market that is going to be electrified first, perhaps followed by the bus segment, but we want to play in the two-wheeler, three-wheeler space and that's where our first generation of PMSM and BLDC motors etc. are there and we're trying to make use of this opportunity. However, I tried to also mention that even in the motor business because our technology, now the same technology can be applied to different use cases if you actually own that technology and can find different applications. So when we were doing the research on BSG which is more for a torque assist to provide for a hybrid vehicle, the same research got us to that point that we could come to that you know the Active Suspension Motor, that is exactly what our roadmap tries to depict when we say that we are going into autonomous and connected and I think there is this perception that an autonomous vehicle does not mean that it is a robot taxi which is driving itself with no human, it is a journey. It is a journey that may take 15 years to get there may take 20, may take 10. But the thing is while it happens all the components and systems will continue to get smarter and by smarter, I mean it will have intelligence which is decision-making ability which will be done, heuristically and hence an algorithm would be required, and it will require memory. So, the question is not that whether we will get into software, we are in software, like this IMCM that we're making has two million lines of code. I don't think there is a choice. I don't think any hardware player worth their salt in the next 10 years can avoid having software. And how many lines of code per gram of metal will become important. I mean, in the modern car today it has 100 million lines of code in it. So it is already happening and we have to move in that direction. We have added that dimension to our road map. And we will continue to progress on it. I think the last time we spoke we had about 20-29 software engineers. We are expanding that, and it will cross 50 by the end of this year. Acquisitions was also in your first question. So yes, definitely wherever we think there are capability gaps we would acquire, we are not very JV focused. Usually we are, like I said, we like to own and control our technologies so that we can iterate so that we can keep experimenting, will not get it right all the time but keep experimenting and then we will get to another use of something that already existed. So, the R&D money that went towards, you know the development of the BSG. We haven't sold a BSG yet. We don't have a commercial order for a BSG yet. But we

managed to from that same research, add an entirely new revenue item into our P&L which only happens if you truly understand and own your technologies. And I think that is the kind of Company that we will continue to be. You know, product roadmaps evolve, as you've seen in the last nine months we've changed our product roadmap, this time around, strategies evolve, acquisition, all of these things evolve. But your core identity, who you are as a Company, that doesn't change. that endures. That is our value. We are an engineering company which focuses on R&D and innovation. I think that's something we will continue to be. I hope that answered the question.

Deepak Yadav: Exactly. And thanks for this explanation. This answers my question. Thank you.

Moderator: The next question is from the line of Nitin Arora of Axis Mutual Fund.

Nitin Arora: Sir my first question on this very interesting new product that you showcased today. So, I just wanted to understand that how one should look at the potential of this product in other OEMs? You said, you know, you have made this for one particular OEM, if you can throw some light, you know how fast this can eventually become more potential with the other OEMs? And you know, does that really add on a big cost to the vehicle or it's more of a very game changing product, you know, which would eventually get adopted. So that's my first question.

Vivek Vikram Singh: Nitin, a very wise question. You are wise. It is an expensive system. It is not an inexpensive solution. Right. If you add, I think this was a question and someone had asked about hub wheel motor. If you add four motors to each wheel, it is a very expensive solution to what has been answered today mechanically. However, like I said, it is the order of magnitude is just different because the chassis virtually remains stable while the wheels go up and down, because what you're doing is a counteracting force. However, like I said, the cost is quite high. I mean there are four of these in one vehicle that itself is a big deal and I think each one; Sat, how much, how many times more of a Starter Motors would be one of these motors?

Sat Mohan Gupta: It will be around 4-5 times.

Vivek Vikram Singh: Yeah, 4-5 times. So, it is expensive, Nitin. So, our guess, this will be only for E and F segment vehicles for at least the next 5, 6 or 5 to 10 years. It will be limited to E and F segment. E and F segment today, I think would be around three million annual volume. So that's the total addressable universe. With E&F segment as a proportion of the total passenger vehicle space expanse that I don't know, if that expands the opportunity expands. However, over time in the fact that we should know about automotive industry and technology in general. Right, everything starts out being fairly-expensive and you know, targeted towards the luxury or upper middle-class segment. However, it does come down over time. When ACs were launched in cars in India for the first time, it was seen as for the upper segment. Over time it becomes something that is ubiquitous in every

vehicle. But yeah, it will take time. For the next 5 to 10 years, I think E&F segment is where it is, after that maybe it can go to the D segment.

Nitin Arora: My second question related to your views on the passenger vehicle, especially the electric penetration in India. As you said, you know, because the direction you have laid out earlier as well. But any progress for us in the DA part, in the motors part for the passenger vehicles and your views in terms of penetration in India in the passenger side? And just one more part, as you stated in the earlier opening remarks stating about the gradual improvement in chips. You think when you say gradual, one should assume a quarter-by quarter run rate increasing? That's what you were about to say about gradual or is it like that, you know, let's look at beyond the second half of F23, that's where the right picture to look at it. Those are the two questions, thank you very much.

Vivek Vikram Singh: Okay, I'll answer the second one first, till then Pratik, just take this to the world map of the EV programs for the first part. So, the second part, I mean, look the chip shortages is the supply demand mismatch which was at its widest I feel in mid-November and end-December, the gap has started narrowing. Will it go to zero, right, will it go to zero is when no one has to, no automaker is forced to not sell the car or not make a car because there is a supply chain issue, I think that demand-supply mismatch going to 0%, that's a few quarters away, that's a few quarters away. However, it will continue to narrow from here. For some people, some OEMs, it may come much earlier, it may come mid-2022, some it will come end 2022 and some it will come mid 2023 that 0% point. So, it will keep improving though, and I think you will also see that a lot of people have found some clever hacks to reduce the number of chips in the vehicles, especially in the A and B segment. So, you will see those things also coming in. People, this is very rare that you're sitting on an opportunity, and you can't monetize, so everybody is out there trying to do their best. All I can say is the worst is behind us, it will keep improving. Full 0% supply demand mismatch when we again all go back to talking about demand issues. That's a while away.

Second, in India to answer the question Nitin, if anything in electrification happens at least on the driveline side, we will be a part of it. In motors as you know in passenger vehicles, we don't have a product yet for traction so that we continue to work on when we do have it, we will update you. But if there is a PV opportunity or let's say a number of electric vehicles sold in India in passenger vehicles, what is our market share in differential gears in India, that much we should be able to get in the electrified part of it also, but it's still small. The value is that opportunity is still small, Nitin.

Nitin Arora: I'll come back in the queue, so thank you so much for answering. Thank you.

Moderator: The next question is from the line of Gunjan Prithyani from BoFA.

Gunjan Prithyani: I had two questions, firstly on the BEV differential assembly, just trying to get a little bit more color on this. Can you share how many active customers,

you know the ones in the serial production are there in the BEV differential assembly right now? And also, if you could share, what is the market share, globally in the BEV differential assembly? I saw the market shares shared for diff. gear and starter motor, but I'm not sure if you shared this number.

