SONA BLW Precision Forgings Ltd. (Sona Comstar)

Q4 FY23 Earnings Conference Call Transcript

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

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

Moderator: Good afternoon, ladies and gentlemen, good day! and welcome to Sona Comstar Q4 FY23 earnings group conference call. Please note all participant lines are in the listen-only mode for now. There will be an opportunity for you to ask questions after the presentation concludes.

Please note this call is being recorded. We request you to place your line on mute except when asking the 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.

I will now 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.

Kapil Singh: **Slide 3:**

Thank you, Deanna. Good day to everyone. To take us through Q4FY23 results and to answer your questions we have with us, Mr. Vivek Vikram Singh, MD and Group CEO; Mr. Kiran Deshmukh, Group CTO; Mr. Sat Mohan Gupta, CEO of the Motor Business; Mr. Vikram Verma, CEO of Driveline Business; Mr. Rohit Nanda, Group CFO; Mr. Amit Mishra, Head Investor Relations and Mr. Pratik Sachan, DGM Corporate Strategy and Investor Relations.

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

Vivek Vikram Singh: Thank you, Kapil and Deanna, and welcome everyone to the earnings call of what has once again been our best quarter ever. I think I've said it a few times, but I hope I never get tired of saying this, so the best quarter ever and the best financial year ever in several aspects of our business.

But first, as is our policy when talking to the company's owners, our shareholders, we will begin with the challenges. So, although inflation seems to be cooling in general, there hasn't been much change on the cost side on our largest purchase commodity which is alloy steel. It remains at elevated prices, so hopefully that too shall correct soon. Apart from that as highlighted in the previous call, in the EV two-wheeler industry, there was a requirement to get the vehicles homologated again due to the new battery standards. Also, there is a challenge around lack of clarity and uncertainty on FAME-2 subsidies, and that too is a constraint to growth.

On the positive side, I guess there is a lot more of that this time. In financial terms, we achieved the highest revenue, EBITDA, and net profit in Q4FY23. We close the financial year with a stronger order book, with the addition of several new programs, new customers, and new products. This gives us the confidence to sustain growth momentum in FY24 and beyond over the medium term. We've also made substantial progress on our technology roadmap by developing four new products in FY23 alone. We're also working on several exciting and innovative products for our customers across both motor and driveline businesses. We are obviously excited to add sensors and software as the third pillar of growth and hope to close the NOVELIC transaction before the end of this quarter. On the ESG front, we made some credible progress by developing and implementing an innovative solution in our forging plant at Gurgaon, that helps us recycle and save around 12,000 liters of water per day. This of course is a great achievement, and we'll talk about it at the end of our presentation.

Before proceeding, I would like to add that we don't consider ourselves macro experts at all, but to pre-empt your questions about the markets we serve here are a few observations. The US market was positive on a year-on-year basis in Q4 and continues to look good. The Indian market did well across all three categories of PV, CV, and off-highway and continues to be fairly strong. Europe also had a positive quarter on a year-on-year basis, which is very gladdening to see that it is continuing to improve over the recent quarters. Asia, which is our smallest market remains volatile because of the uncertainties of the post-COVID reopening in China. Let's see when that recovers.

Slide 4:

So, coming to the numbers, we again had good sequential growth but more importantly, and perhaps the only important metric for us on the year-on-year basis, our revenue grew by 35% while EBITDA and net profit increased by 49% and 54% respectively, as we continue to improve on our margins. Battery electric vehicle segment revenue grew by 37% and for the first time, we've crossed the 200-crore mark from that segment. BEV revenue share also increased to 28%.

Slide 5:

For the full year, like every year, we would like to report our performance scorecard as managers to you on our five KRAs that we've, consistently since our listing, been talking about our financials, our progress on electrification, our progress on business development, diversification, and new product development.

Beginning with financials, we continue to do well on all three indicators - growth, margins, and returns. Our revenue, EBITDA and PAT are up by 26%, 25%, and 28% respectively. Another quarter of strong operating performance has increased our EBITDA and PAT margins to the middle of our usual range. I think we've always communicated a range of 25% to 27% for EBITDA and 14% to 16% for PAT. And I think now we've come bang in the middle of that. Returns too, have been and continue to be strong.

Slide 6:

As I think I said last year too while showing a similar slide, any company's performance is meaningful only when seen in the context of the industry it operates in. The best benchmark for us is global light vehicle sales and relative to that, we continue to rise against the tide, we more than doubled our revenue in a market that has declined by 7% during these three tough years, and having done this organically, is a remarkable, remarkable feat for our entire team. Another aspect I want to mention, but actually repeat, is that while this chart shows a linear growth of over 25% each year, it doesn't mean that each quarter had 25% growth. The real world is seldom linear and ours is a company, which grows mostly through new programs, growth comes in steps. As you may have noticed in the eight quarters since our IPO, our growth has been between 0% to 10% twice, between 10% and 20% twice. between 20% and 50% twice, and over 50% twice as well. So, if you look at the data scatter, there is not much of a meaningful pattern on quarters. However, when you look at years, a meaningful pattern does emerge.

