

# AUTOMOTIVE AXLES LIMITED

16<sup>th</sup> November 2023

**The BSE Limited**

Phiroze Jeejeebhoy Towers  
Dalal Street  
Mumbai – 400 001  
**Scrip Code: 505010**

**National Stock Exchange of India Limited**

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

**Attn: Listing Department**

Dear Sir/Madam,

**Sub: Analyst / Investor Conference Call Transcript.**

In continuation to our earlier intimation dated 7<sup>th</sup> November 2023 regarding Intimation of Analyst / Investor Conference Call and with reference to Regulation 30 read with Schedule III, Part A, Para 15 (b)(ii) of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 enclosed herewith Transcript of Analyst/Investor Conference Call conducted to discuss on the '**Automotive Axles Limited 2QFY24 Financial Performance**' scheduled to be held on Friday, 10<sup>th</sup> November 2023.

The Transcription, presentation and the audio recordings of the same is available on the website of the Company [https://www.autoaxle.com/Analyst\\_Investor\\_Meet.aspx](https://www.autoaxle.com/Analyst_Investor_Meet.aspx)

This is for your information and record.

Thanking you,

Yours Truly,

**For Automotive Axles Limited**

**Debadas Panda**

**Company Secretary & Compliance Officer**



**Regd. Office & Mysuru Unit :**

Hootagalli Industrial Area, Off Hunsur Road, Mysuru – 570 018, Karnataka, India

Telephone : 91-821-719 7500, Fax : 91-821-2402451

Email : [sec@autoaxle.com](mailto:sec@autoaxle.com), Website : [www.autoaxle.com](http://www.autoaxle.com)

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2018





“Automotive Axles Limited  
2Q FY '24 Post Result Earnings Conference Call”  
November 10, 2023



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

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

**Sailesh Raja:** Ladies and gentlemen, good day, and welcome to Automotive Axles Limited 2Q FY '24 Post Result Earnings Call hosted by B&K Securities. Before we proceed to the call, let me remind you that the discussion may contain forward-looking statements that may involve known or unknown risks, uncertainties and other factors.

It must be viewed in conjunction with our business risk that caused the future result, performance or achievements to differ significantly from what it is stressed or implied by such forward-looking statements. For better voice clarity we all you to switch off the video while asking questions.

To ask questions, please select the raise hand option. We will call out your name and then you can tell your company name and then I request you to unmute yourself and ask questions. Please note that questions on the chat box will be monitored and it will be answered in the end. So to take us through the results and answer your questions today, we have top management of Cummins, Meritor and Auto Axles team represented by Mr. Muthukumar N., India Leader, Cummins, Meritor; Mr. Nagaraja, President and Whole Time Director, Automotive Axles; Mr. Ranganathan, CFO, Automotive Axles Limited.

So we'll start the call with your presentation, and it will be addressed by all the 3 member of the management team. Then we'll conduct a Q&A session.

So with that said, I'll now hand over the call to Mr. Muthukumar. Yes, over to you, sir.

**Muthukumar N:** Thank you, Sailesh. Happy morning, ladies and gentlemen. It's nice to be back with you for the investor call, and really appreciate for taking the time to join with us during this call.

Your support, the questions that you ask always makes us to perform better, and we strongly believe in the [inaudible] support. With that, I have my colleague, Nagaraja, who is President and Whole-Time Director of Automotive Axles. He'll be running through the company's history, followed by Mr. Ranganathan on the company financials. Once again, over to Nagaraja.

**Nagaraja G:** Thank you, Muthu. Good morning, everyone. And just a brief introduction to Automotive Axles Limited. As you are all aware, Automotive Axles was established in 1981. And over the last 40-plus years, the company has grown to this level. And just to remind everyone that we have 4 manufacturing sites. Our mother plant is in Mysore and then we have 2 satellite plants in Pantnagar and Jamshedpur, are mainly catering to Ashok Leyland and Tata Motors respectively. We have about 2,600 plus employees. We are number one axles manufacturer in India when it comes to independent axle manufacturer, and number two when it comes to brakes.

Our major customers are Ashok Leyland, Tata Motors, Mahindra, BharatBenz, OBE commercials. And our main products that -- as we mentioned, mainly axles, brakes and also the axles for off-highway application.

Next slide, please. As part of a growth strategy, we continue to innovate and then develop our products ahead of time. And last quarter we did discuss about how it is helping us to achieve the

growth strategies. So these are all the 5 new products they are in pipeline at various stages and many of them are with the design completed and under testing.

We are introducing the largest Tandem axle for tipper application called MT160. This is again focusing mainly on 8/4 tippers and 10/4 tipper applications. We have a product for the Backhoe Loader. Again, this axle is under testing. We have come out with new products. We lend Hub reduction axle along with MT145. This is for the light and medium-duty tipper application.

We are also upgrading our current portfolio of products of RS120 and 145 to [12949], keeping in mind a regional specific application requirement of both the OE customer and end customer requirements. This will be fuel efficient, lightweight and having a higher durability life.

Next slide, please. We continue to focus on Destination Zero. So as you can see on the right hand top corner, 80% of our power consumption will be coming through renewable energy. And I'm very happy to share with you some data. We have already achieved -- 40% of our energy requirement is coming from renewable sources.

It's not just about the energy, we are looking at reducing the packaging that we have. Almost -- the usage of wood has been reduced by more than 80%. We are focusing on water positive. And in fact, we -- our Mysore client is one of few clients in Karnataka region which is having a water positive for the last several years.

So we continue to focus on consumer preference and how the things are changing and how technology is going to help them -- help us in meeting their expectation. We continue to believe in diversified and the inclusion initiatives. So there's a very big push from the management here to achieve this. And the employee safety, health and fair treatment is always core to our business. These are the core values, and we continue to support and then make a significant focus in these areas. Thanks.

**Muthukumar N:**

Thank you, Nagaraja. With that, I'll request Mr. Ranganathan, our CFO, to talk about the financial highlights and how we have been performing year-on-year. Over to you, Ranganathan.

**Ranganathan S:**

Sorry, I got muted. Thank you, Muthu, thank you, Nagaraja. Just adding a few points to what Nagaraja explained on the ESG initiatives. IT initiatives were in line with the mission '25, also driving automation, all the processes, basically improving the productivity of the employees as well as the elimination of paper or working towards a paperless office.

