



**Commercial Vehicle Solutions**

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Date August 18, 2022

ZF Group · ZF Commercial Vehicle Control Systems India Limited, Chennai 600058

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**Scrip code: 533023**

Listing Department  
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**Trading Symbol: ZFCVINDIA**

**ISIN : INE342J01019**

Dear Sir(s),

**Sub: Transcript of the Investor Call for the Quarter ended June 30, 2022**

In Continuation of our letters dated 29<sup>th</sup> July, 2022 and 04<sup>th</sup> August 2022 pursuant to intimation of investor's call and Presentation, we hereby inform that the transcript of the call has been uploaded on the website of the Company and the same can be accessed through the following link:

[https://www.zf.com/mobile/en/company/investor\\_relations/zf\\_cv\\_india\\_investor\\_relations/zf\\_cv\\_india\\_ir.html#shareholderinvestormeeting\\_acc\\_656449\\_0](https://www.zf.com/mobile/en/company/investor_relations/zf_cv_india_investor_relations/zf_cv_india_ir.html#shareholderinvestormeeting_acc_656449_0)

This intimation is also being made available on the above website link.

Request you to take the above information on record.

Thanking you,

Yours sincerely,  
ZF Group

Muthulakshmi M  
Company Secretary  
ZF Commercial Vehicle Control Systems India Limited  
(Formerly known as WABCO INDIA Limited)



**“ZF Commercial Vehicle Control Systems India Limited  
Q1 FY 22-23 Earnings Conference Call”**

**August 04, 2022**



**MANAGEMENT:**

**MR. P KANIAPPAN - MANAGING DIRECTOR,  
ZF COMMERCIAL VEHICLE CONTROL SYSTEMS INDIA  
LIMITED**

**MR. R. S. RAJAGOPAL SASTRY - CHIEF FINANCIAL  
OFFICER, ZF COMMERCIAL VEHICLE CONTROL  
SYSTEMS INDIA LIMITED**

**MS. M MUTHULAKSHMI - COMPANY SECRETARY, ZF  
COMMERCIAL VEHICLE CONTROL SYSTEMS INDIA  
LIMITED**

**MODERATOR:**

**MR. ANNAMALAI JAYARAJ - BATLIVALA & KARANI  
SECURITIES INDIA PVT. LTD.**



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**Operator:**

Ladies and gentlemen, good day and welcome to the ZF Commercial Vehicle Control Systems India Ltd. Q1 FY'23 earnings conference call hosted by Batlivala & Karani Securities India Pvt. Ltd. As a reminder, all participant lines will be in the listen only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance in the conference call, please signal an operator by pressing "\*" then "0" on your touch tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Annamalai Jayaraj from Batlivala & Karani Securities India Pvt. Ltd. Thank you and over to you sir.

**Annamalai Jayaraj:**

Thank you. Good afternoon. Thank you for joining us today and welcome to ZF Commercial Vehicle Control Systems India Limited quarterly earnings call. The first quarter earnings results for this year will be presented by the management team of ZF Commercial Vehicle Control Systems India Ltd. Your host today from ZF Commercial Vehicle Control Systems India Ltd. are Mr. P Kaniappan, Managing Director and Mr. R S Rajagopal Sastry, CFO, as well as Ms. M Muthulakshmi, Company Secretary.

ZF Commercial Vehicle Control Systems India Ltd., results for the quarter entered June 30, 2022, were published on July 27, 2022, and is available on the website [www.ZF.com/CV](http://www.ZF.com/CV) under the investors relation section. I hope that you have had an opportunity to go through that. And audio recording and transcript of this call will also be made available on the website, [www.ZF.com/CV](http://www.ZF.com/CV) under the investors relation section. I will now hand over the call to Mr. P Kaniappan who will provide you with further insights on the result. Over to you, sir.

**P Kaniappan:**

Yes, thank you, Mr. Jayaraj. I warmly welcome you all to ZF Commercial Vehicle Control Systems India Ltd.'s first quarter FY'23 results. Certain forward-looking statements that we will make today are based on management's good faith expectations and beliefs concerning future developments. As you know, the actual results may differ materially from these expectations as a result of many factors.

In today's call, in addition to the financial performance, we will also be sharing with you an update on the progress that we have made thus far in introducing advanced technologies in the ACE domain, (Autonomous Connected Electric Domain) in the Indian commercial vehicle market.

So, I will be actually going through the presentation which we have also loaded on the website, [www.ZF.com/CV](http://www.ZF.com/CV) and informed to the stock exchanges website. So, you may use that for your reference. So, I am going to the Slide Number 2. So, here I will briefly touch up on those macro-economic factors which has an impact on our relevant market. The GDP estimates for the coming year are undergoing multiple revisions and the latest estimate is at 7.2%. This still is the best among all the major developing and developed economies of the world. As the commercial vehicle production is impacted by the GDP growth, this should augur well for the CV production in the country.

You would notice from the graph below that the diesel prices are falling steeper than the freight rates. Another indicator and incentive for fleet expansion.



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While inflation would be a dampener, various other aspects like the increased investment in mobility infrastructure, vehicle scrappage policy do promise a robust future.

