



“Automotive Axles Limited
Q2 FY2023 Earnings Conference Call”

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Moderator: Ladies and gentlemen good day and welcome to the Automotive Axles Limited Q2 FY2023 Earnings Conference Call hosted by Batlivala & Karani Securities India Private Limited. As a reminder, all participant lines will be in the listen-only mode. 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 ‘*’ and then ‘0’ on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Sailesh Raja from Batlivala & Karani Securities. Thank you and over to you Sir!

Sailesh Raja: Thanks Inba. Good afternoon and thanks to everyone who have logged in to Automotive Axles 2Q FY2023 earnings conference call. Today we have the senior management team of the company Mr. Muthukumar N. President & COO, Meritor HVS India Limited, Mr. Nagaraja, President and Whole Time Director Automotive Axles and Mr. S Ranganathan, CFO, Automotive Axles. Now I would like to turn the call to Mr. Muthukumar for the opening remarks followed by the Q&A. Sir you may begin now.

N. Muthukumar: Thank you Sailesh. Good afternoon ladies and gentlemen. Once again happy to be back with you and I am sure that every one of you are good and safe. Just wanted to give you before starting about Cummins Meritor better together. All of you know that we will be eager to hear from this. As indicated earlier the integration process is going on smoothly. We are around day 90 after the official integration between both the companies and the statements of both Cummins President and CEO Ms. Jennifer Rumsey says we are excited to welcome Meritor employees into Cummins. Together Cummins and Meritor will move further and faster in developing economically viable de-carbonized powertrain solution. Ladies and gentlemen you all know that Cummins is targeting toward going to destination zero in order to make this mother Earth much much better place to live for the future and the same is with Meritor, a great combination working. The chairman of our JV Dr. Baba Kalyani conveyed his wishes to the team and he feels that this is going to bring in great changes to the organization and it is also good for the future. I think both the team Jenifer and group president and COO global and Dr. Baba Kalyani conveyed their best wishes to the members and share holders of Automotive Axles. With that introduction ladies and gentlemen, I am sure that you will have a lot of questions at the end. I am going to answer it but I am requesting Nagaraja to talk about where are we now in terms of our footprint, how the business is, what is the activity that we are doing in our sustainability and what are the products that we are using followed by Mr. Ranganathan who will talk to you about the financial for the quarter and how we are performing. I will come back to you on the last slide on what is the focus for continuously improve the current situation. With that introduction ladies and gentlemen over to Mr. Nagaraja for general introduction. Over to you Nagaraja.

Nagaraja:

Thanks Muthu. Thanks everyone again good afternoon Nagaraja here. As you can see here while Ranga is going to touch upon the revenues separately. We have been during reasonable well in terms of our revenue, EBITDA, and PBT and just to give you a brief background about our manufacturing location and everything. We have four manufacturing locations, mother plant is in Mysore and we have satellite plants in both Jamshedpur and Pantnagar and have a warehouse in Hosur mainly to support to the customer for the last mile. So we have 2000 plus employees. We have customers in all the major OEs. We supply our products and our products consist of axles, brakes and suspension systems and as you can see as far as independent manufacturer is concerned excluding the OEs who have got a backward integration, we are number one in axle and number two in brakes. So Muthu did mention about green initiative and especially sustainability roadmap. It is not just we are supplying the product to meet the market demands, but how do we manufacture them, how do we ensure that there is a good balance between our industrial activities and then still maintain mother Earth. So we started our journey in 2017. As you can see we started introducing green energy. We were about 20% at that point of time but over the last 5 years significant improvement have been made. Now we are about 70% of our energy is coming out of renewable energy and then we are also focusing heavily on controlling the emissions in all parts of our manufacturing activity. There was one mandate just about a month ago. We talked to the suppliers and we started encouraging our supplier also to embrace this green technology in every aspect of manufacturing. So on the right side we are looking at how is the main six pillars of our model, one is starting off with the green energy what I talked about, how do we sustainably manufacturing whether it is use of water or elimination of some of the substances which are hazardous to environment. We also started working on the IOT which is basically internet of things. In fact as we speak two of our production lines have been completely digitized and then we continue to work with the society whether it is education or planting trees or connecting with other layers in the society, team has been fully engaged. Corporate governance is one thing our board is I would say that very, very focused in that area and board has been guiding us to ensure that not just in our corporate function but at all levels including all the stake holders we are focusing on that.