And we have come across significant way -- more than 30% to 40% of papers have been eliminated. We are targeting next 2 to 3 years to eliminate close to about 80% of the paper usage into all the key processes in the organization.

With this closing remark on the ESG, I will take you all through the financial performance. For the year, we have achieved a revenue of INR588 crores with EBITDA of close to INR70 crores and [PEBIT] around INR60 crores. Come next slide.

Just have a comparison of this quarter performance versus the last year. And compared to the last year, our revenue has grown by 24% and our EBITDA has grown, absolute value has grown

by 35%. Last year, the same period, our EBITDA was 10.9 and we are at 11.9 now. And PEBIT increased by 49% with INR40.5 crores last year versus INR60.4 crores in the current year. Last year, for the quarter, the PEBIT was 8.5 and now it is about 10.3.

And as far as the YTD performance is concerned, if you really see the first 6 months, we have done about INR1,122 crores as compared to INR977 crores last year with a growth of 15%. And EBITDA is concerned, we have this quarter, this 6 months, we have about 11.6% is the run rate versus 10.7 last year, the same 6 months. And PEBIT is concerned, we have done about 35% growth with INR821 million to INR11.2 crores in the current quarter, current 6 months.

So, close to about 35% growth, but 8.4% last year for the first 6 months to 9.9%, close to 10% for the first 6 months is our financial performance. So, these are the broader highlights of the financial performance for the quarter and for the 6 months. Over to you. Muthu.

**Muthukumar N:**

Thank you Ranga. I think Mr. Pratik Kothari, you have raised your hand. We will complete the presentation and then we will come to the question and answer session.

With that team, I just want to give you how the market outlook is look like, what is happening in Indian economy. India continues to be very strong economy. The predictions from most of the financial institutions and the global, they indicate that India will continue to grow in fashion and will be the fastest growing economy.

You all know our ambitious target of becoming the third largest economy by 2030, which means we will cross 5 trillion economy by the time. And if all these things need to happen, lot of infrastructure push is happening. And you have seen that the push from infrastructure to the current government is going great.

With that, I think we are seeing good amount of sales increases that is happening in the segment specifically like papers and knowledge continues to grow. While this is happening, you have seen that the government is giving lot of push on green passenger vehicle across most of the Tier 1, Tier 2 cities and already a good amount of contract is being given to the various vehicle manufacturers. So, with push from one side on paper and another side on knowledge and on the passenger vehicle, the commercial vehicle industry is set to grow.

But not that easy with what is coming up in the political situation. So, going for election year for next year and we are seeing that conserving cash from every fleet operator is going to be there. The other biggest advantage is a flat season price for the last one year.

While there are not good amount of advantages for us to grow in this segment, you are seeing other side, the conservative customers make sure that our market is flat or single digit growth is what is happening in this. You all know that our largest customer is Ashok Leyland who is gaining share which is really good for us because that keeps us growing. There are few indicators globally which is like our ocean price has come to pre-COVID level as well which is a good sign and again making India competitive in the global.

Even though the vehicle scrappage policy has come as a voluntary, vehicle scrappage has actually started and it will definitely add a little momentum to the game. These are the indicators

which are positive. I think the commodity prices have softened but it looks like the steel import from China has been controlled by the government.

At the same time, USA has agreed to reduce the metal import tariff which means more steel will get exported from India which may also have a concern on the increasing price in the future. Commercial vehicle market, if you see, we are predicting about 3% growth over last year between FY23-24. While the first half of the year has been reasonably good, we predict almost a flat in second half of the year in this year.

But in reality, it may go from 3% to 10% depending on how the situation is going to change in the next month. Your company is continuing to work on the agility. The Automotive Axles team led by Nagraj and Ranga, they continue to work on the agility to see that whatever the way the market goes up and down, the team will be agile to meet the customer demand and thereby capture the maximum market. If you see over the period of 2018 to 19, the commercial vehicle market has grown.

It has actually grown. We have made about 476,000 vehicles in 2018-19, whereas currently it is only 407. While the vehicle is less, I think we have already grown more than 4% CAGR growth in the market. Every year, we are doubling when compared to the market growth and that is how we have moved it. And you can see your company's earnings per share is giving us a better return. And our focus on the growth strategy for the future, especially from every angle of export or penetrating into the market share or adding up the value additions in every product itself is really helping us to improve our per annum realization.

The company continues to focus on new product and modular design. Nagraj has already presented to you. We are launching three or four products well ahead of market requirements, which will take care of the new generation requirements till 2030. Customer value and customer response is key in the organization and your organization continues to get the support from all the OEMs being a customer responsive company.

People are key for the organization and operation excellence and employee recognition, employee engagement continues to be the focus for the organization to make sure that our organization is the best place to put you. A couple of focus areas which I want to tell you is FY23-24. The market overall may be about 5% to 8% growth when compared to the previous financial year. The company continues to focus on industry 4.0. Last time Nagraj presented this and maybe he will give an update next time. And of course other digitalization activities.

The company is moving on to make 100% digitalization by the year 2028. As I said, commodity price continues to soften, but however our focus continues to be on the cost control. The focus on improving conversion and material cost performance is always rewarding and the company can take the organization to the next level.

People make the difference between us and our competition. So the employee engagement, the corporate social responsibility, the diversity, equity and inclusion and sustainability, these are the four pillars on which we continue to work on people and the environment. We have started a program called Soukhya for our employees to make sure that how good our people engagement

and health continue to improve, particularly post pandemic which makes the organization more productive and organization performs as a team.

So the various activities that we have been doing in terms of the diversity, in terms of equity and inclusion or in terms of making the employee always the best place to work, continues to work. The commitment to social responsibility in terms of setting up a skill development or in terms of health care and training more and more people employable continues to be worthwhile.

The key actions are taking forward the employee well-being and making sure that your people feel that it's the best place to work, continues to stay focused, trying to utilize Aatmanirbhar Bharat thereby trying to expand exports under the [new air medical], bringing in alternating technology, disruptive innovation, value engineering to see that your company is always competitive and we continue to gain our share, continue to expand in business. Compliance regulations and ethical code of conduct are the key and it is the focus area for the organization.

