Sundram Fasteners Limited

Email: investorshelpdesk@sfl.co.in

REGISTERED & CORPORATE OFFICE
98-A, VII FLOOR
DR. RADHAKRISHNAN SALAI,
MYLAPORE, CHENNAI - 600 004, INDIA
TELEPHONE : +91 - 44 - 28478500
PAN : AAACS8779D
CIN : L35999TN1962PLC004943
WEBSITE : www.sundram.com

August 8, 2023

National Stock Exchange of India Limited
Symbol - SUNDRMFAST
Exchange Plaza, 5th Floor,
Plot No. C/1, G Block, Bandra-Kurla Complex
Bandra (East), Mumbai - 400 051

By NEAPS

BSE Limited
Scrip Code - 500403
Phiroze Jeejeebhoy Towers
Dalal Street,
Mumbai - 400 001

By Listing Centre

Dear Sir / Madam,

Sub: Disclosure under Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015-Transcript of Analyst/Investor Meet held on August 4, 2023

Further to our letters dated July 31, 2023 and August 4, 2023 on the subject, please find attached the transcript of the Analyst/Investor meet held on **August 4, 2023 (Friday)** for your information and records.

The transcript is also available on the Company's website at https://www.sundram.com/recentupdate.php

Please take the above information on record.

Thanking you,

Yours truly,
For SUNDRAM FASTENERS LIMITED

GOPALAKRISHNAN ANAND BABU
Digitally signed by GOPALAKRISHNAN ANAND BABU
Date: 2023.08.08 12:18:32 +05'30'

G Anand Babu
Senior Manager – Finance & Company Secretary

"Sundram Fasteners Limited Q1 FY-24 Earnings Conference Call"

August 04, 2023

MANAGEMENT:	**MR. R. DILIP KUMAR – CHIEF FINANCIAL OFFICER, SUNDRAM FASTENERS LIMITED** **MR. C. RAJAGOPALAN, EXECUTIVE VICE PRESIDENT (MARKETING)** **MR. R. GANESH, SENIOR GENERAL MANAGER (FINANCE)**
MODERATOR:	**MR. JAY KALE – ELARA SECURITIES PRIVATE LIMITED**

Moderator: Good morning, ladies and gentlemen. Welcome to the Sundram Fasteners Limited Q1 FY '24 Earnings Conference Call hosted by Elara Securities Private Limited.

As a reminder, all participants' 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. Jay Kale from Elara Securities Private Limited. Thank you, and over to you, sir.

Jay Kale: Good morning everyone. Thank you for joining the Sundram Fasteners' Conference Call. We welcome you to the post result Q1 FY '24 Conference Call of Sundram Fasteners.

We have with us today from the management, Mr. R. Dilip Kumar, Chief Financial Officer; Mr. C. Rajagopalan, Executive Vice President (Marketing) and MR. R. Ganesh, Senior General Manager (Finance). Thank you team for giving us the opportunity and I hand it over to you to give your opening remarks, followed by which we will have the Q&A.

R. Dilip Kumar: Thank you. Good morning to everyone. Welcome to this Earnings Call for our Q1 results and this Q1, we have done, as you would have noticed from the results, we finished the first quarter at 1,270 crores compared to 1,246 crores.

A couple of things here. One is that the domestic market has been somewhat flat as they had a marginal growth of 3% at the industry level. So, I am happy to say that we have also grown slightly more than 3%.

And in the overseas markets exports, there have been different reasons the exports have underperformed to some extent. This is because of the high inflation as we all know in the Western markets, the interest rates, and there has been some channel destocking. And thanks to the easing of port congestion.

There has also been inventory correction by the OEMs, and in some of the variants which we supplied, there have been a bit of low drop-in schedules, etc. So, there have been few reasons why the exports have underperformed.

But I am happy to say that the raw metal prices have softened. We have experienced a 3% improvement in softening in raw metal prices since the second half of last year. That's also reflected, reflecting in our Q1 performance. And going down further, I think going forward as well, we expect RM prices to further soften from these levels. Not only RM, even we expect indirect materials to soften a bit going forward.

And the other major benefit has been the drop in freight prices, which were about $12,000 per container has dropped to $1,500 to $2,000. So, that has helped to partially offset some of the other input costs such as the power costs, which have gone up steeply.

