



“Automotive Axles Limited Q1 FY 23 Earnings Conference Call”

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

Moderator: Ladies and gentlemen, Good day and welcome to the Automotive Axles Limited Q1 FY '23 Earnings Conference Call hosted by Batlivala and 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 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 over to you Sir!

Sailesh Raja: Thanks Renju. Good afternoon and thanks to everyone who have logged in into Automotive Axle Q1 FY '23 earnings conference call. Today we have the senior management team of the company Dr. N Muthukumar, President & COO, Meritor HVS India Limited, Mr. Nagaraja, President and Whole Time Director, Automotive Axles Limited; and Mr. S Ranganathan, CFO, Automotive Axles Limited.

So I would now like to turn the call to Mr. Muthukumar for the opening remarks followed by Q&A. Sir you may begin now.

N Muthukumar: Thank you, Sailesh and good afternoon ladies and gentlemen. Thanks for joining for this investor calls of Automotive Axle. We really appreciate your time and your interest in taking time to join for this call. I have with me my colleague, Mr. Nagaraja, who is the President and Whole Time Director of Automotive Axle, and Mr. S Ranganathan, the CFO.

Last time during this investor call, most of your questions was revolved around Cummins acquiring Meritor and we are very pleased to announce on 3rd of this month, that was the day one of formal acquisition of Cummins of Meritor and the day has come. And I'm very, very happy to present you the feedback from the Cummins Executive Chairman, the acquisition sentenced Cummins industry leading range of powertrain components and accelerate the development of electrified power solution. Mr. Tom Linebarger, the Cummins Executive Chairman said Meritor is a market leader and the addition of their complementary strengths will help us to address one of the most critical technological challenges of our age, that developing economically viable, zero carbon solution for commercial and industrial applications. You can understand the excitement at the Cummins level they are very, very supportive of this acquisition, which is going to bring a lot of transformations and growth to the organization. Dr. Baba Kalyani, Chairman of Bharat Forge said I warmly welcome Cummins as our new partner in Automotive Axles and Meritor HVS.

Bharat Forge has a long relationship with Cummins as a supplier and also the user of their engine in our special product and we look forward to bigger relationship now as partners in this venture and also as a supplier.

I wish to new venture all success. Unfortunately, I'm not able to personally be there to make the announcement jointly with Miss Anjali Pandey of Cummins, but look forward this new relationship which will benefit all of us.

Ladies and gentlemen, on the 4th of this month in the evening, the Cummins management team has come to Automotive Axles in Mysore, we had an employee townhall, which makes the communication to all the employees about this acquisition process is over.

With that, I think we are excited about this acquisition and this progress is happening, which will make our company very, very strong in the days to come.

I'm moving on to the next slide please. Those of you who are attending for the first time, I'm just giving a snapshot of our sales, our sales of FY '19, '20, '21, '22 we are always growing ahead of the market in terms of the revenue in terms of the EBITDA. For those of you are attending the meeting for the first time we have for manufacturing location, the mother plant being at Mysore, we have settled in Jamshedpur for supplying to brakes and allied products for Tata Motors. We have a facility in Pantnagar, which supplies for the break for Ashok Leyland at Pantnagar and we have a facility in Hosur

And these companies equity share is Meritor holds 35.5%, Kalyani 35.5% and rest within the public. We have more than 2000 plus employees of white collar and blue collar across the organization. As you all know our major customers are presenting the commercial vehicle segments of medium and heavy commercial and we are also present in speciality and different OEMs.

As you all know the products what we have for the commercial vehicle axle, brake and suspension systems. In terms of the independent axle supplier, we are number one in India and we are number two in breaks. The company continues to work with customers in terms of launching the products, penetrating into the share, which I am leave it to Mr. Nagaraja to tell at a later point in time.

Ladies Gentlemen, your company is also taking a mission 2028 on our sustainability roadmap, which is showing in the next slide, we earlier talked about the six pillars of our governing system for sustainability. And the company has done an extensive progress in terms of achieving the net zero in days to come. As a first step towards that, about more than 30% to 35% of our power consumption is coming from solar and the organization is moving towards water positive getting into more than 80% by solar, and also taking an aggressive target of reducing 50% of energy by doing a lot of conservation projects. On top of this, the company is also bringing in -- in terms of the gender equality, corporate governance, which we'll all be -- we will be communicating to you on this.

One of the initiative. The next slide I moved in, is on bringing in circular economy to make sure that mother earth is not dumped with the products, right from the design stage, in the manufacturing stage, in distribution, in consumptions and reuse and in collection we are working with the OEMs we are working with suppliers to make sure that our product is 100% recyclable in the end, so that the waste is converted to wealth, and we are not dumping the mother with any of this material. In the days to come, maybe we will continue to keep you updated on our sustainability focus and what the progress that we are doing towards net zero, or what we call as a destination zero.

With that, ladies and gentlemen, I will hand over it to Mr. Nagaraja to talk about our customers, the products and what we are doing. And then Mr. Ranganathan for financial. Over to you Mr. Nagaraja.

