



“ZF Commercial Vehicle Control Systems India Limited Q4 FY-23 Earnings Conference Call”

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MANAGEMENT: **MR. P KANIAPPAN – MANAGING DIRECTOR.**
MR. R S RAJAGOPAL SASTRY – CHIEF FINANCIAL OFFICER.
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MODERATOR: **MR. ANNAMALAI JAYARAJ – BATLIVALA & KARANI SECURITIES INDIA PRIVATE LIMITED**



Moderator: Ladies and gentlemen, good day and welcome to the ZF Commercial Vehicle Control Systems India Limited 4th Quarter FY23 Post Result Conference Call hosted by Batlivala & Karani Securities India Private Limited.

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 “*” then “0” on your touchscreen phone. Please note that this conference is being recorded.

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

Annamalai Jayaraj: Good morning. Thank you for joining us today and welcome to ZF Commercial Vehicle Control Systems India Limited’s quarterly Earnings Conference Call.

The 4th Quarter Earnings and Full Year Results for FY 2022-23 will shortly be presented by the ZF Commercial Vehicle Systems India Limited Management Team, formerly known as WABCO India Limited. Your hosts this morning from ZF Commercial Vehicle Control Systems India Limited are Mr. P Kaniappan – Managing Director; Mr. R Rajagopal Sastry – CFO, as well as Ms. M Muthulakshmi – Company Secretary.

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

P Kaniappan: Thank you, Mr. Jayaraj.. Good morning to all of you. I warmly welcome you all to ZF Commercial Vehicle Control Systems India Limited’s fourth-quarter results and full-year performance for FY 2022-23.

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 and year ended March 31, 2023, were published on May 24, 2023. They are available on the 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 transcript and recorded audio of this call will also be made available on 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.

First, about the 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. As would be common knowledge, the GDP projection of 6% for the FY 2023-24 is still the strongest among large global economies. This along with the rapidly improving inflation situation, steady industrial



production, and capacity utilization of CVs indicates the strength and stability of the economy. This the company recognizes is the time for consolidation and paving the way for long-term growth and robustness. The above state of the economy and industry is reflected in the trend in CV production too. We saw the OEMs produce close to 120 thousand commercial vehicles of greater than 6 Ton Capacity, in quarter 4, which is a growth of 25.9%. For the full year 2022-23, the OEMs produced around 395 thousand vehicles: again, registering an impressive 37.1% growth over 2021-22.

As I would describe in a while, the company made the best of this growth.

I would like to highlight a few developments which are relevant to us.

Trailer systems:

The manufacturing of trailers in India is growing both in numbers and in content due to better road infrastructure and expressways. We are able to support the increased production in this segment, by supplying state-of-the-art equipment like Trailer ABS, Trailer EBS (Electronic Braking Systems) Trailer Pulse (Trailer telematics solution), Lift axle solutions in addition to the basic braking products.

Bus production:

Bus Segment was hit in the previous years due to COVID-19 hampering all types of bus transportation. The situation has changed and the demand for buses started picking up significantly. Strong focus on EV transition in the bus segment provides many new opportunities for content increase.

Heavy and medium-duty growth picks up:

Post consecutive fiscals of double-digit decline, CV sales recovered by ~37% in FY 22-23, going ahead. The following factors indicate that the CV production and sales may have a strong growth in the immediate future.

- Economic growth
- Materialization of deferred replacement demand.
- Demand recovery & higher freight
- Traction in industrial activities like steel, cement, and mining, increased demand for e-commerce and last-mile delivery services

Apart from this, the Government's focus on infrastructure projects and express highways will aid the growth of the M&HCV industry.



Now, I would like to touch upon how we are getting ready to support the regulation that has already come into force from April 2023:

With ESC regulation for buses coming into effect from April '23, we successfully homologated both pneumatic & hydraulic ESC in applicable bus platforms across OEMs & the SOP has started successfully.

With ADAS regulation under draft and expected to be promulgated in 2025, we successfully launched CMS with one major OEM as a part of the ADAS regulatory requirement. Moving forward we are closely associated with all the key OEMs and are working together for the ADAS readiness.

