AUTOMOTIVE AXLES LIMITED

9th August 2023

The BSE Limited
Phiroze Jeejeebhoy Towers
Dalal Street
Mumbai – 400 001
Scrip Code: 505010

National Stock Exchange of India Limited
Exchange Plaza, Plot No. C/1, G- Block
Bandra (E)
Mumbai – 400 051
Scrip Code: AUTOAXLES

Attn: Listing Department

Dear Sir/Madam,

Sub: Analyst / Investor Conference Call Transcript.

In continuation to our earlier intimation dated 31st July 2023 regarding Intimation of Analyst / Investor Conference Call and with reference to Regulation 30 read with Schedule III, Part A, Para 15 (b)(ii) of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 enclosed herewith Transcript of Analyst/Investor Conference Call conducted to discuss on the financial performance for the Q1 FY 2023-24 held on Friday, 4th August 2023.

The Transcription, presentation and the audio recordings of the same is available on the website of the Company https://www.autoaxle.com/Analyst_Investor_Meet.aspx

This is for your information and record.

Thanking you,

Yours Truly,

For Automotive Axles Limited

DEBADAS PANDA

Digitally signed by DEBADAS PANDA
Date: 2023.08.09 15:22:12 +05'30'

Debadas Panda
Company Secretary & Compliance Officer

Encl: as above

Regd. Office & Mysuru Unit :
Hootagalli Industrial Area, Off Hunsur Road, Mysuru – 570 018, Karnataka, India
Telephone : 91-821-719 7500, Fax : 91-821-2402451
Email : sec@autoaxle.com, Website : www.autoaxle.com
CIN : L51909KA1981PLC004198
ISO 9001:2015 / IATF 16949 : 2016, EMS : ISO : 14001:2015 & OHSAS : ISO : 45001 : 2018

“Automotive Axles Limited

Q1 FY ’24 Earnings Conference Call”

August 04, 2023

MANAGEMENT: **MR. MUTHUKUMAR N. – INDIA LEADER, CUMMINS-MERITOR**
MR. NAGARAJA GARGESHWARI – PRESIDENT AND WHOLE TIME DIRECTOR – AUTOMOTIVE AXLES LIMITED
MR. RANGANATHAN S. – CHIEF FINANCIAL OFFICER – AUTOMOTIVE AXLES LIMITED

MODERATOR: **MR. SAILESH RAJA – BATLIVALA & KARANI SECURITIES INDIA PRIVATE LIMITED**

Moderator: Ladies and gentlemen, good day, and welcome to the Automotive Axles Q1 FY '24 Earnings 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 star then zero on your touchtone phone. Please note that this conference is being recorded.

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

Sailesh Raja: Yes. Thanks, Lizann. Good afternoon, and thanks to everyone who has logged in to Automotive Axles 1Q FY '24 Earnings Conference Call. Today, we have senior management team. We'll be hearing from Mr. Muthukumar N, India leader, Cummins-Meritor; Mr. Nagaraja, President and Wholetime Director, Automotive Axles; and Mr. Ranganathan S., CFO, Automotive Axles. I would now like to turn the call to Mr. Muthukumar for the opening remarks, followed by Q&A session. Sir, you may begin now.

Muthukumar N: Thank you, Sailesh. Good morning, ladies and gentlemen. Thanks for taking your time to join your company's investor call, and we really appreciate your time. And we have -- like, what Sailesh said, we have Mr. Nagaraja and Ranganathan, are with us. They're going to take you through the presentation about the company, the products, the ESG initiatives, how the financially we have performed and how the market is. I think it is one of the questions that used to come so we are just putting on how the commercial vehicle market is and how we have performed, followed by the focus of the company. With that introduction, ladies and gentlemen, thank you once again for joining. I will hand it over to Mr. Nagaraja to talk about our location, product and ESG initiatives. Over to you, Nagaraja.

Nagaraja: Thanks, Muthu. Good afternoon, ladies and gentlemen. My name is Nagaraja Gargeshwari. I'm President and the Executive Director on Automotive Axles. So just for those people who are not familiar with Automotive Axles, just an introduction here. The Automotive Axles established in 1981. So we have 40-plus years of existence here. We have been growing. We have 4 locations in our 2 in Mysore, and then 1 in Pantnagar, and in 1 Jamshedpur and 2,600-plus employees.

We are the largest -- the number 1 axle manufacturer for commercial vehicle in India and also the number 2 when it comes to brakes. And as you can see, we have products that range from 7-ton GVW of vehicles, all the way to 55-ton tractor trailers. All major OEMs are our customers, Ashok Leyland is our largest customers. We also supply to Mahindra, UD, Tata, Caterpillar and also SMR. Next slide, please. So this is our financial information.

As you are aware. Revenue was 5,084 million, EBITDA was 611, and PBT was 505. And again, we are catering to the diverse market. We not only cater to the on-highway, but also the mining segment. We also the off-highway and bus and coach segment. I'll ask Ranga to run through our financial performance slide. Ranga, over to you.

Ranganathan S: Thank you, Muthu. Thank you, Nagaraja. As far as Q1 2023, '24 is concerned. Our revenues are at INR534 crores and EBITDA at INR609 crores and PBIT INR509 crores. I really see compared to the last year, our revenue has grown by 7%, and our EBITDA has grown by 16% and EBIT grown by 22%. If you really see our EBITDA last year, the same quarter is 10.5%. EBITDA for the current quarter is what 11.4% and last year, we had the PBIT at 8.3%, currently is about 9.5%. So though the revenue has grown only about 7%. We have improved our EBITDA year-on-year as part of the strategic initiatives and also a larger extent, thanks to the commodity reductions in the last 2 quarters. So this is a financial performance for the Q1 and Muthu, can you take it over the economic outlook and market outlook? Hello?