Next slide. Going to Slide Number 3. So, here in Q1 you can see the vehicle production growth of 128%. That's because it's against a very low base because last year, in the same quarter, India was severely affected by the second wave of COVID.

The vehicle production growth is driven by multiple factors. One is of course higher retail sales due to increased truck utilization driven by the infrastructure, real estate, and mining sector. Intermediate and light commercial vehicle growth is largely due to e-commerce, intracity last mile connectivity and increase in penetration of CNG and LNG vehicles. And of course, return of the bus production.

Next slide. Yes. Here we now give you a quick overview of the financials. As you would see the expansion in sales after the loss of the pandemic has been very balanced. The efforts of the company in introducing and expanding various products and solutions like the telematics, trailer segment and pricing recovery positively impacted sales to OEM. The 68% growth in the aftermarket is through various steps like expanding the network, introduction of new products and offerings like, diesel exhaust fluid and also increasing the velocity across the supply chain. The intercompany sales benefited by better capacity utilization and better management of the supply chain. It was also aided by the start of the production of various projects which were in the pipeline, like, the levers for the air disc brake, the brake chambers to more customers, air supply units to also customers like BMW and a few other projects. We have more information on the profitability in the next slide.

We present here the profits earned by the Company. The strong difficult periods faced so far by the economy and the country at large did impact the profitability of the company, even though the various measures and controls did help in mitigating the impact. In the last couple of quarters, the measures initiated, namely cost controls and pricing recovery are gaining traction and the profitability is improving. We closed the first quarter of this financial year with a PAT of 8.5% and EBITDA of 15.0%, which are improvements QOQ and also sequentially.

The change in profit and profitability came from the volume effect, which has within it the gains from pricing, mix and productivities. Employee costs did go up due to inflation and also addition of engineering resources for our global product engineering service businesses. There was more spend in the other expenses to support the volumes. The additional people and their services to the global ZF did bring in additional service income.

The story is similar on a sequential QOQ comparison too. More productivity, pricing and volumes were beneficial to the profitability and some savings were noted in the employee cost as the stable volumes helped us plan our workforce better. There was a short-term reduction in service income due to accounting actions, which will come back in the coming quarters.

Now, I'm going to actually share some details about our new technologies and products. ZF aims to lead the next generation mobility globally.



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Accordingly, in the following slides, I would like to share with you some of the technologies which we will be introducing in India.

Yes, here I'm starting with – I'm going to use autonomous, connected, electric domain. That will be my focus so, I'm starting with autonomous driving. So, in autonomous driving area what are the technologies that we are launching and progress of those things.

Next slide. Yes. So, in this space, Hill Start Aid is the technology that we have launched recently, about a year ago. Hill Start is an add-on functionality to Antilock Braking System (ABS) and can be activated on the ABS system without any additional hardware / modifications on the vehicle. The safety feature supports the driver by giving them the time required to take the vehicle back into control on inclines, optimizes vehicle stability, and averts unintended collision due to rollbacks. Hill Start Aid improves safety during 'stop and go' situations on hilly terrains and slopes. This feature is supplemented with Automatic Traction Control which offers greater vehicle stability and increased tyre life. This technology has been gaining acceptance in Indian market and more and more OEMs are introducing.

The next one is on the automatic traction control. This is also another add on functionality to the ABS. And the ATC or automatic traction control can be enabled by additional hardware and modifications to ABS. The technology prevents wheel spin during acceleration under the different surface conditions especially slippery surface like, mining, sand, and ice and avoids loss of traction of one or more wheel, helps to prevent wheel slip on different surface conditions. It increases vehicle stability, increase tyre life, and combined with Hill Start Aid, aids the driver to drive on gradient especially with lesser adhesion between tire & ground

With over five decades of experience in pioneering active safety technologies for CVs, ZF was the first to market 'ESCsmart™'(Electronic Stability Control Technology) for commercial vehicles. It is an extension of Anti-lock Braking System (ABS) and Electronic Braking System (EBS) and the building block towards Advanced Emergency Braking System (AEBS). ESCsmart™, stabilizes the vehicle during critical driving maneuvers and selectively activates the brake and stabilizes the vehicle, preventing accidents.

In India ESC is being mandated by the government. The first phase is going to be in April 2023 for the M3 buses which we believe will be followed to other vehicles like trucks. However, some of the OEMs in India have already launched this product and we are working with all OEMs and supporting them to formulate their vehicles with this technology.

We have a complete portfolio of ADAS Safety Components and Systems, ADAS is actually Advanced Driver Assistance System, portfolio of ADAS technology which we call – which is actually categorized against see, think, and act. So, we are working with many OEMs here both as a component supplier also as a system supplier.

So, various types of radar, camera, and various sensors, improve the electronic control unit, the onboard computer and various other advanced system. The activation takes place through the various control systems like EBS, ESB, air disc brake, etcetera.