Like Nagraj said, moving towards destination zero by 2045, your company is working towards zero carbon emissions. These are the key focus areas that we work with. Once again, thank you for your patient listening and I stop the presentation here and over to Sailesh back for the question. Thank you very much.

**Sailesh Raja:** Yes. Thank you, Sir. We will now begin the Q&A session. So the first question is from Pratik Kothari. He's from Unique PMS.

**Pratik Kothari:** Yes, thank you. Hi, good morning. Thank you for the opportunity. So first of all, congratulations to the team. I think we have done much better than the industry. So one question, I mean, very broad, we do hear a lot about it. And in your comment, you did speak about the government's push on infrastructure and the stable diesel prices.

We also hear a lot about spend on mining, infrastructure, port development, etcetera. So if we just highlight, and I'm trying to correlate this to the M&HCV numbers that we kind of predict for say this year, and which seems not much growth. So if we just highlight what is happening, I mean, given the macro or top down what we read, how does it start reflecting in say the M&HCV volume numbers?

**Muthukumar N:** We have just come out of the supplier conferences of all the major OEMs in India, be it Ashok Leland, Tata Motors, Mahindra, Volvo, Eicher and all. All of them are upbeat about the numbers. I'm sure that like us, you would have seen the numbers. During my presentation, I have shown the peak volumes in 2018 is around 465,000. When I talk about the M&HCV, it's at net where we play 7.5% above. Last year, the number was 410,000, 407,000.

The market is expected to be, the prediction today is by 2028 or 2030, the industry is set to get to 500,000 vehicles. Still 500,000 vehicles for India for the population is very, very less than compared to what we are using in other countries. But I just wanted to let you all know, even though the number of vehicles is about 15% less, that tonnage wise we have actually crossed the year 2018.

That means India is manufacturing more and more future ready vehicles. That is why there is a demand for new products, which what Nagaraj explained about going in a bigger Axle, so and our per Axle revenue is going up. So while the India market has not reached the same level of 2018 in terms of the numbers, last year we already crossed the tonnage in terms of 2018.

Looking forward, if you want the M&HCV segment has to grow, GDP has to grow, our M&HCV sales is always in relation to GDP. Of course, we have little concern on this year in terms of overall -- growth in India. The agricultural produce may come down, but generally it does not look like the second half of the monsoon period it has picked up.

So with a good agricultural harvest and a GDP growth of 7%, we believe that the M&HCV segment is set to grow. The other added advantage now is the mining that is going on, construction, so both surface tipper and deep mining tippers are growing. Haulage employee is growing. If you have seen that the indicators like diesel price is there, so the truck realization per kilometer has gone up for most of the fleet operators and a good government push in terms of buying the buses for the state transport organization and that too green.

All these things make us to believe that the market is set to grow, even though not it is going to be a very, very high growth. It is going to be a K-type growth is what we are seeing. While these are the positive factors that I can say, we have conservative numbers.

Yes, India is moving to an election year. So a lot of conservative things will be there in terms of spending. So conserving cash will be one of the points which will be working. So India is an midst, but the long-term forecast for India seems to be very, very optimistic. Hope I have answered your question. Thank you.

**Pratik Kothari:**

Yes, you did. Sure. So second question on Cummins, it has been a while now that we have been together. So, can you just highlight how has our journey been all this while, any changes that that has brought us in terms of customers are operating, our operations, etcetera?

**Muthukumar N:**

See, Cummins integration is globally completed in full and we are now part of Cummins. As I said earlier, I'm very, very optimistic about this change because it's going to bring a lot of new systems into our organization. Cummin, I think already we are working in various areas from operational transformation to going to the customer or cost reduction or consolidation.

In every area we are working with them and Nagaraj and team is working on how to improve the synergies, operations. The business teams are working together to see that how we can enhance the business. But however, that amount of area working, but for all of your information, Automotive Axle in India is a joint venture between Cummins and Kalyani Group and the independent company operates to the best of the, making sure that the best of both, what we got from [inaudible] what we got from Cummin, what we have got from Kalyani one is like to make sure that this organization is turning into a world leader.

**Sailesh Raja:**

Our next question is from Divyansh Gupta. Please go ahead.



**Divyansh Gupta:** Hi, I am Divyansh here from Latent Advisors. Just -- I have four questions. I'll take them one by one. What would be our capex guidance for the year and for the next year? Is there any roadmap that has been finalized by the company?

**Muthukumar N:** I'll leave it to Ranga to answer the question.

**Ranganathan S:** If you really look at it, the capex for this year, it is more in line with maintaining the sustenance, but definitely in the coming year, we are working on some automation and removing the bottlenecks. As and when we introduce new products, we also have some alignment and changes into the entire manufacturing processes. In that regard, definitely to improve the productivity, automation, and towards a new product, we'll be spending more than the sustenance capex.

Next year, this year, probably you may not see more than INR10 crores, INR20 crores. And next year, definitely it will be, we are looking at doubling that just to ensure that the process automations and productivity and process improvements in the manufacturing. But just if you are looking at something like whether you're going to do it in substantial investment, like what we did in 2018, we are not going to scale up to that level at this point of time.

I'm sorry, that's what Muthu was explaining. We don't hesitate to invest, it's not an issue. As you really see our cash position is quite strong. But the point is that we need to have a business case and based on the business case and if need additional investment, that we don't hesitate. But what we are, I'm sharing the input based on what information we have today.

**Divyansh Gupta:** Got, understood. Related to this quarter's performance, if I look at the overall P&L, there were a couple of things which were standing out. So one, if you could explain what drove the increase in the other income, it's higher than what happened in the Q2 of last year, almost doubling?

**Nagaraja G:** Yes, a couple of things. We are going through a [TPM] journey in the process. We are also going through every stream of our key processes, which is providing the support towards the top line growth or the cost or towards any other contribution to the EBITDA. So in that line, finance team brainstorming, one thing what we have done is about the management of the cash flow. We have gone through a complete brainstorming.

We set aside the base. Basically, the reason would be like, we have brought in a heavy, very strong monitoring system in terms of a deposit and management system, which where to invest and where to get the return on that. Broadly, their answer is about the interest income on the surplus cash is significantly contributing on the other income, point number one.

