



“Automotive Axles Limited
Q4 FY2022 Earnings Conference Call”

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Moderator: Ladies and gentlemen good day and welcome to the Automotive Axles Limited Q4 FY2022 Earnings Conference Call hosted by Batlivala & Karani Securities India Private Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing ‘*’ then ‘0’ on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Sailesh Raja from Batlivala & Karani Securities India Private Limited. Thank you over to you Sir!

Sailesh Raja: Thank you Faizan. Good afternoon to all. On behalf of B&K Securities I would like to welcome you to the Automotive Axles Q4 FY2022 earnings call. From the management, side we will be hearing from Mr. Thimmaiah, MD and CEO, Meritor India, Dr. N Muthukumar, President & COO, Meritor India, Mr. Nagaraja, President and Whole Time Director, Automotive Axles and Mr. S Ranganathan, CFO, Automotive Axles. We will commence the opening remarks with Mr. Thimmaiah following which we have an interactive Q&A session. Over to you Sir!

Thimmaiah Napanda: Good afternoon. Thank you very much for joining our investor call today. We are very glad to take you through our quarter and the year how we ended. Before I just hand over the floor to my team members, I just want to have a quick introduction we have one new member today on the call. First time, he is joining so I will just go around and introduce my team.

We have Muthukumar; he is the Chief Operating Officer for the Group Meritor and Automotive Axles as a group. We have Nagaraja, as Sailesh was mentioning, he recently joined us as Whole-Time Director and President for Automotive Axles. He is not new to our company. He used to be in Meritor as an Engineering Head and then he was transferred to our headquarters in Michigan, Detroit. He spent around five years there as a foreign assignment, now he has come back and joined Automotive Axle as Whole Time Director and President and then we have of course, Ranganathan, the CFO for Automotive Axles. Now I let Muthu to take through the business, Ranga on the financials and Nagaraja on the operations slides please.

N Muthukumar: Good afternoon everyone. Thanks for joining for this Automotive Axles earning call. Thanks B&K Securities for organizing.

I am just going to give a snapshot of business and how we performed. Our FY2022 revenue stands at Rs.1495 Crores sale with an EBIT of Rs.138 Crores, 9.3% at the PBT of Rs.100 Crores 6.7%. We have manufacturing locations at four locations, Mysore, the mother plant where majority of the operations are happening just the information of everyone this plant is 40 year old and along a joint venture between Meritor and Kalyani.

We have facilities at Jamshedpur where we do the brakes manufacturing and the tag axle manufacturing for the customers predominantly to the Tata Motors. We have a facility at Pantnagar where we manufacture and assemble brakes predominantly for Ashok Leyland, Pantnagar plant and we have a facility at Hosur where we do the suspensions and value addition for Ashok Leyland plant.

You all know but just to remind you the equity share of this business, Meritor Incorporation at USA is at about 35.5% and Kalyani Group 35.5% and the rest is in the public. We have more than 2000 plus employees working for this business, transforming this mobility business in India and dedicated team which is working right from the new product development to execution of the project and serving the customers in India. We have all the major CV speciality and defense OEM for our customers we will talk about the subsequent slides. We have the products where we make axles brakes and suspension system.

In terms of the market position, we are number one axle as an independent manufacturer and number two in brakes. Just want to get an update to all of you on the COVID the companies have gone through all protocols in the last two years and more than 99% of our employees are vaccinated in both the dose and the boosted dose is being organized for the employees. We have zero active cases with this plant and some of the key initiatives that we are working is a continuous awareness campaign for sensitizing employees and their families on COVID appropriate behavior regulate communication by the leadership team to ensure that other inter protocols in the plant, outside the plant and in their home, shift to alternate working pattern to make sure that we follow the protocols, the continuous standardization throughout the plant in all these areas of course initiating disposable material for including the protocol ordering.

As you all know we have a diverse end market and our major customers include Ashok Leyland, Tata, Mahindra, Daimler, Volvo Eicher commercials, we supply to Bharat Forge for the defense, we supply to Volvo currently UD trucks, Caterpillar for the specialty axle, we also supply to VFJ facilities at Jabalpur for the defense and we do a new business with Bamel Godrej and Cargotec, so these are companies continued to focus not only on commercial vehicle business but also penetrating into defense, off highway, construction business and competent business.

Meritor and Automotive Axles the most comprehensive axles and brakes offering right from, we call it as a 10x axle which about from 6-ton to about 55-ton truck we are supplying to both coaches. Meritor had a product variety to that level that means each and every category of the commercial vehicle business we offer a solution for customers and not only in axle but also in brakes and that is what is appreciating my customers and we continue to grow with them. We are presenting light, medium, heavy and extra heavy and

the companies also continue to innovate the product continue to introduce new products which is catering to the various customer demands.

The BS-VI launch has been one of the successful for your company and we have launched almost all the models which have been running successfully well. With that I will hand over to Mr. Nagaraja for running the next two slides.