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ZF is the pioneer of Electronic Braking Systems to the trailer market and is now the global market leader for Trailer Electronic Braking System (T-EBS). T-EBS provides a comprehensive portfolio of safety and efficiency functions for trailers. In addition, T-EBS is the central platform for trailer intelligence and enables the trailer to connect drivers, fleets and cargo owners to rich sources of onboard systems and operational information. In India, we have already launched this product and the adoption of this product by the fleets is very encouraging.

Now I'm going to talk to you on the connectivity solutions and what we are doing in India in the connectivity space. The company over the years has noticeably progressed along our industry's path toward mobilizing the intelligence of commercial vehicle control systems. ZF is at the forefront in our space to harness the power of mobile communications and cloud-based solutions. This means we provide solutions to help improve vehicle and driver performance by enabling linkage to — and intelligent use of — captured onboard-systems information.

Offering unrivalled technology coverage and industry-leading fleet management solutions for trucks, buses and trailers, ZF further differentiates through its ability to connect commercial vehicles to the "internet of things." As a full systems supplier, ZF can uniquely connect trucks, trailers, cargo, drivers, business partners and fleet operators in real time, helping commercial fleets to significantly enhance safety and productivity. Today we are offering these solutions to the OEMs in India and also in the After Market space and are managing around 90K active connections. We are also empaneled at the national level as a provider of AIS 140 solutions which is mandated for the passenger carrying vehicles.

Leveraging the seamless connectivity of our telematics solutions which are AIS 140 compliant; we obtain rich data—24/7—from onboard mission-critical systems. Simultaneously, we integrate this information onto a fleet manager's console via web-based back-office technology. By translating this bigdata into actionable management insights, fleets enhance efficiency and asset utilization.

Now, on the trailer pulse, designed to capture data on trailer with limited electronics, trailer pulse is a robust trailer telematic solution that supplies real time location and with electronic braking system data. Built on data, collected from a trailer EBS system and trailer pulse, the backend portal provides insights into the technical performance and helps state of trailers. Trailer pulse offers real time access to operational data to help fleet managers, owners, make smart decisions to manage and improve the daily utilization of their fleet. This product has already been launched in India and adoption by the trailer fleet is encouraging.

Now coming to the electric mobility. The trend in the EV transition is very strong across the globe and India also follows the trend. As you might be aware, the production of Electric buses has started in India. ZF's content in the EV domain is very substantial. We have launched a slew of products as shown in the next slides.

This slide shows the portfolio of products that we have already launched in India for the EV range. Many of them, particularly, the E compressor, Disc brakes, Electronic Braking system are in series supplies.



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Finally, I would like to inform you that the investment approval for the Oragadam site is obtained, and the construction activities are under way. The view of the proposed factory is shown here. That completes my presentation. Thank you. So, we now welcome your questions.

**Operator:**

Thank you. We will now begin the question-and-answer session.

The first question is from the line of Mukesh Saraf from Spark Capital, please go ahead.

**Mukesh Saraf:**

Good afternoon and thank you for the opportunity. Thank you for a lot of these details that you have provided on the new products. So, my first question is, could you broadly give a sense of which of these new products are actually coming from ZF Global table and which of them, probably WABCO as a company already had? And if you could give a sense of how ZF is helping the Indian entity getting the products?

**P Kaniappan:**

Yes, thank you Mr. Mukesh. Yes, all these products that I presented, are part of the listed entities. So, many of them were actually developed in the area of former WABCO portfolio. Few of them are from ZF, for example, the advanced driver assistance system both ZF and WABCO were actually pioneering. But then, after the decision that it will be handled through the former WABCO so, accordingly it will be – it is going to be promoted through the listed entity.

**Mukesh Saraf:**

Right. I mean, yes, I did get a sense that all of these will be listed entities, but you are saying that ADAS products were largely the ones that probably WABCO didn't have and ZF was probably more of the contributor to that. Is that a fair understanding sir?

**P Kaniappan:**

Yes. That is correct.

**Mukesh Saraf:**

Okay.

**P Kaniappan:**

ZF has a size and scale, many of these electronic products are in-house manufactured and they are actually pioneering those technologies. Now it's combined and designed part of the braking system.

**Mukesh Saraf:**

Right, right. And secondly, any of these products that you can highlight where the localization levels are already at high levels or should we assume that right now the import, I mean, they are largely being imported in some front?

**P Kaniappan:**

Yes, mainly the braking products, whether it's hill start aid or the traction control. Those things are already localized, and these are being supplied largely from a local supply chain.

**Mukesh Saraf:**

Sure.

**P Kaniappan:**

Then, most of that – we are in the process in localizing other advanced technologies because slowly we are seeing volumes.

**Mukesh Saraf:**

Okay.