As you know, most of our plants are in Tamil Nadu and Tamil Nadu has got a five-year plan by which they will be revising tariff based on inflation numbers in Tamil Nadu every year effective July.

So, the last year, the price increases, tariff increases came into effect from September, and the fixed costs have been generally flat, but barring the annual revision in salaries, and the interest has remained flat and depreciation has marginally gone up because of the capitalization we have done.

And overall, the profit number for the quarter has come in at 112 crores compared to 130 crores. So, the drop, if I were to explain, one is partly because of the drop in top line from 1,250 crores to 1,217 crores, and some incremental increased in the fixed cost and non-cash charges like depreciation.

And I must say that at this point of time the subsidies have done very well, both the UK subsidy as well as Chinese subsidy compared to the corresponding quarters. There have been lot of improvements. Markets are strong. Customer mix has been favorable. We have got price increase. Raw material prices have been benign. And many things have helped to shore up our UK performance.

And also in China, which experienced many, many difficulties previous year has somewhat recovered this year, though we are hearing a fresh situation, another peril in the current quarter, but I think the Q1, they have done well, and a lot of initiatives in controlling the RM costs. The RM costs again had gone through the roof in China as well and as you penetrate the Chinese market, you don't get compensation unlike in India and other markets where there are back-to-back arrangements.

Markets are difficult, but we have got, we have changed the RM suppliers. We have experimented with alternate materials, and we have made a lot of improvements, yield improvement activities. So, the profits improvement performance which you see is largely stemming from the improvement in RM costs, which has come down.

So, the profit of the subsidiaries, which was around 8 crores the Q1 of last year has more than doubled to slightly more than 16 crores. So, that is in summary of what has happened from the standalone 130 crores to 113 crores and the consolidated which was 138 crores, now those dropped to 130 crores, but I think we are happy to inform you that subsidiaries are well-positioned and doing well. We expect that movement to carry forward in the coming quarters.

So, with these opening remarks, now I request the analysts and investors to please ask your question. Thank you.

Moderator: Thank you. Ladies and gentlemen, we will now begin with the question-and-answer session. The first question is from the line of Dhaval Shah from Girik Capital. Please go ahead.

Dhaval Shah: Sir, my query is on the raw material basket. So, if you could quantify by when can we expect improvement in the gross margin and the EBITDA margin given the RM basket has reduced significantly? And as we see in other auto ancillaries also, you know, the improvement in the margins is visible. So, by when for Sundram Fasteners can be expect to see it?

R. Dilip Kumar: So, already the gross margins have improved for us. So, it has improved by 100.5% compared to the previous corresponding quarters, and it will take some time to percolate down to EBITDA margin. So, EBITDA margins we have sustained at Q4 levels, and we expect things to improve as revenues pick up the momentum we are able to carry forward. Like we said in our interaction with the analysts and others that we expect the wind energy to pick up in Q3 and Q4 as our project gets completion. Also, the new order wins for the electric vehicles, the project is on, and the slowdown in America, we have been affected a bit by the exports slowdown. So, once the exports improve you will definitely see the pass-through benefit of the improvement in gross margins.

Dhaval Shah: So, a bit of gross margin improvement has slowed down. That's because of the product mix. The exports did not happen the way you expected.

R. Dilip Kumar: Yes, correct. You are correct.

Dhaval Shah: So, otherwise, historically, we have been, when you on the gross margin said, we have been in the 59 to 60% range, so we are still around 2.5%, 3% below that. So, by Q3, Q4, once our new projects come on stream, you expect that number to be back.

R. Dilip Kumar: It may not improve by 3%, but directionally yes. So, the raw metal prices, as you know, in October 2020 was at around Rs. 50,000, and it was until recently around Rs. 80,000 per ton. I am talking about a weighted average cost of various specifications, but that has now softened to around 76,000 to 77,000. This is what you are seeing in the improvement in gross margin.

But for the gross margins to come back to 60 percent level, the raw metal prices have to drop significantly, which I don't see that happening, but yes, directionally, markets are talking about some Rs. 4,000 to Rs. 7,000 reduction per ton, but this is a matter of discussion between OEMs and steel mills. So, we await the settlement. And in the interim, as we sell more value added products, our exports revenue picks up, you will see that positive effect in our EBITDA.