E Mobility transition: With the government initiatives in promoting Electric mass Mobility through FAME, CESL tenders the transition towards EV is increasing, especially in buses. We as a system solution provider have successfully started supplies of e-compressors and Electronic Braking Systems to Electric CV manufacturers and working together with them to support other advanced solutions.

Aftermarket: The aftermarket of the company registered 28.5% growth in FY 22-23 Vs FY 21-22 which is a strong performance against the backdrop of 8% growth in the Indian market as published by ACMA. New distributors have been inducted who are helping in filling in the white spots and improve coverage. The company also opened over 125 augmented WSD branches across the country. Aftermarket is also evolving from a spare part supplier to a solution provider, and through this segment, we have successfully launched Door Control systems, Rear Park Assist Systems, and Hill Start Aid systems as Independent After Market offerings of the company. These are applicable as retro fitment options for commercial vehicles. These offerings are slowly but steadily gaining traction.

Export: The export sales have grown 19.5% quarter on quarter and 16.5% year on year. Some of the projects like compressors for DAF have seen the start of production in quarter 4.

Services segment, the Company had registered a growth of 44.3% in Q-o-Q and 36.1% in Y-o-Y aided by the continuous addition of skilled engineering resources in our technology centers.

ZF CV Control Systems Manufacturing India Pvt Ltd, a wholly owned subsidiary of the Company commenced its commercial production in the month of March 2023 and started selling hydraulic ESC and electric compressors. We are happy to say that even during the short period of being in operations, the results are encouraging.

Towards the protection of profitability, while the growth is being looked into, the company is committed to profitable growth. Detailed and thorough record keeping accompanied by strong negotiations with customers has ensured that the inflation suffered by the company is compensated in the form of price increases. Further, with its strong roots in Hoshin Kanri: policy



deployment, the company is able to unleash the power of cost leadership, by embarking on various cost-reduction projects, which are also yielding results.

Expansion: I am happy to state that the new factory building in Oragadam is progressing as per plan and we should see the start of production in the new facility during October 2023.

So, I would like to take this opportunity to give you a brief update on the CSR outreach work:

At ZF Commercial Vehicle Control Systems India Limited, we strive to be a responsible corporate citizen and make a positive difference through our Corporate Social Responsibility initiatives. Our CSR initiatives are based on four tenets -- improving road safety, enhancing the quality of life of neighboring communities, contributing towards environmental sustainability, and upgrading skills.

Over the years, our contribution to society has touched thousands of lives in several ways and benefitted a wide range of stakeholders. The scope of our initiatives has now been expanded to make a positive difference to even more of our stakeholders.

Our road safety initiatives align with ZF's vision of 'Zero Accidents & Zero Emission' and the Government of India's 'Vision Zero' initiative that addresses challenges around road traffic fatalities. Through the structured road safety initiatives, 88 programs were conducted in the year and covered 61 cities all around India. The road safety programs benefitted around 3268 Drivers and 1832 Technicians

Holistic community development encompasses a spectrum of initiatives ranging from access to quality healthcare to infrastructure upgrading. We contributed significantly towards helping school students by developing the basic infrastructure in Government schools and the public.

With regards to skill development, we set up a skill lab at ITI, Barabanki & ITI, Ambattur, and a skill development center at Govt Polytechnic-Jamshedpur.

In pursuit of our sustainability goals, we installed solar-based streetlights at Ambattur, Avadi, and Mappedu junctions and erected a solar energy-powered traffic signal at Ambattur: a first of its kind in Tamil Nadu. We have also set up an eco-park at our test track in Mappedu.

Awards and Recognition:

Our Lucknow plant won a Quality award from TATA Motors as part of customer recognition.

Our MWC unit was adjudged the winner of the ZF Excellence Award 2022 in the ZF DNA of Quality category among 100 entries in this category alone and was one of the 6 winners amongst a total of 630 applicants.