And also, please forgive me for perhaps reminding everyone of the obvious but if you look at the last two years that we've been publicly listed, we've grown by an incredible 70% while maintaining our margins. And this is despite, I would say, unprecedented headwinds like COVID, semiconductor chip shortages, extreme inflation, and even a war in Europe. So, apart from the tremendous team that I mentioned, our unrelenting focus on technology, innovation, and the lens by which we see how much value can we increase rather than just looking at pure volume. I think these are the reasons for our resilient performance.

Slide 9:

Coming to our second KRA which is on Electrification. So, our battery electric vehicle revenue has grown by 33% over last year in absolute terms and stands at 670 crore which incidentally is close to our total revenue just four years back. We added 12 new EV programs during the year and strengthened the EV orderbook further.

In Q4 specifically, we added one new EV program from a new EV customer which we'll talk about in the next slide. And here I wanted to mention that we often ask all of you for specific and actionable feedback and this is in actually response to one of those that we received from Gunjan and Anuja of BofA. We updated our EV program split because they kept saying that everything seems to be in the orderbook. So, earlier we used to only show two categories fully ramped up production and in orderbook. What we've done this time, and for the sake of more transparency is, we made it in three categories. So, one is fully ramped-up mature programs. Second, started production but in ramp-up phase, and last, not yet in production. So, if I were to do that for this, at the end of FY23 we have a total of 20 programs in production, out of which 10 are mature and completely ramped up. Other 10 are in ramp-up phase. The remaining 22 are not yet in production and will start either during this year or the following years. I hope this brings more clarity and transparency and we hope to also continue to improve with more feedback from you.

Slide 10:

Yes, to now talk about the new order win that we just had. This was from a North American New Age OEM of commercial vehicles, and we are proud of it and are highlighting it for three reasons.

First, this order is for a bundled product offering, which includes obviously our highest-selling EV product, which is the final drive differential assembly, and two completely new products – intermediate gears, and input shafts. All these combined complete all the major moving parts in an EV gearbox. Now, this obviously has been a stated ambition of ours, but I'm glad that we've got that fairly early.

Second, this would be our first commercial vehicle differential assembly ever and this marks our entry into the EV gearbox parts for a new market segment, which is electric commercial vehicles and this program specifically for class four and class five trucks.

Third reason: the increase in revenue potential in a vehicle and again, I wanted to mention that point that all research we kind of read about the automotive industry, every market segment and the focus seems to be on volumes of vehicles sold. We prefer as a company to look at market segments from a value perspective. And I think it is due to the strategic lens that we've been able to move step by step in the last 6-7 years from a $15 to $20 differential gear set for an electric car to a driveline system with $600 to $900 revenue realization per vehicle in terms of an electric class four truck.

Slide 11:

There's not much to talk about in this slide. We keep it for the sake of continuity and because it's a good visual representation of the geographic diversity of our electrification mission. The only change is the addition of a new program as well as a new customer in North America.

Slide 13:

On to our third KRA which is Business Development. This year was our best year of business development. We've added 80 billion rupees worth of orders during the year. This came from 35 new programs and 7 new customers. Primarily our revenue growth this year came via the consumption of 51 billion rupees from this order book. As I explained earlier, in an industry that is not actually growing, the only source of your growth would be your ability to get orders and then consume them fast enough in order to maintain your growth, and that's what happened. Taking that out the net addition to the net order book was 29 billion rupees.

Slide 14:

Which brings us neatly to our net orderbook which at the end of FY23 stands at 21.5 thousand crores or around $2.4 billion. As visible here, almost all our sequential growth in this quarter came from the consumption of the new orders while the EV contribution, and that's the second takeaway from this slide, has increased to 77% which is quite a big number now.

Slide 16:

Fourth KRA is around Diversification. Now again, as every time, the trend of increasing electrification and decreasing ICE dependence continues unabated as we keep developing new EV products and benefit from this EV megatrend.

Slide 17:

Geographically, we've seen a shift in our revenue mix this year, North America has contributed 43% of our revenue in FY23. This shows an exceptionally strong growth backed by new programs mostly. Very heartening to see that after dropping to merely 11% revenue share in Q1, Europe market has also recovered, and because of that, we have almost got back to the same percentage we used to be last year from Europe. And if you look at absolute revenue because this is against a fairly high growth of 26%. We have seen a YOY growth in absolute revenue from Europe.

Not much change in product mix or vehicle segment mix, to be honest, from the last quarter. Except that on an annual basis, the revenue share from traction motors for electric two- and three-wheelers has grown significantly. This revenue share that stands at 4% today used to be almost 0% two years ago and 1.5% just last year.

