SONA COMSTAR

SONA BLW Precision Forgings Ltd. (Sona Comstar)

Q4 FY22 Earnings Conference Call Transcript

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

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

Moderator: Ladies and gentlemen, good day and welcome to Sona Comstar Q4 & FY22 earnings conference call. Please note all participant lines are in the listen only mode as of now. There will be an opportunity for you to ask questions, after the presentation concludes. Please note that this call is being recorded. 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 afternoon, everyone. To take us through Q4 & FY22 results and to answer your questions, we are pleased to welcome the management team of Sona Comstar. We have with us 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 Vivek for his opening remarks and the presentation which will be followed by a Q&A. Over to you, Vivek.

Vivek Vikram Singh: Thank you Kapil and welcome everyone to our Q4 and first full year earnings call.

So if you recall, in the last call, I had said that December 2021 was likely the lowest point, and that we expected to see a gradual improvement every quarter. Since making that statement, there has been a war in Europe, Covid lockdowns in China, further increases in material prices and energy prices, and inflation has become even worse. So, in short, while our own business has done better sequentially, on the macroeconomic front, I have been proven comprehensively and completely wrong.

Having learnt our lesson that certainty is merely an intellectual vice at best, we are going to be far more conservative about what we expect to see in FY23. So, we'll begin, as always, with the bad news. Material prices have continued and still continue to increase in the current quarter. While we will strive to mitigate this impact through revenue growth and cost management, we expect pressure on EBITDA margin to continue in the near term, which is the next 2-3 quarters.

On the optimistic side, we expect FY23 to once again have the same kind of strong revenue growth that we have demonstrated in the last few years. This growth would largely be led by new EV programs that we have already won and are starting during the course of FY23. We also of course will continue to endeavor and expect to win more orders and further strengthen our orderbook, and most importantly we expect to make substantial progress on our technology roadmap, especially in the area of motors where we intend to eventually develop and fit the right motor, made using the right technology, to each and every vehicle application from small electric two-wheelers to electric trucks and buses.

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Coming to this quarter specifically, while the financials like I said are much better on a sequential basis, on a YoY basis we are largely flat on revenue and EBITDA. The positive here is that our reported net profit has grown by 75%. Now this includes a significant one-time tax benefit, while the corresponding quarter of the last year also had an exceptional IPO expense. However, even after adjusting for all of that in both quarters, we have a healthy growth of 11%, which Rohit would explain later.

Now I know that from the outside a 2% growth in revenue and 11% growth in profit may seems wholly unremarkable and may not seem like much, but the way we see it; it's an immense display of steadfastness in the face of unprecedented headwinds in our industry, and I will touch upon this a little later as well. That the biggest reason for this, apart from of course our fantastic team that you see here in the panel; is our BEV revenue growth, where we have more than doubled our revenue, and reached 29% revenue share this quarter.

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For the full year, we would like to share our performance scorecard with all of you, our bosses, our shareholders. So, there are 5 KRAs that are important for us as a Company – our financials, electrification, business development, diversification and new product development.

So, I will start first with the financials, we believe we have done well on all three KPIs that we value – growth, margins as well as returns. We have achieved 36% growth in revenue, 27% growth in EBITDA and 68% growth in net profit in this year, and I know again that there are one-time exceptional items in the net profit, however, even if you strip that off, still we have 36-37% year-on-year growth, which is quite healthy.

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Now any company's performance only has meaning when seen in the context of the industry or the environment it operates in. Being a global Company with majority of our revenue coming from light vehicles, the best benchmark for us to compare performance is global light vehicle sales. So in this shrinking market which has declined by 7%, we have outperformed our industry, by delivering 75% of purely organic growth in the last two years.

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Now coming to our second KRA, which is electrification. So first I will talk about the lag indicators, what has already gone by in this year. So our BEV revenue share has increased to 25% from 14% in FY21, BEV revenue, in absolute terms, has grown by 2.5x to over Rs. 500 crore. The lead indicator, which indicates future potential, is the number of EV programs. In this KPI, we have doubled our number of programs from 15 to 30.

Just this quarter we have added six new EV programs from five new EV customers. We have won two programs to supply starter motors for the PHEV or Plug-in Hybrid Electric vehicles for two new customers, one in Europe and one in Asia. Now these orders are important because they reaffirm what we have been saying for a while that starter motors are applicable in all hybrid powertrains, regardless of the engine size. Coming to India, we have won a motor program from a new electric two-wheeler customer, an EV differential gear program from a new Electric Commercial Vehicle customer, and an EV gear program from a new electric tractor, a new off-highway customer.