Nagaraja Gargeshwari: Good afternoon. As you can see Automotive Axles has a full-fledged axle assembly plant where we have already implemented a robotic paint shop and then our complete NX line has been equipped with industry 4.0, all the information with respect to the power traceability, sub-assembly and the customer product information is captured as a part of this MIS. So we have been working towards aligning ourselves to make the whole operation digital while we have just started now a couple of lines have been already completed our target is by end of this year this whole transformation is going to be completed. From the technology perspective, again this is as a part of enhancing the digital manufacturing or industry 4.0 all our processes whether it is welding, machining, gear or assembly every step and every process, we are capturing all the required information, significant and critical parameters, this will enable us to deliver to our customers the best in class products.

N Muthukumar: You have completed that slide on technology?

Nagaraja Gargeshwari: Yes.

N Muthukumar: Thank you Nagaraja for highlighting the focus areas in operations and adapting to industry 4.0. Ladies and gentlemen, the company is the key action that we continue to focus to make sure that our business successfully. We work on business growth strategy to get into the new business event and continue to work on expanding our share of business with all the OEM, the product development, the team is doing an excellent job in terms of launching four different platforms last year to ensure that we are competitive and reliable in the market. We are driving the e-mobility business and that is going to be one of the core business in the days to come like Mr. Nagaraja explained digital and implementation of industry 4.0 one of the key initiatives, we are taking to make sure that the business continues to grow and we are geared up the capacity seeing the market and to make sure that the increasing demand when it is going to come, we cater all the customers at the right time with the right quoting.

N Muthukumar: We continue to work on cost measures to be competitive, the cost deduction measures on organization pillar, a significant savings expected through mission 2022 timeframe and further cost measures on place in terms of conversion, material, manpower cost control. The company continues to follow safety protocol, a vaccination drive and of course ESG drive and implementation progress.

Ladies and gentlemen we just wanted to touch base with you and update you on the various actions that the company is taking on sustainability lounge. We have a clear roadmap that we have shared with from the current level, how we are going to become an excellent sustainability by achieving ISO 26000 for CSR assurance, projects for systems in all the initiatives. Some of the key initiatives that our team has done we would become carbon neutral by 2027 and we are also working on achieving the billing excellent award. I will just take the next slide to show you on the sustainability index. At this point of time your company uses about 30% of the power from a sustainable, renewable measure but we have an aspiration of taking our organization in the next four years to take up to 80% of the total power consumption by green energy. While your country companies continue to work on making the energy source from the renewable energy very constant focus on reducing the power consumption by per axle converting the LPG to pure natural gas, these are the initiatives we are taking to make sure that our organization carbon emissions continues to be there. In terms of the groundwater level, the company is a zero discharge plant and continues to work on harvesting water and usage of recycled water for 100% of the process with various recycled ponds in the company, the groundwater level continues to grow and we keep a track to make sure that we turn positive. As a part of the sustainable manufacturing we are focusing on each every element of carbon emission that is happening whether it is an incoming material, transportation, carbon emission or outgoing or the employee and there has been a clear indicator for us to work on how we improve upon our sustainability. As we indicated earlier digitalization is key to take our organization to a paperless and thereby continue to work in the sustainable way. The company works on social connect through CSR projects continuously working on environment road safety, education to under privilege and creating the talent for healthcare facility infrastructure in the local area to ensure at the launch. As a part of the corporate government, the company continues to work on reducing the attrition rate improving the gender equality ratio and working on employee engagement core. One of the key initiatives that we have taken is to engage the people more and more to make sure that your organization is very, very sustainable going forward and competitive. With that ladies and gentlemen I am requesting Mr. Ranganathan, CFO to talk on the financials.

S Ranganathan:

Thank you Muthu. Good afternoon to all. The financial performance for this quarter we have about Rs.552 Crores as compared to Rs.426 Crores the same quarter last year. The revenue growth is closed to about 30%, as far as EBITDA is concerned we did about close to 11.3% as compared to 10.8% last year the same quarter. In terms of absolute values the EBITDA is closed to about Rs.625 Crores compared to Rs.459 Crores closed to about 36% growth in the EBITDA absolute values. As far as PBIT is concerned we did about 9.3% as compared to 8.5% in absolute value increase about 42%. As far as the full year performance is concerned, overall revenue for this year 2021 and 2022 it stands at Rs.1495 Crores as compared to Rs.912 Crores in the last financial year. All of you know 2021 was a COVID year so the first six months performance was very average so this year we were able to have

the full year normal performance so that is one of the reason that only has gone up by 64% and plus of the market in the last quarter. EBITDA is for the whole year is about Rs.138 Crores compared to Rs.72 Crores last year that is about 9.3% versus 7.9% last year. PBIT is concerned we closed this whole financial year at 6.7% as compared to 3.3% last year so this is the overall summary of the financial results.