So, with that, I come to the end of my update. I turned to our Group CTO, Mr. Deshmukh to update us on our technology. Over to you, Sir.

Kiran Deshmukh: **Slide 18:**

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

Slide 19:

I'm pleased to present our technology roadmap as we continue to break new ground in innovation. The development journey from ideation to commercialization is exciting and we visually represent every time by transitioning a product from white area to blue on our technology roadmap. I'm delighted to report that we have successfully transitioned four groundbreaking products into the blue zone over the past year alone.

In recent quarters, we have proudly commercialized the net shifts spiral bevel gears and the electronically controlled locking differential or the EDL. Our spiral bevel gears testify to our pioneering efforts in precision forming in this product category. Meanwhile, our EDL represents the first-ever complex differential specifically designed for electric vehicles. Both these are further solidifying our commitment to sustainable innovation.

Building on this impressive momentum, we have added two more products, the input shaft, and intermediate gears to the blue zone this quarter. These advanced products enhance our capabilities in precision forming and machining and bring us one step closer to developing a comprehensive EV gearbox. Consequently, we have reinforced our position as leaders in providing higher value addition for electric vehicles.

With that, I invite Rohit to provide you with an update on our financial performance.

Rohit Nanda: **Slide 20:**

Thank you, Mr. Deshmukh. A very good day to you all. It's my pleasure to share our fourth-quarter and full-year results for FY23 with you.

Slide 21:

Like Vivek already mentioned, Q4 was our best quarter on all three parameters of revenue, EBITDA, and PAT, being 744 crores, 201 crores, and 120 crores respectively. Our BEV revenues grew by 37% this quarter whereas our non-BEV revenue also grew by a robust 35%, which is more than three times the underlying growth in our key markets of North America, India, and Europe.

Our EBITDA grew by 49% as year-on-year margin improved by 2.5% to 27.1%. EBITDA margin improvement was primarily due to operating leverage and a better product mix.

Our adjusted PAT for the quarter was 122 crores which is higher by 57% compared to the adjusted PAT of 78 crores in the comparable quarter last year. There was a better margin transmission from EBITDA to PAT due to lower net interest cost and depreciation combined as a percentage of revenue. This quarter, our PAT has been adjusted for exceptional expenses pertaining to acquisition-related diligence work whereas PAT for the comparable quarter, last year was adjusted for one-time tax-related impact.

Slide 22:

For the full financial year, our revenue grew by 26% to 2,676 crores. Our BEV revenue grew by 33% to 671 crores, and it was 26% of our total sales. Our non-BEV revenue grew by 23% while the underlying light vehicle market grew by only 2% in our three largest markets of North America, India, and Europe combined.

For the full year, our EBITDA grew by 25% to 696 crores. We had a positive impact on our EBITDA margin from operating leverage and product mix. On the whole, however, our margin percentage was lowered by about 20 basis points because of increased RM prices, despite cost pass-through, due to arithmetic effects.

Our adjusted PAT for the full year grew by 29% to 398 crores. Compared to the adjusted PAT of 309 crores last year. Lower net finance cost led to improved margin transmission bettering EBITDA and PAT impact for the full year as well. As I've already explained, the PAT adjustment for FY23 pertains to diligence expenses related to acquisition while PAT adjustment for the last year for the full year pertains to one-time tax-related impact and reversal of IPO expenses.

Slide 23:

We now move to the cash flows. During the full year, the company generated 535 crores as cash from operations and 200 crores as free cash flows. We thus managed to fund our entire Capex spending of 335 crores from cash generated from operations. Besides this, we also distributed a dividend of 120 crores during the last financial year.

Slide 23:

With this, we come to the slide on our key ratios.

The first one there is value addition to employee cost (VA/Employee Cost) which has further improved from 5.7 times last year to 6.4 times this year, which reflects continued improvement in our marginal value addition relative to change in the total employee cost, our return ratios of RoCE and RoE continue to be strong with RoCE about 30% and RoE about 26%. These are somewhat lower from the last two-year levels primarily due to ongoing Capex expenditure. Besides, in case of return on equity, there is also an adverse base effect due to primary equity raised during the IPO.

Our net debt to EBITDA continues to be below zero as net debt number is continuing to be negative. Working capital turnover ratio has improved to

4.2 times. Our fixed asset turnover ratio has declined a bit to 3.9 times which is mainly on account of the new capitalization that we did during the year.

With this. I'll now hand it over to Vikram who'll be sharing an interesting ESG case study, which showcases our efforts towards a better environment. Over to you, Vikram.

Slide 24:

Thank you, Rohit. Good evening, everyone.

Slide 25:

As you know that the driveline business is more concentrated with the forging as a process and the forging requires a lot of power and water. So, in a forging process, a die lubricant is used for both lubricating the die and cooling of the die. So, in the process, the water evaporates and then condenses, and extra water goes through into the pit that is normally disposed of through a proper channel, an authorized channel.