We have also won an order for a new driveline product called Spool gear, this is from an existing global EV customer. And this win, although not very large in commercial terms, is perhaps our single biggest achievement of this quarter, because what this shows is that we can now develop products and sell them beyond our domain of traditional differential assemblies. So what we have demonstrated is that all EV transmission solutions for all types of BEV architectures are in our skill set and Mr. Deshmukh will elaborate on this capability addition a little later in the presentation.

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With this, we have reached now 30 EV programs across 19 unique customers and from a lead indicator perspective, once again the fact that

21 out of the 30 programs are not yet in serial production, demonstrates how much EV growth is yet to be realized, so how much dry powder we are actually sitting on today.

Slide 12:

Our third KRA is business development. So this is an annual thing, so we will like to present that in the last 3 quarters, we have won 43 new programs in total and added ten new customers. And I am quite proud to say that we have added 2 new global top 10 passenger vehicle customers. So now we can say that we serve 7 of the top 10 global carmakers. The total value of these order wins was Rs. 76 billion, while the net addition, after accounting for orders consumed, comes to Rs. 46 billion.

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Which very neatly brings me to our net orderbook which at the end of FY22 stands at Rs. 186 billion or around $2.4 billion. And in addition to the 6 EV programs, we discussed earlier, we have added several programs for non-EV applications also. Also, may be interesting for you to note that we now have 3 EV programs for commercial vehicles and tractors, which shows that electrification is going beyond just cars and 2 wheelers now.

Slide 15:

Our fourth KRA, our diversification. Here, as you can see, we have made significant progress from FY21 and now more than half of our revenue comes from BEV and Hybrid/Micro-hybrid powertrains, while ICE dependent revenue has decreased to 18%. BEV share increasing from 1% to 25% in just 3 years, kind of underlines the speed of the EV megatrend and how we, as a Company, have adapted to and benefitted from this trend.

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Moving on to revenue break-up by geography. There have been higher disruptions relatively to customer production schedules in North America and Europe during the last year, FY22, which is the reason our mix has changed. But overall, it remains balanced across all four major markets. As I said on the last call, this mix will keep changing from quarter to quarter, depending on the performance of these four markets and, more critically, our customers' performance in these end markets.

On products, our revenue share from differential assemblies has grown from 5.6% in FY20 to 27% in FY22. We have added three new products in FY22, that Mr. Deshmukh will soon highlight. So this chart too will keep evolving as we evolve from being a components and sub-system supplier to being a power-train solution provider.

And finally, on vehicle segments, there are, I would say three inferences. CV demand has started to recover and hopefully we will see far more from that segment. And while the off-highway industry declined largely in India last year, it is now showing good growth early in this year. Thirdly, our efforts on the traction motors and controllers have started showing some results, where the Electric 2-wheelers and 3-wheelers reaching 1.5% of our revenue in FY22 and hopefully they become high single digit during FY23.

With this, I turn the call over to our Group CTO, Mr. Deshmukh, to discuss our fifth and most important KRA – our new product development and progress on technology. Over to you, sir.

Mr. Deshmukh: Thank you Vivek. Good evening, ladies and gentlemen.

Slide 18:

Our extended technology roadmap presented during the last earnings call addresses the revolutions in mobility - electrification and automation. Our vision is to become a significant player in electric vehicles and autonomous and connected vehicles, and the roadmap displays these very intentions.

This map shows our past, present, and future product offerings, depicted by the dark area in the bottom center for our legacy, core products; the blue area for the products we developed in recent years, and the white area for our aspirations for the future. The products in the white region are currently under development in our R&D centers.

As we progress on our technology roadmap, the products from the white area move to the blue area. In FY 22, as Vivek had mentioned, three products have entered the blue zone - integrated motor controller module for the predictive active suspension, 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 and we discussed this last quarter. The introduction of the other two products has extended our reach in the EV drivetrains' varying architectures. Let me elaborate this in the following slide.

Slide 19:

As more carmakers introduce new electric vehicles, new architectures emerge. Depending on the specific application, design constraints, and manufacturing considerations, EV drivetrains have evolved into four different architectures. Where one motor drives two wheels, we need a mechanical differential to enable the wheels to turn at different speeds when the vehicle makes a turn. Where one motor drives a single wheel, we need a compact, high-efficiency gear reduction unit that is also quiet.

Our final drive differential assemblies are already fitted in one and two-motor configurations of mass-manufactured EVs. Spool gears and epicyclic geartrain developed by us offer the demanding features of electric vehicles. They find their relevance even in the absence of a mechanical differential. They also have a broader application in commercial vehicles' gearboxes and hub wheel reduction units.