Our employees continued to demonstrate high levels of engagement and participated in various external TEI conclaves, winning numerous awards across several categories in the fourth quarter of the fiscal. I am happy to share that, in this quarter, our teams won a total of 5 awards both at the national and regional levels in the various competitions organized by the CII and QCFI.

BRSR:

The Company will be publishing its 2nd BRSR report for the year along with the annual report and has published it in the previous year as a voluntary initiative. Detailed exercises are being conducted with the help of external specialists to understand our GHG footprint, environmental impact, energy transformation, and all social and governance aspects. We are happy to state that in some key parameters like utilization of energy from renewable sources, wastewater generation, water consumption, and waste generation, the company showed significant year-on-year improvements.

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

For your ready reference, the results were made public at 6:00 PM on the 24th of May 2023. I hope you have had a chance to go through them.

Commercial vehicle production in the country grew by 25.9% over the same quarter in the previous year and 37.1% for the full year 2022-23, over 2021-22. We outperformed by 2.8% this quarter. Our sales thus to OEMs in this quarter is 470.4 Crores. This is 28.7% higher than the prior corresponding quarter. We also closed the year with sales to OEMs at INR 1597.6 crores, which is 54.9% higher than the previous year.

Overall strength in demand ensured that our aftermarket sales were up 22.7% QoQ to 124.2 Crores and YoY up by 28.5% to 429.1 Crores.

Exports resulted in an income of 295.6 Crores in Q4 of FY 2022-23 were up 19.5% QoQ and YoY 16.5% growth with 1099.9 Crores.

Our engineering and other services continue to provide very strong value to our customers in the group. The growth in service income is a very healthy 44.3% QoQ and 36.1% YoY.

While I have shared the good news on our top line, I must be clear that the current period is very challenging from a profitability perspective. Overall, we have achieved a profit before tax of Rs.134.9 crores in this quarter and Rs.426.9 crores for the FY 2022-23. Our FY 2022-23 PBT is 13.7% of product sales. Our EBITDA for this quarter is 18.2% and for the year 2022-23 is 17.2%.

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.

Moderator: Thank you very much. We will now begin the question-and-answer session. Our first question is from the line of Mukesh Saraf from Avendus Spark. Please go ahead.

Mukesh Saraf: My first question is on hydraulic products. So you mentioned that some of those products you are manufacturing in the 100% subsidiary, could you give some more color on that I am assuming that will be for the LCV segment because you'll be supplying pneumatics to the heavier segments. So, could you kind of explain a bit more about that sir?

P Kaniappan: Thank you, Mr. Mukesh. Yes, you're right this is for the light-duty segment, the government has mandated electronic stability control for certain categories. So, those vehicles that are in the pneumatic segment are fitted with pneumatic ESC which is a part of our normal product portfolio. As the hydraulic ESC is a product available in the Global portfolio, we are selling the same in the Indian Market in small volumes.

Mukesh Saraf: Okay. And this will be done only, we are doing it as a separate subsidiary, is it because they pay the royalty or other agreements are different from the parent or what's the reason for doing it separately under the subsidiary?

P Kaniappan: The new entity is a 100% owned subsidiary of our Company and it will manufacture and sell new products. It being a newly incorporated entity, manufacturing of new products will enjoy concessional tax rates.

Mukesh Saraf: Right. And the second question is on the exports business. Could you, we have kind of improved sequentially as well Q-o-Q as well on the revenues but could you kind of share some outlook given that maybe the North American trucking industry the expectation is that it will peak out very soon? So are we looking to add new products there, especially from our new plant that can start, so some more color on the export side sir?

P Kaniappan: Yes. Actually, Mukesh in the exports segment we have a few major products as you might know the brake chambers and actuators. We are trying to secure more markets in other parts of the world in the trailer segment etc., so that you see as and when we grow market share globally our production will keep increasing, this is one segment. The second is we are supplying the car compressors specially meant for the BMW type of vehicle for the air suspension systems, the air supply unit we are producing and supplying to multiple customers who are using those products but largely on the BMW type of applications because they are our main customer. Our sales were growing well because those customers are growing their sales and increasing, and these things are also applicable for the EV type of segment, so we expect this to continue. The third segment is our mainstream air compressors which you might know that we started supplying originally a few years ago to Volvo. But now we are expanding it to another customer which is a DAF Company that started one product DAF compressor about two, three quarters earlier. But now from January onwards, we are extending it to another compressor, so the volume is expanding. And we also started supplying the lever for the disc brakes and that was growing.