This used to be the process earlier. Now, the team at the forging plant has done an exceptional job of putting a system through which we can recover water, which is around 75% of the water is now recovered and put back into the system. So, this is a cycle, which has been used and this process is probably done for the first time. And hence, it should help many of the forging industries in the country.

The whole idea of showing this and we will share this to the community that how each one can use this process for improving action in the uses of water. So, that's something, which we are very proud to share with the whole community, the forging industry.

I think that brings my end of this presentation and I will now ask the Nomura team to go ahead with the next session.

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

Now, I'll go to the first caller Ms. Gunjan. Your line is unmute, please go ahead with your question.

Gunjan Prithyani: Hi, thanks team for taking my questions, and thanks Vivek for incorporating the feedback it's pretty useful. I had two questions, firstly, a little bit generic one on the industry. Now, clearly, the most topical thing has been the, you know, the price aggression or the price cuts that we're seeing in the industry. And in general, there is a fear that this eventually percolates down to the suppliers as well in terms of, you know, looking at the cost structures or renegotiations. Has there been any renegotiations at your end or re-look at the contract values or maybe, if you can share some colors around on how we should be thinking about this change in competitive landscape that we've seen on the EV?

Vivek Vikram Singh: Thank you! Gunjan. I think we've answered this question in different ways over the last three quarters. But again, I'll answer it with a Hindi phrase that I've used often, "Pratyaksh ko praman ki avashyakta nahi hoti hai". The numbers will tell you the story, if there is a significant discount, it will reflect in lower margins. If it is not, then it is not. Of course, there is pressure, when is not pressure there. I mean if you're running a real business, there is always pressure. How we deal with the pressure is our job as a management team and there is almost always a renegotiation of contracts. But yeah, the net result is visible. And I don't think there is much to be said about that. There is almost always something of the other going on with one customer or the other. But if you look at the net result, I don't think there is anything of concern there. And like I said, I think three times in the last three quarters, we've answered this question. I'm very amused to see that whenever prices go up, nobody asks us this question that will you get extra money from your customer?

Gunjan Prithyani: OK. Got it. Maybe just let me ask another question that I have is on your slide 10. So, you know, where you talk about the new customer, you put out an interesting, you know how the rise, the content value has been rising with the addition of these new products with every passing quarter. I just wanted to understand the original differential assembly that we, you know, we were giving to the, you know, to the customers was essentially just the differential assembly, there was no intermediate gear, there was no final reduction gear, right? If you can just give some colors on how does the value enhance by going from, you know, from the basic what you were supplying earlier to now adding this intermediate gear and what is it that is pending for us to supply the, you know, like it? So, you've mentioned that, we are one step closer to supplying the final product. So, what is it that is still missing in this portfolio for us to do that? You know, $600-$700 differential assembly. Or the integrated unit, maybe I'm just a little confused.

Vivek Vikram Singh: No, no, no issues Gunjan. I mean for a non-technical person, it's a good enough question. If you look at the parts, the bundle value, like I said, is already between $600-$900 right? However, the thing is, it's not just the value of the product, it is also for what vehicle. So, differential assembly is also just the differential assembly, the second item from the bottom. Yeah, that can range from $30 to $600, just that, without the final gear, also, if you go from a small hatchback car to a large class seven class eight truck.

So the range is quite, it's not just the product, it is the product in what vehicle, which is what we've been trying to I think say even by the way in the gears. The cheapest gear we've sold as a unit is 45 rupees and the most expensive is 4,500 rupees. The range is very, very wide. So, it isn't just what is the cost of this product or the price of this product? It is the price for that application for what kind of vehicle? What kind of load? What kind of torque? So that's the thing. So, it is two factors at play. Are you going, which is why we made that slide and it will be in the appendix. What segment of the market are you addressing? And in that, how much?

Second part of your question, which is far more interesting, is what is remaining? So, if you look at the whole EV drive unit, what is remaining? And I'll let Vikram also add, that of course, we are not putting it together, right? Even now we are doing all the different parts of it and letting the OEM assemble it. I think the bearings we are not doing in this, and we are not doing the thermal management. So, the cooling, whether it be liquid, whether it be oil based, we are not doing that. So, we have still not gone to that level of system integration of the whole gearbox. Vikram, you want to add to this?

Vikram Verma: No, I think you've answered. I mean if the question is, what next is the gearbox, in which all these parts are to go will require bearings, require seals, the thermal management. There is a big housing and a lot of sensors going into it. Beyond that is also, the product has to have motor also and inverter also, I mean, I think in the roadmap, Mr. Deshmukh had shown that was our final goal. So, this is still an intermediate before we reach there.

Vivek Vikram Singh: Correct. So Gunjan, in short, we just keep moving forward. And every time we move forward, we transparently share it with all our shareholders that we've moved one more step. The goal is still, there is still a lot more to do.