Vivek Vikram Singh: Yeah, so I don't think we have it but from what I remember, Pratik, what was it, 12.5% to 14% between that?

Pratik Sachan: Yes, yes.

Vivek Vikram Singh: How much? Which one?

Pratik Sachan: Yeah. So, it was one out of eight vehicles.

Vivek Vikram Singh: Gunjan, so 12.5% but we don't actually actively track it, I'll tell you the reason the denominators is changing far too quickly for us to know in a more. See, total number of vehicles is easy, but then you have to break it down to the total number of vehicles, how many electrified and then there is a third order thing, which is, how many differentials per vehicle, which is the hard part because people don't give data, highlight how many cars we sold and how many cars were, you know, four-wheel drive vs. two-wheel drive. And that's when it becomes challenging to get market share of differential assemblies. And your first part of the question again, we have to go back to the map. I'll just answer that.

Gunjan Prithyani: While you're going to the map, the reason I asked this is, I'm just trying to understand given the opportunity, size is growing so quickly, you know, how should we think about the market share in this category and you know, this whole opportunity in the compact vehicles which you touched upon last time. How should we think about that? I'm just trying to get some sense you know, if I have to think about, you know, next 2-3 years, there is going to be some normalization of market share, you know, as the market is expanding so fast so you may be just share some thoughts around this.

Vivek Vikram Singh: So I get your question, I would say market share is not the way to look at it because in a very fast expanding market, it isn't really market share, but you should look at absolute revenue and is that growing fast enough and are there new programs being added. And to be honest, a very, very few that we are not in either gear or differential assembly both. The points for us, at least the strategies, see I know to the outside world it may be that, oh, let's take one product differential assembly, how much market share, trying to figure that out, then gear. It is in every electric car out there. We need to be either differential assembly preferably, but if not through other guys who are our competitors in the differential assemblies try to get in the gears. That's our approach right now, it's maximized to the extent possible, and which is why. So, you see the North America. We are four customers and eight programs. 3 are in serial production means these have peaked already. So these programs, the production rate is not going to increase, the fight that are there which says an order book means some of them have not started and some of them have started but have not reached

peak potential. That's what it means. How many are active? I can't tell the top of my mind. Pratik, would you know how many of these are like have begun production?

Pratik Sachan: The total that would be, I think, six.

Vivek Vikram Singh: Yeah, Gunjan that's what I'm saying because something that begins, let's say this quarter will not ramp up to full production at least for a year. So that will continue to, that's why we made it light blue instead of white that circle. We thought it would give some clarity. Even we have doubts on this one. And how do we represent it. In Europe also we have two unique customers for the DA. and this is not just DA, not gear. In Asia again the opportunity will continue to increase. I don't think we should be very fust about the market share as an analyst who tracks performance, I think and even us internally as management, we track is the revenue growing faster and are we increasing the number of total programs, because very hard to right now bet on who will win five year-round and which programs will win, which customers will win. That's a hard thing. So right now, our strategy is to get in almost as many as possible.

Gunjan Prithyani: Okay, got it. The second question is for Rohit, you show the margin hit because of that denominator effect, but I mean keeping all that aside, I'm just, you know, there has been a mix improvement with BEVs increasing. Is there a huge decline that we have seen in the starter motor business? Because you know, that's where the hit is coming from. So, is it just because of the commodity inflation or it is also because we're trying to expand our market, you know, market share, so we are going into newer geography, you know more sustainably how should we think about margins?

Rohit Nanda: So I think our guidance on the margins remains within, you know, the margin range that we've stated, which is 26-28%. So, as you know, we do not actually separately you know, talk about individual business volumes or numbers etc., so we actually don't do that in this section, but I mean maybe partially answering your questions. So, if you look at the margin impact of, positive impact of product mix, so this is this 2% is net off, everything so it includes if there is any adverse impact on an inferior product mix sort of going up and on the other side some positive gains. So, this 2% is the net impact of that. So, on the whole the product mix I mean it's not only the BEV part, BEV of course is contributing but even otherwise also product mix has changed for better during the quarter.

Gunjan Prithyani: Okay got it. I'll join back to you, thank you.

Vivek Vikram Singh: Yeah, Gunjan fair question I think what we can say, at this stage, it should remain between that 26 to 28, 14 to 16 PAT, 26 to 28 EBITDA. We have balanced within this range for the last five years and we don't see it, we don't see much risk in the near term, I mean as your, I was reading one of your notes, you also expect commodity prices to soften so it should ease from here on, but time will tell where the commodity is going.

- Moderator:** The next question is from the line of Mr. Chirag Shah from Edelweiss.
- Chirag Shah:** Two questions. Question one, the new product that you have showcased, so this one and five odd crore revenue that you were indicating this represents what kind of volumes. And the related one is why the SOP is so back ended, is it the completely new line that is coming? A new model that is getting launched. Or is it tied to that? Can you explain that why it is backend from 25?
- Vivek Vikram Singh:** 100% Sir, whatever you say, we'll explain. But we can't give price away. Right? Because you have to understand this is a public thing and our competitors are also going to look at this transcript and say oh these guys price this much let me price \$5 below. So obviously if I give you volume, I have given you value you get to price right? So that they'll be shooting myself in the foot and all of you who are investors in the foot too, so that we can't do. And 25, I think that's fairly that's how automotive is. If you get a new order, from getting the order to SOP is a 18-to-24-month cycle for any new program right. And yes, it is a new model. Because we are only making the IMCM, the motor software and controller part of it. But the whole system has to be changed, means the entire suspension, the chassis everything has to deliver. The vehicle onboard controller, the vehicle computer, the system is far more sophisticated than the part we are making, you're making one part of it, which to us is quite sophisticated but the overall thing is very-very smart. I mean imagine this thing is predicting that because it looked at the map and it knows that there is a pothole and it automatically adjust your chassis so that you will never feel that. Why is it more important as vehicles become more autonomous is when a human driver swerves to avoid a pothole, you know, you excuse the driver, but if a robo taxi or automatic autonomous vehicle does that, you would think something wrong with the vehicle. So as things become more autonomous, a lot more systems have to become smarter and it's a journey that you've seen that. Earlier in vehicles a lot of functions were done by the human beings. If you needed to move your window up, your hands, energy used to crack that thing. I mean before Starter Motors, you used to crank the engine to start it. So it took human potential and kinetic energy to actually function, slowly that got given to mechanical, then later hydraulic and then later electro hydraulic and electromechanical parts. I think we are moving when it is smart electronic hardware parts where the decision to move also is being taken by the machine or the system itself. And this is a journey that's been continuing for the last 30 years and will continue going up. Why we say it's an opportunity is because we feel that these kinds of disruptions suddenly take away the legacy advantage. You know, if you've been making suspension systems for 50 years, you're not disrupted. Suddenly this new thing comes somebody from outside that field is also capable of doing it. Which is why I think there is a great opportunity for people who can move quickly and hopefully we will be able to keep doing these new products and keep innovating so that we are not constrained by the how much market share of which product I have questions and we can, you know, start delivering our own journey.