While one and two-motor architecture is likely to be the most prevalent configuration in the future, now we have solutions for every format of the electric drivetrain. Alternate architectures, although more sophisticated, are more expensive, and hence we also realize higher value per vehicle than with the differential assembly.

Our proven ability of commercializing new products also keeps increasing our content per vehicle and in the long term, we are not restricted to just the TAM of a few products.

Slide 20:

As the electrification of mobility spreads across the segments, we are seeing a massive opportunity for traction motors from bots and industrial automated guided vehicles to large electric buses and trucks. Every application is different, its requirements and demands are unique. We are developing multiple new products by mapping the right technology for the correct application. Since the technology spectrum to address the entire marketplace is too broad, we are supplementing our strong R&D efforts with strategic partnerships with other leading technology companies.

In July last year, we partnered with IRP of Israel to co-develop a magnet-less motor for electric two and three-wheelers. The developmental work is progressing satisfactorily, and we hope to have a working prototype soon.

Recently, we formed a strategic partnership with Enedym Inc., the Canadian technology Company that was incubated at the McMaster University in Ontario. Enedym specializes in next generation switched reluctance motors, electric propulsion, and electrified powertrains. Enedym's novel switched reluctance motors with advanced acoustic noise control will help us develop high-efficiency and high-performance magnet-less motors. This is yet another step forward, offering an environmentally sustainable and cost-effective solutions to our customers.

Today, we announced our partnership with C-Motive Technologies, a high-tech electric motor company based in Wisconsin, US. Traditional electric motors use electromagnetic forces to convert electric power to mechanical power. C-Motive uses electrostatic forces to build a motor through a series of multiplicative gains in mechanical, electrical, and electrochemical innovations. These motors deliver high yet ripple-free torque without active cooling, very little copper, and no rare earth metals or magnets. Sona Comstar and C-Motive will collaborate to develop electrostatic drive motors for EV applications, for which we estimate the serial production will likely start in 2026.

One of our top strategic priorities is to grow our EV revenue. We will accomplish this by expanding our traction motor offerings, addressing the entire range of EVs, spanning from below 5 kilowatts to above 300 kilowatts.

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

Rohit Nanda: **Slide 21:**

Thank you Mr. Deshmukh. A very good day to you all. It's my pleasure to share our fourth quarter and post listing the irst full year financial results with you.

Slide 22:

We will start with our fourth quarter revenue which grew by 2% to Rs. 550 crore on a YoY basis. BEV revenue continues to lead our revenue growth with an increase of 104% for this quarter and it constituted 29% of our total revenue. Global headwinds from continued semi-conductor chip shortage, conflict in Europe and inflationary pressures acted as a drag on the non-BEV revenue in line with the general decline in our key markets of Europe and USA.

Before I talk about our EBITDA and margins, let me spend a minute to show how commodity price inflation is impacting our margins adversely even where a full material pass-through is available to us.

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We presented this slide before, but for the benefit of the first-time participants, even at the cost of repetition, I will explain it through this illustration. As you can see for a product selling for Rs. 100 having material cost of Rs. 45, when material cost goes up by 15%, even in case of a 100% material price passthrough, the margin percentage drops by 3.5% in this example, due to arithmetic effect, as selling price and cost, both go up by the same amount, although the absolute margin in this case remains unchanged at Rs. 55.

Slide 22:

So this was essentially to demonstrate how commodity price inflation impacts the margin percentage even in cases where a full price recovery is possible.

Now moving on to discussion on EBITDA, which was Rs. 135 crore for the quarter, EBITDA margin for the quarter had a positive impact of about 2% from a better product mix. However, commodity price inflation continues to be a drag. YoY impact of higher raw material prices was about 3.4%, out of which about 2.6% is purely due to arithmetic effect despite commodity price passthrough to the customers which I just demonstrated through an illustration earlier.

Our PAT is at Rs. 105 crore for this quarter. It grew by 75% on a YoY basis. But it includes some one-time tax impacts including some large income tax refunds and interest on income tax refunds. Similarly, if we compare it with the fourth quarter of last year, that also had some exceptional expense. So on a like-to-like basis if we compare, our PAT has grown by 11%. So, adjusted PAT for the current quarter would be Rs. 78 crore against Rs. 70 crore of the same quarter last year.

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Moving on to the full year financials now. Consolidated full year revenue for the Company was Rs. 2,131 crore, a growth of 36% over last year. BEV revenue at Rs. 504 crore, grew by 145% and constituted 25% of total revenue for the full year. Our non-BEV revenue also grew by 20% despite a general market decline in our key markets of Europe and USA.

