



“ZF Commercial Vehicle Control Systems India Ltd.  
Q1 FY 23-24 Earnings Conference Call”

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**MANAGEMENT:** **MR. P KANIAPPAN – MANAGING DIRECTOR**  
**MR. R S RAJAGOPAL SASTRY – CHIEF FINANCIAL**  
**OFFICER**

**MODERATOR:** **MR. ANNAMALAI JAYARAJ – BATLIVALA & KARANI**  
**SECURITIES INDIA PRIVATE LIMITED**



**Moderator:** Ladies and gentlemen, good day, and welcome to the Q1 FY '24 Earnings Conference Call of ZF Commercial Vehicle Control Systems India Limited hosted by Batlivala & Karani Securities India Pvt. Ltd.

As a reminder, all participants' 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 '\*' then '0' on your touchtone 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, Mr. Jayaraj.

**Annamalai Jayaraj:** Thank you. Good afternoon. Thank you for joining us today and welcome to ZF Commercial Vehicle Control Systems India Limited's quarterly earnings call. The first quarter earnings result for this year 2023-24 will shortly be presented by the management team of ZF Commercial Vehicle Control Systems India Limited (formerly known as WABCO India Limited).

Your hosts today from ZF Commercial Vehicle Control Systems India Limited are Mr. P Kaniappan – Managing Director and Mr. R Rajagopal Sastry – CFO.

I will now hand over the call to Mr. P Kaniappan who will provide you with further insights on the results. Over to you, sir.

**P Kaniappan:** Thank you, Mr. Jayaraj. Good afternoon to all of you. I warmly welcome you all to ZF Commercial Vehicle Control Systems India Limited's first quarter results for the financial year 2023-24.

We'll make certain forward-looking statements today based on management's good faith expectations and beliefs concerning future developments. As you know, actual results may differ materially from these expectations because of many factors.

ZF Commercial Vehicle Control Systems India Limited's results for the quarter ended June 30, 2023, were published on July 27, 2023. They are available on the [www.zf.com](http://www.zf.com) website within the ZF CV India investor relations section. We hope that you have had an opportunity to go through them.

A recorded audio and transcript of this call will also be available on the website at [www.zf.com](http://www.zf.com) under the ZF CV India investor relations section.

I am happy to talk to you today, as we give you an update about the business of the company.

**Industry and economic updates:**

I would like to start with a quick update on our operating environment, which is influenced by economic factors and the development of the commercial vehicle industry. Indian Government's



thrust on capital expenditure, moderation in commodity prices, and robust credit growth are expected to nurture investment activity. However, weak external demand, geoeconomic fragmentation, and protracted geopolitical tensions pose risks to the outlook. Taking all these factors into consideration, real GDP growth for 2023-24 is projected at 6.5 percent (Source: RBI's MPC), which is still the strongest among large global economies. Strong all-round performance with all segments significantly growing Y-o-Y reflected in the Commercial vehicle production (> 6 tons) in Q1 of FY 2023-24 which was at 101,527 with the growth of +7.0% Vs the same quarter the previous year.

The growth in the commercial vehicle segment is expected to continue due to the following factors:

- Transition to emission standards BS VI Phase 2 and ESC regulation for buses
- Despite fluctuating demand and vehicle availability issues, the government's push towards infrastructure development and growth in coal mining spurred sales of heavy commercial vehicles
- Steady demand on the back of infrastructure push

Let me give you a performance update within the segment of the Company.

#### **OE Sales: -**

As briefly touched upon in the last earnings call about the trailer systems, Bus Production, "Heavy and medium duty" CV growth, transition in regulation requirements, and e-mobility transitions have helped the Company to out-perform the market by 12.9%. As a result, the company recorded an OE sale for Q1 2023 of INR 446.9 crores with a QOQ growth of 19.9%.

OE Sales in Q1 of FY 2023-24 was led by: -

- Start of production of pneumatic and hydraulic Electronic Stability Control as applicable for Bus Platforms as part of the regulation that comes into effect from April 2023.
- Increase in penetration of E Compressor & Electronic Brake Systems in major OEMs
- Increase in Trailer production and adoption of technology by manufacturers.