So as we can see we are catering to the diverse markets and almost all the customers both in India also globally whether it is a truck trailer or the aftermarket or even as there is renewed focus coming on the military especially Make in India. We continue to support that. Our focus going forward will be more on the off highway where we are looking at developing specific solution and having Cummins knowledge and capability in the off highway is going to really help us. Ashok Leyland still remains our largest customer but we are expanding and adding more products with other customers whether it is Tata, Mahindra, or Daimler. So we also export to UD from India and we also continue to do more exports to other Meritor locations. So with that I pass it on Ranga to go through the financials.

Ranganathan:

Thank you Nagaraja. Thank you Muthu. The financial results hope all of you would have seen the performance, but to just give a quick snapshot. The revenue for the quarter is about 475 Crores as compared to 310 Crores the last year same quarter. The revenue growth of 54% and EBITDA is about 51 Crores as compared to 23 Crores last year the same quarters. The EBITDA percentage what we see is about 10.7 which is 7.5 close to about 45% increase with PBT stands at 8.5 as compared to 4.5 last quarter. So PBT level the percentage growth is close to about 89%. Thanks to the volumes and also the cost performance. As far as the half year performance is concerned the half year revenue growth is 927 Crores as compared to 566 last year same quarter. EBITDA is about 104 Crores for the 6 months at 10.7% and compared to 39 Crores last year 7% the same year. PBT we were at 8.4 for the first half year with 82 Crores on absolute values. Last year the same 6 months the PBT at 3.8% with 21.7 Crores as in absolute values. Overall basis the volume definitely yielded good amount of leverage as well as the material cost and other conversion cost performance is also driving the bottom line in spite of the heavy commodity impact we did observed in the first 6 months.

All of you as far as the growth is concerned all of you know 2021-2022 the MSCV market is close to about 300,000 levels. As of now we are anticipating the whole year 2022-2023 at 375,000 to 380,000 vehicle levels so definitely we as an organization are focusing on the growth avenue. We will be at the market, we try to work on to grow beyond the market growth. Our growth rates, we always try to aim at growing little ahead of the market growth rates so our focus continues on that. As part of the Mission 2025 enhance profitability is a very key initiatives. All of you are noticing when the market goes up and down we are able to control the cost and try to bring the reasonable profitability as the volume decides. New business wins Muthu and team is continuously working with almost all segments in terms of enhancing the share of business or focusing how the aftermarket business or enhancing the export business so operation excellence whether through the material performance or IOT definitely the key focus we are working on it. We are also working on digitization as well as the paperless office initiative part of operation excellence. Every function in automotive action is working on the excellence in their own function which gives an overall operation excellence which brings consistent and cost benefit in the long term. Customer focus and customer value is always a key focus area which comes through the value proposition to the customer in terms of most of the cost, delivery as well as the new product introductions. Overall outlook the market is looking better. We hope the market will be better than the previous quarter. It will definitely perform as market and the volumes for the Q3. So as I said the focus will continue for industry 400, commodity definitely is getting softened may be the second half of the year probably will definitely have some advantage going in the second half of this financial year. Our focus continues on the operation excellence, conversion cost, and other material cost performances.

There are key actions broadly safety our primary focus so we work on all the safety measures employee first, safety first, and we are also taking the ESG as Nagaraja has explained earlier through the green initiatives so we continue to focus on those things, make sure that the green initiative is not only in automotive axle and also the entire value chain. Though COVID has softened and more or less it is got off settled down but we are also continuously taking care of the entire system as well as employees that the COVID pressure on the whole system is low. As far as the cost measures are concerned definitely our M25 initiatives through the operational excellence definitely will continue to focus on the cost performance metrics, more importantly the commodity price changes, we are closely watching on and managing the business that does not really affect the total performance. Our business growth strategy all of you have known that last time Muthu also mentioned that we have signed long-term agreement with our big customer Ashok Leyland as well as we have won a gold award for great cost savings as value proposition to Ashok Leyland. We got that award last time. Again as a matter of fact the focus on export definitely continues. Definitely we are seeing good opportunities and definitely our organization would benefit in the coming days. Improved operational performance increase the share of business that is always a focus area for our front end team so we are working with all OE customers and we are also constantly looking at the product development as one of the strategic initiatives to give a value proposition as well as to get a better position with the customers. Digitization as I said and paperless office continues drives across organization as part of the green initiatives. With this brief kind of performance update all of you, we are open for the questions. Thank you.