Nagaraja Gargeshwari:

Thank you, Muthu. Good afternoon, ladies and gentlemen, I'm Nagaraja Gargeshwari President and the Whole Time Director for Automotive Axles.

So just like what Muthu mentioned, Meritor has been always a very strong player in commercial vehicle segment or industry. And as you can look at it, we address the diverse end markets and supply to most of the major customers not only in India, but also in the Asia PAC. So whether it's a truck or a trailer, bus, or military or aftermarket, we have a product line which I'll be showing you in a couple of slides later. We have a presence in starting from 5 ton vehicle all the way up to 55 ton tractor. So continue to drive the innovation, continue to upgrade our products, continue to come out with innovative solution to address both the customer and end user requirements. Next slide please.

As you can see here, there's -- a probably that may be a myth, you know, sometimes customers talk to us, like a Meritor your products are a bit expensive, but what the companies are always been trying to do is we are trying to bring down the total cost of ownership. And as Muthu mentioned during the last investors call, this company has introduced more than five new products in the last 18 months and none of our competitors or anybody for that matter has been able to successfully introduce innovative product and also continue with the production. So, here is a prestigious award, Ashok Leyland Gold Award, passed on to the Meritor for improving the total cost of ownership. Next slide please.

Again, as I mentioned earlier, we have a product range addressing 5 ton axle all the way up to you know 55 ton tractor. And then if you really look at the product, the product has been placed in such a way that we will be able to address every requirement of our customer. And so in the Brake also if you can look at it, you know, starting from 310

diameter Brake and all the way up to 410 Brake and also we are pioneers when it comes to disc brakes. Next slide please.

We've been able to achieve it because of our team. Meritor always believes in investing in employee engagement, developing our people because we think that human capital is the most important to be successful in the business, and rightly so, we not only invest in developing hard skill, but also in the soft skill. As we speak just today morning, Muthu inaugurated our leadership program here at Mysore for some of the upcoming leaders in our company.

We not only focus on the training, but also we want to engage, work life balance, as you're all aware is taking a very important role for every employee. So we continue to engage with our employees meaningfully, celebrating festival and then also we are driving the diversity. In fact, we are very proud to say that, in our company, nearly 10% of our employees are women, we continue to invest in the not only gender diversity, but also we are investing heavily at the -- we want to be an equitable employer for every possible person from every, you know, corner of the country with every type of experience.

So, we continue to invest there. And the last one is, not only we invest in employee engagement and development, but we also believe that it is very important for us to recognize the value that the team is bringing in and also share the -- and reward them. So as you can see here, there are several critical whether it is an IoT or whether it is automation the team has been engaged in and we celebrate the success as soon as we accomplish those goals. Kaizen is one area where all of our plants are fully engaged in. And on average, anywhere between 200 to 300 Kaizens are implemented at all levels, starting from operator level and going all the way up to the manager level. So these are all the things what we have been doing is going to help us to continue to meet your expectation, meet industry's expectations, and make sure that we continue to grow and prosper. With that, I will pass it on to our CFO, Ranganathan.

S Ranganathan:

Again, very good afternoon to all of you. Thanks, Muthu, thanks, Nagaraja. Quick snapshot of the financial performance, hope all of you might have already seen our financial results for the Q1 total revenue is about INR 501 crore as compared to INR 256 crore the same time last year. Year-on-year growth just close about 96%. As far as the EBITDA is concerned, this quarter we did about 10.5% as compared to 6.5% last year, more or less in terms of percentage, it's about 62% increase in the overall EBITDA. Largely contributed by the volumes and also good contribution on the Material performance.

And as far as the PBT is concerned, we are at 8.3% for the last quarter end of June and compared to 3% at the same quarter last financial year. So as earlier mentioned is about the commodity is one of the key challenges we are facing it and definitely we are expecting the coming days, the commodity may get soften and this amount of challenges may get reduced and we have to wait and watch in the coming quarters.

Obviously our focus is continuously to be on our strategic initiatives as far as part of M25 is about grow revenue, growth profitability. And definitely there's a setup team is continuously working on to drive the strategies and improve the performance holistically. So, both digitization and application of industry 4.0 is one of our core objective. And we have been working on this journey for the last one year -- one or two years and that will continue in the future too.

Next slide. The M25 strategy is concerned as on all things we will definitely grow as per the market. This year the market expectation is about 370,000 vehicles plus and definitely we go along the market and always our internal strategy is to go beyond the market I think Muthu and the entire team is more working very closely with customers in all initiatives of the grow revenue. As far as the profitability initiatives are concerned and then -- and also the operational excellence are concerned and bringing the overall value to the customers are concerned we are on the track. The subsequent two slides basically about the key actions and the customer wins Muthu will touch upon it. Muthu?

N Muthukumar:

Thanks Ranga. I'll go through that. Ladies and gentlemen, I think the team did an excellent job, Nagaraja talked about post-COVID, one of the key initiatives that the team, the leadership team here drives is engagement of the people and we have been very successful in retaining our talents and taking them to the next level of performance. Thank Nagaraja, thanks Ranga for leading those initiatives in the plant to make sure that our people have been seeing our efforts.

