"UNO Minda Limited Q1 FY-23 Earnings Conference Call"

August 8, 2022

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Moderator: Ladies and gentlemen, good day, and welcome to the UNO Minda Limited Q1 FY '23 Earnings Conference Call. This conference call may contain forward-looking statements about the company which are based on the beliefs, opinions, and expectations of the company as on date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict.

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' and then '0' on your touchtone telephone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Sunil Bohra – Group CFO from UNO Minda Limited. Thank you. And over to you, sir.

Sunil Bohra: Thanks, Inba. Good evening, everyone, and a warm welcome to all the participants. On this earnings call today, I am joined by my colleague, Ankur Modi. We have uploaded our financial results and investor presentation for Q1 FY '23 on the stock exchanges and our company website. We hope everybody had a chance to go through the same.

Recently, we have changed your Company's name from Minda Industries Limited to UNO Minda Limited and also launched a new tagline called Driving the New. This change is intended to reflect the unique legacy and identity of the company as a leading Indian automotive systems supplier and also a leader in technology and solutions across customers, consumers, distributors, partners, and employees. The renaming initiative will further strengthen and unify the brand UNO Minda. I would also like to inform that consequent to name change, our stock code has also been changed to UNOMINDA.

Before speaking about the company's performance this quarter, I would like to throw some light on industry front. Automotive industry had its own challenges over the last 4 to 6 quarters due to rising commodity prices, shortage of chips and semiconductors, and geopolitical tensions across the globe. However, we tend to believe that the worst is behind us. The industry is progressing well and is on a high growth trajectory.

Large scale digitalization and technological upgradation, the rapid growth of the economy, and learnings from past 2 years of the pandemic are expected to come in handy as demand continues to remain resilient, notably in the two-wheeler and passenger vehicle segment. We have also witnessed demand picking up for CV industry, which is a good sign for the Indian automotive industry to be poised for sustainable growth going forward. Our discussions with customers are encouraging and gives us an optimism for the outlook for FY '23.

We expect the festive season to do well, including the rural market as the vaccination push is aiding the economic recovery and so far the monsoon is also progressing well. We have seen good growth in last quarter in two-wheeler, passenger vehicle, and CV segment. Industry grew as compared to previous quarters and volumes released by various OEMs for July also ended on a positive note with Q2 FY '23 looking positive.

The PV segment is on the dream run as retail sales picking up with the economy stabilizing and approaching near normal. Also, the industry is continuously launching new models in the PV segment, which is adding fuel to the growth prospects.

On the EV industry, the Indian government had been taking multiple initiatives to push for the EV adoption. We believe that the EV industry is at the cusp of the multi-fold growth. As the market and technology advances, EV market penetration is expected to increase rapidly, especially in two-wheeler, three-wheeler, and PV segment. The demand momentum for electric two-wheelers remain strong with a high growth in FY '22 and Q1 of FY '23.

EV adoption across the supply chain requirements, especially by the e-commerce players for the last mile deliveries, may also entail higher acceptance and penetration of the EV vehicles. We are optimistic about the demand scenario from both domestic and international markets. Supported with a diversified product portfolio, increased content for vehicle, and cross-selling of products to our existing customers, we maintain a positive outlook on revenue growth. We continue to deepen our R&D efforts, enabling us to seize the opportunity in the automotive segment, especially from the EV space which points to a solid future.

Moving on to financial and operational performance for Q1 of FY '23, you may refer to Slide #5:

The company has been expanding its capacities in alloy wheels, considering increasing demand on back of increasing application. During the quarter, we started commercial operations of 60,000 wheel per month capacity in Bawal. Out of 60,000, 30,000 was commissioned in April of 2022, while remaining 30,000 was commissioned in June 2020. Consequently four-wheel alloy wheel business also reported increased revenue.

On two-wheeler alloy wheel business, we are happy to inform that all 4 lines which were part of phase 1 expansion, which is 3.6 million wheels, are now fully operational and incremental revenues are expected to start flowing in from Q2 of FY '23. We have also started commercial operations from our four-wheeler lighting plant at Gujarat.

While we continue to increase asset value in some of the recently launched facelift models from Japanese and Indian OEMs, we are also thrilled by the incremental order wins from the EV OEMs for both EV specific components as well as our existing products. We will talk about them in detail in subsequent slides.

UNO Minda has raised the bar with its people practices and people-first culture, providing compelling employee value proposition and best experience to its employees. We have recently been recognized among the Top 50 India's Best Companies to Work For and also as one of the Best Workplaces in Auto and Auto Component for the year 2022 by Great Place to Work Institute.

Coming to our financial and operational performance, you can refer to Slide #7 and #8:

At consolidated level, revenue from operations for the quarter increased by 59% year-on-year basis to Rs. 2,555 crores from Rs. 1,602 crores reported in Q1 of FY '22, while revenues increased 6% on quarter-on-quarter basis as industry volumes gradually recover with easing supply chain constraints. We would also like to appraise that we have reported our highest quarterly sales in Q1 of FY '23.