N Muthukumar:

Thank you Ranga for presenting the financial performance while the financial performance I am sure that we would have meet or even exceeded the expectation your company continues to focus on the growth through the mission 25 strategy. I remember a year before Mr. Thimmaiah presented to all of you on how we have a very clear strategy to take it our penetration of the commercial vehicle in line with the market and we continue to keep growing. We have given you again the market volume what we are expecting for the coming year that market conditions is very, very tough while commercial ratio continues to grow, there are lots of uncertainties in line with what is happening in the Ukraine war, in terms of the interest cost, but our customers when we spoke to them they are all upbeat about because after a last three years of dull in the commercial vehicle in the industry is trying to get back, so our projections is given and you can always assure that your company will continue to focus and outgrow the market strategy. As we indicated earlier our mission focus continues to be on enhancing our revenue, enhancing profitability, the new businessman to make sure that we continuously working on this operations excellence which Mr. Nagaraj talked about and of course creating the value for customers. At this point of time on our target submission 25 your company is on track. You all know that your organization continues to focus on innovation, continue to focus on customers and we believe very strongly and we value that our employees are working. The company continuously engages the employment engagement, employee engagement initiative which is one of the key for our success whether it is giving a functional training of technical finance or celebrating for festivals or giving them the confidence post COVID on emotional your company continues to work with the employees to see that they are highly engaged employees which is really a success factor for us. Rewards and recognition for the employees with the key and you can see the various initiatives of an organization which makes our employees feel that they are part of the family and making this organization to take it to our mission 2020 objectives. With that ladies and gentlemen I will hand it out back to Mr. Thimmaiah for his closing comments and open up for questions. Over to you Mr. Thimmaiah!

Thimmaiah Napanda:

Thank you my team. I think you can see that in the last quarter and the full year with this pandemic and also it is not a great time compared to overall automobile. Our team has performed exceptionally well I would say and we see a momentum from now onwards the market is very good, the demand outlook is very good, we see this momentum continue to pick up unless there is some major problem happens which is outside of our control,

commodity, war, COVID I think we are in a very good path to see, our performance probably of this year. With that I will open up for the questions queue.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Pritesh Chheda from Lucky Investment Managers. Please go ahead.

Pritesh Chheda: Thank you for the opportunity. Sir wanted to understand this 30% growth that we see in the quarter and 65% that we see a growth in the full year. Is it possible to know what would be the volume growth for us?

Thimmaiah Napanda: Muthu, you want to answer that please?

N Muthukumar: When compared to the last year in terms of the overall, we are just giving it in terms of the financial growth which Mr. Ranga explained because there are different axles and different prices, but on an average the industry last year the commercial vehicle industry had grown by 28% and we are also seeing that the year that is going to come we have a good outlook at this point of time and the April started very well for all of you and information in general, so we believe that this year also is going to be about 28 million to 30 million.

Pritesh Chheda: In terms of the volume wise if you can give overall reference in terms of the axle how much compared to the previous quarter probably I will just give you a rough number you do not drop? Let us I am put it this way, in the 65% growth that we had and let us say CV industry volume growth was 28%, what would be the indicated volume growth for us?

Thimmaiah Napanda: Maybe around 35% to 40%.

Pritesh Chheda: Okay and the capacity utilization that we would have at the end of Q4 because obviously Q4 is a much higher number, the capacity utilization that we would have in Q4 would be what?

Thimmaiah Napanda: It would be still at around 75% level.

Pritesh Chheda: This will be three shifts put together or some calculation otherwise?

Thimmaiah Napanda: No, we operate some of the areas three shifts, because of the cost actions likely treatment etc, but some are two shifts, but overall capacity when we calculate it is likely majority of them will operate three shift basis, so if I like to like comparison if I do we are still at around last quarter for example we did around Rs.550 Crores that was at around 75% capacity utilization I would say.

Pritesh Chheda: And I just have two follow up Sir, Ashok Leyland what would be your dependent or let us say Ashok Leyland what should be the contribution indicative to our revenue and we had a certain margin target which we were sharing in the previous presentation where are we on that progress on margin?

Thimmaiah Napanda: The customer wise share of business or our wallet share we do not disclose those data and in terms of the margin expectation I think we are pretty much like that I am not talking about the full year percentage still there is a way to go because EBITDA if you see that we are still at around 11.3% and if you all know that in the good year 2018-2019, we have crossed 12%, so that is going to be our target to at least surpass best ever performance in 2018-2019 but quarterly if you see last quarter I think we had a really good, in a full year EBITDA 9.3% and last quarter is 11.3% right, so we still have a little bit of room to improve.

Pritesh Chheda: Thank you Sir.

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

Viraj: Thanks for the opportunity and congratulations for good set of numbers into the challenging environment. My question was broadly on two parts. One is if I have to understand the mission 25 and much more better and you know effort which is interesting, if you give some color one in the sense that if you look at the axles or brakes how would our market share change in last one year because there is also a certain amount of capex things which happen from Tata Motors so just trying to understand how would have that changes in last one year across in these two categories and any aspiration we would have by 2025 that we have a certain market share target and what will drive that and similarly on the cost part how would our break even position really behave given that we have initiated a lot in automation and other operational excellence initiatives, so how would that change so that is one?

