



**Commercial Vehicle Solutions**

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Date November 22, 2022

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

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**Scrip code: 533023**

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**Trading Symbol: ZFCVINDIA**

**ISIN : INE342J01019**

Dear Sir(s),

**Sub: Transcript of the Investor Call for the Quarter / Half Year ended September 30, 2022**

In Continuation of our letters dated 4<sup>th</sup> November, 2022 and 10<sup>th</sup> November 2022 pursuant to intimation and recording of investor's call, 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#shareholderinvestormeeeting\\_acc\\_656449\\_0](https://www.zf.com/mobile/en/company/investor_relations/zf_cv_india_investor_relations/zf_cv_india_ir.html#shareholderinvestormeeeting_acc_656449_0)

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  
Q2 FY 2022-23 Earnings Conference Call”**

**November 10, 2022**



**ANALYST: MR. ANNAMALAI JAYARAJ - BATLIVALA & KARANI  
SECURITIES INDIA PRIVATE LIMITED**

**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**



*ZF Commercial Vehicle Control Systems India Limited  
November 10, 2022*

**Moderator:** Good morning, ladies, and gentlemen, and welcome to the Q2 FY 2022-23 earnings conference call of ZF Commercial Vehicle Control Systems India Limited 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:** Thanks. Good morning, everyone. Thank you for joining us today and welcome to ZF Commercial Vehicle Control Systems India Limited quarterly earnings conference call. The second quarter earnings and half year results for FY 2022-23 will shortly be presented by the management team of ZF Commercial Vehicle Systems India Limited, formerly known as WABCO India Limited. Your hosts this morning from ZF Commercial Vehicle Control Systems India Limited are Mr. P Kaniappan, Managing Director and 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.

I warmly welcome you all to ZF Commercial Vehicle Control Systems India Limited’s second-quarter results and half-yearly performance for FY 2022-23.

Certain forward-looking statements that we’ll make today are 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 ending September 30, 2022, were published on November 4, 2022. They are available on [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. The transcript and the recorded audio of this call will also be made available on [www.zf.com](http://www.zf.com) under the ZF CV India investor relations section.

Let me begin with the business update.

Industry and economic update: Let me share a few key macroeconomic aspects that are relevant to our industry and GDP growth. The projections for India’s economic growth (represented by GDP) have been moderated to 7.3% (source RBI) from an earlier projection of 8.7%. While this is still the strongest growth among various other economies of the world, India is also dealing with high inflation caused by rising global energy and food prices. After moderating between May and July, inflation measured by the Consumer Price index (CPI) rose in September to 7.41%. The index of Industrial Production (IIP) in July 2022 grew by 2.4% compared with 12.7% the previous month. As you will know, the financial year ending March 2022, witnessed a recovery of Commercial Vehicle production. It grew by 26% compared with the FY ending March 21 which was impacted by COVID. M&HCV (Medium & Heavy Commercial Vehicles) grew by 50% while LCV (Light Commercial Vehicles) was up 15% and Buses increased by 68%. In the Trailer segment, the adaption of new technologies like Electronic Braking System (EBS) & Intelligent Trailer Program (ITP) saw penetration of >5% and migration to trailer lift axle systems for increased payload and improved fuel efficiency. Growth in the passenger Commercial Vehicle category, which experienced a sharper pandemic impact due to travel



*ZF Commercial Vehicle Control Systems India Limited  
November 10, 2022*

restrictions and the suspension of school and office commutes, will also aid growth. This is despite its smaller share of below 15% of overall CV volume before the pandemic. A rapid recovery in India's economic activity levels after the pandemic shock and the government's planned increase in infrastructure spending will help sustain an improvement in fleet utilization rates, supporting freight economies for operators. This should support the revival of the replacement cycle, notwithstanding pressure from high inflation and a rise in borrowing rates since the start of the Russia-Ukraine conflict.

Commercial Vehicle Production in the second quarter of FY 2022-23 was 81,425 units, compared to 54,103 units in the same period of the previous year. This represents a growth of 50.5%. This was largely driven by:

- Increased recovery momentum in the commercial vehicle industry because of replacement demand, the government's infrastructure push, and new segment offerings.
- Intermediate & Light Commercial Vehicle (ILCV) growth due to eCommerce, intracity last mile connectivity, and increase in penetration of CNG/LNG Vehicles.
- Trailer growth arising from greater demand in the car carrier, eCommerce, cement industry, and export segment.