Gunjan Prithyani: So, the final reduction we are doing right? now that's not the gap in the portfolio anymore.

Vivek Vikram Singh: No, that we've been doing. That's actually at the third stage, final reduction gear on the differential assembly. I think that we've been supplying since 2018-19. So that's been a while. The fourth one which you see is for the tri-motor architecture. That's the single reduction at the wheels, the spool gears. EDL was what we showcased, I think last quarter. And this is the first time we're doing intermediate gears in shafts. We've never done these products before and this also requires actually for us to do a little bit of cold forging, knowledge, and capability, which is what we are building. I think we've been often asked that, what else are we adding. Well, this was always on the map. I don't think people asked us about it, but yeah, this was always an obvious adjacency within the gearbox.

Gunjan Prithyani: Ok. Got it. I'll just ask last question and I'll join back the queue – if you can just update us on where we are on the PLI if anything accrued in this year end. You know, just what is it, you know, that needs to be given to the government to get the incentive.

Vivek Vikram Singh: Yeah, I'll let Rohit answer that. just philosophically. I think we, for the last two years, maintained that we will do our business without planning for any government intervention or subsidies. Because that is, I think the right way to do it. If they come, they come, if they don't, they don't, we have never accounted for it. We've never given much thought about it but Rohit can answer that. He's far more on top of these things.

Rohit Nanda: So, Hi Gunjan, PLI, I mean, like all the other players, we've also moved our application and all for the product approval based on the current status, and all our understanding is that for FY23 actually, there may be no PLI, OK. The year gone by, I'm talking about. FY24 onwards. It should be there. But I mean, there are many things, which are yet to become clear. In fact, the government has come out with the SOP towards the end of April only. So, we are still studying it, trying to sort of understand the process and all. But currently, I think for everybody, it is that everyone has applied for the product approval and that is still everybody is in the queue in terms of approvals.

Gunjan Prithyani: Ok. Got it. Thank you so much!

Moderator: We now go to the next caller. Vimal Gohil your line is unmute, please go ahead with your two questions.

Vimal Gohil: So, my question is to Rohit. Rohit we've seen our gross margins actually have touched 60% at one point of time. Obviously, we've averaged around 57-58. We're currently at 54. There is some softening of raw material costs that we see at this point in time. So, what's the outlook over there and question to Vikram, Sir, your outlook on the starter motor business? Let's see, it's been passed off. So, what would be our outlook next?

Vivek Vikram Singh: I think you meant me. Vikram handles driveline business. I will let Sat answer the starter motor question since he is in charge of the motor business, but first Rohit the question is to you.

Rohit Nanda: Yeah, so, the material cost, I think apart from the alloy steel, I think we've seen softening of material prices over the last one year, I would say. But if I were to look at the alloy steel prices, I think they are still higher than where we ended the last financial year. I mean, it's hard to predict. Generally, steel prices have come off but not the alloy steel prices. I mean, alloy steel that we consume. In fact, in April, we saw price increase. After that, there have been two decreases in July and then October, but they have been insufficient to even set off the increase that we gave in April. So, in a way, we are actually, for the full year, like I mentioned in my part of the commentary also, I think the alloy steel price that we paid this year was still higher than the last year. And that's the largest commodity that we consume.

In terms of outlook. It's hard for us to really say anything because logically speaking, even alloy steel prices should have come off. Given that general steel prices have come off significantly from their highest, so, no predictions as such I would say.

Vivek Vikram Singh: Sat, on starter motors.

Sat Mohan Gupta: Yeah, I mean the starter motors, we did a good job in the FY23. And our volumes were quite stable. Though, I mean, a little bit lower than what we projected earlier due to the US and the European market. Overall, it's looking still good in the FY24, and we will continue to do that.

Vivek Vikram Singh: Yeah, and I think beyond that, Vimal, I don't think any of us know, and like I also mentioned, we humbly state that we are not experts in macros, we are not experts in predicting the future. And, if anything we have learned in the last four years is that we all need to be perhaps more humble. The world is far more dynamic and uncertain than we think it is. I think what we can do is focus on our business and be always ready and agile and move fast. But predicting the future doesn't seem to be something we are very good at, and we'll continue to not do that. We can see the bigger trends. We see how things move in, I'd say, 10 to 15 years. But you know, one or two years is just harder to get certainty.

Moderator: OK, we'll go next to Kapil Singh. Kapil, please go ahead with your question

Kapil Singh: Yeah, few questions. firstly, on orderbook, we have seen the 28 billion of orderbook consumed this quarter. So, any major product you can highlight which has gone into production. I'm sure it would not be fully ramped up in the first quarter itself.