Full year EBITDA was Rs. 559 crore, showing a growth of 27%. EBITDA margin for the full year stood at 26.2% and had a positive impact from a better product mix by about 1.9% and operating leverage of 1.4%.

EBITDA Margin was adversely impacted by higher commodity prices and lower forex gains in FY22. RM prices had an adverse impact of 2.9% on margins because of arithmetic effect, despite the material price passthrough. Additional adverse impact of 1.2% came from the portion in which price passthrough was not available to us contractually.

PAT for the full year is Rs. 362 crore showing a growth of 68%. To do a like to like comparison we've shown adjusted PAT for both years after eliminating impact of exceptional income, expenses, one-time tax impact and interest on income tax refunds received. So Adjusted PAT for the year was Rs. 309 crore which has grown by 37% with an improved transmission from EBITDA to PAT mainly due to lower finance costs.

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Since it's our annual presentation we'll also briefly touch upon the cash flows for the full year. The Company generated Rs. 445 crore of operating cash flow, out of which Rs. 344 crore, which is about 77% of the amount was ploughed back into capex for our future growth. IPO proceeds, which we raised during the year, were used for paying off the outstanding debt of the Company and as a result thereof, the Company had a negative net debt as at the end of the year. Even after payment of a dividend of Rs. 45 crore, we've ended up at a cash balance which is higher than where we began the financial year.

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Moving on to the key ratios. Our Value addition to employee cost ratio further improved for the year to 5.7 times as compared to 5.2 times last year. We have explained earlier also that we track this ratio very keenly as it is an indicator of an improvement due to the positive operating leverage for the Company. Return on capital employed and return on equity ratios continue to be robust at above 30%, as it was in the past years. Net debt to EBITDA ratio as at year end was negative like I said due to negative net debt. And as we continue to incur capex in the current financial year, it is expected to eventually turn positive. Working capital turnover ratio was constant at nearly four times while fixed asset turnover ratio is a tad lower at 4.7 times against 5 times last year due to new capitalization during the year.

This brings us to the end of our Q4 earnings presentation and I will now hand the proceedings back to the Nomura Team.

Moderator: We will now open the floor for the Q&A session. If you wish to raise a question, you can 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 the Q&A chat box. A gentle reminder to keep your questions to a maximum of two questions. If you have more questions, please return to the queue. Thank you.

Kapil Singh: By the time, I will just ask a couple of questions. So firstly, we've shown a slight variation from what you had given earlier in the roadmap for the motor business, and we've won some other new orders as well. Where do you see the largest potential when you do crystal ball gazing over next 4-5 years for yourself from where you are today? Which segment do you think will grow the largest?

Vivek Vikram Singh: Right, so growth has two connotations. I mean if you have a low base, growth as a percentage will be very high. For motors that is always going to be because, traction motor business just 1.5%, right? So that's what Rs. 30-35 crore or something of revenue, that's nothing. So, we will grow very-very fast in that in the next three or four years because it's just begun. Driveline, let's say we have got Rs. 450-460 crore or perhaps 470 this year. That as a percentage may not grow much but it will significantly ramp up because of two reasons: one, - vehicle electrification itself as the trend gets us there, right; if you have 1/8 of the market, If it goes from 4% to 50%, you benefit from that anyway. Second, if you've noticed, this is why I called it the single biggest achievement of this quarter. We started from being a differential gear Company, then we became a differential assembly Company, then we say differential assembly plus final reduction gear. But you know that in the whole transmission there are a bunch of other reduction gears and other things. With the Spool Gear addition, we have basically said that now we can make EV transmission gear. So, we have literally opened-up the whole addressable market of differentials. The reduction market or transmission market is perhaps larger than that. So yeah, that field now can just suddenly accelerate because every architecture needs reduction plus differential, and we got it covered. So yes, it is exciting times.

Kapil Singh: So, I take it that the driveline business in terms of revenues will have a lot of growth and maximum addition.

Vivek Vikram Singh: Yeah, I mean, look, we don't give future guidance. So, I won't give numbers plus it is the surest way to disappoint people, right that you over promise and then you don't end up delivering. But we have given over the last seven years about, you know, 35-36% growth on an average. I don't see any reason, non-macroeconomic reasons, there I'll caveat, I can't prevent wars, non-macro-economic reasons for that to not continue in the near future.

Kapil Singh: Sure, so let me ask on that topic as well, because a lot of investors want to know. There was a lot of chip shortages which affected us during the last quarter. How are things progressing from a ramp up perspective now?