So, we expect the growth to continue because our growth is largely driven by projects, new projects, etcetera actually the volume generation because of the competitive push and advantage that we are able to arrive.

Moderator: Thank you. Our next question is from the line of Nirali Gopani from Unique PMS. Please go ahead.

Nirali Gopani: Sir, so I do understand that our revenue is largely dependent on the commercial vehicle, which is cyclical in nature, and currently there are tailwinds, which are being reflected in our numbers. So my question is that what kinds of measures can be taken to hedge ourselves from the cyclical nature, or in other words, do we expect the exports to grow significantly in the next few years on the back of outsourcing from a parent, that eventually the cyclical nature will not matter if you can qualitatively talk about a few points.

P Kaniappan: Thank you. So, by nature the industry it's a cyclical industry and most of our technology is related to only commercial vehicles. So, we have to face it in any case, but then of course, what we took a few years ago to minimize the impact of cyclical nature is, growing the business in the aftermarket, we have been launching solutions in the aftermarket irrespective of, in addition to the OE segments so aftermarket is one approach. The second approach of course it's an export. In 2008 we started we were actually zero in 2008. Today, we have crossed 1000 crores, last year we have done. We see this growth continuing. Plus, of course, we are also growing a services business even though it's not an absolutely big number but that's another segment we are growing, within the industry itself we are also trying to position ourselves as a digital solution provider which we can the solution that we are developing even though largely today managed in the delivered only the commercial vehicle industry, but then it can be supplied the solutions or the competency that we have can be used to develop solutions for other segments as well. We are positioning ourselves somehow to offset that impact of cyclical nature but still, but we still have to face that situation that the industry is in, that cyclical nature will not be completely removed in the current situation, but we are trying to mitigate it.

Nirali Gopani: That's great sir. And sir in your view and experience you expect this growth in the domestic CV OEMs to last at least for one, one, and a half years or any view that you would have on that?

P Kaniappan: Yes, so of course ZF works on a 10-year timeline, in our strategic plan. Our number shows the trend will continue meaning last year was 37% and all that, but we expect this year's growth to be around 10%. But it may moderate to, I don't know 5% to 6%, but we still feel that is a temporary cycle, but from the 10-year outlook that we have, it is still in the growth trend. Because in India, certain fundamental changes taking place in the industry now in terms of, the road infrastructure, mining area, and e-commerce, so a lot of transformation is taking place, we see the impact of the transformation in the trailer industry and very rapid growth in the trailer industry, so trailer industry itself we are now having many advance technologies to support. I would like to tell you that in our assessment that this trend will continue for quite some time.



Nirali Gopani: Okay, that's great sir. And sir given there is a lot of focus on India, any outsourcing target that our parent would have maybe in the next three, five years a little longer term view?

P Kaniappan: Actually, it's like this, they don't have any specific target, but the fact that India is a solution provider in terms of technology, in terms of the talent pipeline, in terms of manufacturing cost, not one that you provide to a parent we have been growing you can see last year our story we have been growing in most areas. Again, I believe that will continue because it is quite compelling. The support or the solution that we offer in many areas are compelling, and I'm sure it will continue.

Nirali Gopani: And sir my last question is on the EBITDA margin side. So you did mention that the raw material prices are coming down. And we have improved our margins in quarter four. So is there a further scope to improve the EBITDA margins from this level?