And we also started new initiatives in terms of weekend parkings in the mutual funds and XYZ to see the cash rotation and give the optimum results. That's a significant reason for it, is basically bringing the efficiency in the surplus cash and cash management process.

**Divyansh Gupta:** Understood. And the second question with respect to the P&L was that the depreciation amount has been reducing. So from about 103 last September 22, it has now become 89. And it has been continuously reducing. So is it just we are not investing further new and therefore this depreciation is going down or something?

**Muthukumar N:** Yes, that's a very sensible question. And thanks for asking that. See, we are debating internally. There are two things we are looking at. One thing is about the new product, we don't hesitate to invest. My number two is about whatever the investment, what we are planning between now and next year is about INR60 crores, INR70 crores. In that range, we are having in my mind, I never mind in terms of doing that, we are figuring out the opportunities to do that and also our bandwidth to invest. Just because depreciation is going up, we also need to have a demand in the market to invest. And second, that comes out with additional capacity and definitely we are ready to invest, my number one.

And my number two, if we are going with any of the new product lines or any new support to the growth initiatives, definitely we will be doing that. These are all the pipelines which the strategic team is working on it, but it takes time to finalize it, my number one, at this moment of time that's in the pipeline. My number three, definitely, as we are going for industry 4.0 and other automations and the new product as a part of the regular process, that investment is definitely going to happen.

Probably, yes, it is a 42-year-old organization and we are trying to optimize in segment because there are two things, one is about our bandwidth to implement all the capex proposals is probably going to be carefully designed with a value proposition to the investment that we are working on it. Definitely, as I said, between this year to next year, we will be definitely doubling our investments, whatever we are doubling it, more towards automation and towards a new product. But to be honest, to be between now and next year, whether the preservation will continue to be this level, yes, it will continue to be level.

There'll be a slight improvement will be there in terms of the percentage. It might go up slightly, but it may not be substantially go up. By and large, it's a large industry and long 42 years, most of the assets is already depreciated. And wherever needed, we also go on with the automations. And 2018, we also be invested and a lot of automation we brought in. Now, new lines were introduced.

So, we're continuously working on it. We don't want to just jump into the investment just because depreciation is low, but definitely based on the new businesses, new products and automations, we selectively doing it, which gives a maximum benefit to the overall to the business and we are doing it. So, that's the status.

**Divyansh Gupta:** Got it. And similarly, for the other expenses that has also seen about a 40 bps reduction. So, was it freight related or something else?

**Nagaraja G:** Muthu was saying that cost control is one of the major driver and is largely towards your more volume benefit and we're keeping the base cost as same level with a minor variation. So, that's basically right.

**Divyansh Gupta:** Got it. And just one last question. So, while you had shown that that graph of M&HCV production and that is automotive has kept on growing. I understand also that some portion of our products actually ends up getting exported. So, can you give a throw some sense of light of how much of our product ends up going to the export market?

**Muthukumar N:** Divyansh, thank you. I think this is one of the questions that used to come in every investor call that we have been saying that we will not be able to provide you segmented split up, but based on majority of your feedback that you have given to me, while I will not be able to provide you the absolute value of exports or absolute percentage, I can give a reference from between 2018 to 19, our CAGR export is 20%. Okay, we have doubled export between what we have done in 2018-19.

So, that's an indication that you will be able to, I'm sure that you will be able to see. And we will continue to grow with taking over and with lots of focus. Our focus is predominantly on the domestic customers and we have to meet their requirement. But at the same time, we want to do more of export.

Doing exports is going to phenomenally improve the systems and processes in the company and also quality in this company. So, we'll continue to focus on expanding exports and see how we can do it. At this point of time, most of our exports are going to our different factories that come into America globally and then it goes to the customer because we have a plan for every detail.

**Divyansh Gupta:** Understood. The reason I was asking was that, is looking at the domestic M&HCV market and comparing it against automotive performance, is it a fair metric or not? Because, as you have mentioned itself, that exports have grown significantly, whereas the industry of Indian M&HCV hasn't grown. So, that's why I was trying to get a sense for that thing.

**Nagaraja G:** Thank you. Thank you for finding this out. But I just want to tell you, in the last 10 years, if you see, or in the last five years, if you see, we have doubled the market share. If you clearly take only from this segment, even on the commercial vehicle market, if you see, the market is only 20% less than the previous, but we have grown 20% more. To reach to other point, I think Ranga explained to you very well on the capex,

I again just wanted to give comfort to everyone of you. Our objective is not to reduce the depreciation or this. In the 2018, 19, we made significant investment to increase the capacity and today the team has come back to a good level of capacity utilization. So, we will be definitely working on the years to come about. We are looking at how the Indian M&HCV market is going to grow overseas opportunities.

Our halfway way commitment, we are also going to get electrification into there. So, we are looking very, very careful on where to do the investment because electrification is set to come and what type of newer technologies or newer capex that we need to do. Nagraj and team are working extensively to see that what new technologies is going to come in electrical, can we do those investments in those things.

So, they are working with the global team. So, that is what is going to happen now and any more investment that we do will be futuristic. We are already spending money on digitalization, but any capacity expansion that we do will be futuristic, which will take care of the new generation axles that is going to come.

**Divyansh Gupta:** Got it. Understood. And sir, just one because you touched on the electrification. There is also a trend or a lot of media articles are pointing that EV might not be the correct, let's say, mode of

power for CVs, whereas hydrogen might be a good alternative. Are we working anything on those lines?

**Nagaraja G:** At this point of time, okay, I think it's more coming from the OEE or I think Cummins India leadership team will be the right person to tell, Cummins is already working on hydrogen, hydrogen fuel cells or something. But if I restrict my questions only to the axles and brakes manufacturing, we are making axles which can meet any of the fuel that is going to come, whether it's a battery-operated electric vehicle or hydrogen fuel cells or hydrogen or LPG, LNG. That's why if you see, there are more than about 15 to 16 players who are aspiring to get into the M&S team segment in India today and these players, your management or your team is working with every customer to see that when the axle is fitted, it's our Cummins.