#### **AM**

The aftermarket segment of the Company has registered sales of INR 120.7 crores which is a growth of 17.8% in Q1 23-24 Vs Q1 22-23. Growth in the aftermarket was driven by various factors as follows: -

- Good demand in the mining area during the Q1 of FY 23-24 in which the Company saw a growth of 60% due to an increase in the mining operations



- Strong offtake by the STU segment due to good consumption in KSRTC, APSRTC on the Fitness Certificate kits & Solution kits. The company also made inroads into other state-owned transport organizations, for example winning an order from UPSRTC through the tendering process.
- Demand generation activates on the focus product group like Slack adjuster (60% growth) and vacuum boosters (23%), trailer segment (20%), actuator (18%), and Door control system (16%) has aided the growth
- Further in the new technology products, the company received orders for over 250 units of rear park assistance systems from one of the major OEMs.
- Also, on the new technologies orders were booked for over 95 Advanced Driver Assistance Systems plus Driver Behavior Monitoring Systems from various customers.

#### **Exports:**

Export sales were at INR 297 crores with a growth of 14.6% and Export services were at INR 93.2 crores with a growth of 58.9%.

The increase in exports of sales was driven by:

- Increased demand from BMW for the Air Supply Unit
- DAF 440 CC Compressor production transfer from USA to India and increased demand for DAF compressors in Europe
- Increased demand for Air Disc brake Lever

The increase in exports of services was mainly on account of growth in:

- Continuous increasing demand for Engineering services from India resulting in an increase in hire and increased service exports
- New premises in DLF Chennai attracting talent

**ZF CV Control Systems Manufacturing India Pvt Ltd**, a wholly-owned subsidiary of the Company commenced its operations during the last quarter of FY 2022-23 and is eligible for a reduced tax rate of 17.16%. The company has planned localizations to improve profitability with lower material costs and reduced premium freights.

#### **Awards and recognition:**

Our Ambattur plant won two 'Gold awards' from the QCFI state-level Karakuri Kaizen competition. Also, our Ambattur plant won the Platinum award in the CII National EHS circle competition under Best Organization overall EHS practices stream.



Also, Ambattur plant employees from different functions won 'first' and 'third' prizes in the ACMA Lean Quiz competition.

Ambattur site recently underwent The Responsible Manufacturer assessment conducted by Kaizen Hansei and secured TRM gold for the overall ESG assessment.

We are happy to share that the company has been honored with the prestigious Best Technology Partner Award 2023 at the recent supplier meet organized by Mahindra & Mahindra (Mahindra Truck and Bus Division). Chosen from over 200 companies, the company was selected for supporting Mahindra & Mahindra in applying, homologating, and launching ESCsmart (Pneumatic Electronic Stability Control) on their range of trucks and buses well ahead of the regulatory mandate in April 2023.

And now moving on to our financial performance for the quarter,

for your ready reference, the results were made public at 12:25 p.m. on the 27th of July 2023. I hope you have got a chance to go through them.

- The overall revenue of the Company was INR 864.5 crores
- PBT INR 133.6 Crores and 55.2% on Q-o-Q growth
- EBITDA 18.8%
- PAT INR 99.7 Crores and 59.8% Q-o-Q growth

We continue to carefully review the environment and our performance to consider further opportunities for actions to mitigate ongoing commodity inflation. This is important as we also see softening of the commodity prices going forward.

Thank you. We now welcome your questions and feedback.

**Moderator:** Thank you very much, sir. We will now begin the question-and-answer session. We have the first question from the line of Mumuksh Mandlesha from Anand Rathi. Please go ahead.

**Mumuksh Mandlesha:** Sir, firstly on the gross margin, we saw an improvement of 80 bps sequentially from the Q4 quarter. What could be the reason for the improvement, sir?

**R S Rajagopal Sastry:** On the gross margins, we are seeing that productivity is helping us. We have been seeing improvement in the last few quarters in the overall gross margins as we are able to secure the compensation for the commodity inflation one after the other from the customers and we also have been tracking certain products in which we were not making adequate margins and we have been getting some price corrections.

Internally, we are looking at various measures to improve the material cost ratio with the help of our own productivity measures. All put together it is giving us a positive impact on the material costs and the gross margins.



**Mumuksh Mandlesha:** Sir, can you share the outlook for the export market considering some slowdown in the overseas CV? And what could be the breakup between the PV and CV in the export market and the breakup between Europe and North America?