- Chirag Shah:** And sir, who would be your competitors in this? Are there any competitors in this kind of product?
- Vivek Vikram Singh:** Not that we know of. So Active Suspension Systems have been around. If you go on Wikipedia, you will see that a lot of people, a lot of OEMs have tried to do it, mostly it's in-house. So, I mean, if you want competition will be OEMs themselves that they also do some version of it, but we are a supplier of that system. So, I don't know, Sat you want to add something here.
- Sat Mohan Gupta:** It will be very difficult right now to say who will be the competitor. But yeah, definitely, I mean, OEMs were doing this for some of their high-end applications, but I think it's very difficult to, at this point of time to say who the competition is.
- Vivek Vikram Singh:** Chirag, obviously, so for Sat and his team and who have developed this, it is a matter of fairly good pride. I know, I mean, you know, to take the commerce part of it out and take what impact it has on other things, material things. But a Company from India is making a product that we are now discussing; is there competition or not? That itself is a fairly big thing for an engineering Company that we are doing something so new that we don't really have competition. There isn't really that big a market also because it is random as a system, but these things will increase over time.
- Chirag Shah:** No sir, it's a great achievement. No doubt about it. The fact that you are launching this kind of a product itself is a great achievement. The second question was on the BSG Motor. You had indicated that there are vehicle trials underway; any update on that side and when can we see some traction on that because that itself will be a big opportunity.
- Vivek Vikram Singh:** True. So, I mean, although how much we have budgeted from it for the next year, we've already got through this. So, anything that comes will be great, but no positive news so far to actually report as you know, we like to keep things to ourselves unless it is definite, and it is a purchase order. So, no point, you know, counting chickens before they hatch, when we get it, we will report, you know that.
- Chirag Shah:** My last question is for Rohit. EBITDA margins are not necessary the right way for looking into a business, given the pass through. As an analyst, what is the number that we should look at? You rightly pointed that the EBITDA margin given the numerator-denominator impact, can keep fluctuating based on how things, how commodities behave. So, internally what do you monitor and what is the number or the parameters that we should monitor?
- Rohit Nanda:** Look the numbers we monitor are EBITDA and PAT only, I mean from the profitability standpoint, of course there are multiple other parameters. But if as an analyst you're looking at it, I think EBITDA basically is a core business profitability and how we are deploying capital will kind of flow down up till the PAT level, so these are the two key indicators we also track and we feel EBITDA margins are important because like I pointed out seasonally the revenue will go up and down. But since we are quite committed to you

know, reasonably high return on capital and equity, so that is something which is for us a key focus area.

Vivek Vikram Singh: Chirag I will answer it in a different way. EBITDA is the right metric, although just personally, I think EBIT is a better metric for manufacturing companies especially which are fast growing, you shouldn't let depreciation affect that because if it is going towards growth Capex. However, let's stick to that, I think a better answer is that if you look at it from a slightly longer timeframe, if you look at this business from a three-year lens, and see EBITDA is within a range rather than every quarter of what it is because commodity prices do have a large numerator-denominator effect. I think that would be the better way, which is why if you've noticed every time we are asked, we always say 26 to 28 we don't actually talk about a point because we do understand that it goes up and down without much actually changing because of just the mathematical impact of it. And look in auto, like you asked me, why is it taking two years; - this is how it is, it isn't a very quarter on quarter tracking business because no programs are also short-term, once you win a business, it is going to be there for 6-7 years and in driveline case it is 10-15 years. So, it is more, like I said, but you know we are new to capital markets, so we won't try to say more. YTD is a much better way to look at businesses than every quarter because there is also you saw that there is huge seasonality if your focus towards US & Europe, December has the Christmas holidays and it will have that impact in Europe, August has holidays, so European market will have that impact. These are things that are there and that are part of the industry cycle. It is a cyclical industry. But yeah, I mean over a three-year time, the range should hold, if that is getting depleted, then it's something that's changing in the structure of the business and that's something to watch out for.

Moderator: The next question is from the line of Priya Ranjan from HDFC Mutual Fund.

Priya Ranjan: Hello, I've typed in-actually. I was traveling so I thought, the question has been in question box.

Kapil Singh: Can you visualize the share of the two-wheelers and three-wheelers in the overall business after 2-3 years based on the current order book and assumption of electrification? Acquisition of new product is for totally new customers or new program for existing customers?

Vivek Vikram Singh: Sorry, that's many questions. Okay. Let's just keep taking it one by one. What is the first part? Can you visualize what would be the market share in electric two-wheeler space?

Kapil Singh: ...In the overall business after 2-3 years, what would be the share of EV two-wheeler and three-wheelers and what is your assumption of electrification basis that?

Vivek Vikram Singh: Rohit would you like to take that? So, in our revenue, what percentage of our revenue is electric two-wheeler, three-wheeler. And let's say FY 24.

- Rohit Nanda:** FY24, I think it was 5% is what we had taken.
- Vivek Vikram Singh:** Yeah, it must be more. I mean if you take 3 wheelers as well. 2 wheelers or 3 wheelers or just 2 wheelers?
- Kapil Singh:** Two-wheelers and three-wheelers.
- Vivek Vikram Singh:** I think we started with a 5% assumption at least our internal thing.
- Kapil Singh:** I think you can give a broad range will also help to just get the direction.
- Vivek Vikram Singh:** Yeah, I think it will be around 10%. That's the number broadly I will go with Priya Ranjan, I'll reach out to you and answer this more specifically because I will have to look at the math actually, see this keeps changing because we just won 2 new programs this quarter for electric three wheelers and I have to see how much they ramp up to in FY24 and then add that revenue to the projection that was already made, so it is quite dynamic. But 10% I guess should be a safe one. It should be slightly higher than that. So what is the second part, Kapil?
- Kapil Singh:** This is acquisition of new product. Is this for totally new customer or a new program for the existing customer?
- Priya Ranjan:** Hi Vivek, I wanted to ask is whether this new program is, or the new product which you have shown is for the new program for the new customer or new program for the existing customer?
- Vivek Vikram Singh:** Oh, it's this new product right. This active suspension motor. This is for a brand-new customer.
- Priya Ranjan:** Oh great.
- Vivek Vikram Singh:** Actually, yeah, it was pretty-cool in that sense that we also added three new customers who weren't customers before. So, which was pretty-remarkable in just three-month period.
- Priya Ranjan:** And their geography if you can mention?
- Vivek Vikram Singh:** That I mentioned for new programs in the chart. Okay, so I'll just repeat the four new programs that we have won. One is the differential assembly program for an existing customer in the European market. One new program which is the e-axle program that's for the Indian market, three-wheeler customer, a motor and a controller program, another L5 variety three-wheeler Indian customer. And the fourth is that motor program which is for the European market brand new customers. These were the four.
- Priya Ranjan:** Thanks, Vivek. That's all from my end.
- Moderator:** The next question is from the line of Narottam Garg from CWC Advisors.