**Divyansh Gupta:** Got it. Got it. Thank you. Thank you and all the best.

**Sailesh Raja:** Yes. Thanks, Divyansh. Next question is from Mr. Dhaval Shah. Dhaval, please give your company name and proceed with your questions.

**Dhaval Shah:** Yes, sir. Yes. Great set of numbers. Yes, this is Dhaval Shah from Girik Capital. Yes. So my question is with regard to the mining point, which you were mentioning in the call. So if you could help us to understand what sort of, so how many trucks sold in India would be going towards pure mining application? And given the comments from various mining companies, including the largest coal India, the kind of output they want to increase over the next three-to-five-year period, it is a large opportunity for M&HCV industry. So any number, like how many trucks are sold for the application? And any other big emerging opportunity do you see which will support the growth of the M&HCV industry, which we have not seen in the past?

**Muthukumar N:** There are two things on this. M&HCV is one and off highway vehicle is one. For example, if you are talking about making 60, 10 vehicles, 110 vehicles for pure mining. So I will not touch on that. If you look at commercial vehicle alone, m&HCV, about 30% of the overall truck that is produced is in the deeper sector. And on that about 45% to 50% goes to, or 55% to 60% goes to surface mining activities, road construction activities, the rest goes for the mining.

The deep mining will be only hardly 10% to 20% in India. So OEMs would be the right people to give this number or how it is going to go. But I wanted to tell you one thing. During the presentation of Nagaraj, I will request him again to come and talk. India, we are making the largest tandem axle, which can take care of deep mining application.

Cummins Meritor has a design for both surface mining with a higher percentage and also going for deep mining, we make our protection axle. Enough amount of development is done. Testings have been completed with various OEMs and we are ready to launch the product whichever the market whether it is going for a deep mining or taking a higher load. And that is why I think Nagaraj during his presentation, we are ahead of it and we are launching the product.

It's almost five years, more than 10 years we launched our product and actually it is picking up now. We have launched about this tandem 160, which is a bigger size about two years before and we are now getting customers to sell it off. So Nagaraj, you want to add anything on that Nagaraj, how we are getting ourselves ready for that?

**Nagaraja G:** Nothing much, as Muthu mentioned, we have all the required products locally developed and available right now. And apart from that, there are additional products are also available in our global regions or portfolio so that it takes a very short period of time for us to localize it, test it and then applicate it for the specific requirement. And then we did talk about last time, one is developing the product, second thing is also validating it.

Cummins Meritor has invested heavily into the testing facility here in Mysore. So nearly 80% of the products, we should be able to do the validation locally and then launch it in the market much faster than our competitors.

**Dhaval Shah:** Correct sir. And sir, also if you can touch up on the off highway, so JCB has also given a very strong guidance for its India market and also right now they are exporting, I think roughly 40% of what they make in India. So how can we capitalize on JCB's growth in India?

**Muthukumar N:** While it may not be good for us, I think JCB makes their own access in and out. But with Cummins coming in, we are working with them, we are working with various OEMs. In the off-highway segment, Nagraj touched upon one of the points called TLB, which is more India specific and it is majority by 50% of Nagraj or 60%, Nagraj is the TLB Axles.

**Nagaraja G:** Yes.

**Muthukumar N:** So we have developed a product which is very, very competitive and technically superior. We are working with the customer to go, we will have our own challenges. While the opportunity to use challenges also continue to be good because we are going to fight against the internal capabilities of them. But we are very, very upbeat about, yes, we will be able to value selling the product and go to the customer. We continue to work with all the off-highway segments.

**Dhaval Shah:** Okay, so this product, we will be selling it to non-JCB customers, right?

**Muthukumar N:** Why not? Even for JCB also, we have gone and offered our product saying that yes, this is a superior product. We are not choosing the customer we will work with everybody to see that we will work with them.

**Dhaval Shah:** Interesting. Okay. And last question, since in the discussed – in the past we discussed about, expanding our margins over the longer term. So by when, can we see that thing and any comments on the margin expansion front?

**Muthukumar N:** You have seen our conversion efficiency at any point of time is double of what market growth in top line. And for every growth that we are doing in this, your EBITDA or PPT is growing almost again double of that. While, like I think Sailesh spoke in the past, we are not giving a perfect briefing statement on where we are going to end up with. I can continue with the team led by Nagraj and Ranga, continue to work on improving our efficiency internal capabilities to see that we outgrow the market. I think that's a statement I can give. Ranga, if you want to add specifically, you can tell Ranga.

**Ranganathan S:** So, I know, it's a right question. The point is that always all of you have a "Dil mange More", how much ever we do. You know, that's always be a point, which is the expectation that pushes

and sometimes sleepless nights, but nevertheless, we are working towards it. As Muthu was saying, we have a strategic viewpoint looking at the market where we opportunity, we are looking at in terms of improving the bottom line.

And where opportunities are that Muthu and team without thinking about how to get best realization of the access from the customers. And as I mentioned, one other gentleman asked the question about even in the cash cycle, we are trying to improve the product.

So, we are looking at every opportunity. Though, as I'm constrained not to share a number that what we are looking at it, but if the volume is to our favour, we definitely see much improvement in terms of the margins automotive access stand alone. And also in future, if there's more opportunities coming in, in terms of for the export or all other markets where new products and everything, definitely, we also seek an opportunity to improve our margin in those areas too.

So, as you rightly said, the volume grows, you'll definitely see the growth. And even the volumes are stable condition during the COVID and other times you see that our margin, we have put our best effort to protect the margins. So, that's the reason we are conscious about our fixed cost spending and keep all the fixed cost and control.

And also the conversion efficiency and earlier Nagaraj also mentioned that our solar power to overall power consumption is 40% more. We are looking at taking it to 80% and keeping the fixed cost control. Definitely, these are all the precautionary measures looking at the MHCP cycle as our organization has learned over 40 years.

So, in terms of managing the upside and downside, we are very careful about it. And when you go down, we will also be ensure that, we don't go down to that level of generally negative market. And also when you go up, we try to maximize the profit. So, definitely we are forward looking, the market grows, we are there to improve the margins.

**Dhaval Shah:** Okay. So, the raw material basket is softened. So, while around two years back, even it was, it was, it was high, but our gross profit has remained consistent. So, what is the reason for that? Like we not in this quarter, we not seeing an increase in the GP or nor, we saw a sharp drop in the GP.