**P Kaniappan:** In the commercial vehicle segment globally, despite the COVID and the geopolitical tension, in the markets we are exporting, there is no big increase or a drop as it was flattish. So, if you see our performance as well, so, by and large, we are maintaining and growing. The growth is largely driven by some of the demand that is increasing in certain segments. Particularly, as I highlighted that we are making the air supply units for BMW and other car companies. This product is also applicable to electric vehicles as well and contributes to the growth.

We are retaining our current position for a few products, such as compressors that we are supplying to Volvo earlier, now we are extending it to DAF. For DAF, we started initially supplying it to the European market and demand has been increasing there. This is the one particular size of the compressor. Another size was actually not released in India, but it was released originally in the US. From there we were supporting the DAF compressors, but because India is offering a better price as the manufacturing cost is much lower than what otherwise it would cost to produce in the US, the management took a decision globally that this will shift to India. So, we have shifted the production to India, and it is streamlined now and recently we have started exporting.

And we also have invested in a production facility for producing one of the products called lever for the air disc brake where steadily the volume is increasing because of the cost advantage that we provide leads to more production being shifted to India. So, these are the reason for our growth in exports and we believe this will continue. Apart from vehicle production, our growth is largely driven by production transfer to India and in some cases new projects, etc.

On the question related to the mix between the passenger car and the commercial vehicle? Ours is largely commercial vehicle production but except for an air supply unit, which we supply to BMW. That typically can take about 25% of our production from the Mahindra City plant in the current mix. We don't have any other passenger car production from Mahindra City.

**Mumuksh Mandlesha:** So, just on the between Europe and North America, how could be the mix, sir?

**R S Rajagopal Sastry:** It's almost 45%, 50%, and 5%. 45% goes to North America, 50% to Europe and 5% to APAC.

**Moderator:** Thank you. The next question is from the line of Vimal Jamnadas Gohil from Alchemy Capital Management Private Limited. Please go ahead.

**Vimal Jamnadas Gohil:** Sir, just first question would be on the impending regulation of ESCs. If you could just help us with the content that will lead to an increase for us after the ESCs get embedded? How much is the content per vehicle in dollars?

**P Kaniappan:** The regulation is essential to fit the electronic stability control in the applicable bus segment market. The applicability is typically that of about 60% of the buses produced and some buses



are completely fitted in the factory itself. There are some cases where the bodybuilding is done elsewhere. So, in those cases, they are not fully equipped with that part.

We are now working with the RTOs and others to communicate the need and application of ESC. So, it may take some time. Today we see about 30%. I said 60% of buses are applicable, but we see a pull from the customers on about 30%. The regulation itself must be fully understood by the entire stakeholders and then implement. So, we are also working with them.

In the case of pneumatic ESC, we are supplying about 1,000 kits a month. Hydraulic ESC is probably about 300 kits a month. We have solutions for Both.

Now coming to the delta increase, the delta increase for the bus segment is about probably Rs. 20,000 rupees delta because earlier, they were already having that ABS. On top of that, they go for an ESC. In the case of hydraulic ESC, we were not actually in that segment earlier. This is a new product that we are launching.

**Vimal Jamnadas Gohil:**

And sir, while the bus segment is looking to sort of put up more safety features, what is the response from the non-bus segment, which is the goods carrier segment for our content? I mean, in terms of, you know, all these safety regulations, if you could just highlight that? And one more question if you could answer, sir, on the margins, while we have seen gross margin improvement, you know, our EBITDA margin has sort of remained flattish. If you can highlight the reasons for that while Y-o-Y there is an improvement, given the kind of growth that we have reported, I would have expected some sort of operating leverage. If this is one time and this could correct itself going forward? And lastly, sir, what is the CAPEX that we are expecting to do for the full year?

**P Kaniappan:**

So, on the margins and the CAPEX, I would request our CFO to answer. I would take the first part of the question, Normally, electronic stability control as a regulation has come, by and large, for all the vehicles in Europe and other markets. India maybe in our view it's a first step to apply to buses. The second step, will come for the truck segment as well. So, it's a matter of time.

We are expecting that soon because this technology will put further technologies over and above that. For example, the advanced emergency braking systems or ADAS. So, these things if it has to come to the market, ESC is a must. So, it's in a way another best technology to ensure that the vehicles are stable and safe. Even before regulation, few customers have homologated their platforms with the ESC so that they can actually start selling to customers who really need this even without regulation because it's a very basic technology. Even now they would be interested to put this because it will significantly reduce rollover accidents.