Thimmaiah Napanda: In terms of the market share only thing I can tell you is this is what every investor call we get this question and we answer in the similar way sorry for that now we do not disclose that actual market share because of the complexities it has because a lot of OEMs make their own axles front, they do some contract manufacturing and some they buy so we do not do the brakes, market share specific to the customer and overall market to the outsiders, but coming back to the cost actions but one thing I can tell you is our market share is on an improving trend that is mainly because if you have seen our previous presentations we are doing a lot of new product introduction, we are getting into new segments those are all contributing into our market share increments. In terms of cost actions I would like to Muthu answer those two questions.

N Muthukumar: In terms of cost actions I wanted to tell you the background of this. I am sure that most of you are aware the commodity prices have gone very high and your company has been at least at this point of time cut customers but unless we improve within all other areas like conversion in terms of fixed cost you cannot continue like what presented by Ranga, our mission 25 objectives on cost reduction is one of the key area under your company in the last quarter if you see we have improved our performance in both variable fixed cost which is what led to this, so while we have an increased commodity on one side which is impacting or profitability because of the date impact and other side we continue to work on cost reduction. For example some of the areas I am sure that Nagaraj touched upon the digitalization of the plant is making us to see that how we can reduce the white color people, how we reduce our blue color people thereby increasing the productivity of the people, the same way the various cost reduction initiatives that those things indicate that our team has done continues to focus on reducing the power cost, reducing the space and working on. At this point of time last quarter the team has been an excellent performance which you have seen in the financial group, hope I answered your question.

Viraj: I understand there is a commodity inflation and difficult to understand the efforts we are taking, the breakeven point, how would that change in the last one year or last two, three years, so that is one and market share increase which you talked about from new products is that largely, in the captive part the same so overall pie is increasing and our share and that increasing or the captive share is largely the same and then whatever new product launches we are seeing is within the existing offering itself so that is one and globally there is an acquisition that has happened at the parent level comments has acquired Meritor and post that we kind of seen any integration in terms of either on the sales and marketing sites given that they have more strong on CV and off-road segment or in terms of the supply chain part, any color you can give on that side as well. Thank you.

N Muthukumar: Too many questions. I will answer the first two questions and last question I leave it Thimmaiah on acquisition. First is on the breakeven point, we have expanded the capacity in the year 2019 continues on focus, one of the questions that you were asked is what is your utilization, my answer is our utilization about 70% to 75% but you can still see what is the topline revenue that we got and the utilization what is the plant which indirectly indicates that how we have improved our breakeven point. I leave it to you your judgment at that point of time. The second question what you asked was yes, our realization for axle we have improved because we have introduced a lot of new products which have improved the reliability and thereby we are trying to get a more realization for axle that that is what is the growth in the topline growth that is happening. I think one of the questions asked what is the volume growth and value growth. You could have clearly seen that our value growth was more than the volume growth which is basically coming because of the value addition and the reliability improvement product that we make which is bringing more realization to that. With those two of our first two questions of you. I hand over to Mr. Thimmaiah for

talking about the acquisition and its impact to an Indian business. Over to you Mr. Thimmaiah!

Thimmaiah Napanda: Most of you have gone through the announcements by Cummins and also their investor presentation globally etc I think this acquisition from Cummins perspective as we understand they fixed very well in their overall strategy of providing the complete power training solutions, so they are very upbeat about acquiring Meritor globally and they are very happy about it that is number one. The number two is this entire business is add-on to them which means that they do not make any of our kind of products to really optimize and integrate but it comes as a new product vertical for them so this is going to enhance the overall value for Cummins and also coming back from Meritor perspective it is extremely good acquisition I would say because we are investing as a Meritor stocking, their investing in electrification and future of free mobility etc, so with the resources and financial power Cummins as that investment can go multi-fold and we can go faster into the market that said from Automotive Axle perspective at this point of time we do not see any changes going to happen other than just the part ownership going to be changed from Meritor to Cummins.

Thimmaiah Napanda: And as of now still Cummins and Meritor are going through the shareholders approval process, they are going through the regulatory approval process and we are not talking to each other at this point of time, so we do not know at this point of time the overall how the integration is going to happen, what they are going to, how the alignment is going to happen, once the regulatory approvals are happen then we will start talking to each other then probably by next investor meet we should be able to give more insight.

Moderator: Thank you. The next question is from the line of Sanjay Shah from KSA Securities. Please go ahead.

Sanjay Shah: Good afternoon gentlemen and sincerely appreciate the whole team present to explain and help us to understand the company in detail. It was nice explaining about the mission 25 focus of our company but I would like in this perspective and the growth what we see current year also and it has been endorsed by Tata Motors, Ashok Leyland also on the MHCV and US demand coming in. Now we are working at 75% utilization so what the company's program ahead to enhance the capacity here on and it is coming into a different league in next quarter?