Narottam Garg: Hi Vivek, congratulations on, you know this integrated suspension order win. I think it's a big validation of you know, us moving into the technology leadership aspect. I just wanted to understand what kind of product complexity and in-car integration, does this product involve, if you could comment on this, and the complexity on, you know, just supplying hardware-based products to now hardware plus software-based products. Or does this change your profile as a tier 1 suppliers. So just wanted to get a sense on these two.

Vivek Vikram Singh: Good question. And I let the person who has done this answer it and actually take the credit instead of me talking about. It. Sat, over to you sir.

Sat Mohan Gupta: Yeah, I think the product is very, very technologically advanced product and it encompasses mechanical, electrical, hardware, electronics, and software. And this comes with a lot of additional features, I mean other requirements. It has to be autosar compliant. It has to be SLC and SLD in terms of the safety of the product and it will take a lot of our efforts and resources and the knowledge to fully develop this product. And the response time for this motor to react is in milliseconds because it's predicting the future and the bumps and our potholes on the road on the uneven surface on the road and reacting to it. And it has to integrate with the motor controllers. It has to integrate with the E.C.U. and the master controller and inverter of the vehicle along with the sensors in the car. So, it's a very-very advanced system and the module and its reaction time, as I said, I mean it's so fast and the motor's durability has to be at the highest level during the operations. So, it's a very-very sophisticated product. I hope I answered the questions here.

Vivek Vikram Singh: So to add towards what Sat said, so there are two great challenging aspects to it. One is of course the software part of integrating all this and integrating with all the various other moving parts in the vehicle, including the sensors, and the second is the thermal management. Now that learning came to us because we did that hard work on the B.S.G system etc. because motors notoriously get hot, especially if it moves so much. So these are the two things that make it a complex engineering problem and it's challenging and hence worth doing and hence also commercially you know, profitable.

Narottam Garg: One more question where I'd like some sense, are you working on this product for other OEMs or other programs of the same OEM as well? And second, the huge addition on the software engineer side, if you could comment on what kind of, I know you can't talk about specific projects, but broadly, if you could talk about, why is such a big addition of software engineers? Is it that you're moving towards more hardware + software integration in the overall product profile? Some sense on that if you could share.

Vivek Vikram Singh: So yes, I think I did mention that by the time 2026 roles are out and you know, if you heard our IPO conversation, we said that 2030, it was a target to have the motor business give us more revenue from traction motors and

other types of motors that go into electrified vehicles, rather than the starter motors, which are in ICE. It is a deliberate business strategy to take away the ICE phase out risk much faster than anybody else so that we're not caught short. We are reaching that goal in 2026. However, all of these new motors, if you look at the, this active suspension motor that we spoke about right now, traction motors because they come with motor controllers again, have a lot of software integration because the controller has a lot of functions that it has to tell the motor when to draw power from the battery, give it back to the battery. It has to manage the communication of the motor with the vehicle. It has to do the WhatsApp mention about auto SAP, the SLC, SLD the functional safety elements, it has to monitor the health of it. Cybersecurity is a big one. So, because I mean these are moving vehicles. If you can act into them, you have actually made literal weapons which are in somebody else's power that can control them. I mean 9-11 was two claims right, which you're physically overtaken, here, sitting remote control if you can control these vehicles and thousands of motors and you can use them to take them wherever you want. That's a big, big, massive security risk. So cyber security protocols to build into these motors become far more important. So, as if we moved from, I would say less intelligent part to smarter parts. The kind of engineer and the kind of talent we would need keeps changing, which is why that big ramp up. I think we put out a job requirement for 50 new roles in the last quarter and all of them are around that area, cybersecurity, functional safety, hardware integration, testing, software. This is the new normal.

Norotum: All right. Thank you.

Moderator: The next question is from the line of Vinayak Mota from Stallion Asset.

Kapil Singh: I guess we can't hear him. Let me read out the question: Where do you think the two-wheeler segments should move towards? It has currently moved from 0.1% to 1%. I just want an understanding on the future aspect of the same.

Vivek Vikram Singh: So we take two-wheeler and three-wheeler as a category. It should become about 10% of our revenue in FY24, the same answer I gave to Priya Ranjan. Beyond that we can't really say it maybe a little less if electrification is slower than anticipated. However, looking at policy and Government intent, it doesn't look like it will be slower. It may be faster.

Moderator: The next question is from the line of Anoop Gulanikar an individual investor.

Anoop Gulanikar: Hi Sir, the order book which was displayed in the beginning of the slide showed that the order book is 176 billion. Can I just get an understanding over what period with the revenue will be recognized?

Vivek Vikram Singh: So, I am sorry I didn't do that preamble this time because this was the third quarter. So, we do the first two quarters we explain exactly how it is. So I will just read out it is in the notes below- the net order book is basically the aggregate revenue from the awarded programs, which are either yet to

start production or yet to fully ramp up in the next 10 years after, and this is why we call it net order book after adjusting the negative impact of all programs that are reaching end of life or be phased out and then we also apply a reasonable, I would say, discount because if you add up all the orders from customers, customers as they should be are all very optimistic. So you have to apply your presumption in kind of calculating what it should be.

Anoop Gulanikar: Okay Thank you so much sir. I actually didn't read the note below. Thank you for the explanation.

Vivek Vikram Singh: No-no it's not your miss, its ours. I just thought we said this twice, so I didn't want to say it again.

Anoop Gulanikar: Thank you so much. So that's it from my side.

Kapil Singh: Let me read out a few from the Q&A box.

Do you see supply chain related issues due to container availability?

Vivek Vikram Singh: Yes is the short answer. Long answer is, what we are managing with all of this is despite all this freight rates are 2-3 times what they used to be, but we are managing, no-no that is literally the job of management, these things will happen, there will be headwinds and we have to see how much we can do despite all of these difficulties and there will not be a time in which there are no difficulties at all. So some thing or the other will always happen. But yeah, it's an ongoing issue. However, the bigger issue, the biggest issue continues to be the issue of lower sales because of our customers' supply chain issues.

Kapil Singh: We have another one from the line of Pragya Shah from Concept. Any update on magnet less motors?

Vivek Vikram Singh: Yes, I will ask Mr. Deshmukh to elaborate. But before that, yeah, we have tried four ways already of making magnet less motors and we have failed in those. Now we know that four ways that it won't work, one way it worked. It gave the required output, but it was too big and heavy in one way, the efficiency wasn't good enough, one way the torque wasn't good enough. So yeah, we are continuing to try. Mr. Deshmukh, you want to add something sir?