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- P Kaniappan:** And particularly in the electric area, it's a global supply chain but then, there is a requirement that this needs to be localized, minimum we need to offer about 50% localization to get the benefit from the same tool.
- Mukesh Saraf:** Right.
- P Kaniappan:** So, accordingly we are drafting our actions to meet those expectations through localization. And we are going one step further wherever it's possible to localize our approaches to cover maximum localization not only to meet the requirement of the government but yes, to meet the cost target.
- Mukesh Saraf:** Okay. Right, And just one last question sir on the connectivity solutions. Just wanted to understand how do we build the customers? Is it like a one time that the customer pay for the solution or is it like a subscription model? And who owns the data? I mean, does the customer owns the data or do we have access to that data? Can you give some details on that?
- P Kaniappan:** Yes, regarding that, good question. So, in the OE front, essentially the data is owned by the OE. But then, our billing model is, we supply the hardware, we have got a very robust hardware. So, hardware is billed at the time of billing and then, we also have a contract to support the customer in the field for subscription. So, we also have a subscription revenue for those vehicles, and we run a service desk and everything, and providing all the support to the customer, yes.
- Mukesh Saraf:** The subscription revenue will be the fleet operator, or the initial revenue will be the OEM? Is that how it will work?
- P Kaniappan:** Can you say it again?
- Mukesh Saraf:** I was just wondering if the subscription revenue will come from the fleet operator but the initial, the hardware revenue will come from the OEM.
- P Kaniappan:** Yes, for the first one year or two years, it depends on of course of your contract. The OEM give the subscription.
- Mukesh Saraf:** Okay.
- P Kaniappan:** But beyond that, of course, together with OEM we need to work with the fleet and make sure they continue the service.
- Mukesh Saraf:** Okay.
- P Kaniappan:** Yes.
- Mukesh Saraf:** Right, Thank you so much sir. I'll get back to the queue. Thank you.
- P Kaniappan:** Yes, thank you.
- Operator:** Thank you. Before we take the next question, a reminder to all the participants that you may press \* and 1 to ask a question. Next question is from the line of Gokul Maheshwari from Awriga Capital. Please go ahead.





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- Gokul Maheshwari:** Yes, thank you for the opportunity. So, two questions. One is on the export. In the last four to six quarters, our exports have been around that 250 crores marks. In your opening comments, you mentioned about certain projects which are about to start off and hence should we expect – and also you mentioned even supply chain issues. So, should we expect the export to move up or is it still awaiting the project expansion which you were conducting?
- P Kaniappan:** I'm not sure whether I got the question fully.
- Gokul Maheshwari:** Sir, if I may just repeat it, the export revenues in the last four to six quarters have been around the 250-crore mark. You were expanding and you were setting up a new facility for the same to expand further, but in your opening comments you also mentioned there are certain new projects which you are working on and which had already started. So, do you expect to pick up in the exports business more from a 12 to 18 months perspective?
- P Kaniappan:** Yes, thank you. So, there are two aspects. As such we have been continuously working on new project pipeline and there are – actually those things will come on stream because the current plant is full so, we needed space. So, the Oragadam site will actually support the future growth. And many future projects already we are now investing in the facility so that when the plant is ready that will be coming on. So, that's the continuous path. There could be challenges now because of certain geopolitical topics and certain impacts in other markets, but that part I'm not in a position to comment right now, but we have clear pipeline of projects to drive our growth.
- Gokul Maheshwari:** And this expansion, when does it get completed?
- P Kaniappan:** This will be completed next year sometime around October, November period.
- Gokul Maheshwari:** Okay.
- P Kaniappan:** This expansion is not only for export, but it also supports our domestic requirements. And we have also been selected as the production link incentive component champion so, in the new site will become a manufacturing entity, supporting all the domestic export electric, all those advanced technology requirement of the PLI.
- Gokul Maheshwari:** Okay. My second question is on margins. In your opening commentary you mentioned that margins improved on account of price hike, productivity and also product mix. Now, there has been a reduction in commodity prices in the recent past, sequentially you expect the margins to get better and could that be reaching to the 2018 EBITDA which you were earlier having prior to COVID period?
- P Kaniappan:** Okay, there are two topics. One is the material, the inflation, still it did not come, at least, in our, with our contracts with our suppliers yet to see a reduction in the steel and other areas it is still the – lot of discussions are going on. Our prices are linked to our customer prices with our supplier. So, there is a cycle when it comes into effect. But we already started seeing some reduction in the aluminum. Mainly our raw materials are aluminum and steel. But of course, our margin improvement is not only because of the price



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recovery that we are getting from customers, we are also initiating many actions to really continue our margin better. While we will be still continuing with OEMs to secure some more increases that is due, but other there are actions we are taking to improve the productivity and the factories etcetera to improve.