Vivek Vikram Singh: So I think the first time Kapil you had only asked me, first time we did this was in August right, last year, I had said 18 months and that time I think when we said 18 months people were shocked that why is this person so pessimistic. So let me just put a caveat. We're not pessimistic or optimistic. A company's management's role is to transparently, truthfully clearly tell you what we know to be true. The decisions on investment etc. are the investors. The decision to analyze is of the analysts, but don't read too much into the psychological bearing of the statement. It isn't. It is the truth as we see it. We thought it was 18 months, I think with all that has happened in the last quarter, maybe we add 3-6 months, but it stays where it was. The semiconductor chip problem was not an easy problem to solve, right, It is a multi-industry, multi-capacity problem, where the supply demand mismatch is not shortening because the demand is also continuing to increase. Now there is a chance that given all the central bank's actions in the next few months, demand might cool a little and the demand supply gap can narrow. But still, I don't see that happening - at least 12 months, we've still got ahead of us, to weather this.

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

Nitin Arora: My first question is, you know on, just a question which Kapil was asking. So would you say the revenue growth would be doable, order book is strong. This is in context I am asking is, because what we read in global reports is that war is still on, this is something beyond guess and the war is still on for more than last three months, four months. Do you see a scenario of, you know, further panic in the production of the chip shortage which can impact you know most probably after Q1, Q2. So,you know, where is this confidence coming for this revenue growth.

Vivek Vikram Singh: Okay, Nitin, I will try to answer the line is not very clear. So, I will paraphrase. One you're saying will the chip shortage get worse because of what is happening in Europe with the war situation, the answer to that is not really, it is where it is. I don't think it's getting worse or better. The factors that are affecting it are beyond that situation. Second, I think it's important to differentiate when I'm asked or when we are asked about industrial or macroeconomic issues like chip shortage, we are answering to that question, how much it will affect us is a different matter. We don't look at the world only through a lens which is focused on Sona Comstar. It is on the chip shortage issue, so I answered that. That's why I think in the initial bit I did mention that regardless of all the known problems, right, the war in Ukraine, the material cost, the lockdowns in China because of Covid, the freight problem. Despite knowing all this, we expect FY23 to still have fairly strong revenue growth for us as a Company. As an industry, I doubt, I doubt there'll be strong growth in sales.

So, Nitin, basically everything is new programs-only led growth. We have assumed that things will stay as bad as they are. No industry tide to help us. We are on our own, whatever we make is whatever we will eat. So, it is all new programs and new customers that is all that we are looking at.

Nitin Arora: Taking further what you said on margins….

Vivek Vikram Singh: Nitin, I really can't hear. Kapil could you..

Kapil Singh: I think he is asking if you see further pressure on margins because of the commodity cost inflation.

Vivek Vikram Singh: Yeah, so, we are where we are in the last quarter. If anything, further happens, I'm not going to try and guess because it hasn't happened. With what we have, we can sustain, I mean if you look at it, despite all of this right, we still did 26% for the year. So, we can't promise on every quarter but if you take the whole year, the effects of operating leverage also get realized, forex up and down also gets neutralized to some extent. So yeah, I mean if you look at the full year, I can say that with far more confidence, but quarter to quarter there can be more variation.

Nitin Arora: Was there a Forex gain in this quarter?

Vivek Vikram Singh: Very little, compared to last year it was much lower. Rohit, would you like to take that? I don't remember, but it was little.

Rohit Nanda: Yeah, it was Rs. 2 crores for the current quarter.

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

Gunjan Prithyani: Hi, thanks team for taking my questions. Just to follow up on the order book. I'm not sure Vivek, I think my voice is echoing, is it okay for you all?

Vivek Vikram Singh: Perfectly clear.

Gunjan Prithyani: My question is on the order book because if I look at the order book, you know, versus last quarter, of course the EV book is kind of stable whereas the non-EV book has seen a pretty significant jump. So, I'm just trying to understand where is this coming from? Is this the plug-in hybrid? The wins that you spoke about? Maybe just give us a little bit color on, you know the sequential change in the order book that we have seen and follow up to this spool gear which you mentioned, when does it commercialize, and you know what does it do to the content value? Those two questions.

Vivek Vikram Singh: Sure. So Pratik, you can take us to the order book. So, the plug-in hybrid. So, the order book EV part contains all plug-in vehicles. So, as you can see in the note, I don't know if the note covers that. It is BEV + plug-in hybrid. So those are in this actually. In the non-EV side, we have some new order in the passenger vehicle space, I think, I did mention that we have added a new, actually we've added two new large automakers, they are in the top 10 automakers of the world. So, for the traditional differential gear business. So that has added that. Does that answer your question?