N. Muthukumar: Thank you Ranga just before we open for questions ladies and gentlemen slide #5 where the circular economy where Nagaraja presented. We go to the bottom of the slide which shows what is the initiative that the company is taking towards migrating to renewable power. There is a small spelling mistake. They replacing with LPG with LNG is not in December 2022 it is by December 2023. I just wanted to bring it to your notice. Sorry for the typo error. With that I think Sailesh you can take it forward for the question and answer.

Moderator: Thank you very much Sir. Ladies and gentlemen we will now begin the question and answer session. Our first question is from the line of Chetan Gindodia from AlfAccurate Advisors. Please go ahead.

Chetan Gindodia: I wanted to understand what are the initiatives to we took grow ahead of the CV industry and to increase our content per vehicle that is the first one. Second question is with respect to our new suspension product and products to increase our share in the LCV market what is the update on this and if you can also share the revenue break up between brakes and axles that would be great.

N. Muthukumar: Thanks for your questions. I will answer one by one. I think in terms of growth in revenue Ranga explained to you what are the areas and initiatives that we are doing and we want to be ahead of the market. We would have very well seen that our growth in the market in terms of top line is better than the market growth in commercial vehicle segment particularly 7.5 tonnes and above so the company will continue to innovate the products, introduce the products that are needed for new application and keep on growing. The second question in terms of addition of the suspension in addition of the value. See we will continue to improve on the content for axle. Content for vehicle is one content for axle by increasing the bracket that we move on to the customers but in terms of adjacent we know that we have introduced the suspension which is third one. The relaunch of the product at this point of time is doing well. We will continue to grow in that segment. I think maybe next one year we will see the substantial quantum of suspension being sold from the company, but sorry gentleman you wanted a split between brakes and axle but as a policy we do not share normally the share of business with customers, our share between different vertical and also our export content. I am sorry and regret I am not able to provide you that information at this point of time. Thank you very much. Hope this clarifies your question.

Chetan Gindodia: Thank you. Just as followup wanted to understand now with Cummins coming up as a partner is there any change likely to our relationship with the Meritor subsidiary is there a plan for merger or increasing our share of business, valet share with other non Ashok OEMs also.

N. Muthukumar: See this partnership between Cummins and Meritor brings a lot of enormous opportunity for us to explore the new thing. There are many customers where Cummins has very strong relationship where we can penetrate. At the same time there a lot of customers where Meritor is present strongly where we will explore what can be done for Cummins and the management team we are working very strongly. At this point of time the relationship between both the partners are going very strong and we are working out a long term strategy. We do not have any plans at this point of time doing any changes to the existing structure what we have in terms of the JV.

Chetan Gindodia: Okay got it Sir. Thank you so much and wish you all the best.

Moderator: Thank you. The next question is from the line of Sunil Kothari from Unique Portfolio Management. Please go ahead.

Sunil Kothari: Thanks for opportunity Sir. Congratulations for good numbers. Sir in presentation Mr. Ranga clearly mentioned that commodity price softening will definitely help us by second half. Up to now we were not able to take any benefit. So would you like to talk about the possibility of maybe margin if not numbers what is the scope of reducing cost and what type of benefits it will give.

- N Muthukumar:** Thank you Mr. Kothari for asking this questions. I can understand your anxiety in getting the margins expanded. I really appreciate. I think Ranga touched upon the point that commodity is softening and it is going to ease out a little pressure, but all of you know when the commodity went up, all of you have appreciated that we are able to do back to back with the customers and trying to recover the company. The same thing will happen when the commodity comes down and we will be passing on to the customers in the commodity. Of course there is a little time difference which goes in this but I want to be very very fair that the commodity goes up and down other than the base in fact in terms of percentage is not going to have a huge impact into our bottom line. Ranga please correct me if I am wrong on that particular statement.
- S Ranganathan:** You are absolutely right Muthu so definitely commodity as a principal is going up or going down we have a specific understanding with the customers to pass on to them. Definitely if the commodity softens definitely they will also have a stake and definitely we will pass on to them so end of it, it is no gain or no loss for us. Only thing is other than that it creates either a base impact either in terms of percentage either plus or minus depends on the material going up or down.
- Sunil Kothari:** Sir my second question with Cummins coming in may not be in a very near term next 12 or 18 months but over a period do you feel there is a scope to bring some products which enhance our market size if you can talk little bit what is the possibility without mentioning any numbers.
- N. Muthukumar:** Thanks for this question but obviously at this point of time I know many of you attended Mr. Ashwath the managing director of Cummins investor call couple of days before and it is too early for us to predict that what product we are going to bring in. Please understand that axles is a different vertical and components is a different vertical and while we will be bringing in lot of synergies in terms of scale, in terms of axle, in terms of growing revenue it is going to take little more time for bringing in product because both the products are unique by nature and it is not immediately we can merge this two so we are discussing strategically and what all could be the potential opportunity in short term and in long term and continue to work but rest assured that this is going to bring in great opportunity for the organization and it is going to make this organization to grow exponentially that is for sure.
- Sunil Kothari:** Great to hear Sir. My last question is Sir, looking at the performance we already are crossing the all time high numbers of our revenue hopefully by this year which we have done in 2018-2019 and looking at the overall economy and the demand would you like to talk about the industry demand scenario on the ground what you are observing, what is your expectation for maybe next year how you see this medium to heavy and other products moving on.