- Gokul Maheshwari:** Okay. But margins should be within that to the matrix as you scale in the business and underline EV sector volumes also pick up?
- P Kaniappan:** Sorry, can you say it again?
- Gokul Maheshwari:** So, the margins, our historic margins have been around the 2018 levels, is that something which we should expect, directionally we should get to?
- P Kaniappan:** So, this I have been telling in the earlier calls also. That is the direction we are working because there are many headwinds and challenges, but we are putting many actions to really move directionally in that path.
- Gokul Maheshwari:** Great sir, great. Thank you so much. All the best.
- P Kaniappan:** Thank you.
- Operator:** Thank you. Next question is from the line of Mukesh Saraf from Spark Capital, please go ahead.
- Mukesh Saraf:** Yes, sir, thank you again for the opportunity. To continue from the previous question, firstly on the hill start aid and the automatic traction control, could you give a sense of what kind of content or realization for vehicle we can have on these products? And what is the potential market opportunity in terms of – which segment of the use and how is the penetration for these things? Thank you.
- P Kaniappan:** Okay. Content is only an add on to ABS system. And applicable market is all the vehicles that are fitted with ABS, meaning today's...
- Mukesh Saraf:** Okay, okay.
- P Kaniappan:** All the air brake vehicles for medium and heavy commercial vehicles.
- Mukesh Saraf:** Okay.
- P Kaniappan:** Okay. And the financial -- is like few OEMs, they took a stand that 100% they will go with it. Now others are really seeing the benefit and trying to go for concept and planning to launch.
- Mukesh Saraf:** Right. So, you're saying OEMs are providing it as a standard equipment in their vehicles wherever there is ABS?
- P Kaniappan:** One, of course, one of the major OEMs prefer to go with the standard, as a standard fitment. Others, they are now experimenting. Some of them are giving it as an option, some are – they need to decide. But progressively in our view, the market will see the benefit of it.



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- Mukesh Saraf:** Okay. And just my last one is regarding the EV, especially on the buses side of it, any update on any new order wins over there sir? On the EV side of it?
- P Kaniappan:** Sorry? I couldn't hear.
- Mukesh Saraf:** Any update on order wins that you might have had under EV part of it?
- P Kaniappan:** Yes, yes. See, I presented three products here, three products.
- Mukesh Saraf:** Right.
- P Kaniappan:** If you look at e-compressor, we are winning almost as a leading position in India.
- Mukesh Saraf:** Okay.
- P Kaniappan:** Because compressor we have for the -- mechanical system, so, electric compressor also we work ahead of market. So, we are in a leading position.
- Mukesh Saraf:** Okay.
- P Kaniappan:** And already supplies we have started at least, two customers in India. Others also soon they will follow suit. So, the production started, so, we are now focusing on localization, etcetera. And on the disc brake, again one of the major Indian OEMs, they have decided to fit it as a standard feature in the front axle. So, we have already started supplying, at least, with a series production localization is high level of localization.
- Mukesh Saraf:** Okay.
- P Kaniappan:** And we are now working with our OEMs to help them to adapt electronic braking system instead of ABS. Because a lot of advantages of going for electronic braking because the energy recuperation and there are features available in electronic braking system which will help them reduce the energy consumption which will have an impact on the battery, etcetera, that infrastructure, etcetera. So, some customers have, I would say, there again, it would take some time. Some customers have already decided they are moving, others our view is, they will also adapt.
- Mukesh Saraf:** Right, right, right. But EBS vis-à-vis the ABS will be a lot more expensive sir?
- P Kaniappan:** Yes, yes, it is more expensive but it's a matter of payback. They get the benefit also.
- Mukesh Saraf:** Okay. And just lastly in continuation sir, in lot of these buses orders we have noticed that the OEMs are also trying to provide mobility as a service to the state transport undertakings. Does that, in any way, change the way your billing happens? I mean to the OEM or it doesn't change anything for you.
- P Kaniappan:** No, right now it doesn't change because the vehicle is still produced by the OEMs and they are selling it to us.
- Mukesh Saraf:** Right.



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- P Kaniappan:** The company provides the service, there also could be an opportunity for us in the aftermarket sales. You could connect with the service provider, transport as a service provider. We can always connect with them and probably we can take opportunities in the aftermarket.
- Mukesh Saraf:** Right, right, right. Great so, thank you for the response. Thank you.
- P Kaniappan:** Thank you.
- Operator:** Thank you. Next question is from the line of Sanjay Joshi from Nippon India Mutual Funds. Please go ahead.
- Sanjay Joshi:** Good afternoon sir, and thanks for the opportunity. I have just a couple of questions and more to do with how WABCO and ZF have worked together over the years now. So, just wanted to understand your – in terms of when we look at Indian opportunity, how are we approaching clients in terms of the larger product portfolio and what are the success there? And on the other hand, are we – have we been able to finalize the opportunity from India to leverage engineering and cost competitiveness for global markets on a combined level? So, those are the two questions from my end, sir.
- P Kaniappan:** Yes, thank you. So, actually the integration was very successfully handled and from January 1st this year, we actually launched the combined commercial vehicles division. And commercial vehicles solution division is essentially to really be a single face to the customer and in terms of product technologies, in terms of competence, capabilities and everything. So, our first focus is to make sure that we actually provide the service to the customers and maintain our position in the market. I am happy to share with you that we are in the right track, and we have been gaining confidence with all the OEMs. On the portfolio product, the strong presence of the braking system products or WABCO products is continuing, and we are growing there. Few areas, we are also using this opportunity and promoting products like ADAS I was saying, the advanced driving assistance system, etcetera. And, most of the products that are in store today in terms of electric compressor or disc brakes, all those things are former braking system products. So, we are continuing to drive through that part of business.
- The synergy of using that organization's specialization like ADAS program driving this. As such that is the current situation as far as the portfolio is concerned. We are continuing to focus and drive the former WABCO portfolio, plus some of - at least, ADAS we have moved. Plus I have also been saying earlier that, we always want to look at what is the best route to the customer. We are now working in another portfolio transmission, the shock absorber, axle, air systems and so many other product portfolio is there in the set of portfolio, so, which we are now working with all OEMs to really make the breakthrough there. Whether what parts of – approach will be supported by the listed business is something that we need to really look at. But finally, we would like to make sure that whatever decision we take is right approach to the customers and of course, beneficial to the various stakeholders.
- On the engineering side, we are continuing – we are expanding. We are expanding in Chennai more and more competency we are building because the understanding is, not only for global support even for India market now to really drive the growth. We are trying to build the capability so that we will



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be able to respond quickly, faster from manufacturer to customer. So, it is growing. It will significantly grow, the engineering activity.