Team I think we have done the very very key initiatives like what Ranga said, we have a business growth strategy, we have a cost measures and safety continues to be our focus area. All the peoples in the plant has not only been done vaccination of two dose but also been taken with a booster dose for all the people. Like what I presented earlier, the ESG strategy is on and then the implementation is in progress.

The even though the COVID level has come down, they continue -- company continued to practices on the COVID protocols to ensure that our plant is always safe. Having said that, our team has started receiving the customers for audit, our team has started visiting suppliers, but following all the protocols. In terms of cost measures, cost reduction has been one of the key and you all know that we all talked about the loss elimination continuously, like the significant savings expected through M- 2022 timeframe.

The cost measures in terms of weather it is conversion or in the material or manpower cost is always under our focus and keep going. In terms of the business growth strategy, like what Ranga said, the market is set to grow and rest assured that your company will grow more than the market and we have completed the successful implementation of LTA agreement with two top customers.

Nagaraja talked about the hardware done by our team in terms of the plant team, by the engineering team and innovation team. As you all know that Meritor has been focusing on three things, focus on customer focus on innovation and focus on people.

With this, the company which has changed the perception of the customer saying that Meritor is comparatively, I'm not saying it's a cheap product, but the total cost of ownership of the product is much much better. And that is what has come back as an Gold Award to us. The new business and opportunity are in the pipeline. We have done two long-term agreement both with Tata Motors for the brake, and Ashok Leyland for axles and brake expanding our current share.

The improved operational performance and increased share of business with OE is one of the key things that was Nagaraja is working, our quality PPM has done substantial improvement over our past and a large amount of improvement is happening. Our product development and launch of new products, currently we are working with OEM for the launch of product that we're going to be done in '23 and '24, to make sure that we are ahead of the curve in compatibility.

The driving e-mobility business, we touched upon this earlier, we continue to work on e-mobility business and we have become a preferred partner for Ashok Leyland for their e-mobility solution in medium and heavy commercial vehicle. Digitalization and implementation of industry 4.0 Nagaraja touched upon this and we are going as per the plan and the plants which is more than 35 year old plant will become completely industry 4.0 post our mission 27.

Geared up for the capacity to cater the rising market demand, while we are very, very skeptical about the market how it comes controlling the cost, we are also geared up for taking the market demand. With that ladies and gentlemen, once again thank for all your support of this organization to grow. And I give it back to Sailesh for commencing question and answer session. Thank you very much.

Moderator:

Thank you. We will now begin the question and answer session. The first question comes from the line of Sagar Parekh from One-Up Financial Consultants. Please go ahead.

Sagar Parekh:

Yes. Good afternoon, everyone and thanks for taking my question. I have few questions. So, firstly, on the -- so during the AGM, Mr. Kalyani he spoke about new business, I

mean new segments that we are focusing on and one of the segments that he touched upon was the construction equipment industry and -- off highway industry. So, if you can give some color on that in terms of what is the -- like the kind of market size of that industry currently and I know it's a very small part of our total business right now, but if you can give some more qualitative or quantitative details in terms of what can it be for us in next two to three years, it will be really helpful.

N Muthukumar: Thank you for the question. See construction industry is growing, like what Chairman was saying and the Board -- and the Chairman and Board have set us a target that we should penetrate into this for our long term growth. We have been -- we have created three products at this point of time and we are working with two different -- two customers who are a larger customers in off-highway and construction and the initial trials are on. This industry takes at least almost about one year for the product validation and introduction. So, we are working on those products for those customers and typically, we -- whatever we are doing today by 2025 we want to double, that is what our objective of working on this. And sorry, I'm not able to give you the exact target what we are looking from construction segment at this point of time, because we don't share, but we want to de-risk our dependency on commercial vehicle business by introducing this.

The second segment which he said was defence. And today you know that for 100% requirement of Ashok Leyland defence we are supplying and we will continue to get the orders from the other customers. We are working with various other customers to see that how we can supply our axles -- we are supplying both tactical and strategic axle to the customers and we are working on this.

Sagar Parekh: Just on this defence part, just a clarification which I wanted was this Bharat Forge has recently developed this Kalyani M4 Armored vehicles. So, are we like supplying the axles for that vehicle?

N Muthukumar: We are supplying some component, Kalyani came for buying the components and being assembled along with the vehicle. So, we are supplying components.

Sagar Parekh: Okay. So, they have recently won this INR 200 crore order from the government. So, which will be executed in FY '23.

N Muthukumar: You know the -- just I wanted to clarify that because it's not the axle on which it is mounted okay. It is like a tractor industry where it is mounted along with the assembly. So, it goes with the subsystem, I should not use the word component, it's a subsystem on which it is getting assembled which we are supplying.

Sagar Parekh: So, we are supplying the subsystems for that right?

N Muthukumar: Subsystem.

Sagar Parekh: Okay. But that will be classified in a defence segment for us, going forward. So, this year, we can see some bit of that...

N Muthukumar: Very, very less number but as an when business grows.