Against this vehicle production backdrop, we registered OE sales in Q2 of INR 348.8 Cr as against INR 226.6 Cr in PY – a growth of 53.9%. Some of the elements which explain our growth story are:

- Penetration of telematics in Heavy Duty Trucks for a key customer
- Delivery of Gen 2.0 E-Compressor for some of our E Mobility customers
- Good growth and technology adoption in the Trailer segment due to better road infra & expressways
- Launch of advanced technology products in the Lift Axle segment
- Application of Hill Start Aid in more of our customers' vehicle models
- Securing RM price increase from OEMs

We are further strengthening our position in the advanced technology areas, digital business and in the EV domain.

Following the recent global launch of ZF's new "SCALAR" digital fleet orchestration platform, an Indian OEM has already onboarded this platform with the features it requires. We are building up our SCALAR platform to include additional capabilities for the Indian market. As we progress, we see a significant expansion of digital systems into commercial vehicles aided by the adoption of AIS-140 which mandates all passenger-carrying commercial vehicles to be fitted with tracking systems. We see 100% connectivity benefiting us through enhanced traffic management and better e-toll solutions. We are gaining acceptance of our AIS 140 FMS device/solutions. Enhancing vehicle uptime and reducing the Total Cost of Ownership are key differentiators increasingly sought by Fleet Operators. This will help fuel the significant spread of connectivity technologies and migration towards smarter and more efficient vehicles.



*ZF Commercial Vehicle Control Systems India Limited  
November 10, 2022*

Now turning to our aftermarket performance: The Company achieved 21.5% growth in Q2 22-23 Vs Q2 21-22 and 40% growth when compared to H1 FY 22. Various initiatives driven by management are helping us in consolidating our position in the aftermarket space. We are mainly focusing on the retrofitment of advanced technology products in the AM space to improve the safety, efficiency and operating margin of the fleets

Let us look at our exports: Export growth was flat in the quarter due to global shortages of semiconductor components, sea freight delays due to COVID lockdowns in China, and low container availability, which remains at a critical level. Thus, growth was subdued at 6.1% during the quarter.

A few initiatives were implemented to expand capacity, including: -

- Key capacity actions on CAR compressors and supply of compressor assembly to DAF.
- Double Diaphragm Spring Brake Actuator Line 5 (additional facility to improve capacity)
- Machining line capacity augmentation – anticipatory actions for expected increases in Q4 22-

23

However, the export of services registered a growth of 33.6% in Q2 of FY 23 compared with the same period in the previous FY.

Let me brief you on a few further important business updates – especially our eMobility focus.

We have secured business with various customers representing a major portion of our eMobility plans for 2023 and beyond to sell our Gen 2.0 e Compressor. We are happy that we have already passed the “Start of Production” stage for some key customers. Furthermore, we have also received business nominations from several other customers. Our Electronic Braking Systems have received nominations for the E Vehicle platforms of major customers. Many are converting from conventional ABS to the more advanced and feature rich EBS for the Electric vehicles.

Engineering: The engineers who provide engineering services to the Global ZF CVS division on software product development and product engineering are set to move to a new location. This new location is built to stringent ZF standards enabling flexibility and enhanced productivity. The facilities are housed in the DLF Campus in Porur, Chennai. Around 425 engineers will move to the new location. On 4th November the new site was formally inaugurated. This state-of-the-art new global facility will have a total capacity for some 840 people, enabling expansion to support growth in the years ahead.

Manufacturing facilities at Oragadam: We are happy that following the completion of all internal and external approvals, construction of the first phase of our factory in Oragadam is underway. It is expected to be completed by the 3rd quarter of the next FY. We will keep you updated on the progress in future calls.



*ZF Commercial Vehicle Control Systems India Limited  
November 10, 2022*

PLI: Under the application made under the Production Linked Incentive (PLI) Scheme for the auto sector, the company has been selected as an eligible auto component manufacturer to receive benefits from the scheme along with its subsidiary. We are happy to report that we have made our quarterly filings in time and are monitoring the progress of our committed investments. We will continue to provide updates on the progress made.

CSR outreach: At ZF Commercial Vehicle Control Systems India Limited, we strive to be responsible corporate citizens 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 skill development.