Kiran Deshmukh: So, we have sort of, I mean this is a journey and like any R&D project you have to try many, you have to do experimentation and you have to try many things and something works, something doesn't work. So, there is a learning. So, there is a progress that is happening, and we are now building some proof-of-concept prototypes, and they will be tested and if we succeed, then probably next meeting, next call, we may be in a position to say something about it. There's a progress happening, and progress is of course because there are many options and there are many technological challenges, and you have to overcome one after another.

Kapil Singh: Okay, we have another one from Mohit Sai, an individual investor. Can you comment on the capex plans and how they are going on? What is the capacity utilization?

Rohit Nanda: Yeah, sure. So, capex we had given an update last time. We actually had revised our estimated capex number for this year down from Rs. 652 to Rs. 450 crore. So right now, that's where we are and we feel that our final capex for the year will be ballpark in that range. And in terms of capacity utilization, so for our driveline business, if I look at on the gear side, our capacity utilization will be about 80%. Differential assembly capacity utilization will be actually 100% plus, and on the motor business side, I think the capacity utilization is about 450% from the last quarter.

Kapil Singh: Okay. Thanks.

Vivek Vikram Singh: One request, today there is no time limit. Let's take every single question. Because I do get requests from people afterwards that they weren't called out. So, let's have everyone, I mean it's important. Look, when you have a quarter in which you have like very, very good financial growth etc. maybe you don't need to answer so many questions. But when it's been a flat quarter like this one we think we owe it to people to answer every single question that we can. So, we'll be here till every question is answered.

Kapil Singh: Sure, the next question is from Jinesh Gandhi of Motilal Oswal. On your expanded technology roadmap, can you elaborate on timelines for getting into autonomous connected with vehicle components, which components are you targeting for this new segment?

Vivek Vikram Singh: This active suspension one is in a way an autonomous product because what does autonomous mean again, like I said, it's not the end goal of a robot taxi. It what does it take for a vehicle to become more autonomous? First level is hands and feet, the removal. The second is the eye and the third is the brain, right? You're taking the human being out of the equation. So we are already on it. Next, as we have put, there are bots which are also for wider applications which we may look at like I said, mobility definition does not have to be constrained to automotive and within automotive, not only a car, anything that moves a device, that moves people or goods from point A to point B for us is mobility and motors that can go in or gears or gearboxes that can go into these components and make them more intelligent. All of them are open. It isn't a definite defined roadmap. We are evolving as a Company, we are evolving our roadmap and it will continue to change. Innovation cannot be held to a standard and said, here is a map and let's make this. It often happens like by serendipity, like this one we were out to make the BSG system and ended up making an application that we haven't thought of when we went towards it. So it may change. Yes, the intent like I said is there and as vehicles become autonomous and connected, we will seek our opportunities in that area and as we identify specific products, we will keep adding to that. That's why we left so much white space on that product roadmap, so that we can fill it and when we do, as we said to you

everyone, and we always keep repeating, we will transparently share with you as it's evolving our successes as well as our failures, we were not going to hide anything.

Kapil: Sure. Next question is from the line of Anika Mittal from Nvest Research.

Anika Mittal: Good evening everyone. My questions is regarding new program win having a peak value of Rs. 405 crore, when will this project start contributing to top line?

Vivek Vikram Singh: S.O.P is FY25. So yeah, then I think it's written on that slide, but FY 25 it won't reach peak in FY25. Peak should be FY26, it will start contributing enough by FY25.

Kapil Singh: Okay. This question is from Anirban Sadhu, an individual investor.

Is the Company looking to acquire any foreign players in overlapping segments to cater to European players or looking to bundle products from other manufacturers and export composites rather than individual components so that some premium can be charged?

Vivek Vikram Singh: That's very specific strategy suggestion instead of a question and Anirban thank you for that. I mean look, acquisitions unless they are done, they are not done, right. So, it is very wide, we can have all the intent in the world. We can target a few companies, but only benefit when it is completed, signed, then it will be, it is worth sharing also. So, intent alone cannot solve transactions. So, we will share when it is relevant and ready to be shared.

Kapil Singh: Okay. This question is from Karan Kokane of Ambit Capital.

Tesla often mentions that software revenue typically is a higher margin in nature and has potential to significantly enhance overall margin profile as it scales up. Will our supply of software solutions for autonomous vehicles materially enhance our margin profile ahead?

Vivek Vikram Singh: So in general, let's just take it generally, anything that is replicable infinite number of times is always going to be more profitable. So, when we say that every IMCM has two million lines of code. What you have to remember is I don't have to write these two million lines of code again, it is written once and now if we have only one motor module sold, that's hard luck to us and we will probably never recover our money. But after a while, every other iteration of a product sold is at no additional cost. Yes, we will continue to have to update those systems, keep adding it, keep making it more elegant. But that is the inherent beauty or power of technology or software. It compounds over time as the cost gets distributed per units sold and the profit margin keeps increasing. That is the power of anything that has software running. Actually, that is a power of anything that has technology driving, when you acquired technology for the first time like we did with let's say with precision project, it takes a lot of effort and our margins kept improving because that same technology is being applied over time and over each iteration, your initial cost gets amortized, it is the

nature of it. And of course, software has the most applicability. So yeah, that's in general question. It doesn't matter if we do it or who doesn't.

Kapil Singh: Okay, this question is from Arun an individual investor.

What is the accuracy of the 1.7 billion order book for 10 years? For example, in the last three quarters, is it on track with the projections?

Vivek Vikram Singh: So in normal times, I would have said it is within plus mind, like I said, we've already picked in some conservative estimates to ensure that it is always on it. It's just that the last two years in the automotive world has been, well I think in any industry have been so up and down, that things are more dynamic, and the standard deviation of error is far larger than they used to be. But yeah, plus minus 5% on a 10-year basis because the thing that affects these kinds of things is usually delays in program. But delays in program do not last. Like you can try to make it very specific to a year or a quarter of programs, it often gets delayed in their logic, but not in a 10-year time frame. It makes a degree of error far less.

Kapil Singh: Okay, let's go back and take some of the questions from the question que. Next question is from the line of Naresh Suthar from SBI Life Insurance.

Naresh Suthar: Yeah, thank you for taking my question. Partly it has been answered. So, it is regarding the future product slide which you are sharing. Can you share how many of these future products have already crossed the R&D hurdle and are nearing the commercialization, will be helpful. Some of them you have already mentioned like magnet less and others.

Vivek Vikram Singh: Yeah, so magnet less would also still be in the R&D. Mr Deshmukh, you can explain the slide. Prateek, you can put that slide on. See if it is white, it is not in commercial production yet.