**Sanjay Joshi:**

Right sir. Thank you for a detailed answer. Just last on this export side, do we see the competitiveness from this entity and Indian cost ways providing us with a much larger market to cater to ZF global needs?

**P Kaniappan:**

Yes. See, that's a very key topic. We always positioned ourselves to have the best cost location globally in few products and that continues. We are further becoming more competitive. So, the expectation is that first of all, any opportunity around those products, we will support our global parent. There are few products, for example, we are also in the export market directly supplying it to customers like BMW. And we make some advanced products here, the electronic control for air suspension of the BMW car is made here. And we see in such specific segment, there is a – we see a good growth. BMW itself is growing globally and these products are even for EV and any new technologies that are going to come. So, one is competitive positioning, we continue to become cost competitive. Second, advanced technologies that we are supporting the customers from here. That business is also growing. And still, but this is in the range of the area of only the braking related products or the work that we did in the former WABCO, in the electronic air suspension car business. And our expectation is that, in the Oragadam site, we will be seeing more opportunities to support other areas also. But right now it's only we need to really prove, we need to really convince, and we need to really demonstrate that this should be the place, to use our products.

**Sanjay Joshi:**

Right sir. Thank you very much and just last with your permission I can just, one last question, with the complete portfolio products where we can leverage each other's presence, do you think we can move in terms of a better percentage beyond commercial vehicle into other areas of automobile?

**P Kaniappan:**

Yes, but right now we are seeing – there are some light duty vehicles where we are already having a small portfolio but we are trying to expand this in the aftermarket space. And trailer is another very important growing segment, trailer. And the connected business, connected technology – now we have actually learnt to separate vertical or digital business services which I talked about as a connected solution. There, there is no limit, it's not restricted to commercial vehicles. We can provide the service to any vehicle, any transportation requirement. So, we see that as a scope but again, our current focus is to drive in the commercial vehicle side and build our competences further and then, look at opportunities beyond.

**Sanjay Joshi:**

Thank you very much sir. Thank you.

**P Kaniappan:**

Thank you.

**Operator:**

Thank you. The next question is from the line of Chintan Sheth from Awriga Capital Advisors. Please go ahead.

**Chintan Sheth:**

Good afternoon, Mr. Kaniappan. Firstly, I would like to – I actually appreciate the fact, the transparency of your presentation over time has only kept improving. That really helped. So, I thank you for that. And coming to the question, in the last Q4, in the last call you did mention that the current content for truck is around 45,000 and if all the new technology were to come to India, we could go to around 135,000 per truck. Now, all these new



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products that you are talking about, does this capture this upside or there could be further upside?

**P Kaniappan:**

Yes, normally what we do, we always compare with a similar market. So, some of these data, what we share, is in market like that where currently they are operating at such level. So, yes, we always say that's the runway that's available in front of us. And of course, some of the product what I presented also is a part of that. In the original breaking itself, there are some markets where they are three times of what India is. But then, now there is a certain transformation taking place in the industry. Many new opportunities come like the electric mobility area. And again, still the market is very in a nascent stage and many players will come in. But we are trying to find a strong position for its portfolio. All these things should actually drive our content and we always look at opportunities in front of us.

**Chintan Sheth:**

Okay. And I'm aware that one of our key competitors have been Knorr-Bremse, but in the last years with new technologies coming to India, have we seen a similar pace from the competition side or not really?

**P Kaniappan:**

Okay, normally we don't comment on the competition, but our roadmap is very clear. With us becoming a part of ZF; opportunity is much stronger, we are no longer limited to braking system. Today I tried to give a picture of the connected solutions what ZF, WABCO built a connected vehicle solution portfolio in Europe by acquiring a company Transics. In India, we worked with some startups and of course, support our global colleagues we built a business. Today we've reached a decent position. 90,000 vehicles connected to us. We are now, on a monthly basis, we are selling about 7000, 6000 vehicles. We are adding new vehicles to our account. Aftermarket there is opportunity. So, we are looking at the market much different now from our past. We are no longer braking system company. So, that's what I would like to answer and you can see the electric mobility also is giving a very good opportunity, pipeline of technologies that are going to – the capabilities are completely different. Two big players coming together and opportunities are expanding in a big way.

**Chintan Sheth:**

Okay. So, in that line then the new products, are there more solutions and less of products with higher material cost? Can we think about it that way?

**P Kaniappan:**

Sorry, can you say it again?