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 for '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, 2,150 drivers of hazardous cargo carriers across oil marketing companies were trained on road safety; training camps were conducted in 31 cities across India' concurrent medical camps for drivers and 2,000 vehicle checkups were also conducted to determine vehicle and operator fitness.

Holistic community development encompasses a spectrum of initiatives ranging from access to quality healthcare to infrastructure upgrading. We have contributed medical equipment to upgrade the infrastructure of the operating rooms and labor room at ESI Hospital, Ayanavaram, by giving patient transfer hydraulic stretchers and modern labor cots.

Digitalization plays a crucial role in upskilling youngsters and increasing the employment rate in India. On that note, we have made significant strides in setting up a computer lab at Anjur Government High School, near our Mahindra World City plant. We have contributed 30 computers, accompanying furniture, and infrastructure. We have also trained around 200 students and held 5 conferences at the various Centers of Excellence established in collaboration with educational institutions. The Company has even trained professors on the IoT from an Industry perspective.

As part of the important pillar of our CSR activity towards environmental sustainability, we have planted over 1000 saplings at Govt Women's ITI, near our Ambattur factory. More than 180 employees, including their families, participated in this initiative. This Plantation drive was conducted in association with Greater Chennai Corporation as part of the Singara Chennai 2.0 initiative.



*ZF Commercial Vehicle Control Systems India Limited  
November 10, 2022*

Awards and recognitions: Our employees won the 2nd prize in the ACMA Southern region Quality circle competition, 1st Prize in the ACMA Eastern region QCC competition and 3rd prize in the ACMA national level QCC competition. Also, we landed the first prize in the CII National Lean Competition and Gold Awards in QCFI –TN state-level QCC competition.

The Company also received an appreciation letter from the GST Department for training 60 GST trainee officers who visited our Ambattur office as part of field training. The officers rated their experience as “EXCELLENT” in their feedback.

Our employees continued to demonstrate high levels of engagement and participated in various external QCC, and Poka-yoke competitions, as well as winning numerous awards across several categories in the second quarter of the fiscal. I am happy to share that, in this quarter, our teams won a total of 11 awards both at national and regional level in the various competitions organized by the CII, ACMA, and QCFI.

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

For your ease of reference, the results were made public at 6:00 PM on the 4th of November 2022. I hope you have had a chance to go through them.

Commercial vehicle production registered growth of 50.5% over the same quarter in the previous year. We outperformed by 3.4% this quarter. Our sales to OEMs in this quarter was 348.8 Crores and this is 53.9% higher than the prior corresponding quarter. Overall strength in demand ensured that our aftermarket sales were up 21.5% QoQ to 102.8 Crores.

Exports (goods) resulted in an income of 262.7 Crores in Q2 of FY 2022-23.

Our engineering and other services continue to provide very strong value to our customers across the group. The growth in service income is a very healthy 33.6% QoQ.

The quarter is continuing to witness inflationary pressures. While there is a pause in some commodities, it continues for other commodities. We have taken steps to manage our profitability and we see traction in the steps taken.

For the quarter ending 30th September 2022, we achieved a PBT of Rs 90.3 Crores, which is 12.64% on sales. This is an improvement of 4.64% as a percentage of sales and a 101% improvement in absolute terms. We have improved our profitability by 1% sequentially.

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 commodity prices going forward.

Thank you.



*ZF Commercial Vehicle Control Systems India Limited  
November 10, 2022*

We now welcome your questions.

**Moderator:** Thank you very much. We will now begin the Question-and-Answer session. We have the first question from the line of Vimal Gohil from Alchemy Capital. Please go ahead.

**Vimal Gohil:** Thank you for the opportunity. My first question is on AIS-140 you spoke about a few products over there just wanted to know what has been the progress there, have we added almost all the Indian OEMs for these mandated products that need to be installed in their vehicles? So, what is the progress there and if you can just talk about what are the various products which are mandated as per this government mandate, and the second one is on profitability while we have improved our profitability we understand the commodity pressure as well, but what is our desired level of profitability where we will be comfortable going forward?