Dhaval Shah: And sir, last question. If you can guide us regarding, you know, the timeline for various projects coming on stream.

R. Dilip Kumar: So, the wind energy project should start, additional revenue should start accruing to us in Q3 to Q4, you will see traction. And as far as the EV projects for North American customers which we had announced, that we expect the commercial production to start in H2 of next financial year.

Dhaval Shah: H2, '25?

R. Dilip Kumar: Yes. FY '25, yes.

Dhaval Shah: And what additional revenue will wind and EV get us?

R. Dilip Kumar: We expect in FY '26 the volume to start maturing and to go up to 500 crores per annum additional revenues.

Dhaval Shah: Now this is both the projects combined.

R. Dilip Kumar: Yes, it is.

Dhaval Shah: Additional 500 crores in FY '26?

R. Dilip Kumar: FY '26, yes.

Dhaval Shah: And that will be at what utilization, both the projects? 500 crore will mean what level of utilization for these new projects?

R. Dilip Kumar: These are new specific projects. So, there will be about 80% to 85% utilization in the, as we spend CAPEX, we have announced about 1,000 crores of CAPEX and which we incurred about 300 crores last year and we expect to incur another 300 to 350 this year. So, the new projects for which this EV business will require about 300 crores of CAPEX, and that will be a specialized earmarked capacity that will get utilized fully.

Moderator: Thank you. The next question is from the line of Mukesh Saraf from Avendus Spark. Please go ahead.

Mukesh Saraf: Just on the EV order book again, if you could just remind us now what is the total orders we have in hand, you know, including the large order that you had announced? And prior to that you had some orders. So, if you could just give a number that we have now in terms of orders in hand?

R. Dilip Kumar: So, the order value in hand, the contracts which we have signed is about $408 million to be executed over a six-year period from 2025 to 2031 for which we are incurring this CAPEX of 300 crores. In addition, we are also in discussions, and we have orders and subject to market recovery in America, there will be additional business for major customer in US.

Mukesh Saraf: And this 300 crores is part of the PLI scheme. So, any discussions you have had with the government, how this is going to work, you know, in terms of what kind of subsidies we will get or incentives we will get? Any clarity on that, sir?

R. Dilip Kumar: You know, this is under a testing phase. So, once we get the testing approval, as you know, under the PLI scheme, you are assured of 8% of the determined revenue. So, we have not accrued that income in our balance sheet today, but once the testing process is cleared, this will be an icing on the cake.

Mukesh Saraf: So, you will get this at the end of each year, sir? Or how does it work?

R. Dilip Kumar: Yes, that is how the scheme is. So, you submit quarterly reports. At the end of the year, you make a claim.

Mukesh Saraf: And just the last question on the new products. I think for this EVs, we had introduced shafts and differential gears. So, my last question what I wanted to check was on your new products within the EV ecosystem. So, you obviously mentioned about shafts and official gears, but anything else that you would like to give an update on, say, in terms of assemblies that you were looking to work on?

R. Dilip Kumar: No, no, the current update of the new products being shafts and differential gears, that's where it stands. There is no fresh, yes.

Moderator: Thank you. We will move on to the next question that is from the line of Dhaval Shah from Girik Capital. Please go ahead.

Dhaval Shah: Sir, can you please help us understand the ramp up of our EV project, how the revenues will ramp up? Given it's a $480 million project over six-year period, so you said starting H2 '25, the revenues will start. So, how will that ramp up? And also, for the wind business or the wind project?

R. Dilip Kumar: Like I explained to answer the second question, first, the project, wind energy project is on course. All the equipment have arrived, and we are in the process of installing the equipment, and we expect this project to get completed in all aspects in Q3 and the production to start. So, we expect incremental revenues to come from this project, which has a potential of 80 crores to 100 crores per annum to start accruing over the next 12 months starting from October. That is the update on the wind energy space.

On the EV business, about $400 million, which is roughly 3,000 crores to 3,200 crores. Like I said, it will accrue over a six-year period starting from 2025 to 2031 which is about 500 crores of additional revenues for which we have started again placing orders for additional capital equipment. So, we are at that stage of commencing the project.

Dhaval Shah: So, from year one, this EV business will give you 500 crores, FY '26?