We have witnessed growth at almost all businesses, especially alloy wheel division. As promised, we have continued to outperform the industry with 59% growth against industry volume growth of 37% year-on-year basis. Even after factoring price increases due to commodity prices, there is a significant delta with respect to industry volumes. It is pertinent to note that Q1 of FY '22 was impacted by the Delta wave adversely impacting the industry volumes during this period.

EBITDA for the quarter was at Rs. 266 crores, improving by a stellar 81% from Rs. 147 crores on YoY basis. The EBITDA margin for the current quarter were also higher at 10.4% as against 9.15% in corresponding quarter last year. EBITDA margins have declined sequentially from 11.4% to 10.4%, primarily due to higher energy costs, higher prices of critical raw materials like aluminum and electronic parts, and inflationary impact on employee and other administrative expenses.

The prices of gas, which is largely consumed in our alloy wheel division has continued to increase on a quarter-on-quarter basis, adversely impacting the margins. We would also like to highlight that while commodity prices have come off from the peak, spot prices during the quarter were still higher than average prices of the last quarter. Hence, we continue to enforce high prices during the quarter.

Recovery or price adjustment for the raw material price increase is expected in subsequent quarters as we continue to maintain our full year EBITDA margin guidance, which is between 11% to 12%.

Finance cost has increased sequentially from Rs. 13.5 crores to Rs. 16.8 crores, however, still lower on YoY basis. The sequential increase is on account of increase in debt as well as increase in borrowing costs pursuant to interest rate hikes by the Reserve Bank of India.

Other non-operating income for the quarter return to normalized level at around Rs. 10 crores after the onetime gain of around Rs. 9 crores in the last quarter from revaluation of investment in Kosei Minda Aluminum post increase of stake by a JV partner from 70% to 88%.

We see sequential reduction in tax expenses from Rs. 48 crores to Rs. 31 crores as we have moved from old tax regime to a new tax regime having lower tax rate. We continued in the old tax regime till last year as certain tax benefits were available only in the old tax regime. The profit after tax, which is a MIL share for the quarter, was at Rs. 139 crores as against Rs. 15.4 crores in Q1 FY '22 and Rs. 144 crores in the previous quarter.

Coming to the business segment-wise performance:

Moving to product lines, starting with switching system, you might refer to Slide #12:

The segment achieved revenues of Rs. 730 crores for Q1, contributing 29% of our consolidated revenues. We continue to receive orders for new generation switches like sunroof, cruise control, power windows, switches, pedal switches, vehicle stability switches, etc., from various OEMs. Exports is another big revenue stream which is growing fast especially in the two-wheeler switch segment.

Moving to lighting business:

It has achieved revenue of Rs. 582 crores for Q1, contributing to 23% of our consolidated revenues. Lighting segment has won many large orders in last 1 year and poised for promising growth in the coming years. In continuation of the same, we have won another large order from a new EV OEM for complete set of head lamps, tail lamps, blinkers for their newly launched model.

Moving to our casting business:

It has achieved revenue of Rs. 484 crores for Q1, contributing to 19% of our consolidated revenues. Casting business continued to grow with the expanding capacities with increased demand and application. As informed earlier, Bawal extension of 60,000 four-wheeler alloy wheel is completed while Gujarat is in progress and expected to commission by Q1 FY '24. Volumes are increasing in two-wheeler alloy wheel as the fourth line come on stream.

Moving to acoustics, Slide #17:

Our acoustic business had achieved revenue of Rs. 172 crores for Q1, contributing 7% of our consolidated revenues. Our India business remained stable. European subsidiary Clarton Horn remained under pressure with unprecedented increase in energy costs and lower industry volumes.

Moving to our seating business – which achieved revenue of Rs. 59 crores for Q1 FY '23, contributing 10% of our consolidated revenues. Revival in CV segment and better volumes from two-wheeler had supported the growth in seating business.

Moving to other product businesses which have achieved revenue of Rs. 328 crores, contributing 13% of overall top line. Other businesses mainly comprise of controllers, sensors, ADAS, blow molding business, battery, and aftermarket. The share of profit/ (loss) of associate, joint ventures for Q1 was at Rs. 22 crores against a loss of Rs. 5 crores in Q1 of FY '22. The share of profit has decreased sequentially primarily due to inclusion of price increase for previous quarters in Q4. While all our JVs have contributed positively, major contribution came from DENSO TEN, ROKI and TG.

Moving to aftermarket and export, you can refer to Slide #14. In terms of our revenue pie for the quarter ended June 30, OEM business accounted for 91% and aftermarket businesses at 9% for Q1. Our aftermarket division revenues were at Rs. 223 crores as against Rs. 114 crores in corresponding quarter last year. In spite of a cyclically weak quarter, aftermarket has maintained the revenues. Aftermarket division continues to grow from strength to strength supported with increasing number of retailers and touch points, addition of new products, export, and focused branding and marketing initiatives. We have expanded our aftermarket network significantly in last few years, covering 620 cities in India with 1,400 plus business partners. We now have 44,000 plus retailers on board.