P Kaniappan: We work in multiple ways. One is of course our first priority was to bring the business back to its earlier situations. Then first priority was to really ensure that we get the prices reset based on the actual impact of the cost in the supply chain. This also helped us to set up an indexing with most of the customers, which will work both ways on the commodity inflation comes down they will also ask us to reduce that process but at least we will be protecting the margin from the customer side. But we are surely now focusing on the cost-effective focus of our margin drive. Again, we have a very, very structured approach supported by the global parent, a framework that actually ensures that you continuously look at cutting down in the supply chain and are driven by multiple actions. One of that is localization continuously and also we have a very strong engineering team in India who is able to really work on a concept called design to cost, it continuously redesigns the engineering products to look at reduced cost in the supply chain. Like that there are many initiatives, so in a way COVID and the last two years have actually put us into, press the accelerator pedal in this segment so with a strong engagement of employees we are driving. So we are basically a continuous improvement Company because of our TQM roots. But then it's also a challenge beyond some point so but to answer you, we have multiple levers to address this aspect and as a policy, as a guideline, our focus is to really focus more on the profitable growth, and certain areas where we are not making money and we are losing money, we are also trying to take a call on those products, et cetera. So, fundamentally our focus is on margin improvement.

Nirali Gopani: Right sir. And if you may permit sir, one last point is given that you said that you are seeing growth over the next 10 years view, would you like to revise your guidance of €1 billion in FY30?

P Kaniappan: I would request our CFO to answer.

R S Raja Gopal Sastry: We generally do not provide guidance.

Moderator: Thank you. Our next question is from the line of Deepak Jain from Enam AMC. Please go ahead.



Deepak Jain: Sir how much our imported components as a percentage of revenues? And what is the revenue mix, which you are exporting to the parent?

P Kaniappan: The import was 15% around and it can vary from product to product, but on average, it's about 15% on the material cost and mixes varies typically we do about 30% to 33% export on the overall.

Deepak Jain: Okay. Sir on this ESC mandatory regulation which has come on the buses, you said that there are some numbers which you are doing on a monthly basis. So, why these numbers are not higher?

P Kaniappan: So, ESC is regulated for the buses, the applicable buses if you see in India, it's roughly about 40,000 buses are produced in India, of which the applicable segment, it is also mandated for a certain type of buses only. So, the applicable segment is about 60%. So, about 24,000 buses are required to have ESC. That comprises both hydraulic ESC and pneumatic ESC. So, both put together, we are expecting because it has just started slowly being applied, so we expect about 2000 vehicles will get selected in large part of the volume and of which 400 is hydraulic and the balance 1600 would be pneumatic. So, that's the composition. So, this is applicable market now, but we expect this to increase, maybe after one or two years we expect the ESC to be applicable for the trucks as well. So then it provides a much larger volume.

Deepak Jain: Okay. Sir last question on this ADAS, you think it's a big opportunity, and in 2025 you said some regulations are coming. So, that is in the category you are expecting, in the bus category?

P Kaniappan: See we expect it, it might start with a bus or it may start with certain vehicles maybe long-distance buses and trucks could be a segment but we don't know the exact category until it gets announced. But, I am expecting it can also be applicable for all vehicles because ADAS is a very advanced technology that will actually alert or mitigate and also eliminate the possibility of collision. So, the government and ACMA committee has already worked on this, the draft has been already prepared now, our guess is that it will start coming in from 2025 but, if ADAS has to come before that other technology has to come here, ESC has to come for trucks as well. So, ADAS itself is a very advanced technology, but there are multiple features of ADAS, it will start with warning and alert, then it could be mitigation and then there are, features like blind spot monitoring and various other features. So it's a very advanced technology, we already are engaging most of the Indian OEMs in the commercial vehicle sector, and one OEM has already launched the first version of the ADAS which is called the Collision Mitigation System. And then ADAS itself may be based on radar, based on camera, based on radar and camera combined, we call it fusion. So, within ADAS itself there will be many technologies, all meant for avoiding unseen conditions or minimizing the damage, et cetera. So we expect that to get in from 2025 and grow thereafter.

Moderator: Thank you. Our next question is from the line of Mukesh Manlesha from Anand Rathi. Please go ahead.



Mukesh: Just want to understand as you indicated the new products in the ADAS and trailer segment, can you indicate what kind of content per vehicle opportunity will be there and how do you see the penetration over the medium term?

P Kaniappan: On the ESC and EBS?