N Muthukumar: See our product is approved as a prototype and you know, once it is approved with the prototype we will continue to move.

Sagar Parekh: Just one more question was on this on this successful implementation of LTA agreement, which was mentioned in the presentation. So, what exactly is this? I heard you said that there was I mean -- we have for Tata Motors, we have some disc brakes and for Ashok Leyland, axles and brake. So, could you just elaborate on this particular part?

N Muthukumar: We will be -- see Meritor is a preferred partner for both the Leyland in terms of axles and brakes and in terms of Tata Motors, it's the brakes. And in this agreement, which is running up to 2025 we will continue to supply with an expanded business, which is going to assure the business for a longer time because of our the new introduction of the products and we have been consistently delivering the value to the customer.

So we have currently an agreement which is running up to 2025 to continue to supply axles and brakes within India and share of business for both of them.

Sagar Parekh: Okay, so this is just basically a continuation of the agreement that we are -- because we are already supplying these products to both the.

N Muthukumar: But the level what we have been supplying earlier and now we'll be penetrating more into that.

Sagar Parekh: So we will gain market share.

N Muthukumar: You're right,

Sagar Parekh: And just my last question with Cummins coming on board, would it probably make entry into Tata Motors axle segment a little easier, since they have some business agreement -- I mean business arrangement with Tata Motors.

N Muthukumar: I don't want to give any forward making statements. But for your information, it is going to definitely make much better. Their presence in Off Highway segment, their presence with the Tata will definitely give an advantage. Maybe not the current product because they are making by themselves. But for the new generation product when it is going to come, whether it is going to be an electric axle, when it is going to be a new generation axle, it is definitely going to give you much more avenues and opportunity for us to work together and successfully. We are looking at this.

Moderator: Thank you. Next question comes from the line of Sunil M Kothari from Unique PMS. Please go ahead.

Sunil Kothari: Thanks for opportunity and really good job in this very difficult commodity environment. Commendable performance. So my question is on, with Cummins coming in, I understand it's very difficult just now to clarify the strategy. But would you talk about the possibilities of this automotive axle, becoming sourcing base for maybe some other countries, other plants, opportunity possibilities, because defence already we talk during AGM and now also. So some talk on the possibilities of the automotive axle base as a outsourcing for Meritor and Cummins now.

N Muthukumar: Thank you for the question. And thanks for your appreciation of our performance. We will continue to meet your expectations and exceed that. In terms of the opportunity, yes, see, the world is looking at India today. Earlier, there are a lot of other Meritor sites I'm talking about. Let us -- let me come back to Cummins a little later. Let me talk about Meritor. Meritor has been sourcing components from India and Meritor is also sourcing globally from China. And becoming really competitive and cheaper, they were looking at it, but that there is a substantial perception changes not only in terms of the cost, but in terms of the reliability, ethics on business and I think the world is looking at India and India will definitely have more opportunity today.

It's up to us and we are exploring continuously to see that how we can double the exports in next five years. We can move on. So, we have been -- you know we have already been proved out that we are a reliable supplier we are our quality levels are high. So your company will continue to work to see that how, not as an axle full together but systems and subsystems to be exported from India to the other countries have Meritor, it will definitely go up. I'm sure that their procurement from other countries will come down and they will look at the India not only from just cost of the product, but the total cost of ownership and reliability and ethics in doing the business.

So we will get some more opportunities. I think the team is working on. My leaders are extensively working on looking at what are the other opportunities that are available and we will continue to explore in this area. With Cummins coming in, you're asking, Cummins is basically doing an engine business and what type of synergy at this point of time we do not know, whether our capabilities for manufacturing in Mysore, I'm sure that the team from Cummins is coming they are going to evaluate we are going to go there and find out and explore the opportunities. If there is any opportunities obviously we will

become a very preferred supplier and then we will ensure that we grab those opportunities

Sunil Kothari: And Sir my second, this is not questions but as you told us what we expect from you is the way you are reducing total ownership costs, the way you innovate, you the way you take awards from the customers. But these are not reflected in the margin which normally any MNC company which achieve, having a very high R&D, high development capabilities, very high innovation capabilities, what do you think, should we expect some respectable margin. Because this 10% - 11% is not that great margin. So that is in our opening? Would you like to comment on this?

N Muthukumar: Ranga you want to comment on this on EBITDA.

S Ranganathan: If you really look at it as a commercial industry what we serve and the products what we do, basically largely out of you know, what we are supplying, largely Brakes and axles. And each margins are quite different. So it's difficult to say that no aspiration is good, definitely working towards it. But though if you really look at it than in 2018 to '19, we have done a phenomenal job as far as the bottom line is concerned. But really looking at a percentage per se, what you're saying is true, but the value addition is not reflected in the percentage because of the base impact is largely creating on account of the commodities. At least if we remove the 2018 base and remove the base impact coming in, at least you can count about 2 percentage points, to what we are performance – 2-2.5 percentage to the base performance what you are seeing today.