In terms of geographical distribution of revenues, we have a pan India presence with fair distribution across 4 regions. As you can see from products segmental breakup, switches, lighting acoustics, automotive, battery contribute majority of the revenue pie, while alloy wheel and seats which are added in aftermarket recently contributed only 2%, but have significant potential to grow. Specifically in the alloy wheel segment where we were not able to supply enough quantities to aftermarket due to capacity constraints, but after completion of recently announced capacity expansion, we are expecting to increase our supplies to aftermarket.

Our sales from international markets, which is export plus sales from overseas operations, stand at 17% of total consolidated revenues. International sales growth was led by German businesses having strong quarter with their innovative products in the European market.

Moving to our cash flows and debt levels. Our net debt as of June was at Rs. 714 crores compared to Rs. 611 crores as on March 2022. And our debt to equity stands at 0.18x. The net debt has increased pursuant to CAPEX and also a strategic investment of £15 million in FRIWO AG.

Moving to Slide #16 and #17. As you are aware, we have built one of the most formidable product portfolio for EV specific components. As you can see in the slide, out of 11 products, we are already supplying 8 products to EV OEMs. While another one of them, which is motor controller, we have already received LOI and SOP is expected in April '23 as this needs to be customized/ adapted to new model of EV OEM. Other two products, which is battery pack and Vehicle Alert Systems are under development and in discussion with our customers.

We would also like to inform you that we have now progressed from low voltage EV product band of 46 volts to 72 volts to a band of 48 volts to 96 volts. We have also started serving many light commercial vehicles. In fact, we have received a large order worth around Rs. 200 crores from one of Indian CV manufacturers for their mini-LCV model.

Including the above order from mini LCV, we have received orders worth Rs. 470 crores during the quarter from EV OEM. The total peak annual value for orders received from EV OEM, till date stands at Rs. 980 crores with almost 52% orders for EV specific products. We have also presented the customer mix for this order book, which you can see is fairly diversified with orders from a significant number of players in the segment.

With this, we now open the floor for questions.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Aditya Jhawar from Investec. Please go ahead.

Aditya Jhawar: My first question is on the order win of EV specific component of Rs. 430 crores. Now this is very impressive. But if you can give us a little bit more detail about what kind of products we have won. And Sunil, did you just mention that out of this Rs. 430 crores, Rs. 200 crores is on LCV, IF you can just clarify?

Sunil Bohra: You are right, Aditya.

Aditya Jhawar: And what about the component breakup? Any broad sense?

Sunil Bohra: I think we might let you know once they get productionized, but they are a mix of products, including onboard chargers, et cetera.

Aditya Jhawar: Secondly, if my understanding is correct, so if you look at the revenue recognition from the EV component, so all the revenue would be booked under the JV with FRIWO. Is that understanding correct?

Sunil Bohra: Yes. For two-wheeler, yes.

Aditya Jhawar: For two-wheeler? But Sunil, we also supply like BMS to an incumbent with another JV partner like AMP so that.

Sunil Bohra: AMP was not a JV. AMP was a TLA.

Aditya Jhawar: Okay. So that will also be booked under business?

Sunil Bohra: Yes. So what happens Aditya, if you remember last December when we spoke about the JV, so our joint venture partner also has win a few businesses in India, and we had also won a few business. So all of those businesses, we will move to the new joint venture.

Aditya Jhawar: And so now based on the current order win, so if you can give a broad sense that what could be the contribution of EV component revenue in FY '24?

Sunil Bohra: Let us wait Aditya. Let this get productionized.

Aditya Jhawar: Okay. And final question is on CAPEX. What could be your CAPEX number for '23 and '24?

Sunil Bohra: '23, '24?

Aditya Jhawar: Yes, FY '23 and '24.

Sunil Bohra: So '23, I think we have communicated last call, we are sticking on to that, which was a total CAPEX of around Rs. 600-odd crores. FY '24, we have not yet worked out, honestly.

Moderator: Thank you. Our next question is from the line of Ashutosh Tiwari from Equirus Securities. Please go ahead.

Ashutosh Tiwari: Sunil, when you mentioned this Rs. 470 crores order for EV products, is it the peak revenue number or total order over the years revenue?

Sunil Bohra: It is the peak annual revenue. Annual, not total.

Ashutosh Tiwari: And can we assume this to a season, say, a 4-5-year time frame or it could be earlier as well?

Sunil Bohra: It could be earlier, not 5 years definitely.

Ashutosh Tiwari: And this LCV order, is it also the multiple product which is included in the Rs. 470 crores?

Sunil Bohra: Sorry, come again.

Ashutosh Tiwari: You mentioned that this mini LCV is 200 basically in this Rs. 470 crores?

Sunil Bohra: Yes.

Ashutosh Tiwari: So that is also multiple products or any big product over there?

Sunil Bohra: Yes. So there is one large product, which is the lion's share here.

Ashutosh Tiwari: Okay. Secondly, on the lighting side, we are seeing very good ramp-up versus where we were, say, pre-COVID FY '19 and all. Can you throw some color that in the, say, this Rs. 580 crores sales, is it four-wheeler which is ramping up faster, two-wheeler ramping more faster than four-wheeler? Some color on that. And how do you see lighting business growing? Because we already are at annualized around Rs. 2,300 crores plus sales in this quarter despite industry is still lower than what they were in FY '19, meaningfully lower?