**P Kaniappan:** AIS-140 actually it is a mandate and basically it requires that you should have a tracking device and a push button so that in case of emergency people can press the push button, then the signal will go to the government control center, etc., so it is essentially meant for passenger safety. So, this has been mandated now in all the passenger carrying vehicles so for us it is largely related to the bus segment. We are partnering with one of the OEMs and that OEM has decided to fit the FMS solution or telematics in their system from August 2020 and thereafter we are only steadily increasing our various functionalities and the robustness of the solution and again partnering with them and then see how this will be benefiting the fleet ultimately in the market. Actually, our AIS-140 is a part of this offering that we give. It calls for registering at a national level or empanelling ourselves as a service provider because here the work involves registering those vehicles in various states and it gets into the portal, Vahan portal and all those things and then of course we do a service in the field for this vehicle. So, this is the business model that we have for that we get a subscription paid. Our focus is to firstly get empanelled at national level; that happens when every state government is coming out with the requirement because each state has its own requirements so we are trying to make sure that, that part we complete and ensure that we provide service to all the fleets because here it is not that you have to only provide for that supply customer with whom you are partnering you have a huge aftermarket opportunity as well because if you are an empanelled player nationally and if the service is good you can actually fit it in the field as well for many players. So this is a possibility, but right now we are only focusing on the partnering with the OEM and reaching out to the market and providing the service to them because the solution that we are offering is not only the basic AIS-140 but we provide much more services so it is a little expensive so while we are providing the service but we do not compete with small players in the market the only player is the AIS-140 so that is the current thing. So on an average we have overall about 4000 to 5000 vehicles we are adding to our platform, today we have 107000 vehicles are connected to us in our platform of which of course initially we started the business with the startup in India but now we have a much more robust global platform which we call it as SCALAR so almost 40% of this 107000 vehicles are now in our global platform, more and more we are trying to connect to that. That provides many opportunities for those fleets or those vehicles that are connected to avail the global services,





*ZF Commercial Vehicle Control Systems India Limited  
November 10, 2022*

again there are possibilities for us to upsell the subscription. So, on an average probably we do on the AIS-140 to the tune of the bus production alone maybe around 500 or 1000 buses out of the 5000 connections every month. I hope that clarifies your point so AIS-140 is one part of the overall service that we provide, and we are limiting ourselves to that OEM because our solution is more expensive than other low cost players because we are providing more services than the AIS-140 itself like that so that is the way because we want to position ourselves as a technology player and a high-end player in the market. On the profitability as I have been saying in one of the earlier earnings call we at least want to go back to our earlier position. So, if you see we have been steadily improving, we are taking many actions to improve our margin and now because the commodity inflation also to some extent softening in commodities like aluminum to some extent on steel as well so it is also favoring there is stability in the business as well. So, our plan is to get back to our earlier position on the margin side.

**Vimal Gohil:** So that would be 14% to 15% I would imagine?

**P Kaniappan:** Yes, that is right.

**Vimal Gohil:** Last question was on if you can just talk about you have always spoken about some of the other products like Hill Hold or the ESCs which probably help the vehicle with better control especially the heavy commercial vehicles on steep roads what has been the traction there maybe over the past one year what has been the acceptance levels by the OEMs?

**P Kaniappan:** One important trend that we see is the adaptation of advanced technologies in the vehicles now because after the BSVI now the customers are looking at how to differentiate. When you have some sort of technologies you become a differentiator. So, segment wise if you look at it in the truck segment we are moving into in the lift axle solutions, if you see very intelligent lift axle solutions which means when the truck is playing without load, for example you can actually lift one axle so that the tire life can be saved and again now we have the vehicles have certain intelligence so it will decide when to lift, etc. In the last few months, we have also expanded that from a single tyre to twin tyre type of environment as well. So, we have launched this product with one of the global players the global customers in India and our focus is to extend it to other customers going forward this is essentially again done in a heavy duty segment. Number two, you also might be aware that India is moving going forward the electronic stability control mandates from April 2023. So, our focus is to get a strong position with Indian OEMs and do the homologation for all the vehicles, support them and make them ready for the mandate. Again we have been quite successful in securing portion of that opportunity because normally initially it comes with only bus segment, we expect that may be followed to the truck segment in the next one or two years. It is a good opportunity, and we are very well positioned and ready to launch the product customers are ready. The next change is even in the connectivity area we are now going to be soon releasing our FOTA, FOTA is firmware over the air update meaning you can like our mobile it gets all their updates so we are working on this and soon we will be launching our FOTA possibility which will help us to really again differentiate ourselves in the market. On