We expect the market to recognize the advantage of these technologies first from the buses. Even some other customers would be launching in the truck segment as well. And then that will be followed by maybe the next one or two years, it will come for the truck as well. The government is mandating the advanced emergency braking system and for which the ESC is a requirement itself that AEBS we call it. The standards are already documented, and we expect that may be



notified soon next few months. Then the government will allow certain time frames for people to really introduce themselves.

All these things are in the vicinity of implementation as we move forward. So, I think, I hope that has given you some idea of the possibilities and opportunities. Maybe matter the next one or two years, progressively, this will increase.

Now on the other two questions, I will request our CFO to answer.

**R S Rajagopal Sastry:** So, your question was on EBITDA, but if we look at year-on-year, at product sales, we have close to 3.8% improvement in the EBITDA margins and if you include the service income, it will be about 3%. But typically, we do have a 3.8% improvement in EBITDA, but anyway, if you are having some doubts about that, you can connect offline. I can explain the calculations behind that to you.

Our regular maintenance CAPEX is in the range of 100 crores and if you look at this here for the Oragadam plant, we do have an additional including the planned leads, capitalization of the right of use asset, and then the building and the equipment which goes inside, we should see in the range of another 130 or 140 crores for that. So, all put together we should be in the range of 240 to 250 crore this year including the Oragadam plant and then we will stabilize back to the maintenance CAPEX of 100 Cr. and other expansion activities as and when we plan.

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

**Mukesh Saraf:** My first question is on the ESC. You are mentioning how only 30% of the buses are right now getting factory fitted. So, just wondering, sir, on even the ESC part of the chassis itself and, you know, why does the bodybuilding itself come into play? If you could just kind of explain this? What we are wondering is most, I mean, why isn't the ESC being factory fitted, sir, for all the buses that are coming under the applicable categories?

**P Kaniappan:** Actually, in certain categories of buses that are running in the city, the applications are excluded. That is the first issue. And then many companies and many OEMs have a view that applications are not required on the city road and inside the city. But the government came back with mandatory application in school buses. From October we expect progress in school buses. It will lead to an additional number. Today, for example, about 1,000 Pneumatic ESCs and about 300, 400 Hydraulic ESCs sold by us. Once the school bus is included, this number will increase. We expect a minimum of 2,000 plus buses to have ESC fitted every month.

Then further the issue that we face is, bodybuilding for some of the buses is done elsewhere apart from the factory. Chances of exclusion are high and the bodybuilders also may not have the awareness of this regulation. We are now trying to communicate with them. And we are also working with the RTOs to make sure that when they register the buses, they verify these aspects. I am sure the market will fully understand this and then implement it.



**Mukesh Saraf:** So, once this is done, how much could it be, sir? Because you said 2,000 is the number including the school buses.

**P Kaniappan:** An increase can be expected as the electric buses that are produced in India are also fitted with the ESC and EBS. So, we expect the numbers to slowly increase beyond 2,000 per month.

**Mukesh Saraf:** And secondly, sir, you had mentioned some products, new tech products such as rear park assist. Are these products coming from the ZF portfolio? Or rather ZF CVCS is supplying it in India? Is it not part of the erstwhile WABCO portfolio, sir?

**P Kaniappan:** Most of the products that are covered here is only within the CVCS portfolio which is essentially former WABCO. The ADAS i.e. Advanced Driver Assistance Systems, driver behavior monitoring, etc., those things are originally in the ZF portfolio because both ZF and WABCO were developing these technologies. But when it got merged, it has been decided that this should be routed through the CVCS portfolio, which is essentially the former WABCO portfolio.

Also on hydraulic ESC, as I told in the earlier meetings, this was not originally in the CVCS part. It forms part of the ZF portfolio, but now we have brought it into the CVCS because the team in India is providing all the customer support and also homologation, etc. It depends on which is the best way to route to the market. There are products where ZF products are produced directly and then sold to the customer and it is routed through the ZF. For products that need a lot of local application, a lot of local testing, validation, homologation, etc., we decided to do it through CVCS because of the best approach to customers.