Sunil Bohra: So if you see, Ashutosh, from the growth perspective, definitely I think the four-wheeler lighting is a segment which we expect to do much better. However, if you see from a quarter-to-quarter basis, I think the numbers are broadly in line. But from a future perspective, as we have been speaking, the four-wheeler lighting business with this new addition of all these LED businesses which we are not having earlier, which we already have in two-wheeler segment, so we are expecting EV segment to outperform in terms of growth vis-a-vis two-wheeler.

Ashutosh Tiwari: Currently what is the mix of two-wheeler, four-wheeler in this?

Sunil Bohra: Mix, if I have to say this quarter, it is broadly equal.

Ashutosh Tiwari: And lastly, on this alloy wheel side, there again, we are seeing good ramp up. So what was really in four-wheeler and two-wheeler separately in this quarter?

Sunil Bohra: So alloy wheel, two-wheeler this quarter was not very, very significant. I think it was roughly around Rs. 100 crores for, what we call, two-wheeler segment. And for the four-wheeler, It is roughly around Rs. 300 crores.

Ashutosh Tiwari: And let us say, now two-wheeler in green in terms of EBITDA and PBT level?

Sunil Bohra: Yes, two-wheeler is not burning cash now.

Moderator: Thank you. Our next question is from the line of Mumuksh Mandlesha from Emkay Global. Please go ahead.

Mumuksh Mandlesha: Congrats on a good performance and a strong EV order book. So is it possible to share some time period of the order book, sir? Like when would be the starting period for this and how long it will be, sir?

Sunil Bohra: So starting period is somewhere around '24, '25 onwards. And second was, how long?

Mumuksh Mandlesha: Yes.

Sunil Bohra: How long actually depends on the life of the model actually.

Mumuksh Mandlesha: Right. And some sense on what could be the breakup between the new age players and the incumbent players, sir?

Sunil Bohra: New age and incumbent players for this?

Mumuksh Mandlesha: Yes. The Rs. 1,000 crores basic total EV order book, sir.

Sunil Bohra: EV order, I think even I have to work out. Well, we are capturing separately now because you have been asking earlier give us EV separately. So we started capturing EV separately. Now you are saying within EV itself new age OEM versus the existing ones.

Mumuksh Mandlesha: Any broadly, sir?

Sunil Bohra: We need to work it out.

Mumuksh Mandlesha: Sure. No problem, sir.

Sunil Bohra: Because we have started capturing definitely, what you call, in customer wise, but I think we also need to think whether we want to disburse information because some of it is also a little more competitive information, honestly.

Mumuksh Mandlesha: And sir, what would be the like pending price hike required to completely pass through the inflation, commodity inflation?

Sunil Bohra: Look, commodity, I think we are happy that we have been able to pass fully actually. Now what is happening is even now is people are saying it is falling under commodity because the prices, the kind of increase we have seen in the gas, I think they have been humongous and unprecedented. So we are in discussion with some of our customers if sort of that can also be considered as a commodity, It is possible, which is not as of now. Otherwise, you can see from all the commodities which are the base metal or steel or plastics, resin, et cetera, I think they have been aligned long back.

Moderator: Thank you. Our next question is from the line of Siddhartha Bera from Nomura. Please go ahead.

Siddhartha Bera: Sir, in your commentary, you highlighted that for some of the models where there has been facelift also you have seen increase in the kit value. Possible to highlight what is it of quantum? And is it only because of the mix changing or for a like-to-like basis also the value has gone up?

Sunil Bohra: No, there have been significant increases for some of the products which were not there in some of those models. I won’t take names, but I am sure you know that a lot of companies are now, or customers are doing facelift. So across the board, I do not think there is any exception. We have been able to increase our kit value significantly. And this kit value increase is not only because of what we call commodity price, this also increased maybe either share of business or either addition of more products or more systems which were not there in the preceding model.

Siddhartha Bera: And secondly from the EV order book, you have also mentioned that you have received orders for the motor controllers and the converters. So these are also part of this order book which you say in EV specific components?

Sunil Bohra: Yes.

Siddhartha Bera: Lastly, sir, I mean in terms of margins, can you highlight which segment probably has seen the maximum pressure, and where do you expect improvement if we start expecting improvement from current levels?

Sunil Bohra: I would not call it a pressure, Siddhartha. You know very well that Q1, we know we have profitability versus Q4 is not comparable, even though we do it, rightfully so. And you know about it, so there is no surprise. But in terms of what has maybe not worked so well was or what was expected was primarily the aluminum prices.

So if you see the prices at which we have been buying aluminum versus what we have been paid by the customers based on Q4 average, has been the biggest hit, number 1. And number 2, obviously, you do expect in 1st of April, there are a lot of contract services where the inflation starts kicking in, also your increment space cycle, et cetera. So all that also has an impact immediately starting from the Q1 versus Q4.

So I think this is broadly, I would say, in line, except this aluminum and also with gas prices, which had made some significant dent in our casting business system.

Siddhartha Bera: Sir, lastly, if you can share the revenues for the sensor, controllers, and probably the few other entities, if you have it?

Sunil Bohra: Sensor, controller is roughly around Rs. 100 crores for the last quarter.