Vivek Vikram Singh: No, but I that will be too specific because see it is only one or two programs that do that, but if I answer that, that's almost answering on the behalf of another customer, so, no point. But yeah, you know how a business is and I think it's a very good sign if you see this periodic up and down because that means that the order book is not just something which we were asked, I think earlier that it's something that is far in the future. These are things that this is how growth comes. Specific, I mean, there is no new product in this. It's all new customers only. That's why I'm not answering.

Kapil Singh: Ok. No, what I was trying to understand is whether this would not be fully ramped up right now. Right?

Vivek Vikram Singh: No, Shouldn't.

Kapil Singh: So, I mean, the impact on orderbook is larger than the impact on revenue. That's what I was trying to understand.

Vivek Vikram Singh: It always is that way because what you're trying to do is take out something and when one of the programs has hit maturity or full peak, so now any additional is zero, so you take out from…so how it works is let's say you were 10% off peak, but now this 10% goes out from the next 40 quarters, so there is a large value. So, you take 28 billion, you divide that by the number of quarters remaining and you'll get it. Actually, the math is fairly simple, and you realize that almost all our growth is because of that. There's nothing else happening.

Kapil Singh: Yeah, yeah, and when you say something, some orders are fully ramped up, what does this mean? If you could give or take an example of, I'm saying any general product in the market so that we can understand?

Vivek Vikram Singh: Let's take any standard biggest product, a differential assembly, and the vehicle maker has projected and has planned to build 100,000 vehicles a year from that program. So, how it starts is initially in the initial phases will be 10,000, let's say for the first year, which could not be a full year. Next year, it goes up to 60-70 thousand. By the third year usually it gets to 100 thousand which is the peak. After that, it'll stay at 100 thousand then it'll start declining, that's usually the curve any product cycle follows. So, when we say fully ramped up, it means it has reached the peak volume said by the customer. Of course, they can be plus or minus 10% in this every year if suddenly a lot of demand comes. But if the peak stated at beginning assumption is reached, we take that out of orderbook.

Kapil Singh: Ok. Also, on the orderbook, do you assume any market growth, or this is just the growth of the new products basically, which is what is reflecting here?

Vivek Vikram Singh: We never assume market growth for anything we do. Our budgets are based on zero basis because again, and you know this Kapil, I was made CEO four years ago, and I've never seen market growth.

Kapil Singh: You've seen a market decline actually.

Vivek Vikram Singh: Yeah, so, we don't assume all that. We assume zero because again like I said, we're not macro experts, so we don't know any better. So, we just say, let's assume everything will remain the same as it is today and then plan around that. Orderbook has nothing to do with the market and growth. It is customer projection and program ramp-up projection.

Kapil Singh: OK. So, if, if you know, let's take a longer lead product like a tractor, for example. So, you, or a truck, you know, in those basically you're not going to assume any growth in those when you build your order book, basically.

Vivek Vikram Singh: Correct. So, when growth does come, you will see growth. Actually, orderbook will still not grow because you can't solve for 10 years for that thing. Your base will suddenly go up though. So, even without consuming from the order book, your revenue can grow sequentially quite a lot and we are fervently hoping for that day to come. It hasn't yet.

Kapil Singh: And, and just one last question on slide 10, the new product that we have you know, the lead time for this is quite small, you know, Q4 start of production. So, can you throw some color because generally, we have longer lead times, our award cycles are longer? Is this a new customer? And why the lead time is smaller than usual? And also, what does this mean for future other segments, for example, cars, you know, gearbox or other segment trucks, just, some color on that as well?

Vivek Vikram Singh: Yeah, development cycles are shortening. That's a fact. What does it mean is a lot more pressure on our engineering teams and this is something we really are concerned about that every customer seems to be in a far more hurried thing which obviously is good from a shareholder's perspective, that profits and revenues come faster than they used to. But there is a lot of pressure and a lot of time pressure, I guess it will continue till this EV trend and the EV transformation stabilizes. I think we are in the midst of a large disruption in the industry. We are obviously beneficiaries of it. But yeah, there is a lot of hard work.

What does it mean for other segments and other gearboxes? Kapil, we always say only what we mean, whatever we have said is all there is to it. There is not much more to read. We have made these new products and we have been able to secure a customer. We will always keep trying, keep striving to grow that business, keep trying to sell to more customers. And it will take a while. The capability curves are long. Often we've been asked about others, and we have always commented that we don't talk about others because our race is our race. Our product roadmap is transparently shared with all of you, including with all our competitors and customers and everyone. This is what we intend to do. We are not hiding what we intend to do, our race, our milestones are there. If it is on our road map, we will do it. There is no question about that. I think in the last two years, we demonstrated that many times. If it requires that we will be taking some things that other people have been doing other people, other companies, well so be it. We don't define ourselves by competition. We do not define ourselves by finite-mindedness. It is completely transparent whenever there is something more, let's say we sell it to another commercial vehicle guy, we'll share it. If we take those parts and do it for a passenger vehicle, we'll also share it.

Kapil Singh: Ok. Thank you very much.