Thimmaiah Napanda: At this point of time we do not plan to add any additional capacity in general, yes of course we will continue to invest into optimization, automation and those kind of activity. As we said we are still at around 70%, 75% utilization with continuous improvement our capacity will always keep up because of the productivity etc, so we do not see a need to increase capacity at least for next three to four years, why we are paying is by 2018-2019 was a peak and MHCV segment from 7.5 tonnes and above was around 480000 unit and last year we

ended up with around by 330000 unit or something like that right so still there is a huge headroom available to go into that peak maybe this year the overall industry might touch 380, 390 level still a long way to go to meet the 2018-2019 level and capacity enhancement what we have done I do not see any reason why we need an increased capacity for at least next three, four years.

Sanjay Shah: Okay, can you highlight upon addition of any new customers this year and coming ahead and even new products introduced?

N Muthukumar: Thank you Sir. In terms of new customer like the top commercial vehicle guys we are working, but your company is also continuously working with lot of new players that were supposed to come. There are about more than 10 players who come into electric vehicles manufacturing at least in the plan and we are working in every of this company and we have securing business to make sure that our axles are used in those vehicles. In terms of the products like what we presented we launched four platforms in the days to come like 16i, 160 O, I think these are the product numbers but which has a very, very clear technical application to ensure the reliability of the product with us and different vehicle segments are coming and slice and to be a competitive we continue to work on this. For your information the products that we launched with the largest axle in India for the 55 tonnes vehicles have been a grand success and doing very well, the tipper segment is what we produced and launched maybe this last few quarters it has been in the transition stage now, still it has not completely done, it has been performing excellently well. Your company also continues to work on focusing on the ICV segment which is growing up by introducing the product specifically for buses with quite right and the latest addition to that is our axle of ICV or bus axles which is going with quite wide and is very well accepted by the customers are going, so the team is continuously working on with all the OEM to make sure not only the traditional OEM but also with the new platform OEM, we do not know who is going to come, but we are working with most of the people who win the business with these segments.

Sanjay Shah: I sincerely appreciate your understanding and being you as a technocrat and I am not too averse of that but what I understand is that what we are talking is of a good growth coming into Indian economy and where we are also optimistic about I am sure and number two that still there is lot of penetration to be happening MHCV side, bus segment and new e-vehicles and all, so do not you think that by the time we exhaust the full capacity we need to have some plan in place to announce that to our higher levels from here?

N Muthukumar: I completely agree with you that is what I think we are trying to explain. This year means FY2022-203 we are expecting the market to be at around MHCV 380000 units all the growth what we are talking about what you are talking about that will amount to 380000, 390000 only because last year it was around 320000, 330000 so even if you say 25%

growth it will go up to around 380000, 390000, so we have capacity and then again another two years for 20% growth also if you take 20%, 25% the market will go to around 500000 levels only by in another three year down the line and as we said we can handle, we have the capacity even with the market close to around 500000 levels which is last year it is 330000 level. I think you are absolutely right that the market is growing, but you should also see that the base is really low compared to what the peak commercial vehicle markets in 2018-2019.

Sanjay Shah: Is any new business means I am sorry if I missed out that.

N Muthukumar: Let us say we spoke about this I just told you about the new bus axle business that we got it is a quite right for an application in the bus segment mainly tool bus segment, the largest axle which I told for 55 tonnes tractor trailer with an OEM and it is used for this so we continue to win the business. We have about six platforms of axle that we have and also in the brakes we got the new business and that is the primary reason why you are seeing that the value growth is going ahead much higher than what the actual volume growth is happening in the market.

Thimmaiah Napanda: We have even started getting business from Tata group because they have their in-house or axle and they were supposed to outsource from outside.

N Muthukumar: Sir, we are as indicated earlier in many meetings we supply brakes through in Tata and in respect of the axle because they have enough capacity with them they use as a layered capacity and they use it for specific applications like some of the bus axles, they are getting from us because Meritor is well appreciated in the end customers for its reliability, so we are supplying some axle, but the rest of the axles, they have their own capacity we know it is capacity and that is the reason like what Mr. Thimmaiah earlier indicated the company is always fighting with many of the OEMs has their own axle manufacturing we have to work around on that and innovate the products always to make sure that we are able to penetrate with them.

Sanjay Shah: Great Sir, really helpful. Thank you very much Sir and wish you good luck to you.

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

Abhishek Shah: Thank you for the opportunity. Obviously if you are in line with what everyone has been saying has been a commendable job done by the team. The first question I want to ask is if I just compare what we did back in 2018 that was about Rs.1500 Crores a turnover is pretty much around that point and that time the market was at least 30%, 35% higher than what we are right now so just want to understand of this how much do you think would be gaining

market share and what would be volume growth maybe even qualitatively if you explain I would appreciate that?

N Muthukumar: I think exactly you raise the point when the market is left by 30% we could still be able to achieve the value that is because of the penetration of our share or introducing the value-added products both has really helped us in increasing of course there is a commodity increase to a little extent is also there, but the two major initiatives are penetrating into the customer by increasing the share of business and also introducing a product where the realization more these are the two that came in handy for us to achieve more growth. You are right the market is at 25% lower than the peak or 30 %lower than the peak still we are able to achieve the same value.