**Ranganathan S:** No, compared to last year, definitely there is an improvement in GP now.

**Dhaval Shah:** Compared to the September quarter, I think we are doing almost

**Ranganathan S:** Between 0.5%, if you really see the GP, we are seeing middle cost level, definitely there is improvement of 0.5% compared to last year.

**Muthukumar N:** Okay. But also, Ranga, to be pristine, sir, we just want to let you know, when the commodity went up, we have a very good system of a back-to-back with customers. And so, when the commodity goes up or comes down, our organization is not very greatly impacted except for the timing. I think we explained this in one of the presentations earlier.

**Dhaval Shah:** Yes.

**Muthukumar N:** Whether the market goes up or softens, we will go back to OEM's that the Indian automobile practices. We will go back and make sure that the correction is done. So, except for the base impact, such a thing is not. Ranga, you want to add anything, maybe look from that angle.

**Ranganathan S:** No, no. You are absolutely right, Muthu. The commodity does not add any margins at the bottom line. It only, the cost-to-cost, whether the reimbursement is happens, whether reduction or increase. So, we do not tend to gain anything on that. Only, it probably, whether it affects your bottomed -- percentage in terms of percentage, there is more of a base impact. Other than that, I do not think this has got any...

**Dhaval Shah:** Okay. Okay. Okay. Thank you, team. Thank you very much.

**Sailesh Raja:** Yes. Thanks, Dhaval. Next question from Mr. Sunil Kothari. Sir, please give your company name and ask your questions.

**Sunil Kothari:** Hi. Thanks for the opportunity. I am Sunil Kothari from Unique Asset Management. We are running a PMS. Sir, just a little bit more clarity on the relationship with our, this parent GV, Meritor and Kalyani. So, how we transfer, what is the transfer procedure?

Because, what I understand from previous speaker also, commodity, raw material prices has fallen, but we are not that benefited. We are doing innovation, we are doing automation, we are improving productivity, reducing cost, creating new products, but that reflection is not here. So, how it works? I mean, we transfer all the products, we manufacture everything and we transfer to that GV and they sell to our customer. So, how the pricing works?

**Muthukumar N:** Ranga?

**Ranganathan S:** No, Mr. Sunil Kothari, as far as the pricing between both the enterprises, we have established transfer pricing mechanism and basically the transfer pricing mechanism is set and we have been following it quite some time and this has also been validated by PWC as a matter of governance to see how are we doing it and is it downslope or not and this certification is also placed before the board for approval. So, as far as the pricing mechanism is concerned, we have very stable and established pricing mechanism. Definitely, I know that is no concern from an investor standpoint that I should not second view.

Part number two is about you are looking at so many initiatives and what we are doing and all. If you really look at JV, though we are putting the fixed cost and other variable cost in control, there are also cost increases naturally happening around us. If we do not bring the initiatives, every initiative, if you are looking at that and we need to bring them the bottom line improvement is a quite natural expectation, there is no doubt about that. But it is also inflationary impact is there in every cost element here on here.

Today's scenario in every element of whether transportation cost, whether it is, all our suppliers, the conversion cost and also the power cost and so many things. So, we are bringing up so many initiatives to mitigate it and also try to bring over and above this inflationary impact, what is the best we can do it in the bottom line.

As far as the new products are concerned, definitely, there are two things in it. You cannot expect the new product developments, initiatives to show the profitability overnight. It has to go through a cycle before it comes into volume, required volumes to start contributing to the bottom line. So, these are all futuristic one-by-one definitely will show up and the point I am trying to bring a perspective is about definitely our desire is to do better, material performances and bring, that is mitigate the inflationary issues through the internal initiatives and all the stuff.

So, definitely the great efforts have gone in terms of mitigating this cost inflation and also showing a better profitability in the bottom line. So, it is very difficult outside only looking at a, you guys are talking so much, great, but where is the bottom line? If you really look at the bits and pieces into the picture, so much of cost escalation is also naturally coming to the system, that also we have to go over and above that, what is that we can do with it. So, it is a very quite challenging environment.

Some issues will happen next quarter, quarter-on-quarter you can see, some issues may take six months to show the performances. But really it is the real parameters I will suggest you, sir, if you really look at it in terms of the EPS, that end of the day, the earnings per share is one of the highest we have shown in the last March 2023. Our desire is always to protect the shareholders' interest and ensure that we give the best value, not only in terms of profitability, but also in terms of the governance.

And we work very independently in terms of ensuring the governance and give the maximum confidence to the shareholders. That is basically our prime objective and prime value system in this organization.

**Sunil Kothari:** Sir, if Mr. Nagaraj or Mr. Muthu can explain a little bit on what that JV do the value addition, we transfer them the product, are doing everything, what value-addition they are doing, so that will be helpful?

**Muthukumar N:** Nagaraj, you want to add?

**Nagaraja G:** Would you like to cover this for me?

**Management:** Yes, yes. You know much how you are working with them and such things.

**Management:** You want me to answer, Nagaraj? Go ahead.

**Nagaraja G:** Okay. I will just touch upon couple of things. I did mention.

**Management:** You can touch upon the engineering.

**Nagaraja G:** Yes. So, couple of things I did mention during the presentation. We have been kind of repeating it. So, the biggest value what our partners bringing in or MHVSIL is bringing in is bringing in the product and technology well ahead of time and then having the necessary infrastructure to validate them. So, once upon a time, our time to market for a new application or a new product used to be anywhere between two years to three years and then in the last three years to four years, it has been dropped down to less than a year. In many a times, it is less than six months.



I think that is the biggest, I would say, value-add that is coming which is really helping us to be very, very competitive in this market. We have been able to keep that number one position when it comes to independent axle manufacturer just because of that. And if you go back to the history in the last 10 years, we are the automotive access is the first company to introduce any of the products whether it is a hub production, whether it is an axle with a diff lock or the tandem axles. We are the first company to introduce into the market. So, this is going to be a big challenge without the support of Cummins Meritor.

**Sunil Kothari:** So, these are all the things are done by this JV. Product validation, new product launch, new product technology. That you mean to say sir?

**Nagaraja G:** Yes, business development. All these activities are being done by this entire testing validation, investing on that testing to think that way.