*ZF Commercial Vehicle Control Systems India Limited  
November 10, 2022*

the electric domain even in the safety side itself, the next level is advanced driver assistance systems. We have with the support of our global colleagues again we are now launching this product some OEMs have made a launch of the adapted solution we expect this to really come to the market in the next one or two years progressively from the OEMs. It involves even the advanced emergency braking systems some of the passenger cars are now having the feature alert system first and then even a full braking system. So those things we are now working at all OEMs and then progressively those functionalities will come to the market. On the EV as I have read out that we have secured a stronger position on the electric compressor. So, we have also convinced the customers to go for a electronic braking system which is much more applicable and relevant for the electric vehicles because of its intelligence to efficiently use the energy mainly by regeneration or other preparation that we are reducing the load on the battery system. So, these are some of the technologies and market is now rapidly adapting or working towards and really launching these products, so we are well positioned to support the customers and probably next one or two years this will be the major products in the market.

- Vimal Gohil:** Got it Sir. Thank you so much and all the very best. I will fall back in the queue. Thank you.
- Moderator:** Thank you. We have the next question from the line of Mukesh Saraf from Spark Capital. Please go ahead.
- Mukesh Saraf:** Good morning and thank you for the opportunity. My first question is to the same point that was earlier asked regarding margins so last time around you were mentioning that we have not yet taken the entire price, the price pass through yet with many customers and negotiations are going on so just trying to get a sense of where are we in that process, have we been able to now get most of those pass throughs or is there still a backlog there?
- P Kaniappan:** Actually, we have secured by and large the material cost impact, we have about one quarter time lag, but otherwise we have secured up to that point on the commodity inflation.
- Mukesh Saraf:** On exports we have seen a single digit kind of growth 5% to 6% growth Y-o-Y given that you have exposure to both Europe and US can you give us some sense on the environment over there, there are a lot of talks about the recession, etc., so could you tell us how is your order book looking like, are your customers scaling back on production or is it just a chip shortage that is right now impacting?
- P Kaniappan:** Actually, in a way it is mixed. Number one the demand situation is quite strong in the passenger car segment, we are supplying air supply unit for one of the important global passenger car OEM, it is a luxury segment, so demand is steeply increasing, and we are actually building the capacity. We used to supply 1000 numbers per day and by sometime last year December now we are in the range of 1500 per day. So that is an increase in that segment on the other hand in certain products like our actuators, in those type of products there is a stock correction going on because it is an inventory correction temporarily, we have the reserve too because of our global organization



*ZF Commercial Vehicle Control Systems India Limited  
November 10, 2022*

wanted to state, but otherwise I would say the demand is quite strong as of now. Chip shortage is affecting a small segment of now it used to be a major issue but now some of the valves that we are producing here for other markets there is a chip shortage in a way still we are in allocation mode and its impact is comparatively less and the indications are at least for the next six months or up to the first half of next year the demand is expected to be strong. We have to wait and watch thereafter but as such there is no immediate impact on our demand in the short-term.

**Mukesh Saraf:** The third one is on the PLI scheme, could you give us some understanding on how the incentive will work, how will it be calculated because as we understand you will have to have certain production targets as well for each of the years for the next five years so what percentage of that will be the actual incentive how would that work if you could just give us a broad sense?

**P Kaniappan:** I will request our CFO Mr. Raja to answer that.

**R S Rajagopal Sastry:** The PLI works as for the products which are categorized within the advanced automotive products which get an incentive of 8% to 13% for the growth in sales for base year and if the product belonged to the e-mobility sector there are certain products which are categorized as well. The incentive can go up to 18%. Now in our case against the base year of 2021 we are seeing that we are meeting or even exceeding our target as far as the sales is concerned but we are also closely monitoring our investments because there is certain long lead time which takes over because the PLI demand that is not to be work in progress it has to be capitalized. So we are working on the investment asset also we will be updating as and when we are making progress on the investments and meet the threshold of the 250 Crores and that is when we will start getting our incentives or even when we meet our committed target, so we still are a bit away from our financial year 2022-2023 target as far as the investments are concerned where we are pretty much ahead of target as far as sales is concerned but we will keep the team posted as and when we make progress on that.