R. Dilip Kumar: Yes. FY '26, yes.

Dhaval Shah: So, 500 crores will come from EV business and around 80 crore to 100 crore will come from wind business.

R. Dilip Kumar: Absolutely, sir. Absolutely. This 500 crores, which I am talking about as an EV business, is an additional business, not taking into account we are already present in the EV segment to the extent of 3% of your revenues and also from our existing customer, North American customer for which we have orders, but we expect there are discussions with them about their products. So, as and when they are ready to launch their electric vehicles, we are well positioned because we already have signed contracts.

Dhaval Shah: And this 80 crore to 100 crore of wind will be at full capacity.

R. Dilip Kumar: Yes, sir. We are already doing revenues of 200 crores in that segment. This will be on top of that.

Dhaval Shah: 200 crores annually you are doing currently for wind?

R. Dilip Kumar: Already we are doing.

Dhaval Shah: Annually, okay.

R. Dilip Kumar: Yes. So, this will be over and above that.

Moderator: Thank you. The next question is from the line of Mythili Balakrishnan from Alchemy. Please go ahead.

Mythili Balakrishnan: I wanted to check with you, sir, first on some bookkeeping questions, which is basically could you give us the mix between OE after market and exports for us and also between CV, PV et cetera?

R. Ganesh: With respect to the split up, I think today's domestic sales comprising of OE and aftermarket would be about 70% and exports would be about 30%. That's the broad composition and if you further split domestic, I think OE would be about 58% and the retail at 12%. With respect to the domestic market segment wise compilation, passenger car would be about 40%, M&HCV, LCV and engine at 40%, 10 to 15% of tractors, and two-wheeler at 5%. This is a broad segment-wise breakup on the domestic segment.

Mythili Balakrishnan: And in terms of exports, right, it would be useful for us if you could sort of help us understand the trajectory that you expect over the remainder of the year? This is largely a US classic issue? Is it also spilling over into PV and like just to give us a sense of, you know, we were expecting to add certain new customers from our Sri City plant and what would be the status of that?

C. Rajagopalan: I am Rajagopalan speaking. It is a combination of all the factors as initially in the setting up the call what Mr. Dilip said. So, we have had issues in the inventory correction happening after the decongestion of the container situation. So, that is happening now because people are buying earlier. Now I think it is stabilizing Q2 and then we are expecting a good H2. The second half is going to be good for several reasons. Actually, as anticipated, the US recession is not as bad as it was tutored to be. And also, there is growth is happening, and then all round economic activities improving over there.

So, this all augurs well for Sundram Fasteners both with the existing customers as well as penetrating into the new customers. So, we are engaging with all of them and we are getting traction on two counts. One is the customers, some of our end customers moving away from the traditional US-based customers and the Europe customers to India. That is one side of the activity from West to East. And the other one is East to West. That is China plus One.

So, these two are helping us well in the sense getting new businesses. We are working and almost in a breakthrough kind of situation in many accounts because of these two factors what I mentioned. So, this new business will kick in partially in this phase two and then maybe full benefits we can see in the year 2024 calendar year. So, we are looking at the overall getting back from the current level of 30% what Mr. Ganesh said. So, maybe move it up by 35% or eventually to looking at 35% to 40%. Hope I have answered your question.

Mythili Balakrishnan: Yes. I think earlier last year or I think beginning you had mentioned that this year we should see $190 million, $195 million kind of exports. Would that be unlikely under the current situation?

R. Dilip Kumar: Yes, no, we are hopeful of recovery in H2, and so we will still hold on to the numbers. Maybe slight drop. We can't roll out, but at the moment I will hold on to that number.

Mythili Balakrishnan: And also in terms of terms of domestic, right, we have grown something like 3% on a Y-on-Y basis. We have really not, you know, significantly outperformed because historically, we have always outperformed what the industry lands up doing. So, just wanted to get a sense in terms of are there model issues? Are there client issues? Or is it just like timing kind of a thing and thing should sort of start picking up in terms of the pace?

C. Rajagopalan: Once again, ma'am, actually, as I was saying, it's a mixed bag. As far as we are concerned, we are present in all the segments. So, we have taken a lead in all these segments, but some of the segments like tractor really underperformed and then LCV underperformed and medium and heavy commercial vehicle. So, what happens in that kind of situation like what we said in the international scenario, domestic also we normally make the product available closer to the customers.