Moderator: Thank you Kapil for your questions and we are now going to Nitij Mangal. Nitij, your line is unmute. Please go ahead with your two questions.

Nitij Mangal: The question is on the Traction motors and the context of the uncertainties in electric two-wheelers and also anything you can share incrementally on the development of the magnetless motors.

Vivek Vikram Singh: Nitij, I couldn't quite hear you clearly. I think what I got was something around magnetless motors, but I didn't get much more.

Nitij Mangal: Yes. Yes, of course. So, how are you thinking of the ramp-up of the traction motor business in India? Given there is some uncertainty around the FAME, regulations, etc., and then also, anything incremental on the development of magnetless motors?

Vivek Vikram Singh: Sure. So, we are obviously like everybody else subject to the markets we operate. If the overall demand of our customer or the production plan of our customer is lowered. So, do we get it lowered? So, we are not thinking too much about it. We are ready with the products. We should still see growth. But what would happen is then that growth will come from incremental market share addition rather than growth in the industry. I am too, I would say, unaware to comment on what will happen of FAME 2 or what will not. So, I will leave that. I believe that this, I think we've had this conversation that any industry or any business model that is dependent on government subsidies like PLI like FAME, that will always be prone to far more risk than a business that exists without it. We have always kept away from that. We did not plan our business around those subsidies even while quoting to our customers. And that's how we will continue if the market comes great. If it doesn't, it doesn't, we can't control that. So, it's uncontrollable. And also, we again, very humbly say we don't really know what is going to happen on FAME 2. So, we can't answer much.

Second, on magnetless motors, Sat you or Mr. Deshmukh can give an update. Although if any of you attended Auto Expo, you would have been able to see one of those in action. Sat, do you want to share an update on the magnetless motors?

Sat Mohan Gupta: I don't know, sure. On the magnetless motor, I mean, we are working with, and we have also shown one of the motors with our partner in Auto Expo. Right now, it's in development and a validation phase and we will come back on the status. And yeah, maybe in the next investor call with you guys with more firmed information and the data. But right now, it's in the validation phase and we are working on some of the options.

Kiran Deshmukh: Just to add to what Sat just now said, we are working on several technologies for magnetless. And currently, in our technology road map, those products are in the white zone. The moment they are ready to be commercialized, they will move to the blue zone. We will share that in this forum. As any other R&D project, these are all in the development stage, and depending upon the results and the validation, outcome of the validation tests, we will be in a position to say which technology we will go for, etc.

Nitij Mangal: OK, Thank you. I have one more question. Vivek when you see your order book flowing into revenues, let's over the next two or three years. I believe the share of EVs can probably get to like 45-50% or so. How do you see your customer concentration within EVs, let's say three years, five years down the line?

Vivek Vikram Singh: See, even today, if you look at our overall customer concentration, there is no customer who is over 20% right? Even now, even at this time of IPO, that was the same thing. 3 to 5 years later, also a similar type of thing should exist. In fact, it is one of our priorities that you know, top two customers, how do we bring it to a manageable level? Of course, our goal is that no customer should be higher than 15%. We're already at 20. I think we will maintain this good practice and in 3 to 5 years, you'll be happy to see there'll be a lot more. However, dependence on which customer is not really the thing, it is which customer of ours does well in the market, which is the harder part to predict, because who sells how many cars is not something we can control, we will do our best for every single customer, right? Then how they perform in the market is not something which is a controllable factor that we have.

Our job is to get as many customers and as many programs, we are already with 26 customers. We will keep adding to this list. How they perform, you know, that's up to them and to the end customer, who's the king after all, who decides which vehicle to buy, that person he or she decides the fate of all of us.

Nitij Mangal: Got it. Thank you, and all the best.

Vivek Vikram Singh: Thanks, Nitij

Moderator: Thank you so much. We'll go to the next caller Sonal Gupta, Sonal your line is unmute, please go ahead.

Sonal Gupta: Hi. Can you hear me? Congrats on a great quarter and I think what's more heartening to see is that every quarter you innovate and come up with new products for which you are winning orders, so I think kudos to the team on that. It's very impressive.

Just a couple of questions from my side. One, I would just want to understand like, what is the capex target that you're looking at over the next couple of years? And also, I mean, we have the Inflation Reduction Act in the US. So will that sort of imply that you also look at some sort of a US facility given that is your largest market?

Vivek Vikram Singh: Thanks, Sonal. So the second part, I will answer that we are always actively considering new facilities anywhere. But the Inflation Reduction Act is not, it's actually more of an opportunity for us than otherwise. That's not that much of a thing. But the first one on capex I think I'll let Rohit answer that question.

Rohit Nanda: For capex plan, generally we see three-year time horizon. I think for the next three years, the number would be around 1,000 to 1,100 crores, some of the new orders and all, that's a three-year number in terms of capex.