**Mukesh Saraf:** This 8% to 18% will be based on how well you achieve the production versus your own stated target so will you be at the bottom end of it?

**R S Rajagopal Sastry:** The way PLI is designed is if for a selected product on the base year you had 100 and if you have 110 for the current year you will get 8% to 18% of the 10.

**Mukesh Saraf:** The percentage how is it decided what will you get will it be 8% or will it be 18%?

**R S Rajagopal Sastry:** There are some calculations if you are exceeding the 10% it is 8% if you are exceeding the 250 Cr it is 9% it progressively goes up, based on the level of increase of your sales versus the base year so it is better the sales bigger the incentive.

**Mukesh Saraf:** Got it right Sir thank you so much I will get back in the queue.



*ZF Commercial Vehicle Control Systems India Limited  
November 10, 2022*

- Moderator:** Thank you. We have the next question from the line of Sonal Gupta from L&T Mutual Fund. Please go ahead.
- Sonal Gupta:** Thanks for taking my question, good morning, Sir. Just on the export side could you give us a sense of how much is euro denominated versus dollar denominated?
- R S Rajagopal Sastry:** We have almost equal mix euro and dollar.
- Sonal Gupta:** So then the currencies for this quarter would be approximately offsetting right then we should not have...
- R S Rajagopal Sastry:** Yes, from our export receivables foreign exchange impact perspective we are neutral.
- Sonal Gupta:** No, I was just trying to understand like the rupee exports versus the underlying exports to calculate the constant currency growth that is what I was trying to understand and secondly could you sort of give us a sense in terms of exports what is the split between the passenger vehicles versus the commercial vehicles?
- R S Rajagopal Sastry:** As I just said we do sell one product for passenger car so roughly the mix is about 15% to passenger car and about 85% to commercial vehicles.
- Sonal Gupta:** Got it Sir. Thank you so much.
- Moderator:** Thank you. We have the next question from the line of Harsh Gemavat. Please go ahead.
- Harsh Gemavat:** Good morning. Thanks for taking my question. I just wanted to ask what was the revenue mix for Q2 FY2023?
- R S Rajagopal Sastry:** Revenue mix we have 348.8 Crores coming from OEM, 102.8 coming from aftermarket and 262.7 coming from exports.
- Harsh Gemavat:** Just wanted to ask what is the adoption rate of the newer products and what kind of content increase are we looking at from each segment exclusively buses, passenger cars, etc.?
- P Kaniappan:** On specific few products there is the content increase and these products many of them just we are entering into the market except ESC which is coming through a mandate for all the buses of certain class most of the things it is essentially I would say for example I talked about the electric compressor. Electric compressor the content itself is typically high per electric compressor but then the size market is only electric vehicles, electric vehicles we expect probably next year about 7000 may be produced. So, the volume is less but the content is quite high, same case with the electronic braking system typically we sell is higher than the ABS. On electronic stability control, we do expect a delta over conventional ABS, but ESC will be a mandated thing for the bus segment, EBS is only for the EV domain. So, we are positioning it in the EV, we are now



*ZF Commercial Vehicle Control Systems India Limited  
November 10, 2022*

focusing and making sure we get a stronger position as more and more EV vehicles come in we see our content will steeply increase. On the other hand, if you look at lift axle control system which we are actually putting it for the higher tonnage vehicles it is the same 48 ton or 55-ton type of vehicles it is not only at 48 maybe even at the level from 42 ton or etc. So typically there the application is all the vehicles that the customers produce in that range generally they fit it. It is very difficult to give you overall picture but most of these products are high content product and the volume increases and of course when we localize more and more, the delta may definitely come down but today that is the situation.

**Harsh Gemavat:** So basically these products will be more towards the EV segment and will be lesser adopted in the ICE portfolio correct?

**P Kaniappan:** Yes, that is correct.

**Harsh Gemavat:** Under the PLI scheme so I believe that the normal mandate that the government has given is that your content in the vehicle should be around 50% localized so what is our current localization levels for these EV components?

**P Kaniappan:** For each product there is a specific local value content for domestic value addition and we normally meet at about 45% I think is the initial requirement, most of the product if it is fitted on the government tender program you need to meet the standard so by and large we will meet it with the localization and without that generally you do not get into that business.