Siddhartha Bera: Sensor, controller, put together is Rs. 100 crores?

Sunil Bohra: Yes.

Moderator: Thank you. The next question is from the line of Mukesh Saraf from Spark Capital. Please go ahead.

Mukesh Saraf: My first question is on the EV orders itself. You mentioned Rs. 430 crores order in Q1, but obviously, production starts next year. And in the previous slide, you had also mentioned that you are already started producing, say, 7-8 components and it is only motor controllers and

DC/DC converters that we are not producing as yet. So would it mean that this order book of the orders that we have received in Q1 is largely only for these 2 components, because the other components, you are anyways producing already?

Sunil Bohra: No, It is not like that, Mukesh. So what happens is, one is what you are producing, which is fine. The new business, what we have received, their SOP obviously is linked to the next model launch of the customer. Something might be next year, something might be year after. And of the total 7 products, they are all under production. We have mentioned that there are some small orders which we have received additionally. For that SOP, It is as soon as FY '24. It is not that everybody else delayed or something like that.

In fact, there has been some businesses where we have got business even from the telematics aspect also. So I do not think we have mentioned here. So telematics is the one, motor controller is one, DC/DC converter is one, onboard charger is the one. There are lot of products we have got business.

Mukesh Saraf: And my next question is on the seatings business. We are seeing some of the models now being launched with these ventilated seats. And I think in December, you had mentioned that you are getting into a kind of a technical arrangement or a tie-up with an entity for such seats. Could you give any updates there on the seating business? And how are forays into the PV space overall for the seating businesses?

Sunil Bohra: So PV space, we are still working. But in terms of the temperature control seats, you are right, we did a TLA with a small startup called Dhama, a couple of quarters back. So currently, the work is under R&D these are the small peltier modules, which we are putting under the existing seats, and we are in discussion with some of our customers and doing the trials. So hopefully, in next quarter or 2, we should have some good, what we call, business win on that product because based on current feedback, I think customers are also excited. And we do expect that to convert into some business within this year.

Mukesh Saraf: And that would be for PV, sir, largely?

Sunil Bohra: No, not PV. That can go into PV. But as of now, we do not manufacture PV. So this will primarily go into two-wheeler and CV. And also for PV, we are working on our aftermarket segment, where still the work is in progress. So we will let you know once we see some success there in terms of the product launch, at least for the aftermarket segment. Because what happens is that temperature control or the module will not necessarily be mandatorily fitted in the seat. It can be part of the accessory on the cover as well. So we are working to see how do we put it as part of that accessory and at least get into the aftermarket. And that will also give maybe some sort of a feedback to us also and maybe to our customers also in terms of market expectation.

Mukesh Saraf: And just lastly, I think you touched upon this in terms of raw material cost hike, et cetera, in aluminum. But could you give some sense on what is the under recovery so far that we have and what do you think we will be able to pass-through in the coming quarters?

Sunil Bohra: So that is what I was trying to say, Mukesh. We have been able to align all our contracts, all our commodities with all our customers in terms of pass-through. So now what happens is every quarter, the price gets reset. So in Q2, I will be invoicing my customers based on the pricing of Q1. So if my pricing for Q2 is either in line or better, then It is good. If it is worse, then only there is a delta, because then there is this one quarter lag effect. Otherwise, other than lag, there should not be any impact.

Moderator: Thank you. Our next question is from the line of Nishit Jalan from Axis Capital. Please go ahead.

Nishit Jalan: So I have three questions. First question is on general trend in the industry. You guys are a big beneficiary of premiumization in terms of LEDs, alloy wheel penetration. So just wanted to check where are we in terms of LED penetration and alloy wheel penetration, especially in four-wheelers because that was quite low in four-wheelers. And generally, OEM starts working with you 2, 3 years earlier before launching products or before getting these features in. How do you see this basically the penetration of these 2 product categories improving in PV over the next 2 to 3 years? That is my first question. I will come back to the remaining 2 questions.

Sunil Bohra: You can give me all the questions. I will go on one go, do not worry.

Nishit Jalan: Sure. So my second question is on some bit of more color on the EV products. There are 2 things. One, we are seeing these days that OEMs is looking to own a lot of technology and give orders to the ancillaries just for basically contract manufacturing kind of, and design is still owned by the OEM. So I just wanted to understand in your case, what is the breakdown between products where you own the design and what is kind of a build-to-order kind of a product?

And secondly, within this EV only, we are seeing a lot of OEMs right now seeding the market, willing to operate at a loss and all. How is the scenario in terms of pricing when it comes to components, right? So whether OEMs are very, very aggressive in terms of pricing in the OEMs or whether we will be making similar level of margins in these products compared to what we make on the ICE front.

Thirdly, you have shared some kit value data in your PPT. If I look at and compare to FY '22, in FY '22, we have seen a big increase in executive and scooter within two-wheelers. And in the PV segment, we have seen a big increase in B and C segment. So what are the reasons for this? And does it include EVs as well? And is it because of that that we are seeing a big increase in kit value, or what are the reasons? These are the 3 questions I had.