But its not truly reflecting in percentage because of the commodities by and large, but nevertheless, having said that major piece, which is probably not seen, having said that, definitely our, if you really see the cost parameters, whether it is to the growth what we have, both in terms of fixed costs, and conversion costs is extremely under the control, and a material cost performance, we have dedicated M25 team, which is really working on -- we know that inflation and the commodities is a pressing factor for us. in spite of that we are outperforming to the challenges what we have only because of the know the initiatives of mission 25, what we have, your point is valid, we are working towards with the customer in terms of where it is possible, where we can maximize the prices with customers. But you know, in automotive industries, it's not that easy to get a price increase from the customer, but we are working very hard. In terms of giving holistic solution, wherever by we also gain, they also gain Muthu and team done a phenomenal job. Hopefully, in the coming days with the current arrangement we can able to penetrate a little bit. But to be very, very specific to your question, I think you have posted the same question in AGM also. And definitely our drive towards the percentage, what you're expecting is our aim also. But Automotive Axle standalone getting to the point 17-18 maybe next one or two years, it's very challenging. So but nevertheless, we will definitely see a significant improvement to the current performance, what we have. But nevertheless, as the equation changes, the business proportion changes, the share of the various vertical changes and more and more the exports are coming in. in future Cummins coming in definitely it is quite possible. And our aspiration is always to reach out the best out of us. So we take your inputs and expectations in our mind. But definitely, if there is any possibility that we can able to significantly improve, we grab each and every opportunity.

N Muthukumar: Thank you Ranga, but I normally we don't tell exact percentage of share segment by profitability. But I'm very little curious when you said that the decent profit? Can you just tell me what is the magic number what you're looking at?

Sunil Kothari: There is no magic number, but between 15% to 20% EBITDA margin is across the company, which is having a very good technical capabilities, which is not just doing some very basic value addition, having so much noise and those are the companies, that is what we would like to.

N Muthukumar: Understood, I'm sure that, we understood your point, like what Ranga said, we will continue to do that. But let me tell you, I wanted to re-emphasize our focus, our focus is on customers. Our focus is on innovation, our focus is on people with us, we strongly believe that if you're going to succeed in this, we will be giving a sustainable growth and take it forward. Like what Ranga said they will 101 reason, in terms of percentage we

could not grow because of the base impact, there is a huge increase in the commodity prices that has happened. But your company will continue to work on this. And we will move towards your expectation.

Moderator:

Thank you. Next question comes from the line of Radha. Please go ahead.

Radha:

Thank you so much for the opportunity, and congratulations on a very good set of numbers. So my first question was that, so you mentioned in your opening comments that it is an endeavour for the company to go ahead of the industry, in relation to that incrementally to CV industry growth, I believe that there are four key drivers for the growth in the company, which is share of business increase with customers, entry into new markets, new products like slipper type suspension, and also exports. So could you give me some kind of guidance as to what is the expected revenue opportunity in these incremental revenue drivers?

N Muthukumar:

Thank you, Radha for the question. But unfortunately, we don't share the segment wise revenue, but I can just give you some more information on what you're asking. In fact, during my discussion, we said by 2027 – '28 we want to double our exports is what I indicated. Also, thanks for asking that question on slipper type suspension, last time I said that while we introduced this product, we could not run it. Now we restarted the supplies to Ashok Leyland, smaller numbers now. So we believe that by '24 – '25, this itself will become a very, very sizable business for us. And we will be able to penetrate a good amount of vehicles of Ashok Leyland with slipper suspension because we believe that this is adding a lot of value to them. So we'll continue to work with this and then enhance this business. But if you – for your specific questions on what will be the revenue potential when you go, we don't give the forward statement. But this was the same question that is asked in the AGM also where our Chairman said, we cannot give the number but yes, your calculations are right, and we'll be getting the magic number this year.

Radha:

The next question was that in exports, other than Volvo Thailand, is there any addition of new customers in the overseas market?

N Muthukumar:

At this point of time, you know, the Volvo Thailand is one which we are working outside the Meritor umbrella. But you also have to keep in mind that globally, and every region, we have the team available of Meritor and they are supplying to the customer. So we will be focusing on exporting a subsystem because there's a huge penalty for shipping the axles out of India, because of the logistics, cost at disadvantage. So while we'll be exploring the options, our main approach is exporting towards our Meritor's long-term systems and subsystems where we'll be competitive and where we have a accessible team for doing the servicing also.

Radha:

Sure sir. Could we talk a bit about the off road vehicle business opportunity like what is our market share and who are the key OEMs that we are supplying to?

N Muthukumar:

Currently, as I said that very, very less compared to the market and will be around not even 2% to 3% of the market. But having said that, as I told you, we are with 2 OEMs and we are developing a product, we had an extensive market survey to find out what type of issue they are having in the segment. And we are taking two products and working with two customers to get into this product. Getting into the off-highway segment and construction segment is a lot of product development is there, because it's not a volume game. And it's more of a variety that we need to come in. And large amount of engineering time and development time is needed. So we will be working close and study, but given the direction I think, as chairman said, the focusing on defence and construction equipment is a challenge that they are given to us. And we will continue to work on that market to expand.