Muthukumar N: Nagaraja, did you touch on the ESG initiatives and awards that we got?? Those are the 2 slides.

Nagaraja: No.

Muthukumar N: Okay, because there is a slide before the financial. Okay, I will talk about the market and we'll come back on to that. Ladies and gentlemen, I think last time, there were many discussions about how the commercial vehicle is going to be. So we had a discussion, we took up with SIAM, we took it from the various other sources IMF and all, find out how -- India continues to be the fastest-growing economy. You all know that, and we are in a very, very advantageous situation at this point of time. The IAP, even though the stock continues to be good.

The projections for the next year is going to be at 6.5 GDP. With the diesel prices standing flat and the realization for the rental of truck going good and with the amount of infrastructure boost that is coming up from one side from the government, the 1 and 3 vehicle scrappage policy available here. We are looking at how we can continue to grow. The commercial vehicle segment, its ability to be very, very positive. I think you have more information that you would have heard from various OEMs, but we are quite confident that the market is going to be flat or single-digit growth, which is going to happen for the next couple of years in our industry.

With that outlook, for the first time, here also showing you how the market has performed over the period of last 5, 6 years. If you see in FY '24, the first quarter has done 97,000, even though the market is less when compared to the Q4. Traditionally, to look at, we're similar to last year of Q1 and the rest of the 4 quarters looks very good. So at this point in time, we are very, very confident that the commercial vehicle market, 7.5-tons and above will cross about 420 K, which we are taking a very, very pessimistic of view 3%, but it can be more than that on the market outlook.

Lastly, most of you asked the question on, hey, how -- what's happening between -- how you guys are growing? If you look at the slide, the growth strategy, what we are giving. In the year 2018, '19, our revenue was INR1,942 crores. The industry volume at that point in time was the highest of 476,000 vehicles. We had an EBITDA of 11.9%. If you look at over the period of years, in '22 to '23, even though we have -- the commercial vehicle market is still about 16% to 17% less, your company is able to grow from INR1,942 crores to INR2,300 crores, which is about 17% to 18%, which clearly shows that are dependency on non agriculture business is coming down, and we are growing in other segments.

We have been asking for numbers in other segments like exports, off-highway, but we thought that this particular slide will give you a confidence on how much we are growing. Even though we haven't given an updated number to you, I just want to let you all know between 2020 and now our exports have grown up by more than 24% of the -- for the global market. Also in the bottom, if you see our earnings per share was given. In the 2018, '19 when we were at the peak, earning per share is about INR80. And now for the '22, '23 INR107.22 which continue to the add values to the shareholder.

We will take any questions on this during the question answer session. But going back into the focus areas, we are seeing that the market would grow at about 5% to 8%, what I said. We will continue to -- the plant will continue to focus on Industry 4.0 last time Nagaraja presented you on how the company is taking the digitalization initiatives and how we are going towards paperless office, the focus will be there. Ranga was mentioning that the commodity price soften. However, we continue to focus on commodity recovery from the customers on one side.

At the same time, the plant will continue to work on conversion costs and the cost reduction material. The focus on improving conversion and material cost performance will continue to be there. While on the top line, we continue to penetrate into the market share of revenue growth in non-heavy business, we continue to be there. Of course, enhancing profitability will be core. We can achieve these only by enhancing the customer value. The company is making more and more reliable products and the product reliability is getting improved.

And also, we'll work with customers to make sure that we are responding to the customer is much better whereby the customers consider us as a preferred supplier and preferred partners. Nagaraja sets upon on the new products that we are launching, and all the new products are modular design, which means when the scale goes up, our profitability can be substantially grows up. We, as an organization believe it will make a difference and continued work on employee recognition, employee engagement, and operational excellence will continue to be our focus area.

The next slide talks about emphasis on people and the environment. We know that we need the intelligent quotient, emotional quotient and technical quotient for people. A lot of training in both in terms of the technical training, management development program, supervisory development program. And feedback and learning reviews are going to the team to make sure that our team is a competitive team and always they stay ahead in the market. We are corporate responsible citizens and we owe it to the mother earth also the society we live in.

We continue to focus on skill development in the area of operate, developing a green environment, conserving water and making the people aware of this, and of course we at the Mysore are starting a program for developing a positive attitude for the drivers and the city bus drivers to make sure that it's a tourist communication and also getting into the safe driving behavior in the city of the Mysore where we are, along with the district administration.

Diversity, equity, and inclusion are the key, and the gender diversity milestone is being identified and the team is working very, very positively on this. In terms of sustainability and government, water positive, 80% energy from renewable source by end of next year are some of the milestones that the team is working on to achieve this.

On to the next slide on the key actions to manage the business successfully. Employee wellbeing. Our organization can depend on how well our employees can – employee wellbeing is continuing to be a focus area for us. AatmaNirbhar Bharat is the amount of opportunity that is opened up by government. We continue to increase our export, continue to increase our defense. Alternative technology, disruptive innovations and value engineering, thereby we are always competitive with the customers and the customers identify coming to Meritor and automotive acting as a preferred solution provider.

Compliance and ethical code of conduct are very, very key and we continue to make sure that every part of our operation process to people, we follow this. And moving toward the journey of destination zero or toward zero carbon emission continues to be focused. We just missed one slide on the slide number five on the award. Last month, or for the year of 2023, we have been awarded with the exporter award by the Karnataka government for the largest exporter. So even though we don't put the numbers, you can understand the government recognition for our commitments to keep on export from this unit.