Sunil Bohra: So let me go one by one, Nishit. So the first one you are saying where are we on penetration in terms of LED and four-wheeler alloy wheel, and where do we see it in the next 3-4 years? And you said it is primarily for four-wheeler. So LED penetration for four-wheeler is still in high teens. It is not very high as of now because of the share, what we call, the cost and the impact. What we see as of now and if you see the lamp, one is full LED lamps, another is a simple DRL. You have a daytime running lamp, which is LED.

So we do not call just putting a DRL as a LED lamp. LED lamp is very different than just simply putting a DRL. So, while we would see that most of the cars now having DRL as a standard, but that does not mean all the lights are LED. So that there is a difference, and that is why this number is low. And we do expect this to grow, but this may not grow at very, very high rate because it has got a very big price impact which is like 2.5x.

And from a customer perspective, and you may also take a feedback, and I am talking this on a personal basis and some informal feedback that people might be happy with the DRL thing and all that because LED versus a normal lamp also, because of cost delta, people are not very, very, what you call, coming forth that they want an LED lamp because DRL itself gives a feel of a LED lamp. So that is on LED.

In terms of four-wheeler alloy wheel penetration, when we entered the business, it was around 12%. Today, we are at around 35% in terms of LED penetration. And in next 3 to 4 years, I think this is a segment where the penetration is continuously increasing, and we do expect this to go into maybe in the early 40s in next 3-4 years and continue to grow even thereafter. And just for your reference, in terms of some of the globally developed countries, this penetration is almost like 85%-90% or maybe even more. So that is on your first question.

Number 2 was your EV products, more color whether we are doing contract manufacturing or whether there is a design by us or OEM, are we doing build-to-print. I think mostly as of now, it is designed by us, not by OEM. But there are whatever personalization we need to do based on what customer asks. So that is being done. Otherwise, mostly the design is owned by us, and it is not build-to-order in terms of materiality. And I think our ownership is more versus the latter.

The third was OEMs willing to operate at a loss. They are very aggressive. I cannot comment on it because whether they are at loss or no. The market itself is, I think, asking for the penetration. But from our perspective, we are clear. We are not going to put any additional capital if the business is coming at a loss.

So we do expect the business to generate the average margin. But only catch is that at initial volume when the numbers are very low, that time we might not get average, what we call, contribution or average EBITDA margin because of the sheer operating leverage. So once the numbers get into some reasonable level, we do expect that also to be in line with the group average profitability.

And the fourth question was on kit value data for FY '22. Segment-wise, for four-wheeler, there is an increase in, what you call, switches and lights, infotainment, airbags, et cetera. And you also asked for, what you call, CV, right, or two-wheeler?

Nishit Jalan: No, two-wheelers, I asked for scooters and executive segment has seen the biggest increase in content in FY '22 versus '21.

Sunil Bohra: Yes. So scooters and that is what both wheels and seats, so seating was acquired from 1st of April and it was below also this year. So wheels and seats were the addition this year.

Moderator: Thank you. Our next question is from the line of Ronak Sarda from Systematix. Please go ahead.

Ronak Sarda: Sir, the first question is on the two-wheeler alloy wheel side. So when we have announced this new capacity, can you just help us understand, I mean, is this confirmed order given It is more an import substitution? Second, you also mentioned that we are now EBITDA breakeven. So if you can help us understand is the efficiency level still low given all the 4 lines are operational? Or is it mainly due to the higher aluminum cost, which is resulting in lower profitability?

And secondly, given we have been working on four-wheeler alloy wheel for such a long time, when do we see the two-wheeler alloy wheel being equally profitable?

Sunil Bohra: First question first, two-wheeler alloy wheel, you said we have announced new capacity, and whether It is the import substitution or new order. Difficult to say. For us, It is all new orders because definitely, country has been importing more than half of its requirement, almost 60% was imported. So difficult to say which bucket it is falling, but for us, It is all new orders, and whatever capacity we have, It is almost like, I would say, booked. Definitely depends on the timing of the model launch, et cetera. So we do have the pressure from our customers to start the project fast and complete. However, it will take some time, which is by end of the current financial year or the first quarter of next year is what we are expecting.

In terms of profit, you asked whether it is at capacity or what is it? So as of now, we have just started the fourth line. So hopefully, now it will get into, within this quarter, a stable set of volumes closer to the capacity. And in terms of four-wheeler, you said, when do we see two-wheeler equally profitable? I wish, Ronak, that we could get into that zone. But there are two differences.

When we entered four-wheeler alloy wheel business, there was anti-dumping duty, which was not the case in two-wheeler segment. And number 2, two-wheeler business has a little better asset turn versus four-wheeler business. So four-wheeler business is 1.2 for asset turn, and two-wheeler is almost like 1.5. So to that extent, even if at little less margin, I can get sort of a similar ROCE. So I think that is in terms of profitability but in terms of absolute profitability with respect to four-wheeler, difficult to comment as of today.

Ronak Sarda: So when we say It is now EBITDA breakeven, so that is what I wanted to understand. When we look at it on per kg basis or even on a percentage basis, when do we reach, let us say, the desired profitable level? Is it only with stabilization in capacity or?