So, that kind of inventory correction has happened. That factor has happened in the domestic as well. So, we have kind of overperformed, but not to the extent as you rightly said, we normally keep much ahead of the industry. So, that has not happened, but I am pretty sure this Q2 and Q3 will take care of that with the, of course, the tractor had a specific issue like monsoon, untimely rains and those kind of factors are also there, and now this infrastructure spending as Mr. Dilip said and then festival season is coming up. So, this stock depletion has already happened. So, I am sure this Q3 and Q4 will be bouncing back and overall, if you look at the entire year, I think we will be back to whatever lead we had in the past over the industry.

Mythili Balakrishnan: And in terms of the non-automotive part of the business, could you just help us understand how much of the revenues come from the non-automotive segment? And what is the kind of growth that we are seeing there?

C. Rajagopalan: In the non-automotive, we are looking deeply into the construction equipment industry, and then that is picking up well. As I said, the infrastructure spending would, I think, if I am right, 1 lakh crore or something has already been spent in the current year or 2.7 lakh crores by the government. That will cascade into many other projects getting fast tracked and then I am sure this construction equipment business will help. And then wind, as we have been telling, we are adding capacity in a big way, and we are also, many of our ISI products are in the validation stage, both for domestic as well as the wind energy requirement globally.

So, that renewable energy is going to be our, this, when you talk about non-automotive, so the construction equipment, wind and the industrial, again, the cascading effects of the industrial growth and we are into infrastructure partners as well coming from the same wind energy plant. So, we are looking at, of course, in the industrial segments, there could be different challenges on the pricing, but we are still going to have the entire basket so that, you know, de-risking kind of a thing.

And of course, the tractor we are still including in the non-automotive and then the tractor, as Mr. Ganesh said, should be around 15% to close to 15% , 16% of the entire pipe. So, that is also looking well, and we are looking at deeper penetration into the tractor segment. Many of the tractor manufacturers coming back to us for various reasons. So, we are quite bullish on that non-automotive segment, which we are keeping as a de-risking also, because ICE may go down, EV may pick up. So, we are looking at non-auto as some more buffer for us to stay ahead of that game, ahead in the game.

Mythili Balakrishnan: But like what would be the quantum of this non-auto currently for us?

R Ganesh: It's about 30% of our revenue.

Mythili Balakrishnan: 30% of domestic revenue or 30% of standalone?

R Ganesh: 30% of domestic as well as consolidated.

Mythili Balakrishnan: And in terms of new segments such as aerospace or defense, are there areas that we are sort of looking at in terms of adding customers or coming up with new products for these areas?

C. Rajagopalan: Yes, aerospace we have been working. It's a long-term kind of a thing. We have been engaging with the various major OEMs and major aviation companies and also within India, we are looking with ISRO and other space and launching programs. So, it's a long time, but definitely as a percentage of the total business may not be much, but then like it's a game which, you know, is going to be helping us over a period of time. So, we are engaging with all the big customers in the OE segment and the tier two also for the aviation segment.

Moderator: Thank you. The next question is from the line of Sahil Sanghvi from Monarch Networth Capital. Please go ahead.

Sahil Sanghvi: Just wanted to clarify one thing. So, regarding this PLI benefits, is there a cap on what kind of incentives we can have or won't be, you know, considerable, I mean, won't matter?

R. Dilip Kumar: No, your question is regarding PLI, but what is your question, not clear.

Sahil Sanghvi: My question is that, is there a cap as in is there a upper limit to what kind of incentives we can get or that is what you need to…

R. Dilip Kumar: No, I understood that in a sense the lowest is they have prescribed under scheme at 8%. The maximum it can go for certain product category is 18%, and in our case based on the revenue potential, it can go up to 13%. And so that is the scheme, but the government has allocated 25,000 crores as we all know for both OEMs and auto component manufacturers. So, we expect some kind of rationing to happen here. So, yes, the bare minimum should be 8% of the revenues.

Sahil Sanghvi: Secondly, sir, can you provide some guidance or some direction as to how the exports number would look for the next year?

C. Rajagopalan: Like, you know, we are looking at maybe 33% to 35% of the total revenue would be coming from non-rupee revenue. That's what we are looking at.