Your company is also awarded with a best performance on ESG by our largest customer, Ashok Leyland, looking at the systems and process in our company towards our journey towards destination zero. With Mahindra Trucks and Bus Division, normally a supplier is awarded with improved delivery, improved quality. But with the overall performance of the organization, your organization is awarded with the best business partner of the year, which clearly gives us an issue over how the customer feels.

The customer doesn't treat us just like a supplier, but they feel that we are a business partner, working with them and making their business to grow. If you see all the three awards are coming to the front end company, but of the hard work and contribution from the back end organization of Fundamental Access.

With that, ladies and gentlemen, I'm just opening it to the question and answer session. Ranga and Nagraj, you want to add anything before we leave it to question and answer?

Ranganathan S: No, we are good.

Muthukumar N: Okay, thank you. Sailesh, over to you to take out questions.

Moderator: Thank you. Ladies and gentlemen, we will now begin with the question and answer session. The first question is on the line of Aditya Welekar from Axis Securities. Please go ahead.

Aditya Welekar: Yes, so thanks for this opportunity, sir. So just wanted to understand, since now we are saying that the MHCV market will grow, the growth rate will moderate to 3% from a strong growth of 37% in FY '23. So what are our key growth triggers going ahead? Means given that the pace of CV industry growth is slowing down as compared to last year, are these new products which will drive our growth or exports or any capacity additions? What are your mid-term or long-term plans for getting away from the volatility of this cyclical space and coming up with a sustainable growth outlook?

Muthukumar N: Thank you. I will divide your questions into two. One is what we are doing internal, what you are doing external. Commercial vehicle market, you are saying that it is slowed down, but we strongly believe that the slowdown in the first quarter is just an inventory correction, and we are already seeing that the market is picking up in this quarter. So we strongly believe that our projection of 3% to 6%, 7% single-digit growth will definitely happen.

The trigger for this indicator, if you see, the voluntary vehicle scrappage policy, the government spent towards public transportation. If you see last three, four years, the government spent on public transportation was not very less, a lot amount of bus orders are coming, so your company will continue to present.

The third is the amount of infrastructure projects and the road work that's going on. We believe that the tipper sales continue to be good and the country is also looking at a favorable monsoon, even though it is not going to be more than, but it's going to be average monsoon, which means the agricultural output will be good and we'll have a good amount of good transportation.

These are the external indicators we see on top of the government's initiatives and our ability to export more to the customers. These are all the indicators that we are looking at from the external. Internally, as I said, between 2020 to now, we have almost grown our exports by two times. We have -- Nagraj presented during the product strategy, which I will ask him to talk to you later, most of the new products that we are introducing have a higher content per vehicle and also the reliability is more.

We are penetrating more shares in both axles and brakes. So we believe that that will make us to grow in on-engine segment. The growth in aftermarket, the growth in export, and the growth in off-road and different will definitely help us to mitigate a reasonable amount of the cyclicality what is available in the commercial vehicle market. Nagraj, you want to add something on the products and how you're improving the reliability to take care of the market and customers?

Nagaraja: Yes, just a couple of comments on the new products what we have introduced in the last 12 to 18 months. We did talk during the last face-to-face meeting. We have come out with an axle which is the largest axle that's being used in India. We call it a MS 185 with a 500 millimeter ring gear, which has essentially replaced on certain tractor application instead of two tandem axles the one single axle is able to do that so we are seeing a good response from the customer and also this reliability is much higher.

So the two new two other products what we call is 59 and 165 axles mainly you one use for line all another one for tipper applications we are the only axle manufacturer you know giving a axle housing casing with a 16 mm housing again has a very good response from the customer. Not only we have not been able to develop these products ahead of time, but at the same time we have been able to develop these products ahead of time, but at the same time we have been also ramp up when the customer needed it.

So I believe the new products what we have introduced and we also have a couple of other products which are in the pipeline. You know, we have got updated our next size tandem axle for heavy tipper applications. They are already being developed and final field testing is going on. So in next 12 to 24 months, we are expecting to introduce at least another 3-4 products, which are very, very unique for India market.

Aditya Welekar: Understood, Yes. Thanks for that elaborate answer. So then my next question is on coming to the financials. So in the non-operating income in this quarter, we have seen a substantial jump both on year-on-year and sequential basis. So is there anything, one off in that, which we have to consider or that will be a run rate which we can see in future quarters?

Ranganathan S: No, as far as other incomes are concerned, yes, I really see the Q4 of big volumes as given as in a good cash position as far as the Q1 is concerned. And with the dividends expected to distribute in the month of August and that one advantage of earning some better return on the surplus cash is what witnessed in the Q1, that is one. And definitely our realization on the scrap has also been better in the first quarter. So there are the two major reasons. Definitely we are taking a lot of initiatives to see that how we optimize the return on the surplus cash we have. You'll see the small momentum the coming days, but it's more towards, though there's an increase, but the share is increasing because the overall volume is down compared to the Q4.

Aditya Welekar: Understood. So our last question is in it, in previous calls you have touched based upon new segments like construction equipment and off highways where you are planning to enter and gain some market share. So any update on that?

Muthukumar N: We continue to focus on our off highway and defense is what I said. Of course, while the defense of some of the new programs that we launched in terms of the construction, you know, the Indian construction market is completely different from the global. And these products, what we need to go for is a high cycle of product development. So, we have currently a few products that are running on a few customers, but the rest of the products we are developing, and it will take about next two quarters for us to get into the customer with the launch.

Moderator: Thank you. The next question is from the line from Amar Mourya from AlfAccurate. Please go ahead.

Amar Mourya: Hello sir. Congratulations for a great set of numbers. Sir, I wanted to understand, so FY ‘23 are gross margins where you know, slightly under pressure because of RM inflation and this, there has been a very healthy recovery in the gross margin. So is this because of recovery in RM inflation, or is this because of some mixed change? And can we expect our gross margins to sustain or improve from here on?