Gunjan Prithyani: So I'm just trying to understand why was the EV order books stable. I mean if I look at the, it was 116 billion last quarter and then it's kind of marginally come down this quarter and you know you spoke about all these wins. So, I mean intuitively it would have gone up.

Vivek Vikram Singh: Sorry, net order book, which is why. So, I'll go back into the concept. We have also consumed orders in this quarter, right and most of that has come from the EV only. So, if you look at our non-EV revenue, it has declined only our EV revenue increased. So, there are some programs that hit maturity. So, you take them out of the order book, go back one slide, Pratik, just the program slide.

So, if you look at last quarter, there were 7 EV programs that were in serial production. Now there are 9. So, two of those programs, the value has gone from order book. Now they are only in serial.

Gunjan Prithyani: Okay, got it. Plug in is there in EVs and non-EV is more the traditional. I got it.

Vivek Vikram Singh: Second part of your question was Spool Gear. So look, I think I have answered this before. The traditional, Pratik, can you go to the 1 to 2 motor architecture Mr. Deshmukh's slide. So, if you look at the 1st architecture, 1 or 2 motor architecture, this is going to be the dominant form for most vehicles, 90-95% of all electric vehicles in the next 5 to 10 years should go with this architecture. The spool gear architecture is for a three-motor configuration which is required for high torque vehicles, which means either very high speed, or high weight or off-road. Not too many of those expensive solutions, because we are putting 3. Value content per vehicle is very high and I can't give it away without giving the price, so I won't go there. But see the final drive differential assembly is there in the front axle, it is perhaps, so a single one, it is three times nearly, let's put it that way, the spool gear version. However, Gunjan the volume will be low, these are expensive vehicles. This is more a capability thing, and this is why I was saying that, look at it more as a capability addition because this doesn't have any differential. What this says to you as an analyst is that we have been saying this is the total differential assembly market they have 12.5% market share but there is a market out there for reduction gears for transmission of the EV in which we had till now 0%. Well now we enter this. Right? That's the point. So, the order is one, production will start next year.

Gunjan Prithyani: Okay, just one more if I can pitch in maybe Rohit. Just a follow up on the margins. Now, you know, can you just share some color on how typically the contracts for you know, aluminum, how quickly they can get re-priced because clearly there's still more pressure on the aluminum side. So maybe some color on how should we be thinking about the margins?

Rohit Nanda: So, aluminum and copper, most of the contracts for Motor business will be with a lag of 3 months. Gunjan, could I explain?

Gunjan Prithyani: Okay, so the pressure, the surge that we have seen, we will see, we will see the, you know, the hit of that in quarter one as well on the motor business.

Rohit Nanda: Yes, but then previous quarter positive will also come in, right, because it is a one quarter price lag, so it will partially offset. Because the prices are on an increasing trajectory right, so they must have increased in the quarter prior to that as well.

Vivek Vikram Singh: So, it is rolling settlement, Gunjan. It keeps going up on that slope. every quarter the next quarter will be the settlement one. But again, I don't think it could be that significant to be honest. Steel is the one you should look at as an analyst because steel affects both divisions.

Gunjan Prithyani: All of that with a roll, with a lag of 3-4 months is passed through, right? Or is there anything that is not a pass through, and you know, which will happen, which will adjust, which will take time to adjust?

Rohit Nanda: Motor business, steel input, that's a pass through only in a smaller percentage of customers.

Gunjan Prithyani: Okay, got it. Thank you.

Moderator: The next question is from the line of Hitesh Goel from CLSA. Hitesh, Your line is now unmuted, please go ahead and ask your question.

Hitesh Goel: Thanks for giving me a chance to ask the question. Vivek my question is, your largest customer in BEV has faced certain lockdowns in China because of Covid, right. So, can you give us some updates on the production ramp up there?

Vivek Vikram Singh: As we have requested multiple times, we don't take customers specific questions. Sorry.

Hitesh Goel: Okay. Any view on the China lockdown situation about, you know, your orders from there.

Vivek Vikram Singh: Actually, it's not just that. So, we took a big hit last quarter. I think March was a bad month, completely wash out type month. As you know, China is our fourth largest market, right. But I think the problem is not just local, so we must all pray that the problem gets resolved not just as a humanitarian crisis, I do feel for people there who are locked up in their houses, but beyond that I think supply chains and trade is going to take a massive hit all over if it doesn't get resolved within May. See we make controllers and for us because we are seeing it firsthand, a lot of the supply chain runs through there, right, semiconductor, the chip stuff. Our customer supply chains, almost all of them, if you look at the automotive world, how many of their supply chains go through China and if China stays locked down for too long, it's going to have a massive ripple effect. So that is, I would say a larger concern than one particular customer or one particular market, the impact of China being locked down on the global automotive analogy.