Abhishek Shah: Second is on the strategy side when we spoke even in the past few quarters you mentioned that besides the existing axle and brakes business we have, we are focusing on new products, defense was also something that you were considering and was exports so of these three new relatively smaller areas, is there anything, can you tell us at which stage in their life cycle are we at the product development, where is pay defense and maybe on exports?

N Muthukumar: Thank you for the question. In terms of defense, there are about 11 platforms that we have worked in the last four years and the defense spending is again what government has committed still it does not achieve the full value because of various issues, because of COVID and all but the rest assured that your company is present in all the programs that we have and we will start getting into that business and defense is a long term gain and I think they are securing the business at this point of time with what our company is focusing and the real fruit of it is going to come when really I am sure that in Aatmanirbhar program, the government is committing that more than 60% of the purchase **(inaudible) 41:35**. Your company has a product in terms of the every segment both for tactical and also transportation and logistics vehicles, so we will continue to focus on that. In terms of the exports we continue to work Mr. Thimmaiah explained last time on the challenges that we have in terms of export. The exports today with a huge shipment cost that is happening, all of you know that it has gone up for five to six times, we continue to do lot more to do our become competitive at this point of time but we are continuously pursuing and working on improving our export business to us. We have a very clear aspiration for that and we continue to work for the business. The same thing is happening with other segments of business like suspensions and all and you will come to here because when the new products are getting introduced particularly again of the market it is taking little more time but these are the long term investments that we are doing which will definitely make us our organizations much, much stronger.

Abhishek Shah: Is there an internal target maybe say mission 25 percentage maybe one third of turnover should come from this or any number that just to number ballpark whatever if you can give or some idea?

N Muthukumar: Like what Mr. Thimmaiah indicated earlier normally we do not disclose the segment twice axles on this but you can rest assured that the commercial vehicle cycle which is going up and down which is having a huge impact to all our business, we are trying to be respected by getting into this business I think that is a general statement that I can give you but rest issues with organizations working on to make sure that you could have seen the commercial vehicle segment how much it has gone our drop is not to that level that itself indicated that much of new business in different verticals are coming into the business. I am not able to answer you the detail because...

Abhishek Shah: I appreciate it. Just one more question right now if we see majority of the areas that cost and quarter reflects have shot up across the industry raw material prices have shot up, there are supply chain constraints in such a situation we have been able to come up with good margins otherwise historically any company would see a drastic fall in margins in the product basket, I am just trying to understand the industry dynamics is there a situation where competition has come down significantly at industry level or you know if I am missing out on any point if you can highlight?

N Muthukumar: There are companies like us tier-1 which is applying to OEM on one side commodity increase, we are getting a huge pressure from both the side, the customer is not able to pass on the money today end customers whereas the suppliers are not able to hold the price and the price is going up, the only assurance at this point of time what I can give it to you and what we have done you could have seen the performance with how much we are doing a back to back with the OEM to see the impact for your company is not there. I think that is the area we have succeeded and if you see whether the competition is not active, no every competition will be active, the only thing is Meritor has been proactive in making sure that we have a reliable product, we have an upgraded product that is available to ensure with the customers have to I would not say use the word depend on it but customer is passionate to make sure that they continue to use Meritor axles which is really helping us.

Abhishek Shah: Sorry, just one the previous participant asked a question on capacity utilization, Mr. Thimmaiah also mentioned that at 500000 units of volumes in that industry level we would still be able to supply and that is why we are not immediately looking at adding any capacity just trying to understand this I think was the number 600000 back in 2018-2019 when we added a significant chunk of capacity or what is the maximum the industry can get so that we can before we have to add your capacity, is it 500000 or 600000?

N Muthukumar: No that was 480000 was the piece in the market 2018-2019.