Ranganathan S: No, I'll take this call. See, as far as Q1 is concerned, as Muthu was mentioning at the beginning, that the on-highway business is little softened in the first quarter. And we are able to get a good share from the export and the aftermarket due to the reduction in non-IP. Of course, aftermarket, this quarter we have done better than the last quarter. Definitely, that is actually, mix is one of the contribution. Second, our lot of cost reduction initiatives part of the mission 25, that is the second important point.

And these are all the basically the two main, and definitely the last year you said that increase than the commodity price little softened, that is also marginally contributed for improvement. So in terms of sustenance, so again, the halfway picks up definitely the door, the export and the aftermarket volumes continue to play the same role, slightly better role, but on-highway picks up, that share may come down, that may neutralize the margin.

But to just re-ensure that, our strategic initiatives in terms of metal cost reduction, there's a continuous focus we are giving from the management perspective and to improve the gross margins. So commodity is not in our control, but other than that, all other commodity, all other strategic initiatives in terms of getting a better pricing from the customer as well as getting the, and also working on the commodity material cost optimization is continuous focus is there, there's a dedicated team working on it.

We will try to make our best effort in terms of improving the gross margins in the coming days, but definitely the first two elements I mentioned is about the mix, it was quite favorable as on highways softened in the first quarter, is one of the main contributor, but definitely our material cost reduction as part of machine quality contributed a bit more in the Q1, which will continue the rest of the quarters.

Amar Mourya: Got it, sir. Given that, the underlying M&HCV OEMs profitability has also improved dramatically in last two quarters, three quarters, and we are also investing behind operating the way, we are investing for automation initiatives. So do you see our EBITDA margins improving to 12% or more levels, or do you think there is, because of the lower industry growth, there could be some headwinds to this?

Management: So as far as, if you really see, watch this last few years, the market, see the 5% to 8% is our minimum growth, what we are anticipating in the market, okay? We have to wait and watch out the next three quarters, M&HCV, how it's going to grow. We are also a little optimism in looking at the market more than the 5% to 8%, what they indicated in the presentation.

We are quite positive about that, but we have to wait and watch. But minimum 5% to 8%, we are anticipating, point number one. Point number two, as of today, the order board, what we are seeing a good Q2 and Q3. We have to wait and see that how it's going to be actually materialized.

So, volume definitely increased, you definitely have the leverage benefit in your system and definitely our aspiration to controlling the fixed cost and optimizing the material cost is always on the card. So, definitely the margins has good potential to improve as long as the volume increases the next two quarters.

Amar Mourya: That's great, sir. Great to hear. And lastly, on the new product initiative, so this year, can we expect any increasing contribution from off-highway, LCV and also the suspension segment. So we were evaluating, investing for the subsystem segment. So, whether the contribution of revenue from these segments should be increasing from here on?

Management: Muthu, would you take the call? Yes, I can.

Muthukumar N: Sir, in terms of suspension, we already said that, it is a very very cost conscious segment and we are fighting against the OEMs of internal manufacturing. So with more and more tonnage going in, we don't see it from the segment but looking at from the other segments like off-highway, as

I said we are making some new products, which is going to substantially come up maybe in next two quarters to three quarters, we will be coming out with this product.

As I said exports we are growing up between 2020 is the best. From definitely next time, we will try to find out the mechanics and to see that how we grown in every segment keeping some base. I think Ranga is working on that model because every time when you're asking and we are not able to answer segment wise, we feel, it's not good.

So we will definitely provide you some information. But your companies continue to work on the cyclical issues of on a way and try to see how we can go. Though I'm not able to give a very clear specific on off highway business, but one thing that I wanted to tell you to caution, the off highway entering into the segment is extremely challenging because of the initial barrier that we have. But once we get in, we're good.

Our priorities will be focusing on off-highway, different aftermarket and exports, all the four to make sure that, how we deal with the current cyclicality of online business.

Amar Mourya: Okay, got it, sir. Great to hear and I wish you all the best.

Muthukumar N: Thank you.

Moderator: Thank you. The next question is in the line of Dhaval Shah from Girik Capital. Please go ahead.

Dhaval Shah: Yes, good afternoon, team. Firstly, can you share the revenue from Axle and brake segment for the quarter and also for the last financial year?

Management: Ranga, over to you.

Ranganathan S: See, at this moment of time, the Axle is generally takes a major portion of the revenue. So we'll definitely come back to your question, taking comments of the feedbacks about to share or not. So at this moment of time, we can be rest assured, the Axle takes a major share of the business and brakes, will be half the size of it.

Dhaval Shah: Okay, and so on the brake side, what sort of market share are we eyeing over some medium to long term periods, maybe three year to five year, what is the market share we are eyeing? Axle, we already have a very large market share in India?

Ranganathan S: Muthu?

N Muthukumar Yes, Ranga, thank you. Sir, while we, like what you said, we have an high share in Axle, as an independent Axle manufacturer, I want to correct because there are a lot of companies, which are making brakes themselves. In the brakes, we continue to expand. At this point of time, the way in which we are going, I can only tell you by 2026, 2027, we will be the largest commercial vehicle brakes manufacturing company.

I can tell you between 2020 to now, we have expanded 33% of our market share in the brakes in commercial making segment and moving to become the number one player, that the information that I'll be able to share at this point of time. And you want add anything, Nagraj?

Nagaraja: No, it's good. So, definitely our aspiration and our marketing team working closely with the customers with the products as well as our penetration with the customers. We are not number one today, but as Muthu said, we have progressed a lot. Next, about two years to three years, we have an ambition to be a number one brakes player, as good as the Axles as of today.