**Chintan Sheth:**

So, the new product launches that we are talking about, are they more solutions based and less of product with higher material cost?

**P Kaniappan:**

Yes, see, the market, in my view, will move in a manner that all these manufacturing companies like us need to look at, more like a tech company. So, it's an evolution. If you look at our connected solutions, largely it is like a tech company type of tech. You have a digital solution. So, here it's more of what type of solution you are giving and how it is different than your competition. And that helps you to release. For example, I was telling about subscription. Monthly subscription I can keep increasing if I give more solutions to the fleet. And that is where we will differentiate because many of the solutions we are developing as a global solution. We will be able to quote customers who are connected to our platform, we will be able to offer those solutions as an add-on feature, service you can upsell, sell at a higher rate. So, more and more solution based. Still the well-known technologies will



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continue to be there, but we see, your point is very right, that more and more solution driven approach is coming. Already we are into it in some areas.

- Chintan Sheth:** Thank you so much, and good luck to you all.
- P Kaniappan:** Thank you.
- Operator:** Thank you. The next question is from the line of Krishna Kumar from Lion Hill Capital Pvt. Ltd. Please go ahead.
- Krishna Kumar:** Yes, good afternoon sir. Thank you for the excellent introduction to the product range. Sir, you also mentioned e-drives in the presentation. So, do we have plans to make the components of e-drive system in India?
- P Kaniappan:** Yes, sir, actually ZF has a very, I would say, advanced product in the area of e-drive, axle drive, etcetera. But we will be launching these products in India. It's a part of ZF product pipeline. Right now, I am not in a position to tell what is the route for this, obviously the route is to the customer. Largely it may or may not come through the listed entity. But again, as I said, we will be seeing opportunities how we can timely use our capabilities to support the customers that is manufacturing all those things. But in terms of products, very strong portfolios are available in ZF on the electric side.
- Krishna Kumar:** Sure sir. Sir, post the Ukraine-Russia issue, have you seen any new global supply opportunity from the parent in terms of shifting location to India?
- P Kaniappan:** No, sir. Actually the ZF has clear guideline that this will be controlled at a global level. So, India is not looked at separately from that perspective.
- Krishna Kumar:** Okay, sir. And on the income process sir, you've mentioned that you're already working on that and have localized technology, etcetera. So, is there an opportunity where we can play a larger role on the global side? Is there a possibility?
- P Kaniappan:** Yes, possibility is there from the perspective of – suppose India becomes a effective cost location, we can always look at markets for those, other markets, to take it from here. So, these products also try to make it in the Oragadam we'll also get some benefits. So, with all those things we are going to become the cost location then definitely there are opportunities. So, suppose other markets they make similar products, same products or similar products.
- Krishna Kumar:** Okay. So, then the last point sir, you mentioned that more and more solutions will be the way forward. So, if you look at our parent where probably we are more into solutions, what kind of margin improvements that one will expect as we move from a product company to a solution company? What kind of improvement in margin profile can happen on a longer term?
- P Kaniappan:** Yes, unfortunately I am not in a position to give that data right now. Maybe we'll --see the -- initially we are currently working on the connected solution so, we are trying to first make the business profitable. I am happy to say that we are actually in the profit zone. But we need to have – right now I am not in a position to tell you how much it will be but in future calls if I have some data I will be able to say, but today I am not in a position to say.



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- Krishna Kumar:** Sure. Sure, sir. Thank you very much and wish you all the best sir.
- P Kaniappan:** Thank you.
- Operator:** Thank you. The next question is from the line of Shashank Kanodia from ICICI Securities. Please go ahead.
- Shashank Kanodia:** Yes, good afternoon sir. Sir, ADAS is a technology new to India, right? So, we have just a plentiful of passenger vehicle models that produced that technology. So, just wanted to get a sense how has been the OEM response to your offering of ADAS solutions? And how do you see the penetration levels going forward?
- P Kaniappan:** Can you say it again? I couldn't get the question.
- Shashank Kanodia:** Yes. Sir, I'm saying that ADAS as a technology is new to India, right? so, we have just a plentiful of passenger vehicle models who are putting this technology. You being in this solution for the commercial vehicle space, how has been the OEM response and how do you see its potential and penetration going forward?
- P Kaniappan:** Yes, thank you. So, we have been working with some of the Indian OEMs, at least four-five years we have been working on it. And so, little good level of maturity right now and going forward we will be expect some of them to launch this technology of course we are partnering with many of the Indian OEMs. Some of them, at least, one or two of them are going to launch soon. ADAS with big portfolio functionalities it starts with a warning, forward collision warning. And it gives warning but also partially apply brake. They call it initial mitigation. So, even if there is a collision, the impact is less. So, then of course, there are technologies are available which actually stop the bus even if the driver is not alert. It is an emergency brake. All these technologies are already there. But then it needs a lot of tweaking, you need to really test it so many thousands of kilometers we have to really test and collect data, all that process has been completed. So, now it will also come as a mandate, in our expectation, 2025 and all that some of these, some features will come through regulation. In India, at least, some customers will be launching it in the next one-year time.
- Shashank Kanodia:** Okay. And sir, how does the sales percentage content the vehicle's journey. so, from 45 or 48,000 that we are right now, what kind of incremental content or vehicle can we keep on radar?
- P Kaniappan:** See, again, it depends on what functionality they are going to take. But typically it's an add on – you start at one level and then keep on adding.
- Shashank Kanodia:** Okay. And sir, do we have technology for the similar solution in EBS drive? Even that technology is accepted more in the EV space or we just take to the CV domain.
- P Kaniappan:** We are only limiting to commercial vehicles.
- Shashank Kanodia:** Okay. Right sir. Secondly sir, on the MHCV space, what is the sense that you are getting from customers regarding the volume for this year? Any clue would be really helpful.