- Abhishek Shah:** Right, so till then we are okay we have enough capacity?
- N Muthukumar:** Yes.
- Abhishek Shah:** At that level we reach peak utilization?
- N Muthukumar:** You may not be really sure because that is what I think Thimmaiah last time explained. The company is also continuously working on, it is not the capacity what we are created 2018 continues to be there. The digitalization efforts and the automation efforts what Nagaraj presented to you a little ahead of the technology advancement will may continue to increase our capacity and that is what is the focus that we are all working and seeing that we are ahead just we are continuously tracking the OEM demand, how it is going and at the right time your organization will take a decision to invest on the balancing capacity or focus on the area to make sure that we continuously deliver to the customer.
- Abhishek Shah:** Understood. That is all Sir. Thank you so much for answering all the questions.
- Moderator:** Thank you. The next question is from the line of Sanjay Shah from KSA Securities. Please go ahead.
- Sanjay Shah:** Thanks for opportunity Sir. My question was to Mr. Muthukumar. Have we started getting any orders from LCV, ICV segment and how big this segment could be in next three, four years, can you expect it to cross 100 Crores as Ashok Leyland and Ashok Leyland is adding new capacities into CNG, CV products and they have launched two new models in CV14 tonne also, so do we expect business from that Sir?
- N Muthukumar:** we are already presenting in two platforms for the ICV segment and the LCV segment, we are not migrated to vehicle at this point of time and in those segments yes, we are working to your specific question whether we will get into the 100 Crores at this point of time. As I said we do not specifically but we have our own target on the LCV and at this point of time we are on track to meet the product not only with Ashok Leyland Sir, but also with Mahindra and their ICV we have launched the product which is running very well today.
- Sanjay Shah:** Regarding our margins our cost structure is always a low and where we see that we can expand the margin from here, what are the initiatives we have taken into margin from here?
- N Muthukumar:** The entire mission 23 objective starts with that continues to focus on reducing the material cost, we do the product innovation, we do the new design, we improve the reliability thereby, the cost of product material cost comes down. We continue to focus on manufacturing efficiency to ensure that our conversion and fixed cost efficiencies go that these are the three and our team when I say manufacturing efficiency team continuously work with suppliers, continuously working on value engineering of the product that is the

reason, so we continue to focus on all the areas in terms of material, in terms of conversion and in terms of the conversion efficiency and our productivity of the future all these put together in all the verticals we are working whether it is other cost, the travel cost, how much communication cost in every aspect of the company has life. I think Mr. Ranganathan presented by two quarters before on the various initiatives even transportation costs how we can do in every area of this, the company is focusing on cost production.

- Sanjay Shah:** It helps us to bring out a variable cost down.
- N Muthukumar:** Yes, you could have seen that our variable cost how it has come down over a period of last two to three years, excellent amount of initiatives have been done by the plan to bring it down continuously.
- Sanjay Shah:** My last question was regarding export, what is our percentage of sales in the export volume and currently how much percentage volume comes from non-Meritor?
- N Muthukumar:** As we indicated we do not give vertical wise values at this point of time and if you say non-Meritor business we supply it to UD, Thailand which was the earlier Volvo and those are the business that we are doing.
- Moderator:** Thank you. The next question is from the line of Krishna Kukreja from Lucky Investment Managers. Please go ahead.
- Krishna Kukreja:** Good afternoon. Congratulations on a great set of numbers. I had two questions Sir. We spoke about the volume versus value growth I just wanted to get a sense of how both of these have compared over the last couple of years and if the value growth has surpassed the volume growth or vice versa and secondly if you could give us some guidance on the revenue growth so what do you see it being in FY2023 and 2024 going ahead that would be amazing?
- N Muthukumar:** The value growth and volume growth Thimmaiah has already explained while the volume growth is about 27%, 28% in terms of value growth it gets gone more because of the higher realization of the product we explained to you. In terms of the next three revenue growth if you see that the slides at what we have given. We always say that we outgrow, we are projecting 380000 vehicles at M&HCV segment in line with that our growth will be there, but at this point of time because the industry volume is up and down we are going to commit any values for it, but we will be outgoing the market.
- Krishna Kukreja:** Thank you Sir.
- Moderator:** Thank you. The next question is from the line of Devansh Nigotia from SIMPL. Please go ahead.

- Devansh Nigotia:** Thanks for the opportunity. I just wanted to understand our pricing with the OEMs roughly exhausted margins have been stable despite volatility in the steel prices over last six years, so is our pricing based on a per unit basis or if it is on a percentage basis or a markup to the raw material?
- N Muthukumar:** No companies use at least in the commercial vehicle business, they markup on raw material cost I am sure that you all understand that and the markup on raw material cost has to be done only by the internal improvements. At this point in time OEM compensates only to be even not fully the raw material. The company continues to work on improving the product, value engineer the product, working with the sourcing our strategic suppliers to ensure that our cost is coming down and focus on conversion efficiency to see that we offset the rest of the cost. It is a challenging I think the way in which commodity has gone up never gone up in the last 30 years I am sure that most of you know the steel prices have gone up and that is what is really putting a lot of stress into the entire system and many suppliers who are there before COVID is not there today. The supply chain is that every company is going through a revamping of supply chain and our company is also doing the same thing to see that how we can gear up for the next wave of higher numbers that is going to come.
- Devansh Nigotia:** Because if you look at this quarter's gross margin material cost is around 72% and if you look at the same number three, four years back used to be around 70% and steel prices are at significantly higher level so I am just trying to understand is this from the wastage control that all the efficiencies have come in or what exactly we have done?
- N Muthukumar:** Of course our competition has come down, our yield has come down, but still if you see like indicated earlier the compensation is done only for the material cost level so every time when the commodity increase is there this percentage will go up even though not the actual of the cost I think these are the things that is impacting the percentage.
- Thimmaiah Napanda:** Just to add to what Muthu said we have been in M&HCV segment quite long and we have been working very closely with the market and with our customers. We need to succeed in the market, we need to have a very close watch on the market, what is happening in the commodity, a lot of procurement efficiency will bring in to ensure that these sharp prices are mitigated that is purely as part of M25 strategies and internal procurement strategies this is also adding value to the whole process.
- Devansh Nigotia:** And if you can just elaborate on our strategy for exports, what is the target geographical area to be highlighted or an existing customer in Thailand, Indonesia, but what is the bigger picture over here that you are looking at?
- N Muthukumar:** We continuously export, do not look at our direct export, see for example whatever the export that is happening like what we said to UD trucks to Thailand or we supply to them Daimler export, 100% of Ashok Leyland export, Meritor axle, these are the areas also we