Dhaval Shah: Wonderful. The second question is on the, from the, what new products or integration benefits we can derive from the Cummins platform? Like two quarters, three quarters back, we were in the planning stage, any clarity there?

Management: I just wanted to let you all know, we have completed one year of acquisition on exactly on 3rd of August yesterday. Day before yesterday, we had a celebration. Very, very clear long-term strategy is being drawn out. While we will not be able to introduce a new product like what you're asking because Cummins is on new engines pollution systems and axle to the different entity at this point of time.

But we are working a lot of areas, where we can synergize with them and going to the customers together. We have a very, very strategic advantage in India, as we have told you earlier. There are some commercial vehicle manufacturers, where we are present, where Cummins can leverage it. And there are a lot of customers where Cummins presents that we can leverage including the offering business.

So we continue to work with the India leadership team, we continue to work with the global Cummins leadership team to see that, how we can leverage. We have a very clear aspirations of our mission '28. I think mission '25, we have communicated to you about the focus area. The same way, we already finalized our mission '28 on where we need to be in mission '28, where we'll be completely leveraging the acquisition of Cummins on Meritor.

So we will soon come back to you with the overall plan of where we are going to migrate. But rest assured that, this is a great combination between them and also our acquiring Siemens Motors is going to really help the organization to take it forward, not only in India market but also in the global market.

Dhaval Shah: Yes, so while we get a newer customer profile, will we be able to participate in any of the EV programs which Cummins is running at the parent level?

Management: Absolutely, sir. Cummins is coming with hydrogen ice engine. They have a lot of vertical, which is coming in, which we want. But we are trying to go into every customer. The customers have a different vehicle configuration at this point of time, like a remote mounted motor, like an e-axle and many things and with e-axle there are a lot of modification that needs to be done in the axle to make it successful even for the remote mounted motor.

Currently we are supplying to many customers, almost I would say that 50% of the EVs, vehicle manufacturers on the OEM, we are supplying axles to them for the remote mounted motor configuration.

Dhaval Shah: Remote mounted, okay, got it.

Management: But you know, it's a very, very small market at this point of time, particularly in commercial vehicle market, but we don't want to leave anything left at this point of time. So we will continue to work with most of the companies and try to see how we can leverage this relationship further.

Dhaval Shah: Got it. And sir, last question will be, we have consistently maintained our EBITDA margin. Now with inclusion of newer products and newer, expanding our target market as well. Can our company march towards 14%, 15% EBITDA margin, say, over a five-year period? Is it there in the vision statement? Are we thinking on that line? Is it possible?

Management: And if you're asking if possible, I would definitely say, it is not impossible. It is definitely possible. Okay. But we are in a very, very competitive environment, where we try to expand our margin, but also to penetrate into this, and newer legacy axle manufacturers or the newer people that are coming in. Our boat direction is very, very clear to expand the margin. If you're asking that that is a part of the mission statement, yes.

We need more margin to make sure that, we have enough money to plough back into the system from the development and all. So your company is targeting to move to that. Whether you're asking 14 to 15%, we normally don't share, but we will try to see how in our mission ’28, when we communicate to you, we will do that. But at this point in time, it is on the target and we are moving towards that.

Dhaval Shah: Interesting. Okay. Great sir and good luck to the team.

Moderator: Thank you. The next question is from the line of Amit Hiranandani from SMIFS Limited. Please go ahead.

Amit Hiranandani: Thanks team for the opportunity and congratulations for a reasonably decent set of numbers. Sir, first on the book keeping side, if you can give some capex outlook for FY'24 and FY '25 please?

Narayanswamy: Ranga, you can give the areas where we are investing and continue to keep focusing.

Ranganathan S: See with the last capex we expanded in the year '19, '20 and major capacity expansion to ensure market growth we have invested. To that level, the investment as of today, we are not anticipating. However, as you can see that the automation, especially industry driving the industry 4.0 is a continuous focus. ESG is one of the key pillars of the strategic focus. So, we are definitely driving our capex to improve the hurdles or automation in the operations line and improving the kind of capacities within the -- our manufacturing line and so overall, enhancing the efficiency and effectively of the operation, we are going to invest in.

So definitely, if you really see that 2022-23, what the investments you're looking at, more or less the same level will be there in '24 and '25 too at this moment of time. Definitely, there may be a marginal increase you will be coming up to see that what type of the export business or the domestic business we are getting it to meet a new product, definitely, there will be definitely the increased capex will always be there.

So, at this moment of time, the plan wise we don't have a substantial investment client like in '19 and '20, but definitely, this year and next year, we'll have a reasonable investment mainly on automating the product, improving the quality as well as in the operating lines improving the capacity and the output of the respective lines. So, that's basically is that so just wanted to give you an update. '24 and '25 may not be as good as '19, '20.

Amit Hiranandani: Sir, what would be your present capacity utilization and how much peak revenue is possible from the current capacity?

Ranganathan S: The current capacity on an average, if we look at '22, '23, we have utilized around 70% to 75%. So, sometimes in the month, we would have touched about 80%, 85% also, but more or less is around 70% to 75% is what we are seeing it today. But we have still capacity of close to about 20%. The market goes even up to the '18-'19 level. We have enough capacity to meet the expectation of this.

Amit Hiranandani: Sir, next on the demand side. So the CV industry outlook from your side looks to be on the conservative side for FY '24. And just wanted to know your realistic picture for the coming 2 years and the onground situation at present, please?

Narayanswamy: Here we are a little conservative because you are saying when we aggressive people say that hey you are aggressive the election is coming next year, why are you so aggressive. And then we are a little conservative you are saying that -- to be more honest with you on the first quarter numbers, what is coming in, we believe that this year will be definitely good unless there was something major changes. As I said, the indicators are the diesel price being flat, the realization of rentals for the people, it’s a good agriculture which means a good amount of goods movement between interstate.