Sahil Sanghvi: For FY '25?

R. Dilip Kumar: FY '25, yes. So, the export as we know in dollar terms, we set out to achieve about $200 million. So, we think the first quarter has been kind of an exception, and we expect momentum to pick up in Q3 and Q4, but I think in dollar terms, we should be able to grow next year, as you know, we have been discussing new projects. So, we should do well in the next year as well in dollar terms.

Sahil Sanghvi: And you also indicated getting some additional EV orders from some of your existing clients from America. So, could you throw some more light on what component they are? And what kind of, you know, potential that could be?

R. Dilip Kumar: These are the same. These are different types of shafts as pretty much the same product portfolio as for the new customers. The input shaft, output shaft, intermediate shafts for one of our long-standing customers.

Sahil Sanghvi: And what kind of potential, I mean, quantum is, anything on that front?

R. Dilip Kumar: This has got a potential of about 1,000 crores over a five-year period.

Moderator: Thank you. The next question is from the line of Bibhishan Jagtap from Canara Robeco AMC. Please go ahead.

Bibhishan Jagtap: Sir, in our domestic business, would it be possible for you just to give us a broad break up on products mix side, how much would be coming through fasteners, power train, pumps and assemblies etc., now? And is there any major change in our mix now? And secondly, is there any customer acquisition or any incremental position that we are seeing in recent times?

R. Ganesh: See, I think with respect to our domestic business, the composition of our products would more or less remain the same, and we are working closely with the OEMs for converting their imports into localization. I think that is one of the avenues which we are working with the customer for increasing our share of business and revenue in the domestic segment.

Bibhishan Jagtap: There is no incremental business as such that you see in recent times?

R. Ganesh: No, incremental business comes through a share of business and participating in, you know, like cross-selling our products. So, that's the area where we are seeing incremental revenue to come in.

Bibhishan Jagtap: And sir, secondly, on export business, actually, as long as I remember, I think last time you mentioned I think for FY '23, we did about, let's say, $185 million or so, and even for FY '25, you are guiding about 5% kind of growth. So, that growth, so that target remains same, right, for FY '24? There is no change as such.

R. Ganesh: Yes, as of now given the expected revenue uptick in H2, we are holding on to the numbers.

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

Dhaval Shah: Sir, basis the current visibility with your customers, what revenue guidance would you like to share for FY '24 and '25 at the consol level?

R. Dilip Kumar: So, like we have been saying, our consistent position is that we outperform the industry as far as domestic is concerned, and we can assume about 2% to 3% over the industry growth as far as domestic performance is concerned.

As far as consolidated revenue, the Chinese markets and let me take the UK market first. The truck market where we are present strongly, where we are present is very strong at this point of time. So, we are sanguine about the outlook for our UK subsidiary. As far as China is concerned, we will be guarded in a sense there have been various issues the previous year, calendar year, but it's kind of recovered, but again, there has been flooding, and we are seeing a slowdown, but like I said, even if top line were to be moderate or marginal growth compared to the previous year, we think our profits and profitability both would be very good this year.

Dhaval Shah: Sir, on the domestic market growth side, when you say, how should we look at it? Because we have presence in various segments. So, what is the market growth you are assuming?

C. Rajagopalan: The market growth I would say across the segments could be anywhere from 7% to maximum 9%. That is what I am looking at. Some segments like, you know, not really performing commercial vehicles, but I am sure it will pick up in the second quarter and the passenger vehicle should be around 8%, 9% and two-wheeler is a large base maybe around 5% to 6%. So, I think, it will be around 7%, 8%. The best-case scenario would be 9%.

Dhaval Shah: So, that would mean our India business should be growing at at-least like maybe 12%, 13%, 12% kind of thing.

R Ganesh: Yes.

C. Rajagopalan: Yes. As Mr. Dilip said, we are looking at 2% to 3% more than the industry, the segment's growth.

Dhaval Shah: So, last year's business and plus around maybe 50, 60 crore for this year will come from wind. Over the last year's base, you will have a 10%, 12% growth, and then 50, 60 crore from the wind side for FY '24.

R Ganesh: Yes, broadly.

C. Rajagopalan: Yes, broadly. The wind will really take shape in the Q3 and Q4. New capacity additions will kick in.

Moderator: Thank you. The next question is from the line of Nishant from Elara Securities Private Limited. Please go ahead.