Sunil Bohra: Hopefully, we should get to a similar normal levels within this calendar year, maybe by Q3 max. Because this quarter is in the ramp-up phase, so I am assuming we get stable operations in the next quarter.

Ronak Sarda: Second question on the FRIWO joint venture. So we were supposed to invest in the German entity as well. So has that happened? And in terms of the transfer of business or assets, is there a specific time line to that thing happening, or that is more on business as usual for us, in terms of from both of our compliance and maybe the accounting level?

Sunil Bohra: Yes, we had invested €15 million in June in FRIWO. So we own roughly 5.5% in the entity. And in terms of asset transfer, definitely as you know that currently the business, the manufacturing is done from our facilities in Pune in the controller division. But once this new plant is ready, I think that is a time where we will shift the business from Pune to here. And that also we have to take a call of appropriate time because there might be customers in Pune and there might be customers here.

So We will see at that point in time how much we want to ship, how much we should not, because you will see based on the maybe the commercial or economics, because if you ship here, then obviously there is logistics and other costs which creeps in.

So we will evaluate that point in time. The first is that we need to get our Vellore plant up and running, for which the construction has started. We have bought land in the last quarter, construction also has started. So we should have this plant up and running in the next 3 quarters.

Moderator: Thank you. Our next question is from the line of Rishi Vora from Kotak Securities. Please go ahead.

Rishi Vora: I have a few questions. First is on Clarton Horn. Can you just give us an idea on what is happening in that business, like how much loss we are making currently, and what is the road map to turn around the business as well as generally what is the long-term road map of that business? Secondly, you said that you shifted to newer tax regimes. So from the coming quarters, we should assume that the tax rate would be closer to 25%? And thirdly, what is the net debt you said? I missed out that number for this quarter.

Sunil Bohra: So three questions. First, starting with, what you call, Clarton Horn, right? So Clarton Horn, definitely, the business is challenging there. The volumes and Germany or Europe or Spain being significantly impacted because of the gas price hikes, et cetera. So I think because of that, the volumes remain impacted. At an EBITDA level, for the quarter, we are at almost 0. And we do expect once things start turning up, this again comes back to profitability.

In terms of tax rate, yes, going forward, we do expect tax rate to be at around 25%, which is the new regime. And in terms of your third question was, if I remember, net debt?

Rishi Vora: Yes.

Sunil Bohra: Yes. So the net debt for the quarter ending June is Rs. 714 crores. Yes, that is right.

Rishi Vora: Just a follow-up on Clarton Horn. So like are we going to have any further investments in that business in terms of CAPEX or we would not be investing much and just with operating leverage kicking through, we will be able to, let us say, report a profit?

Sunil Bohra: Until now, we have not invested anything. So whatever they have been investing, they are investing from their internal accruals or whatever funds they could raise from government because of whatever incentives they are given during the pandemic time, et cetera. Otherwise, until now, we are not putting any additional equity there.

Rishi Vora: And sir, how has Delvis and iSYS performed this quarter?

Sunil Bohra: Both of them actually did very well. So you know that we have restructured our German operations last year. So instead of Delvis and iSYS, it is Minda Systems and CREAT GmBH. So CREAT GmBH is engineering, and Minda Systems is the product business. So the product business actually has done very well. So this quarter, I think the revenue was almost close to Rs. 100 crores for the Minda Systems business. So from that perspective, despite significant headwinds, I think this business continues to do well in terms of volumes.

Moderator: Thank you. Next question is from the line of Ashutosh Tiwari from Equirus Securities. Please go ahead.

Ashutosh Tiwari: So you mentioned that sensor, controller put together Rs. 100 crores in the quarter. What was the number in the last quarter?

Sunil Bohra: Last quarter, I do not recall.

Ashutosh Tiwari: The Rs. 70 crores number, I mean, have we seen big ramp-up in that?

Sunil Bohra: No, sensor definitely has done well. So last quarter Q4, sensor and controller was Rs. 90 crores actually, not Rs. 90 crores, sorry, It is less. So it was Rs. 82 crores to Rs. 83 crores which is gone to Rs. 100 crores now.

Ashutosh Tiwari: And we also mentioned one oil sensor order is reaped. So this is further ramp-up from here, right?

Sunil Bohra: Yes, You are right. That will be in the coming period.

Ashutosh Tiwari: Okay. So this is now actually moving towards whatever you were guiding earlier?

Sunil Bohra: Yes.

Ashutosh Tiwari: And secondly, on this aftermarket business, if I look at lighting is now almost like 31%. So was lighting always largest in our aftermarket or it has increased recently?

Sunil Bohra: No. I think this is the same trend we have been following. Lighting and switch and acoustics, I think these 3 were the larger businesses, and we have been able to maintain our market share and grow a little bit, but there is not a significant delta actually.

Ashutosh Tiwari: And alloy wheel is something which can probably ramp up very fast in sheer capacity?

Sunil Bohra: Yes, actually, alloy wheel four-wheeler, we have been running more than capacity. And we have been finding difficult to meet our customer requirements. So that is why this aftermarket segment has been started. So post this new capacity addition, I hope that we can give some volumes to our aftermarket business as well.