**Sunil Kothari:** Sir, just to draw your attention which -- why we as an investor or as a [minority] being minority ask this question is just for your, you have the data but just I am for the sake of other listener would like to convey the profitability of that JV has tremendously gone up during the last two years, three years. Profit before axle sale item was INR61 crores in '20, it was INR51 crores in '21 and now INR106 crores.

So, my point is the efforts which you people are taking, are we able to gain or keep over the share of whatever you are doing or it is just because it is a 50-50 JV. We being minority always we will think that way and frankly I raised this question two years, three years also back, yet I am not able to satisfy myself just trying to draw your attention. That's all I am not seeking for any answer but this is not comforting for minority that I would like to definitely convey.

**Muthukumar N:** Mr. Sunil, again thanks for your frank and questions that you have asked, we really appreciate it. If you see the profitability or the effort, who is putting the effort, it is all being worked at the one company and then it is done and then taken care. Your questions, I think as you said, you have put up these questions, I would request you to please visit to Mysore, I think that is what one of the request that we have been giving, maybe next year AGM we can have it.

Please understand for yourself the amount of investment that is going on in product development, the investment that is being done on testing. Like what Nagaraj said, as an independent axle manufacturer, please understand 75% of the axles are manufactured by the OEMs in India. 72% I would say, precisely.

The companies which are making vehicles, they are making axle with it. In spite of that for the critical application, important application, they come to us because we are competitive even with them, it is only because of the technology that is brought in. But thanks for bringing these questions and giving us the honest feedback. We will certainly work on giving the comfort to, it is not a minority here, you are our investors and we continue to work with you to gain the confidence and make the [inaudible].

**Sunil Kothari:** The point was just to make you feel that what minority investors are feeling because that profitability from '21 to '22 it also doubles, profit from INR51 crores to INR100-plus crores. So it gives little discomfort to minority, that is my viewpoint. I don't know whether you will be able

to satisfy me or other investors? But this JV is not giving comfort. I mean you have to -- I understand this is a quarterly con call, I can't say any more on this. But this, the parent is supposed to think about consolidating these things at some time. That is my suggestion and request. Thanks a lot for your explanation, sir.

**Muthukumar N:** Thank you sir. Thank you very much for giving honest feedback.

**Sailesh Raja:** Yes, thanks Mr. Sunil. Our next question is from Mr. Sagar Parekh. Please give your company name and ask your question.

**Sagar Parekh:** Thank you for taking my question and congratulations on excellent set of numbers. So, first question would be on the capacity utilization currently. What would be the capacity utilization for brakes and axles if you can give us separately?

**Muthukumar N:** Ranga?

**Ranganathan S:** So, brakes will be around, this number of time close to about 70%, 70% to 72% percent Nagaraj. And axles, they are all in the same level. So, yes, around 70% to 75% is what the utilization.

**Sagar Parekh:** Okay. So, basically at INR600 crores quarterly run rate you are at 70% kind of run rate. So, you can still improve about...

**Ranganathan S:** See, one point I just want to draw, I think Nagaraj can add value there. See, as a new product introduced, the capacity, what we talked is about overall, full-fledged axles. But the various combination is always 10%, 15% variation will be there when the new product introduced, new ratios introduced because each comes with their own gear set, their own -- other assembly processes or something, some XYZ.

So, what I am trying to say is, 70% to 75%, could be even 78% or 80% also. So, but depends on the ratios, depends on type of axles we manufacture based on the order of the customer. So, probably, you can take 75% to 78% level kind of things at which utilization is there to make. Nagaraj, do you want to add something?

**Nagaraja G:** Yes, I think you are right. I think Mr. Parekh, our capacity is kind of based on the product mix like water, Ranga just now mentioned. It depends on how many axles we make for, let us say, a tripper application versus regular line-haul application, versus hub reduction. So, it is kind of, because we have put up a manufacturing line so lean and so modular so that, our capacity kind of vary on the product mix. But like I agree with Ranga, it ranges anywhere between 70% to 80% depending upon that particular month product mix.

And just to bring everybody's attention to that, the demand or expectation from the customer has gone significantly upwards and then I remember Muthu talking about this last quarter. The warranty expectation from the customer has gone almost doubled and they want to take it all the way up to 100,000 kilometers to 600,000 kilometers, 5,000 hours for tripper application. So, this is, has, this requires different kind of manufacturing process and that will have some kind of say on our capacity.

And similarly, for a bus application lines, NVH requirement has gone up significantly. So, that's where Ranga was mentioning next one year to two years' time, we are looking at making significant improvements to enhance the current capacity to accommodate all these different product mix so that our capacity will be -- it will be good to especially meet those peak demands like this current quarter and next quarter.

**Sagar Parekh:** Thanks for the elaborate answer. So, basically if next year, if we grow by about 10% to 15% in top line, then you probably be at about 90% kind of utilization, so next year you would have to take some kind of decision in terms of capacity addition or do you think it is still some time away? Because debottlenecking and all those things can also improve the capacity.

**Muthukumar N:** No, sir. Parallely, we will be doing it like what Nagaraja said is while Ranga and Nagaraja deal the overall utilization like there are station wise capacity utilization and the team is working on the capex. For example, that is what Ranga was telling. Next year we have planned to debottleneck some area for the new technology, new product that is coming in and we will continue to invest. And never in our system, we will wait for the market to invest. Even in 2018-'19 what we invested is really helping us today.

So, we will continue to be ahead of market because by knowing the market systems and we will continue to invest on it. As I said, whatever the investment we want to do, we will be doing it for the next technology so that we even when the market goes whether to battery operated or [inaudible] new generation, our capacity or our equipment is capable of delivering those precision and accurate products.

**Sagar Parekh:** Understood. Secondly on this MHCV expectation for Q3 and Q4 that you have given in the slide. Thanks for that. Just wanted to check this on Q4 our MHCV volume expectation is would be lower on a Y-o-Y basis verses Q4 last year 126...

**Ranganathan S:** That is the current indication from the OEM at this point of time. We have seen that actually registration is slowly started coming down this quarter. Okay. So, we have just gone ahead with what is the indication that is coming from the market.