Nishant: My first question is whether we are supplying any differential gears and differential assembly to EV OEMs currently?

C. Rajagopalan: Yes, we are supplying to EV OEM.

Nishant: And if you can speak a little more about it? I mean, how is the growth outlook for same? And are we winning any new orders in the same segment?

C. Rajagopalan: Yes. Actually, as I said, we are present in the differential gears in the EV segment, and we are not restricting other EV segment. We are also present in hybrid vehicles, and then we are looking at off-highway vehicles. So, you know, we are not restricting to one particular segment because naturally, we would like to be present and even the commercial vehicles, we have started exporting directly to Europe, two major customers that we are doing, and that goes across like, you know, all the variants like ICE and different fuel segments and then EV. So, that basket is fairly safe. As we say, it's not really fuel agnostic.

Nishant: And any new orders that we won on this particular product in recent times that you would want to highlight, sir?

C. Rajagopalan: Yes. I said no we are starting directly exporting to the European customers, and here we were doing two domestic customers supplying to the EV segments internationally and also to China. Now, we have added the European customers in a big way, tier one as well as tier two both.

Nishant: Sir, secondly, my question is on the EV side. In the previous interactions, we have indicated something around 21 billion kind of a revenue over five years period, particularly on the EV side. So, if you can just highlight, I mean, where are we on that journey currently? And what are the key paths that you are supplying to EV manufacturers? And are there any specific CAPEX that we have earmarked for, you know, EV products?

R. Dilip Kumar: Yes. So, the products are different types of shafts which involves complex engineering, and so these have EV applications and which is meant for North American customer and the products will be supplied from our two locations at Mahindra World City and Sri City for which we are set to incur capital expenditure of 300 crores over the next 12 months. And from the second half of next financial year, the supplies would commence, and we expect volumes to peak and mature in FY '27, but we would see incremental revenues of about 500 crores coming in from 2026 onwards and going up to 2031. This is a total of about 400 million order and slightly more than 3,000 crores at the current exchange rates, which will accrue into our P&L from FY '25 and '26 onwards.

Nishant: And sir, the next question is on CAPEX. I mean, any outlook on your guidance for CAPEX in FY '24 and areas where this CAPEX would be concentrated or focused upon?

R. Dilip Kumar: So, we had said last year, we would be spending about 1,000 crores of capital expenditure. We are pretty much focused on that number, and we already spent about 300 crores last year. We are set to incur another 300 crores, 350 crores this year, and the balance would get spent and out of which about 300 crores is coming for electric vehicles and about 100 crores for our wind energy space. The balance 600 crores will be spent across all our traditional businesses, hot forging, fasteners business, machine castings and automation. So, all of which we will be earmarking expenditure.

Nishant: And sir, final question. So, in the previous interactions, you suggested there was some under recovery on the RM side from the customers which was yet to, you know, completely be passed on. So, have we completely passed on the RM cost to the customers? Or is there still some bit of under recovery?

R. Dilip Kumar: That is the inherent nature of the business itself. So, we have back-to-back passover arrangements with all the OE customers, and in the aftermarket it is always with the prospectively and in the export market there are many arrangements. There are pass-over arrangements. There are sharing arrangements and in some cases there are, you know, no customer compensation where it is sought by way of negotiation. So, that is the inherent nature of the industry itself. So, you may not get, to answer your question, you may not get 100% recovery, but we endeavor to get at least 85% to 90%.

Moderator: Thank you. The next question is from the line of Jay Kale from Elara Securities Private Limited. Please go ahead.

Jay Kale: Sir, just one question. On the EV side, if you can just indicate how much of your EV customers would be the existing ICE customers and how many would be all new EV customers? And also on the products, how would your content per vehicle in EV products be different to your existing ICE products?

R Ganesh: I think with respect to EV, as on date, we are supplying hot forged and machine parts. We supply radiator caps. We supply multiple varieties of shaft. So, the current revenue total with respect to EV in the range of 3%, which as we have mentioned in our earlier call, with the orders won, we would like to go upwards up to 10% over the next three years or so. That is the visibility that we have on the EV.