Sonal Gupta: 1,000 to 1,100 crores, got it and just like I mean, any thoughts around like I think, Nitij asked that question, like on the India traction motors side? Because there's been a change in regulation and some customers have been impacted as well. So, how do you see that part of the business sort of moving ahead?

Vivek Vikram Singh: It is 4% of our revenue right now. I hope it grows, but like I said, what will happen with FAME 2 and what will happen post-FAME, we don't actually know. That's why we are begging forgiveness that it's our ignorance that we don't know which way the government or the regulator will turn, we can't take that call. However, just rest assured, I mean, it is the smallest market segment that we have. Hopefully, it grows, we will keep trying with other directions in traction motors also.

Sonal Gupta: Got it, and just last question, I mean, just to follow up with Rohit like on the commodity cost side, have we seen all the benefits other than the alloy steel, which where we have not seen any benefit but for others like copper, etc. I mean, like I mean, would we broadly say that all what needed to be passed on to us has been done?

Rohit Nanda: So, on the commodity prices, whether it is with the vendors or with the customers, there are periodic cycles, you know, it could be a three-month, six-month settlement cycle. So, for example, copper would be LME linked, so the price will automatically adjust.

Vivek Vikram Singh: I don't know if Rohit's voice was clear, it wasn't very clear to me. But basically, all of these price-passthrough mechanisms are pretty well in nature. They are usually linked to one or the other index, one of the other global indexes like LME or the Gerdau index. So, it's fairly transparent. So, if it happens, it comes through, there isn't much, I would say, things to worry about there. Copper as an element has softened a little bit so that benefit must have already come in but not that much, by the way.

Sonal Gupta: Got it, great. Thanks a lot for taking the question.

Vivek Vikram Singh: Actually alloy steel, Sonal, why is different is because we buy all our alloy steel in India. Now, there are geographical disparities between. So, steel may cost you different things in different geographies. It's not very usual. Usually, it's lockstep and all commodities move in tandem, but this is a slight difference, right

Sonal Gupta: Ok, great, thanks. Thanks a lot.

Moderator: Thank you. Ok, we'll go to the next caller. Caller is Jyoti, I think she has dropped off the line. We'll take Hitesh. Hitesh your line is unmute please go ahead.

Hitesh Goel: Congratulations on a very good set of results. Actually, my questions are basically first is on this PLI incentive, you know, which our firm is one of the biggest beneficiaries. So, can you give us some sense? Have we started getting in those incentives as yet or what is, where is the, you know, where are we on that, right now?

Vivek Vikram Singh: So, I don't think that anybody has got it, so neither have we, but Rohit can answer that better.

Rohit Nanda: Yeah, so Hitesh our understanding is that nobody is going to be getting, I'm, I'm talking of only auto PLI right now for FY23 because I believe it's now been linked with the product approval and product approvals are all in the pipeline. So, you know, now it should kick in only after the products are approved. The government has recently come out with the SOP which they had been drafting. We are also going through it. But like I said, our understanding is for FY23 probably nobody is getting it. Going forward once the products are approved for each of the participants, that's when you start to get it.

Hitesh Goel: So we'll get it for the retrospective basis or only for say FY24.

Rohit Nanda: My understanding is FY24 onwards. But these things are still, I mean, I would say early days, but my broadly, my understanding is that it will be with a prospective effect, not with retrospective effect.

Vivek Vikram Singh: I think Hitesh, just as we do in our company, from the analyst perspective also, take the most conservative view because I don't think it's an area we want to be optimistic on because these things seldom pan out in the most optimistic fashion.

Hitesh Goel: Yeah, great. And my second question is, just a housekeeping one also on this, you know, there's this other income which comes in the fourth quarter, right, in standalone, which is, you know, that's why standalone PAT is higher than consol PAT. Could you tell me what it is Rohit?

Rohit Nanda: It would be intra-group dividend, which Sona would have received from subsidiaries.

Hitesh Goel: Ok. Ok. So, that comes in the fourth quarter. So, that's why there's a skew

Rohit Nanda: It's not necessary, but normally it comes in the fourth quarter. Your observation is right.

Hitesh Goel: Ok. Thank you and all the best.

Moderator: Thank you very much, ladies and gentlemen. We are now at the end of this session, and we would like to invite Vivek to do a quick closing remark.

Vivek Vikram Singh: Sure, I hope there is nobody whose hand is raised and we have not answered. I would love to take all questions, but if there isn't, well, thank you. Thank you again for giving us your valuable time and attention. If you do have anything which is specific and actionable and can improve our performance or our communication, please do send it to us, and yeah, see you all in the next quarter. Thank you.

Kapil Singh: Ladies and gentlemen on behalf of Nomura I thank you for joining this call and I thank the management of Sona Comstar for taking out time. Deanna, we can close the call now. Thank you very much.

Moderator: Certainly. Thank you, everyone for participating. Have a good evening.