And at on top of this on top of this the amount of construction activity that is going to be done and good amount of progress. These are the things that we see very, very positive indicators at commercial vehicle. There were the few major OEMs in India, somebody is talking about 8%, somebody is talking about 16%. Not only for the year, at least, but our main basic customer is predicting about 6% CAGR between now to 2028. You would have heard in their investor call. So, we wanted to be lined with this, but we believe that the market for next two years is going to be very, very positive and robust.

Amit Hiranandani: Sir, lastly, on the margin side, we -- in the presentation, we have given the target is 80%, you'll get from the renewable sources. So, presently, how much power we get from the renewable energy and by when this 80% sourcing will come and what would be the cost savings expected by then? Continuing with the margin side, just if you can give your take on the commodities going forward an internal target to take the margins in the mid-teens by FY '25, '26, please?

Narayanswamy: In terms of renewable power what you asked is, we are currently at about 30%, but I'm just saying between 25% to 30% because consumption is also key to variance. We are getting about 8 megawatts power now. We will be just moving into like what Nagaraja presented during the presentation, we'll might even think about 80% by 2040 end. If you're asking the savings for that the savings is relative. We are talking about the savings with respect to the current electricity bills and the electricity bills keep on changing.

So, we are becoming a good captive and then we are moving into that and definitely, that will add to the bottom line more than the bottom line, both than the financials, we are more focused on the carbon-neutral that the journey that we are going in and achieving the coming -- target of destination zero. Just for information, we just don't work only on migrating to convention power the renewable power, but also the plant is taking lot of initiatives reduce the consumption of power.

The plant is trying to find out that goods movement for both inbound and outbound by using vehicles, which are using less carbon-emitting systems like moving into CNG or working with LNG or battery. So, many more initiatives are being taken to reduce the carbon emission in total. Last step for the savings specifically, I think it's a bit difficult at this point of time to share specifically on to that.

At a cost reduction, I think Ranga and Nagaraja both of them explained earlier, we continue to stay focused on making sure that every time the commodity changes happened, how we'll be able to save in terms of improving the yield and working and somebody asked us earlier whether we are targeting towards 14%, 15% and it is on the Board direction. Yes, the Board direction is to expand the margin and you team is continuing to work on this. We work in everything, conversion, fixed cost and, of course, in terms of the efficiency of conversion, and procurement of raw material. The first in the design cost. All the segments going there, which make sure we work on expanding the margins.

Amit Hiranandani: Okay sir. Thank you and wish you all the very best.

Moderator: Thank you. The next question is from the line of Amar Mourya from AlfAccurate Advisors Pvt. Ltd. Please go ahead.

Amar Mourya: Hi, sir. Thank you for the opportunity again. Sir, just wanted to understand on the off-highway segment, what could be the size of the off-highway segment right now in India that for the product you are targeting and who are the major competitors and is the pricing in the market leading to more margins, are more competitive than the MHCV segment or is it more import-driven and hence margin can be better here?

Narayanswamy: Sir, off-highway segment, if you ask whether off-highway is profitable than on highway segment, it again depends on the organization ability in doing this. I don't want to do this comparison, but I can tell you that it's going to be very, very tough on competition. Even if you look at the entire market, most of the team is making their enough manufacturing and we don't have a ready-made global product, which can be brought into the system because the type of vehicle what India -- for example, the JCB backhoe it’s not available anywhere outside the country. It is unique, and they are making by themselves.

They hold more than 80% share. So, most of these companies are making by themselves, so it becomes extremely challenging for us to penetrate into that and also get into the cost reduction. At this point in time, our estimate says that we will be equal or less in terms of when we migrate into this, but a huge amount of investment in terms of product development and time is needed at this point in time.

Having said that, wherever we are already present, we are trying to see with how we can expand this market and penetrate into this. Hope I answered your question. Market price and all it is available. I know what is the total market potential of off-highway, but that depends on so many other concerns, and it will be extremely challenging for us to talk without any proper document at this point in time.

Amar Mourya: And we are developing both axles and brakes or we are working only on the axles front?

Narayanswamy: In those axles, we are supplying with brakes and the full wheel-end, so that it makes better concerns and better quality for them?

Amar Mourya: Okay got it. Thank you and all the best.

Moderator: Thank you. The next question is from the line of Dhaval Shah from Girik Capital. Please go ahead.

Dhaval Shah: Sir, my question was regarding, again, the margins. So in our past conversation, I understand that in 2016, '17, '18, we had adopted automation, IoT, and we were quite early in adopting that. So, have we -- what sort of benefits have we seen of that on the margins or that the benefit has been negated with the increase in cost, other cost items?

Narayanswamy: Sir, I will leave Ranga to tell, but I think thanks for taking the lead from 2016, '17, and you are tracking our information. You could have very well seen that how our -- the cost of conversion and cost of fixed cost has come up because of these types of automation that we have done in the plant, okay while it is not completely negative, but there are a lot of new products that –see the customers before in 2020 the market warranty for those products is Nagaraja is it 18 months and 150,000 kilometers, right?

Nagaraja: Yes.

Narayanswamy: But today, all the products that we are making has to be a reliability of about 300,000 kilometers and 3,000 hours. So not about the product engineering, product input is also going into this. So, it is not negated, but also, you should understand between 2016 to now that you're looking at only percentage. The commodity prices have gone up substantially between 2016 and now, and every time when it goes up, we get recovery back-to-back only on the material. The rest of the cost seems to be high.