are doing. We are not going to the directories of OEM, but whatever they export from India, Meritor asked the brand because of that we are able to fill it out, but if you ask me target region wise while we have an internal target which we are working for North America, South America, Europe and APAC region but it is very, very difficult for us to sell it out at this point of time.

Devansh Nigotia: Okay, so basically these are axle supplied domestically and the OEMs are exporting their vehicles?

N Muthukumar: Because you ask for Indonesian market whatever the axle that we supplied by them and the tipper axle plus our product in this, the buses that goes out of a Ashok Leyland for export as our axle.

Devansh Nigotia: Okay.

N Muthukumar: You have to get it to them and then get it done and also on the commodity when you ask it is the right time that when the market is at a highly volatile and we think we work very closely with the customers and make sure that we build confidence to them so that tomorrow we will have a very strong relationship with make an Indian partnership with them, so it is very easy to go and get the commodity prices at this time or push it but at least we want to be a partner with them to make them to win so with our business grows along with the customer. Everyone needs to support each other in this tough situation to see that at the end of the day the overall Indian business goes up and customers get benefited.

Devansh Nigotia: Thanks a lot Sir.

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

Shashank Kanodia: Good afternoon Sir. Firstly just I am a bit curious to know because of this global transaction when coming securing minor stake would not that trigger an open up for the Indian entity?

N Muthukumar: Might be at this moment of time as Thimmaiah already mentioned the regulatory process, the legal process are going on currently. What is going to happen, how things are going to shape up, so at this moment of time whatever the procedure we followed as per the steady or any other guidelines that would be followed so time being we have no idea and we wanted to keep aside for answering this question for time being until a proper dialogue or discussions happening between the two entities in India.

Shashank Kanodia: My understanding was that it is a part of indirect acquisition, so was the expectation that some sort of initial loading separated by the new promoters of Automotive Axle part?

- N Muthukumar:** We might have a little bit of patience until the cow comes home so let us wait for one more quarter and let us see the details.
- Shashank Kanodia:** Okay and second, you have been an advocator of the eAxle as a product so could you please specify have you started supplying eAxle to any of the Indian OEMs who are supplying buses in the electric segment?
- N Muthukumar:** Not yet, we are in discussion with many customers, we are not supplied anything yet.
- Shashank Kanodia:** Thank you so much. That is all from my side.
- Moderator:** Thank you. The next question is from the line of Aryn Pirani from J.P. Morgan. Please go ahead.
- Aryn Pirani:** Sorry for repeating this question because I joined a bit late, you mentioned in your presentation that you have been increasing the share of renewable sources for your energy and you also have a captive solar so out of the 55% in FY2022 can you give a breakup of how much is coming from solar and other sources?
- N Muthukumar:** If you see our representation within FY2020 to FY2022 our consumption also have gone up. At this point of time we are about 30% to 35% which is a renewable energy which is coming from solar. On top of this we get about 3% to 4% of the hydel power which is not a continuous model, but depending on the monsoon, but however our company is working on adding up more facilities for solar with the partnership confirmed and we will ensure that we increase this consumption of solar to about 70% to 75% in the years to come by 2025 or 2028, but at this point that we also know that we have a wind power which is getting us about 7% of the power consumption so all these things are working.
- Aryn Pirani:** The reason I am asking this question is because obviously in the near term there is a lot of concern around thermal power and grid power, are you facing any downtime in terms of production because of that and how does that change because I am assuming that power is a significant input in your production process, how does that change and are you having to use backup power like diesel gen-sets and all that?
- N Muthukumar:** The power requirement is very, very huge for our organization because continuous printing exists, we do not have a 100% power backup, but we have a dedicated line of nerve it is a 66 kVA line for our plants like a high consumption line so that normally we do not get impacted because of the power cuts that have been improved but as a country yes our exposure to thermal power is more, but at this point of time the places where we are working in Karnataka, the government is proactive and trying to see that we do not have that much of impact at this point of time.

- Amyr Pirani:** Thanks for the response. I will come back in the queue.
- 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.
- Sailesh Raja:** Thank you all for attending this session. We especially thank the Automotive Axles team for their time. Thimmaiah Sir, any closing comment you would like to make.
- Thimmaiah Napanda:** No, nothing more from my side. Thank you very much for the continued support and we hope you will continue to perform to your expectations. 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.