Radha:

Coming a bit on the financial side. So on a QoQ basis, there has been revenue decline of the INR 50 crore, however, I can see that the other expenses have increased by about INR 2 crore. So can you give me a reason for this?

- S Ranganathan:** No Radha, you need to probably look at it in terms of revenue. I think overall, if you really see the industries auto components, does see the Q1, more likely emerging industry, , you can see a general trend in terms of the decline. And it's not stand alone Automotive Axle per se. But nevertheless, whatever the reduction of 10% quarter-on-quarter what you could see, we did our best in terms of the margins. In terms of the cost point, what you're trying to mention is I think the cost is not out of proposition and definitely and I request you to look at it holistically for the year, you will definitely see that the cost is well within control. So if there's no exception as far as the numbers are concerned.
- Radha:** So, what kind of utilization are we operating at now? And if we assume that we reach 100% utilization, what could be our operating margins like what could be the operating margins of the company at 100% utilization?
- S Ranganathan:** I mentioned earlier also the margins are probably you know, it varies from the Brakes products and axle products differently. So we don't give you the what is a percentage on the segment wise, but definitely is quite different. So obviously thus product mix do play a role, Point number one. Point number two, our utilization is not 100% at this moment of time, so definitely if you really look at it in 2018, the market has fallen at 70,000 80,000 level. Today the market is just working towards 350 or 360 by this financial year. So, obviously, the market is running it close to about 70% level. So, at this moment of time as the market is running at about 60 or 65, Muthu can be to say that, so, utilization is going in line with that. So, obviously, as the market volume grows, our capacity utilization definitely will -- can substantially improve, obviously, there'll be elaborate benefits will definitely come into play.
- Radha:** So, you've mentioned that the product mix will change and so, the utilization -- the margins cannot be stated, but as you knew the current product. So if we assume the current product mix.
- S Ranganathan:** Quite a bit of quite good bit of possibility if utilization goes up, you definitely see better leverage benefits definitely will come no doubt about that, keeping the operating margin remains, there are various elements to it. The one is about the commodity, the price stability in the market. And definitely that remain constant, I'm telling that the current product mix, and we are able to perform above 80% or 90% of the capacity what we have, definitely there's a good amount of improvement in the profitability can be seen. So, we have to wait for the market to improve on it.
- Radha:** Sir, with respect to the CapEx plan given that the company is generating a lot of cash now, what could be the CapEx plans and other capital allocation plans for this year and maybe the next two years.
- S Ranganathan:** Nagaraja can answer it, but broadly, I give you a perspective to you in terms of in terms of capacity, the maximum investment we already made two years before. So, in terms of capacity, we may not substantially invest point number one, point number two, we do invest in terms of streamlining the processes productivity improvement, automation and digitization areas. In this one of our main objective, which we have been driving them operational excellence in the manufacturing for the last two, three years. And definitely in those lines, there will be definitely investment, it may not be very substantive, but definitely there'll be an investment there.
- N Muthukumar:** Also on top of this, one minute Radha, on top of this, we'll also be spending capital on the new technology and new processes that we are working with. We have to continually upgrade the process. Even though we may have capacity, we'll be creating a new processes which is going to substantially improve the reliability and so we will be working on those for the capital expenditure.
- Radha:** Okay. You mentioned previously that you continue to take price hikes from Ashok Leyland and other customers. So on the basis of that, just wanted to know that on what basis do we take price hikes with customers like is it on a monthly or quarterly basis, when the steel price is in an increasing scenario, so how frequently do we change the

negotiation terms? How frequently do we change the negotiation terms with the customer?