N. Muthukumar:

As you rightly said with the current indication of what we have completed first two quarters we already crossed about 950 Crores and as you rightly said looking at the market projection for the next two quarters we will definitely cross our previous peak of 2018 even though the market has come back only to 70% to 75% of 2018 peak. This itself can answer to many of you that we are out growing the market growth having set the path. So your company will continue to focus on the growth and we will reach the milestones much before our competition does it, but in terms of the industry growth as you said the industry is growing very, very strong and steady while the commodity prices in India is softening, steel prices is coming down. I will talk about some of the factors that could influence the market rather than what we are talking about. The Russian Ukraine war continuing is putting a lot of pressure on the European system and cost of Europe in terms of power everything has gone up. This is a big advantage for India for doing more and more exports from India to the other countries. You know the cost of living or the inflation is high in North America and also in Europe and also the depreciating against dollar where as appreciating against other currency. We are going to get distinct advantage for India in terms of export but in terms of local inflation because of that even though the fleet utilization is at peak now still the fleet operators are finding it extremely difficult to take a decision to invest money in terms of buying vehicle. The availability of funds is also concern for them in terms of growth. These are certain impairment that can be done but looking at the pent up demand between 2018 now. Even when we were talking about COVID even six quarters before COVID the market has come down from medium to commercial. There is a good demand available for this. We need to have a right product if not the same product what we sold in 2018 is getting sold now. We are getting a bigger truck, bigger axle and new ICV platform are coming in so I believe that the market between this year and next year is set to grow at least about 15% next year it will grow. This is the current prediction. When we talk about the recession in global market particularly North America and Europe may have some impact to us but we strongly believe that the prediction currently India GDP is going to drop only by a point which means the commercial vehicle segment will still continue to grow with our prediction. You would have seen the latest analysis on the medium and heavy commercial. The industry predicts that by FY2024 itself we will reach the previous peak. Originally in earlier investor call we were told by FY2025 we will get it back to the FY2018 numbers but the latest prediction in the market even though with 1% drop in GDP, ASH predicts that in 2014 itself India will touch 2018 numbers but ladies and gentlemen just believe me it is not question of numbers alone. In terms of tonnage we would have already crossed it because we have gone if for bigger vehicle, bigger axle and bigger tonnage. If you calculate again 2018 numbers in terms of the tonnage we are already in top of it.

Sunil Kothari:

Right Sir thanks a lot. Wish you good luck. Thank you very much.

Moderator: Thank you. The next question is from the line of Viraj Kacharia from Securities Investment Management. Please go ahead.

Viraj Kacharia: Yes Sir just two questions. First is on the off highway piece so with Cummins coming in you briefly talked about off highway being an opportunity for growth. Can you elaborate what is adjustable market opportunity, what kind of products one can look at and who are the major players who are currently serving on the market?

N. Muthukumar: Thank you for this question. It is very good and I would like to say that yes Cummins do have a very strong presence in off highway forget about the global market in India market and there is a big avenue for Automotive Axles to get into this. In terms of the product there will be backward loader in terms of crane. We are continuing to have the product bringing into India and trying to see the market. As you see we have definitely grown both in terms of export and off highway when compared to what we were about 2014 or in 2018 but the thing is it takes a lot of times because lot of new product we developed because the Indian volumes offering is much lower where as we are going to do lot of exports from India outside that is there. Already we are working very closely with Cummins to find what type of opportunity is available and how we can go to the customer together and these are the synergies we will come to know in next two quarters maybe at some point of time when we are going to address the investor call together with the Cummins management.

Viraj Kacharia: But any perspective you can share I mean the off highway space I mean just from India perspective. What will be the market opportunity for axles and related products and who are the other major players competing in the markets today.