So there is a huge base impact between 2016 and now. I don't want to tell exact number, but it could be around 2%. Ranga can validate my number. And that is the effort that we have done to bring it back. So it is not definitely negated by this. It's only the percentages you are seeing that are different.

I think Ranga, I'll over to you because you'll be the right person to explain the arithmetic.

Ranganathan S: No, no, absolutely right. You know, whatever what Muthu said, Industry 4.0, yes, but we adopted in a couple of lines and really, like Muthu said, is more towards the product reliability and ensure that the increased customer expectations are we meeting it or not. So there is a residual cost reduction is there, mainly we wanted to have a product quality and reliability was the main objective of the automation project, point number one.

Point number two is basically, if you really say that is a benefit, yes, definitely there's a benefit. That is part of the machine 25 which is coming in. Compared to the two base periods, commodity increases very substantial. Only the last year we had seen little softening on the commodity prices. Quite a bit of, if you really see '18, '19 and now, my -- very, very high level estimate, more than 2 percentage points of improvements we have brought in in the P&L. If you're not taking any strategic initiatives towards the cost, towards all the like, I think we may not be able to sustain this commodity and be standing at the grip of the market.

So we have proactively taken a lot of initiatives irrespective of the market conditions that we have a target. We have mitigated the commodity, plus we have ensured that we have improved our margins for the last three years, four years. It is a little bit unseen in the financial statements. Now, we all judge with the percentage, I completely respect that and that is how we, that is a target for us to work on.

The point I am saying that, the unseen picture is about the commodity impact of the P&L and how we have taken steps internally in all respects to mitigate and show the improvement in the market.

Dhaval Shah: You guys have mitigated the RM impact quite nicely and the margins have been very stable, that's for sure.

Ranganathan S: No, no, that's why you see that if you have your benchmark in your mind, you compare them with '17,' 18 or something like that or '18, '19 and compare them, how they've grown, where they are from, where they are now and compare the Automotive Axels, you can definitely see a story for yourself.

Dhaval Shah: Got it. And sir, this comments, one is that on the product side, which we will get, but anything on the cost side in terms of our supply chain, in terms of better production techniques, anything of that sort will come in, get us, which will also help us reduce the cost?

Muthukumar N: So there is a global integration team operating at the highest level between both the companies which is working, looking at various cost like, inter-unit transfers, what is the cost of fright, what is the cost of raw material and benchmarking. And this integration is going to bring benefits for both. There are a lot of good practices in [Meritor 0:51:41] and Automotive Axels, which will definitely get into Cummins.

And the same way, the best practices of Cummins will flow in, which will synergize. I think that's the objective of this migration. It's going to help. We did the same thing that was happening earlier between Bharat Coach and Automotive Axles or Meritor, and Meritor Global and Meritor India. So these synergies at point of time definitely is going to bring down the cost in terms of the -- see, the organization structure when it is going to be rationalized itself, it is going to bring down the cost.

You know, at various expenses like, whether it's a fixed cost, whether it's a conversion cost, it is going to bring down and you will definitely see that the management is under fast track for implementing all these changes to bring down the cost.

Dhaval Shah: Okay. Great, sir. Okay, thank you very much.

Moderator: Thank you. The next question is from the line of Dhruv Aggarwal from Niveshaay Investment Advisors. Please go ahead.

Dhruv Aggarwal: Thank you for giving the opportunity. Sir, if you can throw some light on the order book, in the upcoming quarter could be a great help, sir?

Muthukumar N: Sir, can you repeat? I think I could not hear you properly.

Dhruv Aggarwal: Sir, if you can throw some light on the order book, in the upcoming quarter that could be a helpful, sir.

Muthukumar N: Okay, sir, your voice is not audible. If my understanding is right, you are looking at the order board for the next two quarters, is that right?

Dhruv Aggarwal: Yes, sir. Yes.

Muthukumar N: Thank you very much. See, that's the beauty of the Automotive Axels that come in Meritor. We have a defined business and we focus on the share of business with the customers and the organization is highly agile. We never lose business just because of a ramp-up time or order board. Whatever the customers is asking and then agreed share and whatever the business, then we continue to focus on this. As I said, when the market is set to grow by 3% to 4% in this year, you will definitely see that the revenue at an equivalent level or the last five years, if you see, we have always been doubling the market. That is what is the uniqueness of it, we'll continue to grow.

While we have an order book for reference for the people in the supply chain team to gear up for this, as an organization, Nagraj and team always works on to meet the customer demand, because in many cases, we are single source and we can never say no to them. So we will continue to execute all orders which is coming to us but at this point of time, you can just take the market growth as our numbers.

Dhruv Aggarwal: Okay, thank you so much sir. And one more question regarding the capex. Sir, if you can just quantify the amount that it could be a help sir?

Muthukumar N: Ranga. There is a question on capex, how much we are spending and all. I just thought you can, you'll be the right person to answer.

Dhruv Aggarwal: Sir like, if you can answer, it will be a great answer.

Ranganathan S: No, I just, same point is some, one more gentleman has asked for it, so I answered the same thing. We'll definitely, we'll be investing on the sustenance. The investments are largely based on improving the productivity and automation and quality related stuff. So definitely we will be case-to-case basis, we will be investing on the NPD related based on the new product launches and the customer requirements. This largely, all just put together, we'll see that we call it as a sustenance budget which my opinion may not go beyond 1% to 1.5% of your turnover.

Dhruv Aggarwal: Okay. Thank you so much for that.

Muthukumar N: Ranga, having said, I just wanted to add a few points. The product development is very, very key focus. And like Nagraj presented in the meeting, there are many of the programs that we are working where we will be spending money on such programs depending on the customer need. While developing the product ahead of the market is a responsibility when it comes to the industrialization, we may have to spend. So what Mr. Ranganathan says is basically on the rest of the capexes for the capacity or the automation and all, the product capexes are pretty different. Right Ranga?