Hitesh Goel: And you know, yesterday actually Volkswagen also had alluded the same point that you're highlighting, but it was more of a European impact on the supply chain. Is the US also getting impacted because of supply chains?

Vivek Vikram Singh: Which country, which car, if you take and say that it does not pass-through China? Any vehicle, I doubt it. So, it's a global problem, I think. I didn't hear Mr. Diess' thing, but he is perhaps coming at it from an European angle, but because we are in Europe and US both pretty fairly significantly. It is everywhere. This is, if it resolves within, let's say the next three weeks, I think we all will be relatively unscathed, and we'll get through. But if it doesn't then we have a problem.

Hitesh Goel: Good, great. Thanks.

Moderator: The next question is from the line of Jinesh Gandhi from Motilal Oswal.

Jinesh Gandhi: A couple of questions from my side. First of all, congrats on a good performance. Can you share some details on the geographic restrictions on the tie-ups with Enedym and C-Motive? Is it only for India or this would be for other geographies as well?

Vivek Vikram Singh: Good question. Mr Deshmukh?

V. Vikram Verma: I think Mr. Deshmukh is dropped for some reason. I don't see him.

Vivek Vikram Singh: Okay, so I'l try to answer that. So Enedym, no restrictions, the applications could be very far ranging. This is not a traditional automotive type of product. I don't know how much is known about electrostatic, but in our spirit of trying to reduce more and more from the motor to make it more efficient. This has nothing actually; it's dielectric fluid and we are going back to Benjamin Franklin times. Right now, it's very low speed and high torque is what that motor can deliver. So, for automotive it is not actually a right fit in its present shape because as you know, automotive, the wheels have to rotate at a fairly high speed so it's high RPM. What we will do is we are going to be investing in them as well. We are going to together try and adapt this to automotive and mobility applications because if we can, I mean, can you imagine, Gunjan was just asking about copper and we are so worried about 3% - 4%, movement in copper. If you can just eliminate all copper and all magnets you can have potentially, and I'm using my words carefully, I don't want it to be said as you know, talking too big, but it can be a potentially industry changing device.

V. Vikram Verma: Mr. Deshmukh is back.

Vivek Vikram Singh: Okay, good. So it is a moon shot, but it's a global collaboration. Enedym is far more near term in that sense that the motor exists. The issues that switched reluctance motors had in delivering that kind of torque and power without a magnet. There were problems around weight, there were problems around torque ripple. Those have been sorted out by this Company. Here, Mr. Deshmukh I think the question is about is there a geographic boundary to the Enedym partnership?

Mr. Deshmukh: Well, there are boundaries in the sense that the current agreement is for India specific, but it is not limited to India. In case, there are specific markets and specific requirements from outside India, we can address that which would be on a case-to-case basis. But essentially it will focus on India, and probably Southeast Asian markets.

Jinesh Gandhi: Got it. And the C-Motive as Vivek indicated it's primarily there's no restriction on geography as such.

Mr Deshmukh: Like Vivek indicated, it is a moonshot and we hope that we are able to convert that into an automotive application, mobility application and if that happens, I think the entire world is there.

Jinesh Gandhi: Couple of other questions for Rohit. One is with respect to Capex for FY23 what should we look at and secondly you talked about interest on income tax refunds, so is that part of other incomes? How much will that be?

Rohit Nanda: Yeah. So I'll answer in reverse. So income tax refund interest is part of other income, about Rs. 16 crore for the full year, okay. And coming to your Capex question, look what's happening is because of all these uncertainties in terms of deliveries etc. what we've experienced in the last 12-18 months is that machines which used to get delivered say earlier in 8 to 9 months are now probably taking double the time. So, in that sense, you know, the time span over which the Capex is happening has kind of elongated. So rather than, I would say, mentioning only of one year, we will probably look at a period of three years and given the current order book, I think we should be spending about Rs. 900 -1,000 crore between FY23-25.

Kapil Singh: I will read out a few questions we've got in the Q&A box. So firstly, you have partnered with Enedym and C-Motive for SRM and Electrostatic Drive Motors. Will these products compete with the same market and use case? Also, will they cannibalize share from BLDC and PMSM motors. And secondly, do you have customers for BSG product and integrated motor controller module?

Vivek Vikram Singh: Yeah, so IMSM is with a customer, we even gave the order value last quarter I believe. So that is in our earnings presentation of last time. BSG we still don't have a customer. Otherwise, it would have been in the order book, we would have announced, and what was the first part of the question?