- N Muthukumar:** Okay, I want Sailesh to note down, we are getting into the conversation and a lot more people are waiting. So due respect to you, but I will just answer this, I don't remember I have ever said that we just go and take price increase from the customer because no OEM today in this point of time is willing to give a price increase. And they are said with availability of excess capacity in the market. They say either you supply, go down on your cost or get lost. I think that's the message that comes from OEM. So if life would have been so easy to go and get – give a cheque and then get it we will be very very happy but which is not happening today in the industry. However, we have a business agreement with them and we will try to see that what level of commodity increases that is happening to that level we are working with them. See to be more honest, let me also, let us also tell the equations in the organization. It is very, very easy to go and increase the prices to the customer and say we will not supply. But if my customer is not willing to give it to the end customer who is looking for reduction in the cost, they will lose their share of business and we will have all the businesses only in paper, not reality. So we work very closely with the customer to make the customers competitive and also expand our margins. I think this is the philosophy that with which we are working on we will continue to work on this which is what is helping us to grow in the business. But the commodity like whatever you're asking, whenever the commodity price is going up or something, we will have a discussion between steel mill, between customers and we will try to agree on.
- Moderator:** Thank you. Next question comes from the line of Shashank Kanodia from ICICI Securities. Please go ahead.
- Shashank Kanodia:** Good afternoon sir. In the presentation we have marginally lowered the production guidance for MACD space domestically, if I remember correctly, last con call it was 3,80,00 odd units, this time it is 3,72,000 odd units, so any specific concerns that you witness from any of the clients?
- N Muthukumar:** We have downgraded by about 8,000 axles when compared to last – 8,000 vehicles right. Basically, what happens is the additional order that is supposed to come from buses is not coming and the government is not releasing. So with the latest discussion with the customers, we are downgraded from 380 to 372, based on the discussion with customers.
- Shashank Kanodia:** Okay, but industry should be grow at 20-25%.
- N Muthukumar:** See till the market is going to go up from 3 lakhs to 3.72 lakh, this is all based on -- see we are giving an update to you every quarter and so, whatever the best information available, we are trying to give it to you. Maybe in one quarter this itself can change if the sentiment change, but you also take it globally what's happening with the inflation debt going up the interest rate going up people wanted to control the cash and there is also a few information about the recession that go to come globally by next year. So, this is also a little bit of sentiments of the people and the fleet operators to see whether we are going to really buy. While we are very, very optimistic that 372 will continue, it can go up there could be every reason that if the end customer is not willing to pay and he wants to conserve cash it may come down. There is one more increase of interest rate has happened couple of days before which is very good for controlling inflation in terms of macroeconomic, but it will have a short term impact on the truck sale.
- Shashank Kanodia:** On the CapEx part, obviously you will spend expansion, but for the process in all the switches, if fact I would like the quote 30-35 odd is the per year spend.
- N Muthukumar:** Yes, Ranga can you confirm that numbers?
- Shashank Kanodia:** For the productivity improvement, process improvement and efficiency measures. So, what kind of CapEx expense per year, so 30-35 crore per year is what we should be working with?
- S Ranganathan:** Yes, you see last year, the overall investment is more or less in the same level.

- Shashank Kanodia:** Lastly, taking from the previous participle, so the sequential decline in revenues about 10-odd percent, the other expenses in absolute terms should not have gone up right. So, we can understand employee cost, may be we can have a revise wage bill or something, but other expenses in absolute terms should not have risen sequence.
- S Ranganathan:** No, we can't say that, there are various things involved in the overall aspect of it. So there are a lot of people engagement activities, we are doing a lot of training and development we are doing. So the various initiatives, we are consciously ensuring that we are – and the end there is people and the process of upgradation and also I said the process level upgradation is also we are spending money, in terms of automations in the ERP and systems around it. So it's okay, but the slight variation and quarter-on-quarter but whole overall really look at it, be every increase overall the fixed costs and other expenses remain same. There is no material change to it. So but if really look at it, there are some variation that is really a planned one towards the employees or towards automation -- process automations.
- Shashank Kanodia:** One last are we exempt from open offer, given that there is a change – just mean to understand why has there hasn't been open offer from any of them? This way to defend advisor hasn't been any offer for the...
- For a change it for motor growth, they should have done an open offer. So are we in exempt, was this corporate action or something? Because 35.5% percent is a decent chunk to really see an open offer?
- S Ranganathan:** No, are – Cummins will take note of it. And definitely they will come up with any actions around it in the near future if any. So they're evaluating it, obviously, just about August is when we met each other. And definitely – they will be working on it. Have some patience definitely they'll come back with that. Because we also probably wait their response, because they are just initiate it. So basically they are evaluating it, maybe they'll come back with the right action.
- N Muthukumar :** But rest assured that the company will take all the statutory and regulatory procedures and we will adhere to that.
- Moderator:** Thank you. Next question comes from the line of Aditya Virekar from Axis Securities. Please go ahead.
- Aditya Virekar:** So just want to understand a little more clarity -- with little more clarity, what will be our key margin drivers going forward? So is it -- will it be product mix or cost control or price hikes? Or will it be a combination of all three? Now the steel prices have come down so I guess the commodity costs are a pass through for the company. So that's not the point here. But what will be the key drivers which will drive our margins going forward?
- S Ranganathan:** Just to respond you it's actually a combination of all, we can isolate one piece of it. Our -- generally our M25 strategic Initiatives really, so grow revenue is always one of the key initiatives, we try to grow revenues and more profitable means we want to bring it, that is always our aspiration and we work towards it. In terms of getting the margin improvement, we look forward to very sustainable and long term solutions to the total processes around it. So obviously, year-on-year, we take targets on those things, whether it's the manufacturing process or the support process improvements, we certainly bring more automation and improve the productivity. Definitely driving the cost down is a consistent basis. Also, we are working on a lot of initiatives, including the solar power in terms of initiatives towards, or the conversion cost initiative. So all these things will definitely play kind of an improvement in the cost structure for sure. If you ask me, we can't say that -- it's a combo of everything not singular to that. Definitely, when you say that improve the top line and the bottom line, the bottom line improvement, it comes through operational excellence mainly towards automation. So, and after the fixed cost optimization is another one of the points we always keep in mind because that's where we have been very conscious about it. But definitely, if you ask me, yes, it's a combo of everything. And so that's all we are saying. We can't say that one singular thing which

makes a difference, answer is no, because everything is contributory. As we have got a impact in the overall profitability is concerned. So Muthu you want to add something?