N. Muthukumar: There are few players somebody from overseas and somebody from India but I do not want to name about competition is this investor call but there are good presence available in terms of the local players and also global players, but as you said this market is quite good growth. The actual market for the axle is quite good and even if we capture about 20% of the market it will give a substantial increase in our top line but you see the biggest challenge is most of the off highway customers in India they have a captive axel manufacturing. JTB is a big customer but they captive manufacturing. That is where the biggest challenge, Bendl has a captive manufacturing. These are things that are very very difficult, challenging but is not achievable. We will be definitely be able to penetrate and go because of the product premium or superiority that Cummins Meritor has.

Viraj Kacharia: Okay second question was on the export piece. You briefly talked about the opportunity in terms of the cost of manufacturing so we have been making efforts for last many years now but if I were to look at the new parent Cummins. They historically had a very strong focus on exports and for them India is one of the most cost competitive market globally so if I

were to look say over the next say 5 to 7 years kind of thing pretty long term how should one understand our export evolution post Cummins coming in.

N. Muthukumar: See typically like what you said Cummins is an organization which is very supportive on exports and joint ventures and also they have been a strong believer that India is great company to do best car sourcing so we will definitely be accelerating our journey towards export. See earlier it was little different because of the product segment that we have having. There is a huge logistic lease time which the customers were looking and we have manufacturing across all over the world so with this definitely there is going to be lot of shift, lot of value addition that is going to come from India in terms of not only axles and break but also in some more companies and components that we are going to export from this. Wait for few quarters to tell us because we are not giving you the numbers. You are not able to really see the growth in exports what we are doing. It is not that we are doing great but definitely we are inching towards, but this will be an accelerated process but we will be able to give you a concrete plan maybe in about next two quarters to see that how much we are going to do once the entire integration process is over and our strategy, but at this point of time believe me ladies and gentlemen the management is towards utilizing India for the globe.

Viraj Kacharia: Just one clarification for exports or even for new product Automotive Axles will be the entity supplying either for India globally I mean in the case of Newpair India they have multiple ventures sometime the product comes lesser sometimes it does not so just trying to understand the product categories which Meritor and we also cater to. We will be the sole entity from that point right.

N. Muthukumar: See if you ask me that is sole entity the entity has a different meaning because we have from one side of our joint venture partner Bharat Forge on the other side Cummins and other partner in exports is there but one thing we understand the capability what Automotive Axles in terms of axle manufacturing none of the other side as have. So if it is going to be related to axles and brakes you can trust that the manufacturing will be at Automotive Axles.

Viraj Kacharia: But the other JV in India the private entity they are primarily into servicing and marketing. They do not have any manufacturing base.

N. Muthukumar: They do not have any manufacturing but they have strong engineering presence. The product is coming out from them. The IP is controlled by them. See it is not just selling the product manufacturing from India. The application and service support globally for those applications is all being drawn from the other company. It is not just a servicing company but it is basically a company which designs, develops the product and convert into the manufacturing for India.

- Viraj Kacharia:** Okay wishing you good luck. Thank you very much.
- Moderator:** Thank you. The next question is from the line of Shridhar Kallani from Axis Securities. Please go ahead.
- Shridhar Kallani:** Thank you for the opportunity. Sir I just have a few followup question. First thing is that if the commodity prices rises then you have a pass through effect which is generally with a lag. Well now the prices are correcting itself so in terms of percentage if you could give us a guidance as to how much your top line would also be affected.
- Ranganathan:** I did not get the last part, can you repeat.
- Shridhar Kallani:** If the commodity prices now softens or corrects then say suppose the commodity prices fall say 5% then your top line I also believe I also will be affected because of the park through agreement that you have with your customers.
- Ranganathan:** Yes quite natural that definitely will be there. As effect we have to take into the system obviously that will have a correction to reduction in top line as well as in the middle cost.
- Shridhar Kallani:** Say if 1% if it corrects then your top line shall be affected by an equivalent percent or little higher because there is obviously a processing cost involved and another cost involved.
- Ranganathan:** It is actually a purely commodity price. No other cost will get impacted when the commodity prices changes and secondly one clarity I want to give it to you. You must be knowing, but I am just clarifying so we measure it in terms of number of axles we supply, number of brakes we supply. The commodity is more a market condition but more or less there will be a very small fluctuations might be there in the top line but margins are well protected. I do not think we have any concern on it so we are more focusing on it in terms of the volumes and the commodities that are natural to the market conditions.
- Shridhar Kallani:** Sir second question followup is on the exports, if it is possible to share which markets you are currently exporting and once Cummins comes into the picture to which the possibility other markets that will open up.
- N. Muthukumar:** See again if you look at the exports from India we are in North America, South America, China, Europe and Australia. Currently if you ask me where are you exporting we are not exporting the full axle but we are exporting the systems and subsystems to China, to North America, to Europe a little quantity to South America. South America is very, very competitive and they are doing really good but is happening in the last couple of months the amount of impact that we have seen on the sea side is having a huge impact for everybody to take the decision, while there are favorable factors like the cost of living going is up, the