Naresh Suthar: No, no, I'm saying that might. Okay, it's in the R&D state is still not over. That's all.

Mr. Deshmukh: Yes, whatever is in white is in R&D currently. Once it is commercialized, it will come into the blue.

Naresh Suthar: Understood and of the products which we already have commercialized, in the blue, in how many programs are in discussion like future potential funnel, if we want to understand?

Vivek Vikram Singh: All of them have many future programs as well. Even actually forget the blue, even the black ones, they continue.

Naresh Suthar: What I meant was like this quarter we have one fourth programs. So likewise, you must be having active discussion with your many customers. So any final number you want to give?

Vivek Vikram Singh: No, no, because this is the thing, I mentioned last quarter. These things happen over a period of time that we once saw this quarter, but it isn't that we started the conversation this quarter. Most of these conversations have

been happening for a year or more. They just concluded this quarter. So, there are a lot of conversations, that number would be lots like in dozens and dozens of conversations going on. There may also be that there is a quarter when nothing happens, you have nothing that you conclude and no new wins that can also happen. So, they get one step sometimes. I think last quarter itself in Q2 what happened was we had very few new wins in the last quarter. This one we were fortunate that many programs concluded. So that will happen. I think it's more prudent to look-into the year basis, because these conversations, all of them like it keeps taking 12-18 months for these conversations to conclude.

Nomura: The next question is from the line of Hitesh Goyal from CLSA.

Hitesh Goyal: So my questions are basically just wanted to understand from you, globally we are seeing mechanical parts getting shifted to electric parts, right, especially in EV's. I know you are already thinking about it, but just wanted to get a sense that if the drive line business actually shifts to a motor business, which is not something we are seeing across the board right now, very few OEMs globally have started doing that, but what is the cost economics here? How do you think about it and how are you preparing organization for that?

Vivek Vikram Singh: So I think I answered this question in the other way when I think Nitin was asking me the potential of the active suspension motor. Same thing. So to replace mechanical parts with electrical and electronic parts, let's say you take the hard wheel motor or a quad motor thing and put that concept and take away the two differences. Your cost goes up by 4-5 times per vehicle. It does enhance top delivery because you've given four independent torque delivery points. However, the cost is very high for anyone except E or F segment player to do it. So it is limited to that, which is the same thing. So, this has a counter point to it that if we make such a product, our opportunity is also limited by that same thing. So our risk and opportunity for both I think in that over time I also did add that maybe 20-25 years it will change significantly if people find ways, because what are you doing, you're taking two differential assemblies, which is essentially a set of gears, and replacing them with four independent motors which are all smart. It's an expensive, fairly-expensive solution to be honest. So again, that will not be relevant for many vehicles. It is relevant for, let's say, highly torque hungry SUVs which have-to do off- roading etc. Similar, to how much is the EDL market? Like even in this matter where there is a step, that's the extreme step, right, that's replaced mechanical completely and put electronics. There is a mid-part, which is the electronic differential lock or the EDL, which is kind of an electronic electromechanical parts. So, we are on that, we are migrating to that ourselves.

Hitesh Goyal: Yeah, my impression was also that, I just wanted your thoughts on it. My second question is actually that one of your big customers in BEV, actually on a concall, in the recent earnings concall, has alluded to the fact that they are also now seeing chip shortage becoming an issue which they

actually did very well in CY 21. They were the only guys who grew significantly where other guys declined. Right. But they have also talked about delaying some of their launches because of chip shortage issue and maybe scaling up production to not to the extent the market is expecting. So are you also seeing some impact of that going forward in your business or you know you're on track on what you have guided in the past, say for FY 24, FY 25 kind of numbers.

Vivek Vikram Singh: So Hitesh you know we won't take customers specific questions and it is their strategy and their problem and they will guide the market as they do. But in general, I can answer that this chip shortage thing is not something that affects one person, it's affecting everyone. We have various estimates from all the customers we talked to, some people are getting out of it as early as Q3 of this calendar year and some are going to take till Q2 of next calendar year. So, it's a spectrum. But for everyone, this is a problem. I don't think there is anyone I know who's completely untouched by this.

Hitesh Goyal: Great, great congratulations and All the best for the new order.

Moderator: The next question is from the line of Mahesh Bendre from IDBI Capital.

Mahesh is not audible. Let me read out his question which he's put into the Q&A box as well.

When will the four European customers from whom we have received orders start contributing to our sales?

Vivek Vikram Singh: So one of them. Let's go back to that chart again. Actually, these are very, very specific question. One is already active, but not ramped up and two are yet to start production. One has well, we already said FY 25 for the active suspension. And the other one will happen I guess in, Pratik is it FY 23 or FY 24?

Pratik Sachan: That could be FY 24.

Vivek Vikram Singh: So one active ramping up, one FY 24 and one FY 25.

Nomura: The next question is from the line of Nilesh Saha from Edelweiss.

Nilesh Saha: Just need your help in understanding the avenue cuts, right. So, one thing that I am seeing is that the Q over Q growth in North America is fairly high, about 61 odd percent. But we don't see a commensurate Q over Q growth say in your differential gears and assembly side. So just having a bit of trouble in reconciling this if you could help with that.

Vivek Vikram Singh: So Nilesh to be completely transparent. I don't think we look at these data cuts. Q-o-Q of business is not very quarter oriented. Because if you think about it, all programs are running and now let's say you have one customer which you have and the geography also for that matter, one customer, one program that is the same platform used in every market globally. In some quarter that customer says, you know what, I have enough inventory

in this market, why don't you supply everything to the other market, we'll do that and these mixes will change. The point is when you are seeing our answers in everything when people are saying, oh you have done this, when will it start? It takes two years to start, it takes two years to win. But when it comes it also stays for 10 years. So not much changes, the things we have to watch out for is our first order problems, are vehicles being sold in the world or not that affects everyone and that includes us. Second are our customer vehicles being sold or not? And the third which is more of a motor business issue which is the third level of abstraction, which is, are the platforms or models that I supply to within their customers are they being sold more or less? And it keeps changing from week to week and right now because supplies are constrained, what many OEM's are doing is they're prioritizing certain models which have more profit per unit. See for an OEM it is how much revenue did I produce this quarter? Let's say you have only 100 chips and the demand is for 200 vehicles, what you'll do is you'll make 100 units which have maximum per unit profit. Now because you've done that, you choose models, you don't make all 200. For a component guy, volume matters and which model you're on. So if you're not on that model that has been prioritized by the OEM for that quarter, you would be left out. But my request is, I don't think there is much inference or insight to be gained on quarter on quarter market shift or customer shift because a lot of it is also we do for clarity and transparency trying to put programs by geography, a lot of them are becoming global programs. So you supply to multiple locations from the same part, same program and then, customer decides that do they want tools delivered in that geography or for that end market or not?