**Harsh Gemavat:** Okay understand thank you so much for that and the last question I will just end it on a basic book keeping question so what is the capex guidance for this year and the next year?

**R.S Rajagopal Sastry:** We are continuing to be in the range of 100 Crores for this year and you will see the capitalization of the new factory coming up next year which will that is another 150 Crores over the 100 Crores which we see this year which we have in normal condition.

**Harsh Gemavat:** Okay thank you so much Sir I will just get back in the queue.

**Moderator:** Thank you. We have the next question from the line of Lakshminarayanan from Tunga Investments. Please go ahead.

**Lakshminarayanan:** Sir if I look at your services business which comprises software services, R&D services, and other business support services and you mentioned that there is a growth in this segment and I see that there is a center which was inaugurated in Hyderabad also couple of months back or so, so from an organization point of view how do you see the scale up of this particular thing and whether it is going to be margin accretive for our overall business?



*ZF Commercial Vehicle Control Systems India Limited  
November 10, 2022*

**R.S Rajagopal Sastry:** From the perspective of the expansion you saw in Hyderabad, ZF in India have got various entities and the Hyderabad expansion belongs to ZF India Private limited which involves the existing entity in India already.

**P Kaniappan:** Ours is actually in Chennai and we have really moved to a new location that is DLF from the RMZ location because we found that the current space is not adequate. So in the new location we have 840 seats, so there is a clarity that we may progressively increase the numbers in the engineering software team and today close to about 500 so it will go to 840 number, so that is why we have opened a new site so this service will continue to increase and it will be part of this listed entity. In addition, we also have the global business services or a back office there we are doing a lot of IT innovation, robotic process automation such things we do for global requirements. The services continue to be increasing if you see in the last few years few quarters we have been growing at about 30% at a CAGR of around 25% to 30%, this may continue at that rate and you asked a question on the margin side maybe you can clarify I could not understand that question.

**Lakshminarayanan:** So my question is from a margin point of view the services are on a cost plus basis or you actually get margins as good as selling to OEs and exports right and I see that the growth of these services have been quite steep that it is almost one third of the past revenues, so that is the question in terms of how margin accretive or it is dilutive for our overall business?

**R S Rajagopal Sastry:** The margin for the service business are based on the cost plus as you just mentioned it is based on the transfer pricing model and there is no straightforward answer to say whether they are accretive to or they would dilute the margin percentage because that will not be a detail which I will be allowed to share what I can say that as you would see they expand on the overall quantum of margins definitely on absolute terms and they also aid in better absorption of the overall overheads that is what I can write now.

**Lakshminarayanan:** The second question is that what are the three important strategic areas for you for looking between now and 2027 or so, if you can just outline in terms of the OE business as well as exports what are the couple of key initiatives or thoughts you have on if you look at five years?

**P Kaniappan:** We believe of course the commercial vehicle industry will continue to grow as anybody's guess but with Indian economy growing and this will definitely grow so with the technology side our main focus is to really increase our content, content increase is largely driven by this business is more and more on the braking and the autonomous driving area, also now we have added the digital business and EV. So autonomous, connected, electric, these are the three segments will be playing a key role in India for Indian customers, export I will come back. Right now we are secured a very strong portion in the braking side of the business and we believe few regulations will come in this segment because safety is largely driven through regulation first is ESC I just spoke about it so from April 2023 ESC for all the buses meaning above I think there is a second class M3 buses even before the regulations for the truck segment some of the Indian OEMs are