fuel prices are going up, the labor cost is going up, the logistics cost had a huge impact on the last couple of years of course that market is softening so we are doing for every region. Because we are selling the products we have very specific capability that we have developed in Automotive Axle.

Shridhar Kallani: Sir I just wanted to understand the status of open offer from Cummins since it was at a fairly low price and is there a possibility of them increasing stake in the company more in future.

Ranganathan: No we do not have any such information on hand at this moment of time. It is a procedure as well as SEBI guidelines they are following it so obviously we have to wait and watch. We have no information nor any kind of guess from outside what they are going to do.

Shridhar Kallani: Sure. Thank you so much. Thank you.

Moderator: Thank you. Our next question is from the line of Radha from B&K Securities. Please go ahead.

Radha: Hello Sir congratulations to the entire management team for good results. Sir my first question was regarding exports so I believe in exports apart from Meritor we have two major clients that is Volvo Thailand and also you mentioned UD Trucks in your opening remark so given that this is one of the major drivers for our growth is there any other customer addition to this list.

N Muthukumar: Okay we have secured the business of Volvo Thailand way back in the year 2018 for supplying brakes and axle from our competition and this is a customer which Meritor globally was not servicing there. If you look at our strategy today Meritor has launched in China, in Australia. Europe, South America and we do not go and compete with them in other regions where we want to supply. While we are continuously working, Nagaraja and team is continuously working on innovation to identify the product along with engineering to see that what more we can do. Isuzu and Volvo now you read both are same company Mam. Volvo has been taken over Isuzu globally the UD Trucks brand. Now the UD Trucks which was part of Volvo now it has become Isuzu so we are continuing to work with them to find what are similarly to other customer which is not Meritor we will not go and compete with other areas where Meritor is already servicing there. In those cases we will be only supplying the components and subsystem gear so that last mile connectivity will be there. Hope this clarifies your question.

Radha: Also continuing the same question. From the total revenue what is the total in direct exports for first half FY2023?

- N Muthukumar:** I wish we are able to share but normally as you said the CFO has expressed in earlier thing we have a policy of not sharing the segment wise sales or we do not give that break up Madam.
- Radha:** Sir I believe that we have lot of new product launches in pipeline and given that we are venturing into LCV ICD space could you give some comment on how many products launches are expected in FY2023 and from that how much has been done in the first half.
- N Muthukumar:** Take back a little from FY2020 when the BS6 migration is done, you all that know we have presented it. We have launched in four different platform. Almost more than 35 different part numbers for the customers in the new platform. Almost every other product what we have been supplying in BS4 we have made that obsolete and gone into the new launches which was giving more efficiency, better cost, and of course better reliability for the product. You all know that this migration to BS6 most of the customers demand for doubling up the warranty. It has become mandatory and Meritor has been successful in launching the product that is why we are seeing that post BS6 our growth has been steady and it is almost faster. At this point of time for some of the ICVs we are launching the product. There are two more platforms which the team are working between Nagaraja and our engineering team is working and we will be launching those two platforms for the ICV segment to penetrate. The team is doing preliminary product validation, product application support and all. Maybe by middle of FY2023 the first quarter end we will be launching those products.
- Radha:** Understood Sir. Also in this quarter we are seeing that there is significant improvement in margins and a lot of it is also coming from reduction in employee and other expenses so few of the factors that we have been working was automation, digitization and of course operational efficiency and also lower freight cost must have contributed through this but is there anything else also that has contributed that maybe I am missing out.
- N Muthukumar:** I think the team is doing so many initiatives including reducing the scrap in the plant improving the reliability. I think Nagaraja you can throw some light on the areas what we are doing for conversion.
- Nagaraja:** There are couple of things as Muthu mentioned. One is that we have been continuously working on the productivity improvement. These are all the standard things where we are looking at. Can we run the line to the production rate? Can we improve the automation by multi manning the machines and also we are looking at how we can improve the yield. Earlier we were talking about every step how can we go and minimize the wastage or minimize the rejection so those things we continuously work on that and that has really contributed for maintaining or even optimizing our conversion cost.