**Mukesh Saraf:** And just one last one, sir. Last quarter you mentioned that the trailer ABS penetration was only close to 30%. Could you give some more color on that as to how you see that improving? You have already seen it on the ground because we had mentioned the trailer as a key driver for your OEM revenues. Any more color on that trailer ABS?

**P Kaniappan:** The trailer segment continues to grow very well. In a way very strong as I said, the percentage of what we call the tractor and the tractor-trailer segment, and 15% of the overall vehicles have become tractor trailers. We believe it will only increase because of the increase in the fleets, the road network, the ability to transport more material with a rare tonnage type of tonnage haulage vehicles, etc., it becomes more profitable for them to really handle it through a trailer. Now government also has made it possible to register a tractor and a trailer separately. So, you can have multiple trailers for a single tractor which makes the whole productivity much better. Your tractor can keep working all the time when they are loading the trailer and so on.

The other thing that has happened in the trailer segment is, if the trailers are having air suspension, they are permitted to carry per axle one more additional ton which helps them to transport more material with the same trailer. We see few developments in the market plus also, you see companies like Delhivery are all completely transforming the industry and while they improved turnaround time and increased freight productivity, transport productivity, etc., They are also seeing the need for adopting the new technologies. Most of this trailer segment is now



fitting the trailer ABS. Trailer ABS roughly has about 30% of the market today. We also see close to maybe around 10% of the trailers are fitted with the trailer EBS. These are all quite reasonably expensive products.

Also, now as I said, the trailers are allowed to carry more loads if they have air suspension, one ton extra per axle, which means air suspension also is becoming adopted more, and almost we can expect out of 4,000 trailers produced per month about 3,000 trailers are with the air suspension right now. It could also further increase. For air suspension also we have a solution per trailer of about 10,000 kits we are supplying. We believe it will only improve and it's a very reasonably profitable business.

**Moderator:** Thank you. The next question is from the line of Darshil Pandya from Finterest Capital. Please go ahead.

**Darshil Pandya:** Sir, I just had a question regarding the sustainability of the margin. Can you please tell us because, you know, 15% is like the, it's like one of the best margins that we have right now? We haven't clocked more than 15%. So, what is the sustainability of this margin going ahead? Is it sustainable?

**P Kaniappan:** Yes. We are fundamentally a continuous improvement company. We are a TCM company and we are always looking at how to improve. That's the basic philosophy. We are also looking at each product level margins, and we have categorized quite a few of the products as breeders meaning the challenging OE we should continue to breed and supply, etc. So, a lot of activities we are doing to really make sure that we not only sustain this margin but also improve it as a philosophy. I am not committing anything here, but that's the way we move forward.

The industry is also moving towards advanced products and technologies. You start selling electric vehicles for the EV systems for the buses. Even though numbers are low, content-wise it's high and we are trying to see if we can localize and reduce the cost. And also electronic braking system, electronic stability control, so many things. These are all very high and advanced products. Not that easily available here.

We fundamentally look at the margin differently as we would like to really focus on profitable growth. There were products where we were not making money. Commodity type of products we are slowly exiting and then trying to go into a more advanced products portfolio.

**Darshil Pandya:** Any guidance for this year, any number that you are aiming to achieve for this financial year?

**P Kaniappan:** We don't give guidance, but as a philosophy, we would like to improve, 15% or 18.8% EBITDA is a healthy margin. So, at least we will sustain. That's the way currently we look at it, but we are looking at all possibilities to improve also.

**Darshil Pandya:** I was just trying to understand what's your view on this auto sector right now, what India is going through. And how do you see the next leg of growth coming in our company?



**P Kaniappan:** So, first, you are as much as informed on this aspect like us, but what we see is, number one, we are tracking the fuel prices versus the freight rate. So, in the most recent year, last two, or three months, we see the freight rates are increasing while diesel is staying the same. So, this is one indication that going forward things may only improve. Of course, we also see the inflation also is softening, and plus, there are many factors that in the truck segment show that the truck profitability in the fleet seems to be improving.

This year, our target or our projection is about at least 10% in the calendar year growth of vehicles above 6 tons. And so far we are in the direction are slightly more than that. So, we would this year probably end up with at least a minimum of 10% vehicle growth versus the previous year. And from a view or project over a 10-year time frame, we see it's only, we are not seeing any big cyclicity yet meaning there is still growth seen from, of course, whatever projections we are seeing from other people, it's a positive outlook.