*ZF Commercial Vehicle Control Systems India Limited  
November 10, 2022*

getting ready to launch ESC for the truck segment as well. We believe it will be the application of ESC for the truck will also be followed by the bus segment. Already we are expecting a draft regulation for the autonomous emergency braking as a next step of the safety is expected anytime soon because this is the normal path probably happening. So already we are partnering with many OEMs in India in this area and started the work with them. So that regulations will come so adapt and we are also expecting that EBS and ABS will get adopted in most of the trailer segment, trailer segment we see a significant pickup in the technology adoption in the volumes as with all this Gati Shakti and other major initiatives from the government we believe the logistics sector will play an important role and these technologies will come. We have already started seeing in the trailer segment very good technology adoption whether it is a lift axle system or it is a ABS trailer or a trailer EBS, even the digital business in the trailer segment we have already launched we call it trailer pulse essentially a hardware that is connected somewhere you collect all the data, again monitor the data, analyze the data and try to help the fleets with the improved safety efficiency and operating margins. In the area of digital business there are opportunities for us to help the customers essentially in this case fleets to set up uptime centers and they will be able to really manage that fleet uptime. Also we have certain capabilities building globally for orchestration, orchestration is essentially you will be able to manage a fleet from a central command efficiently all that so that is a capability available with SCALAR. So all these things will drive our growth from now to 2027 plus say 2030 and on the electric domain as I said we have positioned ourselves as a key player for certain areas like the electric compressor, ABS and disc brake. So, we are very well positioned to support the customers as the market evolves. Our rough idea even though we do not normally give a guidance but we are targeting about a billion euro type of sales in all the segments including export by 2030.

**Lakshminarayanan:** In terms of your co-products which could be the entire braking system and the new things you have been dealing has it been in terms of a market share in the last three to five years do you see that your market share is intact and even in the new line of business you would hold sway in terms of market share and how is that shaping up whether the Haldex or Knorr-Bremse of the world are also ramping up in India how do you see that?

**P Kaniappan:** Again we are strengthening our position I would say competition will always be there new competitions can come what we are doing is now becoming a part of setup so we have much more competencies , our investment on Oragadam and there is a facility in Pune again if needed we can use that also to support the footprint all that possibility is there so if anything I believe that either at least we will retain our position that is the view with which you are moving or in some cases we further improve ourselves.

**Lakshminarayanan:** Thank you so much I will get back in queue.

**Moderator:** Thank you. We have a followup question from the line of Vimal Gohil from Alchemy Capital can we take that question please. Mr. Vimal Please go ahead.



*ZF Commercial Vehicle Control Systems India Limited  
November 10, 2022*

- Vimal Gohil:** Thank you for the followup opportunity Sir. Just one clarification on PLI you said that while the company is meeting the sales targets, the investment targets are yet to sort of fructify, if you can just explain this in a bit more detail my understanding is that the sales and the investment targets should go in tandem if I am wrong please help me correct that and the second question would be the content per vehicle given the fact that we are talking of multiple products across the current ICE and the EV segment as well would it be fair to say that our content per vehicle which is around \$550 to \$600 that is expected to grow quite rapidly going forward? Thanks.
- R S Rajagopal Sastry:** On the PLI side you are right if you are talking about a Greenfield product the investment and sales will have to go in tandem, but we already have been selling these and we also are promoting the domestic value at percentage with minimal investment, but what we have as a commitment and also as you know PLI requires a minimum commitment for the automotive component side to meet the levels we also have in the pipeline significant levels of localization, value add within the company so on and so forth and those are slightly long lead time and they have like a bigger gestation period as far as completing the investment. So that is taking time it is not that while they have to go in tandem but it is taking time to meet the levels as required by the PLI scheme for bigger player.
- P Kaniappan:** On the content side, it is just I have been spending time to explain so much of pipeline of technologies that we are brought to India working with customers many of the customers have released but the actual content is largely driven by the way the market will evolve more of EV production will definitely support us and of course the regulations and all those things will drive but in principle yes our view is that now that the inflection points of adoption of technologies in India so it should definitely support us to achieve a rapid improvement in the content which in my view probably should start from the ESC regulation onwards.
- Vimal Gohil:** Perfect thank you and lastly just on the capex I missed that number for FY 2023-2024 total capex you spent?
- R S Rajagopal Sastry:** For 2022-2023 we will be at the range of 100-104 Crores and the capital realization of the new factory and the associated that will happen in 2023-2024 which will go anything like 250 Crores of overall put together.
- Vimal Gohil:** Perfect thank you so much once again Sir and wishing you all the best.
- Moderator:** Thank you. Ladies and gentlemen that was the last question for today. I would now like to hand the conference over to Mr. Annamalai Jayaraj for closing comments.
- Annamalai Jayaraj:** On behalf of B&K Securities we thank all participants for joining the call. Special thanks to ZF Commercial Vehicle Control Systems India management for taking time out for the call and giving us opportunity to host the call. Have a good day.





*ZF Commercial Vehicle Control Systems India Limited  
November 10, 2022*

**P Kaniappan:** Thank you.

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