Radha: One last question with respect to Cummins acquisition so on the management side I believe that Automotive Axles management will continue to remain independent, but apart from that what kind of changes can we expect on the management level.

Ranganathan: At this moment of time Ken Hogan is Cummins Meritor global head and Muthukumar is India head and Automotive Axles level me and Nagaraja continues on operation and finance respectively. At this moment this is what is there today as we go along any changes all of you naturally will come to know. At this moment of time we do not have any other information or update.

N. Muthukumar: The management changes after acquisition of Cummins to Meritor is a different thing but we are very clearly committed that none of our customers, none of our employees, none of our share holders will have any impact on this and our customer focus on continuing of innovation, focus and continue the various things that we have for profitability improvement and of course people where our key. The market has seen a large amount of exists in the last couple of years particularly post COVID and people. We have highest engagement of people and our team is working intact so the management changes can happen at different level but in terms of operations, in terms of running the business, in terms of the core system continues to be governed by Cummins Meritor system and we will continually work on this so I just want to reassure you that these management changes are not going to put us into any of the impact which will have impact to either our customer deliveries or in terms of the quality or in terms of running the business efficiently.

Radha: Thank you.

Moderator: Thank you. The next question is from the line of Shashank Kanodia from ICICI Securities. Please go ahead.

Shashank Kanodia: I am asking in the LCV passenger vehicle domain a lot of new orders are flowing in the electric buses domain so how does our content per vehicle changes for us electric versus a traditional IC run buses.

N. Muthukumar: There is a government announcement that government is going to buy about 45 to 55,000 buses in this year and of course predominant of that is going to be electrical. At this point of time if you look at the Indian electrical vehicles or buses most of them are remote mounted and we are present our regular axles is being used. For Ashok Leyland electric vehicle our axles are being used. There is a remote mounted configuration. We are also working with lot more new companies who are into this business and continue to see how we can present so while we know that the buses are going to come in more we continued to make sure that we are not getting impacted because of this and we continue to grow in that segment also. I can say that today in India there are more than about 25 companies which are working on

electrification of vehicles be it truck, be it LNG or be it buses at least I would proudly say that 50% of the content we are available.

Shashank Kanodia: Sir apart from Tata Motors are we tied with JBM because JBM it is also getting new orders in the electric bus domain.

N. Muthukumar: Yes Tata Motors they make their own axle. JBM they are importing but we are working closely to see how we can penetrate into those markets but Tata Motors as you rightly said they have their own capabilities and they are using it. However for E axle we are working with all customers because we have capabilities and we are trying to see that how we can penetrate into that but it is too early for the E axle market to come in India, globally and it is going to take its own time. One of the surveys say by 2032 15% market will be electric so long way to go but your origination is preparing itself that even if the launch is going to be there. Ladies and gentlemen for your information, I just wanted to let you all know that we are in every segment of the new power which is going to come whether it is hydrogen fuel cell, whether it is hydrogen, whether it is remote mounted electrification or battery operated EV the company is giving solutions to the customer to see that we are present in everything.

Shashank Kanodia: Sir you mentioned that E axle option is not available in India so none of the OEMs are using it.

N. Muthukumar: E axle as an option is available in India. It is being evaluated. It is being tested. It is an option available in India but at this point the OEMs are contemplating at what time we need to. See as the long is government is giving a subsidiary and it is going to be available see at the end of the day whether it is an E axle or remote mounted the customer has to decide and we will decide when the business case is going to be better so it becomes very imperative need of OEM the systems provided to see that it is not only question of affordable by the people but at the same time the business should also make sense to them.

Shashank Kanodia: Can you throw some light how expensive it is vis-à-vis the traditional axle?

N. Muthukumar: Sorry it is too early. I will defer the question but at the end of the day it is going to be expensive but we are working to see that the total cost of ownership is better. Is what we are looking it.

Shashank Kanodia: Sir Secondly on the initial remarks you mentioned that tonnage wise you will be adding this year in this MSV in domain so next year given that your guidance of 15% volume growth for the industry so in that case can we underperform even the tonnage growth might not be that growth.