Mukesh: ADAS and trailer.

P Kaniappan: So, trailer industry if you look at it, a few years ago it was completely on a very basic level only they were using the very basic braking systems sometimes they were also getting the axles from other countries because it was low cost. But a few years ago the government mandated a trailer code which mandated certain basic minimum standards in the braking. The government also then mandated trailer ABS, which is an anti-lock braking system so anti-lock braking systems protect the vehicle and also around when they apply the break in a panic condition. So, today actually it's mandated, but the point is, for a few years the trailer manufacturers were not in favor of using it. So, of course, the government tries to get some waiver and all that. What is today happening is more and more people have started adopting the trailers and the ABS in the trailer. So, typically the content, the ABS content could be I would say maybe around 30%. But then the applicability today only, the applicability is only about I would say less than 30% but we expect this to grow. This is number one because what is happening in the industry is now the increased road construction and all those expressways and all those things facilitate better turnaround time, GST application all those things are facilitated, better turnaround time, et cetera. So most of them are now looking at safety as a priority. Along with ADAS, some customers even though it is not mandated, they're going for an electronic braking system, trailer EBS. Trailer EBS apart from breaking in a panic condition, this is more like a drive by wire it has got roll stability also, which means on a rollover situation it will also be protected. So, the customer sees many benefits in going for EBS, EBS content could be roughly I'm giving a rough indication maybe around 60,000 type of delta. But adaptation is today in the range of about 7%, to 8%. But all these things are opportunities for more and more people will adopt trailer ABS because mandated and more and more people will go for trailer EBS because it also provides a lot of value in terms of increased tyre life and because it also facilitates the lift axle control systems and many other functionalities. So, this is on the trailer segment. The trailer segment is something even in the number it is growing. So, earlier trailers were only roughly about 8% of the vehicles produced where the trucks produced, and the tractors are the ones which used to carry the trailer. Now, the number has increased close to 20%. The very steep increase last two, or three years. So both in terms of number, in terms of technology adoption trailer is today a very rapidly growing segment, we have very advanced technologies for the trailer segment including trailer telematics, so that will slowly also find more adoption. This is on the trailer and the advanced driver assistance system I mentioned that this is also very, very important for long-distance type of driving where even if the drivers are not alert, this system will alert the driver to apply brakes if for some reason still it is not alert the system will actually also apply the brake if it applies brake initially partially then fully. So, today it is available. One OEM has launched a few vehicles, and there are plans for them to launch more. This will come in the regulatory route also may be from 2025 but that's our assumption but it could be earlier.



- Mukesh:** Right. So, possible to share the number, what could be the content per vehicle?
- P Kaniappan:** Trailer typically today, all trailers put together on an average our content is decent.
- Mukesh:** And for ADAS?
- P Kaniappan:** ADAS again depends on which solution they are going for, there are multiple solutions, the basic solution there is no change in the content per vehicle, but if you want to brake, it could be much higher but right now, it could be much higher again depends on what functionality they want to go. They have to choose which functionality they want to adopt.
- Mukesh:** And sir similarly, e-bus you have mentioned €1000 to €17,000 of content for e-buses so among all the products which you have mentioned where you see the fast adoption and what could be the blended content currently sir?
- P Kaniappan:** Electric buses need an electric compressor for the pneumatic, and the basic braking system needs a compressor that is driven by the power from the engine. But here it is driven by an electric motor. These things, and the volume increases also will come down but today that's the situation. Then you will need, many customers have decided to go for electronic braking systems for electric vehicles, because an electronic braking system is very intelligent system that will actually optimize the usage of energy and there are regeneration possibilities with that it is the most efficient braking solution. So, most customers have decided to adopt electronic braking systems in their electric buses. Content increase is largely driven by volume. Today we are importing and supplying when the market matures to some decent volume then we will localize so that the price will come down but today that is the situation. These two products, the e-compressor, and the electronic braking systems are the two matured products that we have already started. We have secured from most OEMs who are making electric buses.
- Mukesh:** The telematics solutions you are onboarding more than 100,000 vehicles right, the telematics solutions and we have run for the last few years. So, how are you seeing the acceptance of the solution, and are you seeing any annual subscription revenue from this business?
- P Kaniappan:** Yes, so we are working with one OEM to whom we are providing the solution, both in terms of the hardware portal services and end-to-end including aftermarket support, et cetera. So, the solution because it's a global solution, it is working earlier, it started as more from a startup type of ecosystem, but today is a very mature and robust solution. We still have been providing at a basic level only more and more functionalities actually is being developed at a global level and they offer for all the OEM so, the OEMs in India are actually providing the end customer free, they're not charging it's at least for two years, some of them are doing one year, some of them two years, et cetera. We still have to test how many of them are going to keep it or what is going to be the adoption rate. We started this from 2020 onwards, it took almost one year for the market to really know these products to go into the market and mature. This year, right now we have about 120,000 vehicles connected to us. And we have to see because the OEMs will stop focusing on this after two years, initially, they are using this also as an, there is a differentiation