Ashutosh Tiwari: You said, I think, currently you have 300,000 wheels per month, right, and 30,000 will be added by Q1, right? That is the capacity right now with us?

Sunil Bohra: Yes. So Bawal will be 180 and Gujarat is 120 and 25, 150 roughly, yes. You are right.

Ashutosh Tiwari: So because the first 30,000 already came in April and still we are short of capacity, and the way I think is still the way PV is growing.

Sunil Bohra: We just started just now in the end of June.

Ashutosh Tiwari: Yes. The 30,000 came in April, right, the first 30,000 in Bawal?

Sunil Bohra: Yes, You are right.

Ashutosh Tiwari: So my question is will we be required to do CAPEX again next year in alloy wheel the way we are ramping up?

Sunil Bohra: I wish. Why not, if business is growing.

Ashutosh Tiwari: No, I am just asking that the way we are growing, I think we are already beating whatever we guided earlier. It seems like probably again have to go for a new CAPEX and maybe Bawal or Gujarat. But do we have any space now left in Bawal for further expansion?

Sunil Bohra: No, no space left. So if required, we will definitely go for land acquisition, that is not a big deal. But I think it is really good that when we are expanding capacity, we are expanding capacity thinking We will do something with aftermarket, but I think the OE demand has been running ahead of us. It is a good sign that we continuously sort of generate business and grow. And we have been consistently saying that this is a business and we just spoke about little while back that penetration penetrated 35%. We expect it will grow over the next 5 to 10 years.

So we definitely would need capacities because when we are talking, we are talking only percentage. So there are 2 aspects. A, the percentage application grows; and B, the volume itself grows. So there will be a double demand growth. I think that is what will keep businesses growing on.

Ashutosh Tiwari: And also just on the alloys wheels only, I think that number of varieties of alloy wheels like diamond cut and all, so is the premium category growing more and the share is increasing, the premium kind of alloy wheel like diamond cut and all?

Sunil Bohra: In fact, soon, you will see even the new type beyond diamond and others is now you will have some different colors as well.

Ashutosh Tiwari: So that would mean sort of value addition, right?

Sunil Bohra: Yes.

Ashutosh Tiwari: Okay. And just lastly on this, the low-pressure die casting that capacity in Gujarat, how is that doing in terms of volumes? Is that also growing very well or increasing capacity? Any color on that?

Sunil Bohra: So we have setup capacity of 25,000 wheels per month. And I think we have been operating at around 15,000 to 18,000 based on what our customer current volumes.

Moderator: Thank you. Our next question is from the line of Karan Kokane from AMBIT Capital. Please go ahead.

Karan Kokane: Sir, pardon me if this question was asked before, I joined in a bit late. So first question was on CAPEX and investments for FY '23. So could you throw some light on CAPEX and investment for the same?

Sunil Bohra: So CAPEX, as we guided at the beginning of the year, we are expecting the same number of around Rs. 600 crores. Investment is separate. Investment, we have recently done this £15 million. And the Board did approve some investment in some of our JVs, which is yet to be consummated. That is the broad number.

Karan Kokane: And sir, when we acquired Harita, you were talking about doubling of revenues over the next 2 to 3 years. So was that considering the upcycle or was it without the upcycle?

Sunil Bohra: Sorry, what was that?

Karan Kokane: Sir, my question was, when we acquired Harita, basically, we have said that we would be doubling Harita revenues over the next 3 to 4 years. So my question is, is this considering the upcycle in the domestic CV space? Or will that be an additional kicker on top of this doubling of revenues?

Sunil Bohra: When everything is structured, Karan, that is what when we say we will double the volume in 4 to 5 years, everything is considered. What we have not considered was the product which we do not have. We said very clearly that we do not have PV seating today. So in case we are able to get into a passenger vehicle seating, that will be additional. In the existing business where we are, there is no carve-outs. So I think that is the differentiation.

Karan Kokane: And just last question, so we are seeing very strong growth in a few of our business divisions like two-wheeler alloy wheels, sensors and controllers, Harita, and EVs. So most of these businesses are lower than portfolio margin kind of businesses. So as these businesses grow and the overall share of these businesses increases in our portfolio, do you see any risk to maintaining margins of, say, 12% to 12.5%?

Sunil Bohra: I do not know from where you got 12% to 12.5%, but I can tell you there is no risk. In fact, as volumes grow, we honestly do expect margin to improve a little bit here because of the operating leverage because there are some costs which are fixed. And if volumes grow, definitely, it is a normal expectation that the margin should also grow.

Only thing is that some of that margin additional gets eaten away by maybe some inflationary aspects, salary increases, et cetera, on a year-to-year basis. But otherwise, everything on a steady-state basis, if volumes grow, we do expect margins to grow, not to deteriorate.

Moderator: Thank you. As there are no further questions, I would now like to hand the floor back to Mr. Sunil Bohra for closing comments. Over to you, sir.

Sunil Bohra: Thanks, Inba. So I would like to thank everyone for joining on the call. I hope we have been able to respond to all your queries adequately. For any further information, we request you to please do get in touch with us. Stay safe, stay healthy. Thank you.

Moderator: Thank you. On behalf of UNO Minda Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.