**Sagar Parekh:** So, that indication will be driven due to largely because of election-driven slowdown or is there any...

**Muthukumar N:** That is what is people are -- people want to conserve the cash. Then like a normal investment that has happened in the last quarter, people are saying that hey, people wanted to wait and watch. Maybe after December, depending on this mid-election results, maybe the sentiment will change and we may be ready. That is why as I said, the company is prepared. I think Nagaraj and team they are prepared to deliver even if the market is going to up north. So, that we will be agile and try to ensure that every opportunity is converted.

**Sagar Parekh:** Understood. And last question on the defense side. So, do you like to throw any color on how the defense business is shaping up? So, in H1 for example, our sales have grown by 15%. Any kind of contribution makes or anything that you can give us quantitatively or even on a qualitative basis if you can share some details on how the defense business is shaping up that would be really helpful? That is my last question.

**Muthukumar N:** We have five products that have been approved and maybe if you look at the CAGR there, I think while the overall defense sales from our customers has come down, I think we have grown by about 3% to 4% from the base year like what I have indicated earlier. But defense is a long term, but we are working every effort to make sure that 100% of our strategic partners of OEM, we are present there. That is what I would be able to tell at this point.

**Sagar Parekh:** So, you are saying that we have grown by 4% to 5% growth from?

**Muthukumar N:** Yes, in export we are growing, continue to grow.

**Sagar Parekh:** On export side? I was talking about defense?

**Muthukumar N:** Sorry, defense. You are right.

**Sagar Parekh:** So, defense you have grown by 4% to 5% CAGR over last three years...

**Muthukumar N:** 3% in the prior -- if you take as a base of 2019 or 2020, yes, we have grown.

**Sagar Parekh:** 3%. Okay. But we have been approved by for five products, so...

**Muthukumar N:** Yes. We continue to work with the customers and products getting approved. When it is going to convert the vehicle, when it is going to go, it is a million dollars question.

**Sagar Parekh:** Okay. So, it is only largely Ashok Leyland or any other OEMs also?

**Muthukumar N:** Yes, majority of Ashok Leyland, sir. The other customers we are working. But everybody has their own manufacturing and we are working.

**Sagar Parekh:** So, Ashok Leyland themselves would also be having their own captive for defense, capital Axel arm for defense or they largely procure from us or is there anyone else?

**Muthukumar N:** Can you repeat, sir?

**Sagar Parekh:** For Ashok Leyland, would we be the only sole supplier for Axels for their defense applications or would there be anyone else also?

**Muthukumar N:** I do not know about that. But whichever the product is approved, we are 100%. See, the Ashok Leyland has different verticals of vehicles like mining vehicle, anti-mine, anti—various application. In those applications where we are supplying, we are 100%. But there are lot of other defense programs that they have where we may not have a product which we are 100%. So, I am not able to answer you clearly about what is that. But whichever the product we are supplying, we are 100%.

**Sagar Parekh:** And what would be the contribution of defense as a percentage, ballpark?

**Muthukumar N:** We normally, maybe lesser, but you know, it comes with a huge development cost and validation and testing cost, I would say that. So, it is a long term -- this is an investment for the long term

for the organization which can definitely make the organization a better contribution in the days to come.

The government is also whatever the commitment that they have given, they are working towards it. Still, whatever the commitment is given by 2025, how much it is going to be procured is not happening, only 50% of that is done.

**Sagar Parekh:** Okay. And just, sorry, just last question on this Bharat Forge is talking about their defense business significantly going up, especially on, even on the vehicle side. So, there, would we be like supplying the axles to Bharat Forge or any color on that?

**Muthukumar N:** Bharat Forge is using majority of their vehicles for, with independent suspension and we don't have, we are making a rigid axles. We are not there.

**Sagar Parekh:** Okay. That is it from my side.

**Muthukumar N:** Nagaraj, we supply one or two axles or we are not there, right?

**Nagaraja G:** Pardon me, sir?

**Muthukumar N:** We are not there for selling to Bharat Forge from our plant, right?

**Nagaraja G:** No. Okay. Thank you.

**Sailesh Raja** Yes. Thank you, Nagaraj. Sir, we have one question in chat box from Sridhar from Axis Securities Limited. I just read out.

**Sridhar:** So, what are the factors that led to EBITDA margin expansion by 100 bps, Y-o-Y to 11.9%? And what is the management further doing to improve the margins? Also, any EBITDA margin target in the medium to long term? Shall be thankful if contribution to sales from top 2, top 3 customers in percentage could be shared?

**Muthukumar N:** Ranga?

**Ranganathan S:** No. I think I answered it before. We have a desire is definitely to improve the margin. As I said, as a volume growth, you definitely see the growth in the margin percentage is true. We are constrained to share a number, but definitely we have it as part of strategic initiatives. We have specific program called Mission 25 driving the cost lines and material performance. Systematically, we are doing it for the last five years. That is the reason we have a large amount of these initiatives. One way is mitigating the inflationary pressures, which is coming into the business, further contributing to the profitability.

But our desire is to earn as much as possible. We seek every opportunity when the new product has been launched. And as well as other conversion initiatives, we are taking it. Surely, we will improve the performance. As long with the volume increase, you definitely see a better performance in the overall bottom line.

**Muthukumar N:** Sailesh, I think that is enough.

**Sailesh Raja:** Due to time constraint, that was the last question for the day. So, any closing comments you would like to make?

**Muthukumar N:** Yes. Once again, thank you very much for all your confidence and continue to inspire us to grow. We will continue to put our efforts on product development. We will continue to put our efforts on making our plant the best plant to work with, with the new digitalization and new technologies to come. We will continue to invest on people to make sure that the differentiator between us and our competition is the people who work for the organization.

Technology and innovation continues to happen. And you have seen that we are number one in launching. I think Nagaraj talked about how many types of new technologies that we have launched. We will continue to work on this. We are looking for your support. All the feedback that you have given, we take it. And we will continue to work on this and to see that how we continue to make this organization more trusted organization for you to invest mostly.

With that, ladies and gentlemen, thanks for your time. Thank you very much. Thanks Ranga and Nagaraj and Panda for joining and then answering all the questions. Thanks Sailesh and team for organizing this wonderful session. Thank you very much. A great Diwali to everyone of you.