With respect to customers in our traditional products, we work with, you know, customers like Tata Motors or Mahindra participating in their EV platform. In the newer product range like shaft, we work with new customers. That has been our approach.

C. Rajagopalan: It's a mix of both. All the existing customers getting into EV, we are there. That is a natural progression. We are also looking at some of the, using this opportunity to get new customers, like the one big order what we got. You know, those are the new customers, traditionally, we have not been doing. So, this has helped us to get new customers on board who are aggressive in the EV space. So, both are there, like, you know, none of the existing customers we would leave the opportunity if they are getting into EV. That's a natural kind of engagement process.

Jay Kale: And also, my question was just on the clarification, but the current ICE customers you would be supplying some components to the engines, you know, those will get replaced by EVs, and you are also supplying to EVs. And hence, I mentioned, I was asking about content per vehicle if you supply Rs. 100 worth content in an ICE vehicle today, for the similar customer in EVs, would it be 110? Would it be 90? Any flavor on that?

C. Rajagopalan: You know, it's like the simple arithmetic is like the engine portion will not be there. So, that engine portion will get replaced by a few other components what we are developing and then some of the battery pack systems and battery cooling systems which we are supplying. So, we are trying to still minimize that drop. Maybe I would say that there could be some drop compared to the regular ICE engine to the EV. The best case the maximum could be around maybe 20% of that. So, that is where we are trying to replace that deal is that by getting into renewable energy, infrastructure and non-auto participation, which we talked about in the earlier part of the call. So, to see how to stay ahead. So, adding again the customer, improving the customer base.

Jay Kale: The next question is from the line of Dhaval Shah from Girik Capital. Please go ahead.

Dhaval Shah: Sir, this 500 crore of EV business would mean what sort of content per vehicle for the end customer in the value terms?

R. Dilip Kumar: Sir, we don't have that information in terms of per vehicle. Maybe you can write to us. We will try to arrange that information for you.

Dhaval Shah: Sure. And how much would be the wallet share for you for that particular product? Would it be the one of the two suppliers or the only one supplier? How is that thing?

R Ganesh: No, in the product whatever we have been awarded, that will be 100%, sir.

Dhaval Shah: 100%. And you are a tier one supplier. We are supplying directly to the company, right?

R Ganesh: Yes.

Dhaval Shah: And also, you mentioned earlier in the call, you expect further order from the same customer for the same product?

R Ganesh: Yes.

Moderator: Thank you. The next question is from the line of Vidit, an individual investor. Please go ahead.

Vidit: Sir, I would like you to throw some light on the sintered segment of your company. So, how much it contribute for the revenue in the top line, the sintered components, sintered parts?

R Ganesh: See, with respect to our sintered part business, it would be in the range of 15% with respect to our overall revenue.

Vidit: And what are the margins, sir, for sintered?

R Ganesh: It would be in the range of our company margin.

R Dilip Kumar: Yes, maybe slightly higher because of the technology involved and near that shift in which the products are manufactured, but yes.

Vidit: So, what kind of OEMs, any key clients you supply to this sintered products?

R Ganesh: We supply to customers like Maruti. We are there with Hyundai and Mahindra.

Moderator: Thank you. The next question is from the line of Sahil Sanghvi from Monarch Networth Capital. Please go ahead.

Sahil Sanghvi: I just wanted some bit more information on the margins that we can make on these EV orders considering we will get some benefit of the PLI also. So, what kind of margin range will we be making? And also, would there be any kind of performance that we will have to give to the end consumers?

R. Dilip Kumar: So, in our evaluation and commercial evaluation of this proposal, we have not factored in PLI, and there are no sharing arrangements with the OE, and we expect these margins to be superior and help to overall shore up the EBITDA of the company.

Sahil Sanghvi: Upwards of 25%, sir, or in between 20% to 25%?

R. Dilip Kumar: Yes, about 20 is a reasonable assumption to make.

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

Jay Kale: Thanks everyone. Thanks management for giving us the opportunity and look forward for more interactions. Thank you everyone for joining in.

R. Dilip Kumar: Thank you, sir. Thank you for giving us an opportunity.

C. Rajagopalan: Thank you.

Moderator: Thank you, members of the management team. Ladies and gentlemen, on behalf of Elara Securities Private Limited, that concludes this conference call. We thank you for joining us and you may now disconnect your lines. Thank you.