Our sales are not merely from a vehicle production perspective, it is also largely driven by the technologies and outperforming the market. The trailer segment is doing quite well, and many new technologies are likely to come in the next few years. All trucks will get application by ESC in the next few years and thereafter we are expecting that there will be applications of ADAS, Advanced Driver Assistance Systems, or Advanced Emergency Braking, you know, different terminologies, but essentially it is a, you know, either an alert system or a braking system driven by the sensing through radar or the cameras.

Some of the big players in India, we are already connected will start using the solutions in the market such as Collision Mitigation System. It will actually potentially alert the driver of a possible accident. So, in case he still fails to apply the brake, it will partially apply break and full break also. So, we expect some of our customers to launch this system soon. You know, in the passenger car segment, this has already been there. So, this will drive our growth thereafter. So, ESC and Advanced Emergency Braking are the two technologies we strongly believe will come in the next probably from now to the next few years and this will be driving our growth. So, as it looks, it's a positive story subject to something happening anything geopolitical or anything else, but we feel the next few years could be a positive story only.

**Darshil Pandya:** One final question is regarding the finances. The finance cost that we have seen is like, you know, it has jumped a lot. If you can, you know, guide us for what is it, like explain this?

**R S Rajagopal Sastry:** Finance cost, how much did you see it has jumped?

**Darshil Pandya:** From 46.81 to it's now at 132.4.

**R S Rajagopal Sastry:** 1.32 crores, right?

**Darshil Pandya:** Yes.

**R S Rajagopal Sastry:** Yes. It's largely because of the bank guarantees that we have to apply for some tenders and certain businesses. Those are there and plus also certain leads-related entries are getting posted



there. So, effectively we don't have any, it's not because of borrowing. The small increase, 1.32 crores is largely because of these non-fund related costs.

**Moderator:** Thank you. The next question is from the line of Prateek Poddar from Nippon AMC. Please go ahead.

**Prateek Poddar:** Sir, just two questions. One is you talked about shifting of production from the US to India for certain products, especially compressors, right? Could you just give us more flavor in terms of what kind of size of opportunity is this? Or what are the other products which can shift from the US to India because of low-cost manufacturing, which can help you offset the cyclical, which, eventually, we will see in the commercial vehicle industry?

**P Kaniappan:** The way we grow our export business is by providing a very good cost advantage to our other global sites and plants. And the compressor is one product. Of course, we have already demonstrated that possibility to come up, already we are supplying to Volvo. Then it's a natural extension to other players. So, DAF was the next customer because there were other issues in terms of releasing a product from India due to certain designs and other things at a global level. So, finally when everything is streamlined, that automatically will start shifting to India.

So, the third customer we expect, we have already working with is Daimler, Daimler Global, and Daimler AG. So, when we keep producing more and more compressors here, the supply chain, the volume, and the scale further makes this more profitable. We believe that will only increase our position in the compressor segment. From the US to India, I don't see much of a transfer beyond this because you are still there to start. They are largely relying on supply from India, at least in our plants from India or other markets, but facilities can come from even Europe, you know, as we move forward in certain products which we believe India could be a low-cost location and we do a lot of continuous work on that. As we move forward, we may also work on a few other products as well, but right now I am not in a position to say anything to you because it's still a work in progress, but I told you that the next product that we will be producing from here to the global market is the compressors for Daimler. This project is already kicked up and the team is working because then in this earnings call, I will keep updating as and when things start.

**Prateek Poddar:** So, the question was in the medium term, can this opportunity of India having a cost advantage help you offset the cyclical, which we see in the India CV industry?

**P Kaniappan:** Absolutely. That's how it has worked so far. Last 10 years as you see, export has been continuously growing. We were not much disturbed by export and so cyclical, by and large, we are able to manage. I expect that to continue.

**Prateek Poddar:** And you talked about ESC and ADAS systems to drive growth for you for the near and medium-term future. Could you quantify what kind of performance over industry growth can we see because of the adoption of these two products for us?



**P Kaniappan:** So, not only these two products, In India still value per vehicle is very low but then globally if you see, there are markets that are three times or four times ahead. There is a big pipeline as a market because the Indian market always was much behind the European and other markets, but now slowly we are catching up.