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- P Kaniappan:** Look, customers are very positive. Actually our interaction with some of the customers are very positive.
- Shashank Kanodia:** Sir, we could see something like 25% to 30% volume this year for the industry in the MHCV space?
- P Kaniappan:** It is, again, we track the calendar year Jan to Dec. It could be – our expectation is in the range of 25 to 35 in the calendar.
- Shashank Kanodia:** Okay. Sir, lastly, if you can share what is the CapEx for this year and next year?
- P Kaniappan:** Sorry?
- Shashank Kanodia:** What is the capital expenditure for this year and next year?
- P Kaniappan:** Yes, I will request CFO to answer this question.
- Mr. Rajagopal Sastry:** This year we could be in the range of 120 crores and by next year we'll also have the new plant so, for that it will be an additional 70-80 crores. So, next year it could be anything 170 to 180 crores.
- Shashank Kanodia:** Sir, this year you are saying 120 crores, next year 70 to 80 crores, right?
- Mr. Rajagopal Sastry:** 170, 180 crores.
- Shashank Kanodia:** 170 and 180 crores, understood. Thank you so much sir, wish you all the best.
- Operator:** Thank you. Due to time constraint, the last question will be from the line of Nishant from Elara. Please go ahead.
- Nishant:** Yes, hi sir, good afternoon. Thank you for taking my question. So, sir recently in a news article ZF mentioned that they are targeting roughly 3-billion-euro revenue from India geography. But I believe you've been talking about some figure like, 1 billion euro. So, could you just explain what is the diversion and the roadmap to same?
- P Kaniappan:** Yes, that 3 billion is overall ZF business from India. And ZF has many clients and many divisions. So, commercial vehicles is one of those divisions. So, the commercial vehicle, 1 billion is commercial vehicle business by '30. There are other businesses, joint ventures, and solutions, all put together maybe 3 billion because my focus is only commercial vehicle and we are targeting a billion-euro business by end of the year 2030.
- Nishant:** Okay. Thank you for that. And I believe that you've mentioned that around 75% of these revenues will be approved to WABCO, I mean, 1 billion that ZF has been targeting. So, is that correct?
- P Kaniappan:** I don't have exact – see, largely today the, maybe what you said, 75% of overall business may be through the former WABCO. But that's the current situation, we could change. But we are now looking at mostly on the commercial vehicle asset, we see an opportunity of almost three times



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growing. Maybe you can take the same, similar ratio for the former WABCO product.

**Nishant:** Thank you, sir. And the last question, I think this quarter we saw some gross margin expansion. How do we see the trend from here? Are we getting the price revisions from customers? How do we see the gross margin improving or your take on it?

**P Kaniappan:** Yes, thank you. So, I will request our CFO to take it.

**Mr. Rajagopal Sastry:** So, as you would have heard the MD explain about various actions we had taken from the cost reduction perspective and also the price recovery, yes, there are many traction. We are also positively benefited by a strong mix. We are seeing expansions good aftermarket. So, all these are aided this quarter and we are looking at continuing this thing that we will be continuing our efforts. And unless something, some other headwinds happen, we should continue in this trend and also continue to improve that effort.

**Nishant:** Okay. So, your RM outlook would be softening from this point?

**Mr. Rajagopal Sastry:** When we have a clear indication from the market that the RM have been softening, what we have secured as increase also may have to be given back. So, ideally speaking, we have to look at the benchmark at which we have set the prices with our customers and then, see how do we, how much we transfer back in the form of site production, so on and so forth. But it will have a, definitely have a benefit in terms of contribution load because if we are transferring on a rupee-to-rupee basis, it should give us some benefit from the contribution load perspective. However, we will be watching it very carefully and see to that we protect our interest as much as possible.

**Nishant:** Okay, sir. Thank you. Thank you, that's it from my side.

**P Kaniappan:** Thank you.

**Operator:** Thank you. We have reached the end of question-and-answer session. I would now like to hand the conference over to the management for closing comments.

**Mr. Rajagopal Sastry:** Thank you. Thank you very much. I don't have anything more to say. Thank you very much. Thank you for joining.

**P Kaniappan:** Thank you all. Thank you Jayaraj sir. Thank you for hosting.

**Annamalai Jayaraj:** Thanks sir. Thank you.

**Operator:** Thank you. On behalf Batlivala & Karani Securities that concludes the conference. Thank you for joining us. You may now disconnect your lines.