No, there is no cannibalization. I think Mr. Deshmukh showed a very nice chart. Every end use application has a different need. Sub $1,000 electric two-wheeler for example, the need is how many lifetime miles can you deliver on that device upon the TCO of that device? That's basically it. Above $1,000 price range, the electric scooter also has to deliver higher acceleration, higher torque and a host of other features, aesthetic elements also place a value. The powertrain has to cater to that end application.

See in the end all of us in the automotive industry, whether we are suppliers or the OEMs, are solving the problem of the end consumer. The end consumer for an electric three-wheeler, L5 type of vehicle has a different requirement i.e. lifetime miles into lifetime kilograms hauled upon the total lifetime cost. That is what you're trying to maximize, not zero to hundred in two seconds or three seconds because I mean, unless you're an auto driver in Chennai, you're not trying to set speed records right. It is a different need, you need a different kind of end product. For that different product what we try to do is try to select the best technology for that product. Cannibalization etc. is I think more a very FMCG word in which you have 60% market share and at the same price point you have two things etc. This is a nascent market growing so fast where we already don't have a 100% market, then those questions are meaningless. Right now, the objective is to try to give our customers the best fit product for that end application and within a category also there will be multiple engines. So, let's say an electric LCV, as you know today, earlier in the day one was launched, we believe that math of kilometers upon lifetime cost of those set kilometers, the electric LCV and L5 cargo carriage already is economically more beneficial to be electric and the whole market should commit. In that time the objective is not this that we know how to make the BLDC, PMSM motors. Let's try to make as many variants and try to give it to our customers. It is not selling by push, this is a business you sell by pull which is you develop the best end technology product and if you build it and you build it well, customers will come to you and that is what we are trying to do. We will fill this map - each space would have its own best fit product according to us. It's our opinion. We may be wrong. But what we feel is the best thing we will provide for others. That's what our attempt and if you're good enough, all the things like market share, revenue, all of that will follow. That's the result that's not the process.

Moderator: The next question is from the line of Ronak Mehta from JM Financials.

Ronak Mehta: Thanks for the opportunity. My question on the traction motor part of the business. Firstly, can you give some highlights on how the industry production was for the domestic market in the last 12 months, where are we in terms of market share. How do you see the competitive intensity because volumes are inching up pretty sharply and how do you see the ecosystem development in the next 2-3 years?

Vivek Vikram Singh: So actually it's a very good question and I know some of you have to go for another call, excuse that but do tune into, Gunjan is hosting us at the BoFA EV thing, and I will talk about this subject at length. I think there is a supply constraint on that and I think, you know the answer. There is a big supply constraint, the demand is phenomenal for the e- two wheeler e-three wheeler and I think the e-four wheeler LCV segment. Any device for any vehicle which has a high asset utilization is easier to justify economically because the opex is so much lower than ICE. I think this market will just explode and there is enough. On our market share I think we do about 10,000 motors. So you know it should be easy to estimate. So we're doing 10,000 right now per month, so it should be easy to estimate market share.

Ronak Mehta: But what could be the overall domestic production in that segment and how much is import here? Any color on the industry side?

Vivek Vikram Singh: So how much is import, in the electric two-wheeler?

Ronak Mehta: Yeah, two-wheeler, three-wheeler. How do you see the market?

Vivek Vikram Singh: Look I think FAME too will get more rigorous, they will start checking value addition and localization at tier two level also and more and more will move local. I think the day of showing value addition in India by importing something, you know, repacking it and giving it to customers, I think those days are numbered.

Ronak Mehta: Sure

Vivek Vikram Singh: It is a high boost for local, Ronak. And I think at the community there are a lot of people who stand to benefit even on powertrain as well as balance of parts.

Ronak Mehta: Perfect thank you. Thanks a lot.

Kapil Singh: Hi everyone, due to time constraints we would have to keep that as the last question. Vivek I will hand over to you for any closing comments.

Vivek Vikram Singh: No thanks, Kapil. I mean, look, I know you guys have to go, but I'm here. Please do let us know if you have any other questions. Thank you to all of you for attending the first year of our reporting results as a listed Company. So I'm sure we have much more to learn and further improve. We'll try. Should you have any further questions, feedback, please feel free to reach out to us or CDR India. Thank you and best of luck and hopefully we show even better results in the next quarter. So thank you.

Kapil Singh: On behalf of Nomura, thank you to all of you for taking out the time and I look forward to the same kind of success for another year as well. All the best. Thank you.