When ESC comes, automatically, it is supposed to increase, as I said about Rs. 20,000 per vehicle means you are talking about another 50% increase versus the current value per vehicle, one system alone and ESC is applicable for, by and large, all the air brake vehicles which are 70%, 80% of the trucks produced above 6 ton. And also we have now a solution for hydraulics. So, virtually, any vehicle produced above 6 tons, that's a truck will have to have. So, this is the first opportunity.

Today's ADAS system that we are ready with is more than, you know, it can vary depending upon the complexity, etc., per vehicle. It's continuous progress, but we are very well positioned to again support the market with all these technologies. You know, we have our own test track. We help the customers to really homologate, and applicate all these technologies. The growth will be driven by these technologies going forward apart from vehicle production. Vehicle production itself has a CAGR of maybe 4% or just 5%, 6%, but our growth will be largely driven by the technologies.

**Moderator:** Thank you. We will take the next question from the line of Nirali Gopani from Unique PMS. Please go ahead.

**Nirali Gopani:** Sir, in your opening comments, you mentioned that you had outperformed the OE market by roughly 12%, and 13% and I understand that ESC and ADAS system is yet to pan out as we have expected. So, if you can just explain the factors that led to this kind of outperformance in this quarter?

**P Kaniappan:** Even though the vehicle number is not much, the content because if you see the composition of the vehicles, more and more heavy-duty vehicles are being produced now, 55 tons, 48 tons, etc., which was not the case earlier. Earlier, mostly the numbers were, you know, medium duty as lately in the lower end of the heavy-duty segment. And so, if you go for a multi-axle 55 ton etc., in each axle we put our systems which automatically provide an opportunity to outperform.

Also, I talked about the trailer segment, which used to be so subdued in India earlier. We used to make about 3 crores a month type of sale. Today we are talking about more than 10 to 11 crores in a matter of next in two years' time. Plus we have digital products technologies. Again, there also the content will increase. Now we are going to provide the over the air update capability etc. So, in every area, we are upgrading and upselling the product. So, that also drives the outperformance.

So, when we move more into the ESC, also one more thing that has helped us so far in the last quarter, and now India has started producing electric buses. Typically, you know, in a month we are supplying about 300 vehicles. This has come with an e-compressor, an electric compressor.



Plus, the electronic braking system comes with most of the electric buses and that's about, plus Delta. So, all that is driving our growth.

**Nirali Gopani:** So, I know that you don't give any guidance, but ideally, these regulatory reforms, you know, pan out as we expected to the outperformance can be much higher, right?

**P Kaniappan:** Yes. In theory, it is yes, but some fluctuation here and there will be there, typically, at least we should outperform double digits. I am not sure because it all depends on when the regulation is going to come and this adaptability, but by and large, you can expect about 10% plus outperformance.

**Nirali Gopani:** And sir, what will be the total investment that we have made at Oragadam? And what can be the asset turn that we normally expect in our business?

**R S Rajagopal Sastry:** Sir, it's close to Rs. 135 crores on the Oragadam plant, the factory building, the land lease, and also the equipment which is coming in and it will have another 35 to 40 crores coming, the upcoming years also. This is what is already in the plan and already approved. That's what it is and you have some questions. What was your follow-up question on that?

**Nirali Gopani:** What kind of asset turn can we expect? Or what kind of revenue can -- run rate, yes.

**R S Rajagopal Sastry:** From an asset turn perspective, if you notice that we operate with about two to three times and we should very quickly come to that kind of numbers quickly there too.

**Nirali Gopani:** And sir, as these exports grow every year, what kind of impact that can have on our EBITDA margin? Is it in line with what we do at the company level or they are higher or lower?

**R S Rajagopal Sastry:** See, whatever from a segmental perspective because we do not share the kind of segmental profit view, one thing I can tell you is that we do not add to the fixed cost or the overall supervisory costs whenever we improve any one segment of revenue. So, that should help in the operating ratio and should overall result in better EBITDA margins.

**Moderator:** Thank you. Ladies and gentlemen, due to time constraints, that was the last question for today. I would now like to hand the conference over to the management for closing comments. Over to you, sir.

**P Kaniappan:** I would like to thank all the participants for the very interesting discussion. So, thank you.

**Moderator:** Thank you, sir. Ladies and gentlemen, on behalf of Batlivala & Karani Securities, that concludes this conference. We thank you for joining us and you may now disconnect your lines. Thank you.