- N. Muthukumar:** See next year the number wise the 468 what we have been achieved in FY2018 is what people are saying. When I say next year it is 2023-2024 so they are predicting that it will cross that number but what I am saying in terms of tonnage the vehicles which has a higher tonnage has substantially gone up. Even current year we are crossing the FY2018 standards this is what the prediction is.
- Shashank Kanodia:** Okay so we might still along with the industry as well.
- N. Muthukumar:** The industry is moving towards tractor trailer, 55 tonne vehicles which were not available earlier, The axle load rate changes has made in all 37 tonnes into 41 tonnes so if you see that there is 10% to 15% increase in tonnage as average if it happened between FY2018 to now for the same number of vehicles.
- Shashank Kanodia:** SIR one last thing as per your vision 2025 what is the margin wins that you are working with or you are targeting.
- N. Muthukumar:** I think Ranga has shown it in the previous slide. He is asking about FY2025 margin.
- Shashank Kanodia:** I am asking about FY2025 vision so what is the margin that you are targeting.
- N. Muthukumar:** Yes I know that is what you are asking about our EBITDA target in 2025.
- Ranganathan:** We are very aspiration in terms of the growth. As you said there are two things definitely our aspiration to grow will always be there. If you really see if the market grows definitely the margin will go along with that market. We have growth prospect and that is why Mission 2025 is driving all about. All the initiatives to grow revenue as well as the operational excellence to bring the cost competitiveness. You will definitely see our company is performing well. The market is going up definitely we are there in terms of expectation.
- Shashank Kanodia:** Sure Sir. Thank you so much. I wish you all the best.
- Moderator:** Thank you. Our next question is from the line of Sunil Kothari from Unique Portfolio Management. Please go ahead.
- Sunil Kothari:** Thanks again for the opportunity. Sir being on the call Mr. Muthukumar is Cummins Meritor chief for India. My request or my message is to convey we are taking efforts internally, the way we our strategy, vision, we have our e-mobility or hydrogen driven vehicles every products we are having. The market we as an investor are not able to get the right valuation the reason being you are the only company which is manufacturing your own base and marketing also is done by parent and other group organization so it is giving

little bit discounting to the valuation so with the change in parent Cummins coming in if you can convey the message from people like us minority share holder because there is a IP that can be park in parent company and you can charge technology fees or royalty or whatever but this local marketing done in different organization, manufacturing done in different organization actually that is not the type of example or trend in the Indian stock market. If you look at whether it is Cummins they have 100% subsidiary but whatever Cummins India is producing that is being delivered and marketed by Cummins India only so I would request to convey this to Cummins board please.

N. Muthukumar: Thank you Mr. Kothari for bringing that to our notice and your concern. While we will definitely convey your message, your perception about this to the board of both the JV partners I would also like to reiterate that what we are doing is completely as per the process and law and believe me it is going to be beneficial for us. I think this process has been evaluated by both the JV partners to make sure that it brings more and more transparency into the business and more and more conversion to India but however we have taken note of your concerns and feedback which we will definitely take it back to the board of the company. Thank you Mr. Kothari for the feedback.

Sunil Kothari: Basically Sir you transparently disclosed the number so we do not have any doubt on numbers. Point is this type of arrangement always creates discomfort in the mind of minority share holders so that is the message I would like to convey.

N. Muthukumar: I fully understand your concern definitely we will take in the right spirit and then take it up to the management.

Sunil Kothari: Thanks a lot. Thank you very much.

Moderator: Thank you. Ladies and gentlemen that was the last question for today. I now hand the conference over to Mr. Sailesh Raja for closing comments. Over to you sir.

Sailesh Raja: Thank you all for attending this session. We especially thank the Automotive Axles team for their time. Muthu Sir would you like to make any closing comments.

N Muthukumar: Yes thank you very much. Thanks ladies and gentlemen for all of you for joining this call. I personally thank all of you for the confidence that you have kept in this organization and kept on the leadership team and your continuous support is the one which makes us to perform. Trust me and believe me that this acquisition by Cummins into this company is going to bring lot more technology, lot more turn around for this organization which is going to be for good. We all know that Cummins has a very strong aspiration not on the top line revenue, bottom line everything is there but the destination zero which makes the mother Earth better place to live than what we are today and in our journey. So our

company with continue to invest on sustainability. The company will continue to make sure that all the products and services we produce will meet the sustainability standards in the days to come. Once again thanks Sailesh for organizing this. Thanks every one for taking time to join with us. With this small note I wish everyone one of you very, very happy and prosperous New Year and let us look at how the next year is going to turn around and make all of us much more profitable and at the same time much more satisfied humans. Thank you very much.

Moderator:

Thank you. Ladies and gentlemen on behalf of Batlivala & Karani Securities that concludes this conference call. Thank you for joining us and you may now disconnect your lines.