Nilesh Saha: Yeah, I mean I see what you're saying, but my question was that in one of your large geographies right, where you basically sell three product lines..

Vivek Vikram Singh: We can go back to that slide, see all geographies are pretty much equal. Yeah, right so North America India, Asia, and Europe are pretty much equal..

Nilesh Saha: So I'm not questioning that. I just see, I see the point that I am trying to kind of just understand better from you is that in Q1 and Q2, you did about Rs. 140 crore in that geography that has suddenly gone up to 220, right? I mean, so, so it's not to kind of pinpoint which customer and all. I'm just trying to understand if something has changed in terms of something new ramping up, right? Or you made a point about some OEM choosing to produce more in North America vs. Europe, right? So just trying to make sense of this ramp up, Q1 Q2 vs. Q3.

Vivek Vikram Singh: I think it's more a question of what has reduced rather than what has increased. So actually, this is a relative thing that because this is common sense to 100 because it's a percentage. I don't think there is anything that has increased a lot in North America. I think other markets have shrunk much more. Hence that looks like it has increased more. I don't know the absolute...

- Nilesh Saha:** ...So I did the math. I mean I converted these percentages. Anyways I see your point. I take this broader message from you to not scrutinize these quarterly but if I still fail to understand something, I will reconnect.
- Vivek Vikram Singh:** Please come back and actually let me ask Rohit to help you out here because I personally haven't looked at this cut because any analysis that doesn't yield specific actions to us is not very meaningful to us as management. So I haven't done that. But Rohit, do you know, I actually don't even remember what it was at the end of Q2 which is why I'm at a loss.
- Nilesh Saha:** About Rs. 140 crore was North America revenue. Anyways. I will reconnect if I need any further clarification.
- Rohit Nanda:** What I was saying was actually I think it's the answer that you and I also don't have the data which he's looking at. But my sense is it is because of the redistribution of the supply chain by some customer.
- Nilesh Saha:** Okay thank you.
- Moderator:** The next question is from the line of Sunil Bhojwani, an individual investor.
- Sunil Bhojwani:** Hi Vivek, it is an absolute delight to always hear you on your con calls. I have a question regarding the recall. So, if any of the OEMs have their vehicle recalls due to a faulty product or faulty equipment of ours, So what exactly happens in that case? Who bears the cost? And has it ever happened in the past?
- Vivek Vikram Singh:** So, scary question, has not happened in my tenure. Mr Deshmukh has been in this industry for 40 years. So I would ask him to answer because I don't have the knowledge and experience.
- Kiran Deshmukh:** Well, it has never happened in Sona BLW, but if there is a recall on account of our product being defective, obviously, we will have to bear the expenses. It will depend upon the contract, particular contract with the customer. But in the past so many years we never had any such problems.
- Sunil Bhojwani:** Okay, that's good news. So basically, it's contract specific.
- Vivek Vikram Singh:** Yeah. And we don't have anyone from legal on the call, but I think it is limited to the value or the sum-total of value of parts supplied. So, I think there is a limitation that we tried to build in the contracts, right. Rohit, would you have any idea?
- Rohit Nanda:** We have not had any instance like this.
- Vivek Vikram Singh:** But from others, Vikram, Sat, have you seen from others in the industry? Because it should be the same for everyone?
- Kiran Deshmukh:** Well, personally, I have experienced long ago in Sona Koyo Steering when there was a recall on account of a defective steering. And at that time, actually, what happens, the practical issue here is, it's very difficult to

pinpoint who is to blame or where the actual problem lies because ultimately the parts we make go into a system and then they go into a larger system which is an automobile and very often who is responsible if it is the product or it is the assembly of the product on the vehicle or it is interaction with another system. So it is a complex matter. So therefore, it is very difficult to answer this question, but in short, I think it is the agreement with the customer which dictates these things.

Sunil Bhojwani: Okay, okay, that helps. And my second question is a follow up to the active suspension product. How is it different than the adaptive suspension? And is it a more value-added kind of adaptive suspension? And I'm assuming that this one new product has added three new customers. So they must be the luxury car segments or the luxury vehicle segments? Am I correct in reading that?

Vivek Vikram Singh: So it is currently only one customer. The other programs that were added were for differential assembly, E Axle and motor controllers separately for four new programs and one was for this, it was just one customer, and you are correct that end vehicle is a luxury vehicle. But for the first part Mr. Deshmukh if you would like to share.

Kiran Deshmukh: Yeah, sorry could you repeat, I couldn't get your question.

Sunil Bhojwani: Yeah, I was asking that, how is it different from the adaptive suspension And is it an advanced level of adaptive suspension? This active suspension module that we have made.

Kiran Deshmukh: Firstly, I think there are different kinds of systems for suspension especially this is of course going into high-end vehicles and so-called adaptive suspension is in existence for a long time and there are different technologies being used. This is one particular type of technology which is using electric motors as an actuator and added to that because of the recent developments in data capturing, sensor technology and also connected nature of the vehicle, there is some algorithm of this system is such that it predicts what wheels are going to come across and takes action based on that. So it has to happen very quickly like some milliseconds and it is also the vehicle is connected to the cloud from which it uses the special information of the map of the road condition if there is information about that, that's used into it. So, it's very complex in that sense.

Rohit Nanda: Yeah that was helpful. Thank you.

Moderator: The next question is from the line of Nilesh.

Nilesh: So, my question is pertaining to your starter motor business. So, I'm just kind of referring to your previous quarters PPT in which I think you mentioned that the nine-month CY21 market share in starter model is about 5%. And CY in the current quarters PPT you're mentioning CY21 the market share is 4.6%. So, it implies that Q4 there's been a sharp market share loss so as to speak.

So is this the right interpretation? And if there's a market share loss, what is the reason for that?

Vivek Vikram Singh: So, it is the right interpretation. The reason is that the markets we have larger market share in for our starters especially, North America and Europe. So what has happened is global auto sales in this quarter dipped only 2-3% year on year. While the markets we have larger market share, they performed fairly poorly in relation. So which is why it's right. We haven't lost any customer or any orders or anything. The markets we are dominant in, they didn't perform well.

Nilesh: Got it, so it is pertaining to the region-specific issues of your clients.

Vivek Vikram Singh: Yeah, but this by the way, will continue to happen because often the problems that are inherent in one market, they need not be in other markets, especially in the last two years. Actually, this is a phenomenon that wasn't really around that much in the good old days of you know prior to 2019. But now like I think this quarter Asia and in particular the China auto market sales were actually drastically different from what was happening in Europe, Europe had a very, very bad quarter. So, it's usually it was every market was up 1 or 2% and so you needn't draw too many conclusions from these things. But now these things are very drastic.