to sell the vehicle they are not charging them. Now, when it goes to the fleet or end customer they have to pay. So there could be some temporary challenges, but progressively the fleets and the end customers also will see the value of these products. We are also working with the fleets now. The subscription is around Rs. 200/- per vehicle per month.

Moderator: Thank you. Our next question is from line Bibhishan Jagtap from Canara Robeco AMC. Please go ahead.

Bibhishan Jagtap: Can you just tell us how much does the parent contribute to export revenue and how much revenue actually come in from selling to direct OEM?

P Kaniappan: I said our export is 1099 crores last year, amongst overall sales of 3126 crores. So, that is typically 33%.

Bibhishan Jagtap: Okay. And in the coming years, which part of the segment do you expect will contribute more is it direct selling to the OEMs or to the parent?

P Kaniappan: Well, our focus is in all segments we are focusing but in the direct segment it is more like securing our place, meaning we want to leave the market so, whether it is the ESC or EBS or we are putting a lot of more efforts to make sure that we retain our leadership position. And that involves, ensuring the global supply chain and also localizing. So, in terms of priority focus in the domestic market, that's all we are focusing, At the same time we also want to grow our export business if you see, has been tracking our roughly in the range of 30% to 35%, only uncertain times in the COVID times our export percentage was much higher, probably you'd we would like to be in that range given the time. But again, it depends on sometimes the projects that are maturing in the global export also. So, overall if I would like to give the indication it should be in the range of 30% to 35% our export is something that we have been performing last few years. But going forward our priority in terms of our resources, our efforts will be in the domestic market, because the market has started adopting some of the very advanced technologies here. So that will be our focus.

Bibhishan Jagtap: Understood sir. And second, how is your export margin profile compared to the Company level margins, it would be better or it would be slightly on the lower side, because we are selling to a parent?

R S Raja Gopal Sastry: Our exports parent are based on a contract manufacturing arrangement, we are contract manufacturers and the margins are based on a transfer price model. The margins are fixed based on arm's length-based pricing, we will not be able to specifically tell you what exactly the margin is, but it is based on arm's length-based principles.

Bibhishan Jagtap: Would it be possible for you to just use some direction whether it will be better than the Company level margin or it will be slightly lower than that?

P Kaniappan: It changed, the Indian market was going through difficult times. And sometimes few products in India also we are not making margin and so it changes year-on-year and all those things, but



globally the framework is like Raja said, on an arm's length basis because there we don't take any risk and ability related to warranty and other things because we are more like a contract manufacturers.

Bibhishan Jagtap: Okay. Understood and lastly sir you mentioned that our input content is around 15% of RM cost, correct that's?

P Kaniappan: Yes, that's correct.

Bibhishan Jagtap: Yes, and how it was probably a couple of years back and how we are planning to reduce that in coming years. Will we are expected to keep on coming on new products?