N Muthukumar:

I think Ranga, well said by you. It doesn't come, the profitability enhancement doesn't come from one simple thing. I think if you look at our mission 25 which we did, we have to work on innovation to continuously improve the product. It's not just pass-on the money to the customer, but at least give a customer a product at right value, maybe lesser value for product but expanding our margin, the innovation will help us. In terms of the growing the revenue there by using our fixed cost, asset utilization, the manufacturing excellence in terms of creating a world class manufacturing, continue to work on cost reduction, maybe even optimizing on our fixed, cost all these areas has to come. But one thing that we are always there it is, it's not the pass-on the commodity increase and decrease, maybe a pass on, which is like a transaction error, but we work with customer on transformation. To see that how vehicle level the product can be integrated so that the total cost of operation comes down. That is what giving us an enhancing business at the same time enhancing margin. So, we will continue to work on this, I think we will work with the sourcing ideas, I think Nagaraja and team are working with excellent sourcing ideas to find out that how we can bring customers closer, how we can work on various avenues for the sourcing and reduce the cost, so every aspects of our cost transaction, the team is working on to reduce the cost increasing the margin and thereby become more competitive and reliable to the customer.

Aditya Virekar:

Yes, thank you for the elaborate answer sir. One other point is means, in the last call, you touched upon this EV products and as we were discussing on the product mix. So, these products like sub-segments of tippers, defense, EV products, so I guess these are the high margin products. So, do we see any substantial improvement from these products in the near future or maybe in the medium term. So from EV perspective?

N Muthukumar:

Okay, I think last time we presented you the latest study by big core or big consulting firms like McKinsey or BCG or EY, they showed that in India in 2032, only 15% of electrification will happen in medium and heavy commercial. Having as an information on that, your company is continuously working to provide a solution to the customer, the deep the market is going to come ahead, we should be prepared for it. Like whatever indicated, we have been a preferred partner for Leyland for their axle, we've been working on various other solutions on E drivetrain solutions, I think our acquisition of Cummins is going to give us much more leverage. So we'll work on this. Whether the market -- when the market is going to come with depends on so many situation whether your company is ready to launch the product. Yes, we are ready, and we are ahead and keeping ourselves ready so that whenever the market comes, we can tap the opportunity. I think that's our strategy at this point of time. We can't change the customer behavior or to tell him to launch the product. But should he decide to launch? We have a solution.

Moderator:

Thank you. Next question is from the line of Nikhil Rungta from Nippon India mutual funds. Please go ahead.

Nikhil Rungta:

Yes, hi, sir. Thanks for this opportunity. Just one question from my side. In the presentation, you had mentioned that you are looking Q2 to be slightly better than Q1. And seasonality, if I have to take into picture then Q3 is always better than Q2. And so is Q4. So can I assume that on a QoQ basis, at least in the current financial year, we are seeing a better moment on a QoQ basis for the next two to three quarters.

N Muthukumar:

See the thing why thing Ranga has made the statement in financial one, Q2 demand is estimated slightly higher. Most of the industry OEMs have reduced their inventory in the end of quarter one. So they have dropped the production in April, May, June, and July has been seeing it now, with the inventory cleaned up we believe and also because of the monsoon, normally it was a little less during the June, July. We believe that this quarter is going to be a flat or slightly higher. And Q3 and Q4 is definitely going to be good because good amount of projects on infrastructure, good amount of projects, many, there spent up of demand is available. So we believe that the demand has to come, the only deterrent there is the interest rate going up and also the predictions about global recession. Ultimately, at the end of the day, it's not purely financial, financial was also a sentiment that is being to work it out. So we are little optimistic at this point of time, should the market get into 3.70 lakh, that's going to be a slightly higher number and it has

to come. It will come, that's why the -- that's why Ranga has given that in his financial that Q2 will be better, but for sure Q3, Q4 should be better. And also, you know the statement from the Honorable Minister Mr. Nitin Gadkari that the FY '23 You may see, next year, you may see the vehicle scrapping policy into the practice, they are not declaring about voluntary, if that is going to come, it is going to take the market up.

Nikhil Rungta: Got it. Got it. This is quite helpful. Thank you so much.

Moderator: Thank you. As there are no further questions, we have reached the end of question and answer session. I would now like to hand the conference over to the management for closing comments.

N Muthukumar: Ladies and gentlemen, once again, thanks for the confidence that you have reposed on our organization. And it's our organization that will continue to work on meeting all the stakeholders expectation and to win the confidence of our customers and continue to focus on innovation. Thank you for the confidence that you reposed on, we looking forward to continuous support in our journey towards making this organization a world class organization and serving all the stakeholders with a lot of satisfaction. Thank you very much. Once again, thank Sailesh for hosting this, you and B&K team. And thanks to my colleagues Nagaraja and Ranga for joining and taking time to explain this to all of you. Once again thanks to every one of you, and looking forward to see you soon. Thank you.

S Ranganathan: Thank you.

Nagaraja Gargeshwari : Thanks, everyone.

Moderator: Thank you, on behalf of Batlivala and Karani Securities India Private Limited that includes this conference. Thank you for joining us, you may now disconnect your lines.