Nilesh: Right. And just one more question, if I may. So, I was just noticing that, I am just noticing that, Tesla's, the prominent US based suppliers, who is one of your clients and their volume growth vs. say your revenue growth from the BEV revenue. Okay, so generally, so this time around there's again some bit of diversion, any reason for that in the sense, your revenues are slightly slower than the underlines volumes.

Vivek Vikram Singh: Look, we can't confirm or deny any customers association and we do not answer customer specific questions.

Nilesh: Yeah maybe I'll take that offline. Thanks for that and all the best.

Moderator: The next question is from the line of Ajay Rangani from Yes Securities.

Kapil Singh: Well, I guess he's not there but I can read out the question:

Increase in input costs and supply side bottlenecks can put some pressure on bottom line and margins, will clients accept cost-pressure or some absorption will have to be factored in?

Vivek Vikram Singh: We already are. Is our margin going to be much higher, know? I don't know, is the question that it will get worse from here, input cost? I hope not. I don't think they are and I hope not, and yes there is a pass through mechanism that is there for material prices, but not for everything, like freight cost, labour costs etc. these are things that you have to bear but like I said I think I have seen the worst of that. I don't think it should be more.

- Kapil Singh:** There is a question from Vipul Agrawal of Motilal Oswal. He wants to know the B2B revenue breakup in terms of DAs, traction motors and e-axles.
- Vivek Vikram Singh:** We don't provide that break-up. Because look I mean we'd love to be as transparent as possible and answer any questions. We can't really go into these, we ourselves don't do these analysis because it doesn't yield any actionable specific or insightful inference. I mean beyond a point analysis also has to have some usefulness. We don't do this, and I won't have this ready, but most of it would be DA.
- Kapil Singh:** There is a question from Shyam Sundar from Sundaram Mutual.
- The motor business seems up sharp 33% Q-o-Q decline, if I combined with Europe regions sharply declining Q-o-Q, is this due to some ICE models of customers declining sharply as E. V. models gain traction in Europe?
- Vivek Vikram Singh:** Good question. I think it will be very relevant one year later, two years later. Right now, not so much, so this is more customer slash model level problem, because this is a motor thing. Some of our customers unfortunately are more hit by the chip shortage than others for some the supply demand mismatches, much high and some of our models are not highest profit per unit and they have just been deprioritized. So that's the reason this shift to ICE has not yet started hitting starter motor sales overall and 100% I can guarantee you this, in automotive changes and such big trends don't happen in one quarter over the other quarter. The same starter business which was doing on average let's say Rs. 100 crore plus every month will not go to Rs. 50 crore, Rs. 60 crore in a month due to electrification? It would happen because of a very specific customer or model change. So not really but it is a trend we are watching, and it is the direction it will go but it will be much more gradual than this. And I think what happened, I think this is a natural reaction that we often for these big changes, right, we often overestimate the near-term impact and underestimate the long-term impact. So, electrification is real by the time 2030-35 it will be almost absolute but in the near term the change would be far more gradual, and it'll keep doing so. It is like that frog being burned alive, it will happen in degrees. This sharpness has nothing to do with that issue.
- Moderator:** Okay we have the next question from the line of Vamshi K from Cliq Ventures.
- Vamshi K:** Yes, I have a question on Q2 investor presentation, is it viable to ask now?
- Vivek Vikram Singh:** I don't readily remember unfortunately that might be a problem, but ask, I can try.
- Vamshi K:** Okay, just a second. As on end of Q1 the order book was 14,000 crore and the orders consumed over 1,600 crore. But revenue recognized is just 585 crore. So where are the other revenues?
- Vivek Vikram Singh:** So the impact has to be multiplied by 40, right, so this is a quarterly adjustment. I will explain, let's say we were getting Rs. 100 from a program.

Next quarter we were supposed to get, and we get 80, that is a -20. Now this -20 will be multiplied by 40 to take that program of that drop. Right? That's how it is. So, every quarter you have to do the math again. And this is why ramping up often gives you very good benefits because each incremental gain actually keeps translating into further gains. If it is indeed ramping up, they will later peak. I hope I didn't confuse you. It's a into (x) 40 divided (/) by 40 type of thing because it's a ten-year order book. There is a magnification.

Vamshi K: Okay, thank you so thank you so much.

Moderator: The next question is from the line of Arun.

Arun: Good job with all the change during these uncertain times. Have done a good job. I just want to ask something about magnet less motors, the R and D. Do we have a schedule for it or like we try for this much period and then we come up with the research or it's like no, didn't. How is it?

Vivek Vikram Singh: I mean, this is not only us trying to solve it, Toyota has also been trying to solve it since 2018. A lot of people are on the same path when you finally find the solution, that will be the deadline, like yeah until then it's a destination and we are on it, we may never get there also is the probability like it is an event that could happen. Sorry, I interrupted you Mr. Deshmukh.

Kiran Deshmukh: No, no, no, you answered.

Arun: We have a schedule. What is the schedule?

Kiran Deshmukh: Well there is a schedule. Every R&D project also has a schedule, We started off with, we have a tentative schedule of 18 months, so six months are over of those 18 months, so there is still 12 months to go, but it is quite flexible. It may happen before 12 months, it may happen after 6-7 months. It may take a few months more also. It was like, it was said earlier in one of the earlier interactions, earlier answers that every R and D project is like an experimentation and here are different options available to you, you try several things and you learn from failures and then you go ahead. So in the same, there are many iterations which need to be taken and therefore you cannot rigidly say that it will happen in 18 months or 12 months. There is some tentative plan that we have, which I mentioned is about 18 months, but it could be another from today, it could be another six months, or it could be another 12 -18 months, it depends. Like Vivek said it may not result into what we are looking at because one, there are certain targets set in terms of it has to be a magnet less motor, but it also has to be within certain boundaries such as the cost and size and weight and so many other things to be able to achieve everything is a challenge. And if we do not, for example, ultimately, we come out with a magnetic less motor which is much more expensive and it's noncompetitive, we may have to drop that. So therefore, it's very difficult to say when it will happen. But you can take another 12 months as a tentative schedule.

- Arun:** Thank you very much and all the best.
- Moderator:** Any more questions please? I don't see any raising hands right now.
- Kapil Singh:** Hi everyone, in case there are any questions please do raise your hand. Okay, Vivek, we don't have any further raised hands that I can see. Hopefully we've tried to take as many as possible. I will now hand over for the concluding remarks.
- Vivek Vikram Singh:** So thank you everyone. Thank you everyone for making time on an evening and outside work hours to listen to us. And hopefully we answered all your questions. Do reach out if you need to ask more. Thank you.
- Kapil Singh:** We can thank the entire management team of Sona Comstar for basically taking out so much time and answering all the investor questions in detail. Thank you, all the investors. Thank you.
- Moderator:** We will now conclude this call. If you have any follow up questions, please feel free to email Nomura sales representative or corporate access team. Thank you everyone for your time. You may please drop off the line. Thank you. Thank you.

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