P Kaniappan: So, our focus is always to have 100% control on the supply chain on these thing, global supply chains we had a lot of challenges during the COVID time and otherwise also now because of the scenario is different globally because of the war there and all that but our wherever possible, wherever there are suppliers available, wherever it becomes the business case is viable, we have been very aggressive in localization. Today our main focus is our margin, margin also is supported by localization. So, localization is a priority for us, but, the challenge is, if it is an electronic part on an ECU it is still cheaper to import some of these products than manufacturing here because the scale is not viable and also the Indian ecosystem for the electronic part is not yet fully developed and matured. As and when the also evolves, we are also getting ready but in many cases, we are starting with assembly by the assemble here including our electronic stability control kits which get mandated from April the ECU we have already localized, but then the model is all the parts were imported by the EMC, electronic manufacturer that electronic parts manufacturer. We import only because there is a localization here, the assembly alone and secure. Sometimes in terms of the cost, because still most part is coming from outside but it secures our supply chain, we are able to meet the customer demand, et cetera. So, in short, wherever we are able to localize we are moving ahead, and that needs some volume. And even if the volume is less, we start with an assembly here, CKD type of things imported and assembled. And so we continue but I believe it will not dramatically reduce, the percentage will not reduce because we are also parallelly launching many new advance products from the global supply chain to India as the market is now moving in that direction. When we localize then some new products get in that we normally import initially then that adds to the import content so 15%, 16% or up to 20% will still continue as an important part.

Bibhishan Jagtap: Just on the industry side what kind of growth we are currently looking at for MHCV good segment and for the bus passenger segment?

P Kaniappan: For us, we have separated buses and this, but bus growth rate could be very high because, last two, three years it was literally no production. Now the market is back, because everything is getting to normal even though employee transportation might not have hit the earlier levels, school bus transportation or tourism, and other things in the city transport all those things have already come to more or less normal. So we are seeing a very rapid growth in the bus segment but again, bus volume is in the range of about 40,000 to 45,000 number per year. But, including



bus, including truck all put together. We are expecting a growth of 10% this year in the vehicle category of above six tonnes.

Moderator: Thank you. Due to time constraints, our last question for the question-and-answer session is from the line of Harsh Mulchandani from KRIIS Portfolio. Please go ahead.

Harsh Mulchandani: Sir, just wanted to understand what percentage of your revenue comes from the bus segment and what future prospects are we looking at apart from the new ESP product, which is becoming mandatory, something more coming in the pipeline in the future?

P Kaniappan: Thank you. So, it would be difficult for me to give an exact number in this case, because the industry it's a massive transition and is like taking place there. One aspect is, maybe two years ago, which will be zero production in the bus segment. But, last year we are seeing a lot of activity it is catching up. And as I said, you can also make your calculation in the industry, the matured volume is about 40,000 to 45,000 and we are a major player here. The context is 85% of the segment we may be serving. So, that may give you a rough idea of what is our volume there versus overall our OE sales, OE sales are 1597 crores. But what is important there is the industry evolution number one, the ESC has kicked in, through the mandatory route in 60% of the volume so, out of 40,000 say 24,000 will be ESC. Now what is mainly happening is most of the government tender is only for electric buses. So, electric bus production has started, most customers have started and we are very well engaged with all OEMs to provide them with all the required technology products. It's the right technology product and a very mature product which we are also quickly localizing here. And the market has gone too long to produce this mostly for the buses only about 250 buses a month now they had started producing. And a lot of customers have got it they have secured the tender from the customer. So they have to complete the order, et cetera. They expect this to grow but today there is a level and in that process, many OEMs have also decided to apply an electronic braking system today. So, this will be the very high content, industry is moving towards the high content segment with the evolution of the electronic, the EV transition. And this transition could be quite also rapid progressively because in our view most of the city bus transportation will become electric buses. And that's the main applicable market for us for EVs in the near term.

Moderator: Thank you. That was the last question of our question-and-answer session. I would now like to hand the conference over to the management for closing comments.

P Kaniappan: Thank you. Thank you for joining and also thank you for the opportunity to share with you and answer your question. Thank you very much.

R S Raja Gopal Sastry: Thank you, thank you all.

Moderator: Thank you. On behalf of Batlivala & Karani Securities which concludes this conference. Thank you for joining us and you may now disconnect your lines.