Ranganathan S: Yes, absolutely, Muthu, that's what I said. The sustenance capex is largely to 1% to 1.5% and…

Muthukumar N: Only sustenance capex, I just wanted you all to note it down.

Ranganathan S: We definitely, this is 40 or 42 year old organization and we are definitely upgrading our manufacturing process and systematically in such a way that it's not adding burden on Board, both in terms of the cash as well as in terms of the other quality and other spend. So we are definitely doing it gradually. We are taking each step carefully so that we manage the margins as well as manage the customer expectations.

Muthukumar N: I think ladies and gentlemen, I'm sure that what Ranga says is very, very positive because we as an organization, and like if you're a 42 year old organization, we try to balance between the capex and also the returns that comes out from it, which is very well clearly seen from the depredation level. You all asked the question in 2019 to me, you're putting so much of money, what's going to happen? I said, yes, we will get the business. And some of you even expressed the concern about, hey, so much of money you're spending when the market industry is at fault, what will happen? And you can review our depreciation levels at this point of time to see that how good we are able to utilize the assets and debt to judiciously and competitively.

Dhruv Aggarwal: Right, sir. Thank you so much, sir.

Muthukumar N: Thank you, Dhruv.

Moderator: Thank you. The next question is in the line of Radha. Please go ahead.

Radha: Hi, sir. Thank you for the opportunity and congratulations to the team for good results. So two questions from my side. First, you spoke about the MSM-185 product. So on this, are new trucks having MSM-185 over the tandem axles and what are the features it is offering and what is the cost difference of MSM-185 versus the axles that it is replacing? How can we -- how much can we replace the old tandem axles in the next two to three years? And does Tata have such product? And can we try replacing their Tandem Axles with our new MSM-185 product?

Muthukumar N: Wow, that's a nice question. Nagraj, over to you.

Nagaraja: Yes, thanks for the question. As we mentioned, this is a unique product with 500 mm ring gear, applicated for a 55 train tractor, which earlier was using either 6x4 tractor, now it has become 6x2. I'm sure that our competitors are also probably looking at developing a similar thing, but we are the first one to get into the market. And also this particular product has been time tested. This product has been in use in US in a slightly different avatar for last couple of decades. So we understand how this product works and how we need to optimize it for India application.

Coming to the harmony in the market, how it is going to change, we are seeing at least one customer is completely using it. We are also looking at another customer and asking for that. We have already supplied the field testing samples. With respect to timings, what happens in next two, three years, probably Muthu can give you that kind of a forecast.

Muthukumar N: Thank you, Nagraj. I think that was a very, very nice question to ask. You asked in the next two to three years, how many of the tandem you can replay? I will answer for this. While we offer the solution for the OEM, there are also few fleet operators who have requested for the change in their vehicle to utilize this product, which is being sold out as an aftermarket product. I'll stop with this. And getting back into the OE, like Nagraj said, we started launching to one of the customers where the vehicle sales is really good.

And with Ashok Leyland, we are launching. We are -- see, there are two things that's happening in India. One is the tractor-trailer as a segment is growing in India, in compared to this. We believe in the next five years to 10 years the tractor- trailer will go high, and we'll get high horsepower engines, and these axles will come. And this product, what we are launching is like a forward thinking. It is we are just launching the product as it when the market is coming up and trying to help the market to launch this product. And these are the reason why your company is considered as a business partner for the OEMs and not just like an axle supplier.

Coming back into the volume, whatever the growth that is going to happen in the tractor-trailer segment, I strongly believe that this product will be there. Whether we'll be able to present in 100% of the cases or whether we'll be able to get into Tata, we are working with everybody to make it, but it is extremely challenging when somebody has the ability to make these axels. And these are all ideas, and people will definitely pick them. We will continue to focus on this, and this is going to be a substantial volume in terms of the tractor-trailer segment.

I can't say the exact number, but the industry is looking at growing in around 20% of the tractor delivery segment year-on-year.

Moderator: Thank you. Ladies and gentlemen, that is the last question. I now hand the conference over to Mr. Sailesh Raja for his closing comments.

Sailesh Raja: Yes, thank you all for attending this session. We especially thank the Meritor-Automotive Axels Team for their time. Muthu, sir, would you like to make any closing comments?

Muthukumar N: Yes, thank you, Sailesh. Thank you, ladies and gentlemen, for the confidence that you have given the organization and your support. Your support and the feedback that you give in the investor calls and during the face-to-face meeting gives us a lot of encouragement and also it adds our responsibility to meet up to and live up to expectation. Your company will continue to do everything to make sure that you meet up your expectation.

Just want to let you know that we are graduating, we are migrating with Cummins taking over us. We are migrating. You can see that from just the supplier for supplying axels to us, we are migrating ourselves like a business partner, we migrate ourselves into an ESG area which customer feel that. So your organization continue to put the best of their effort by bringing the best practices from Kalyani Group, from Cummins Meritor, and making sure that we make this organization from good to great. Thank you very much.

Thanks for your patient listening. Thanks Nagaraj and Ranga for joining and explaining to the team very well. Thanks Sailesh and team, for organizing this and supporting us. Thank you very much.

Sailesh Raja: Yes, thank you, sir.

Ranganathan S: Thank you. Thanks, everyone.

Muthukumar N: Thank you.

Nagaraja: Thanks, everyone, bye.

Moderator: Thank you, ladies and gentlemen. On behalf of Batlivala & Karani Securities India Private Limiters, that concludes this conference call. We thank you for joining us, and you may now disconnect your lines. Thank you.