

February 14, 2023

The National Stock Exchange of India Ltd
Exchange Plaza, C-1, Block G
Bandra – Kurla Complex
Mumbai 400051

The Department of Corporate Services
BSE Limited,
P.J. Towers, Dalal Street
Mumbai 400001

Scrip Symbol: SANSERA

Scrip Code: 543358

Dear Sir/ Madam

Subject: Earnings Call Transcript

Please find attached a copy of transcript of Earnings call held on February 07, 2023 on Unaudited financial results of the Company for the quarter and nine month ended on December 31, 2022.

The above transcript will also be made available on the website of our Company at www.sansera.in.

Kindly take the same in your record.

Thanking you,

for Sansera Engineering Limited



Rajesh Kumar Modi
Company Secretary and Compliance Officer
M.No. F5176

Encls: a/a

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“Sansera Engineering Limited Q3 FY23 Earnings Conference Call”

February 07, 2023

Disclaimer: E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on 7th February 2023 will prevail.



**MANAGEMENT: MR. B. R. PREETHAM – CHIEF EXECUTIVE OFFICER,
SANSERA ENGINEERING LIMITED
MR. VIKAS GOEL – CHIEF FINANCIAL OFFICER,
SANSERA ENGINEERING LIMITED
MR. PRAVEEN CHAUHAN – CHIEF OPERATING
OFFICER, SANSERA ENGINEERING LIMITED**

Moderator: Ladies and gentlemen, good day, and welcome to the Sansera Engineering Limited Q3 FY23 Earnings Conference Call.

This conference call may contain forward-looking statements about the Company which are based on the beliefs, opinions, and expectations of the Company as on date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict.

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, please signal an operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. B. R. Preetham – Group CEO, Sansera Engineering Limited. Thank you and over to you, Sir.

B R Preetham: Thank you. Good morning everybody. Welcome and thanks for joining this call. On this call, I am joined by our CFO – Mr. Vikas Goel, and our Group COO – Mr. Praveen Chauhan, and we have our Investor Relations Advisor SGA on this call too.

The 'Results and the Presentation' are uploaded on the Stock Exchange and the Company's website. I hope everybody has had a chance to look at it.

Today, on this call, we would like to talk about three key themes. Our recent developments. Two trends in the industry as well as our performance and outlook for the year.

Firstly, on the recent developments:

I am delighted to share with you that we have completed the construction of our new Aerospace and Defense plant at Jigani, Bengaluru. Soon we will be shifting the lines from our existing facility, apart from adding the new machinery as well. This would happen in a staggered manner as per the customer approvals. And we expect that this will be completed by the end of March and will be fully operational from the 1st of April onwards.

Construction of this plant has been completed in a record nine months' time ahead of schedule. It's a Greenfield project. This facility is four times the size of our existing Aerospace and Defense facility. As we speak, we are fully utilizing our current capacity, and this facility would give a flip to our growth in this segment.

At full capacity utilization, given the kind of components and the mix that we have in Aerospace and Defense, we expect that we can achieve a topline of about Rs. 3,500 million from this facility.

In addition to the covered area, we have access to more land for further expansion at the same location, which might include an expansion into special process as well.

I am also very proud to share that we have been lauded by our customers, mainly our customers like Bajaj and Toyota for our quality performance. ESG has always been in our DNA since the very beginning, and we have been awarded Hero-next Sustainability Award for the year 2022.

Now talking about the industry:

In this period, the domestic market has been a bright spot, whereas, as expected, exports, as we had guided previously also has been flattish. In general, Q3 happens to be the weakest quarter for us as model change comes in at the year end, and also a lot of customers would undergo almost one week of block holidays for the maintenance, and a majority of our plants also follow the same.

The domestic PV sales are clearly on the growth path on the back of easing of the semiconductor supplies and also introduction of new models with also robust demand coming from the domestic market as well. However, domestic two-wheeler demand, especially the ICE two-wheeler has been a weak spot, while two-wheeler EVs, which have been started doing well.

Coming to our performance in the quarter:

We delivered a top line of Rs. 5,640 million with a healthy growth of 16% on a year-on-year basis. This growth was largely driven by the domestic markets whereas our international business was flat.

Having said that, our international business saw some recovery compared to Q2. On the export side, our Aerospace and Defense business has been strong. We expect the exports to start becoming normalized from Q4 onwards, and we expect a very strong growth in exports in the coming year as well.

Sales of our auto segment for Q3 went up by 10% year-on-year, largely driven by the growth in the domestic market. This segment contributed around 89% of sales, which includes our xEV in the Q3 FY '23. Of this, 6% of sale came from auto tech agnostic and another 5% came from xEV products. In contrast to in Q3 FY '22, a combination of auto tech agnostic and xEV products was only 7%. So, this has gone up by almost 4% for us.

In terms of Q3 FY '23:

Sales mix for auto segment covering both ICE as well as xEV and tech agnostic components, 36.2 % of our sales were from motorcycle segment. Scooters accounted for 13.3% of the top line where increasingly the contribution has started coming from the electric scooter.

Commercial vehicles accounted for about 12.5% of the top line, a significant portion of the sales for our Swedish subsidiaries in this segment as well. In CVs, we witnessed a degrowth of 5% on a year-on-year basis, but performance is looking better on a Q-o-Q basis.

Passenger vehicles accounted for 24.7% of the top line, and we are seeing strong traction here, especially with addition of new customers like Tata Motors, we are expected to do much better. We will be doing about, you know, approximately about a million connecting rods for Tata Motors in the year to come.

Our non-automotive segment grew by about 50% in the quarter, which is in line with our expectation. And in our current sales mix, Aerospace contributed to about 4.7% of our sales, registering a strong growth of 92% year-on-year in the quarter. We expect this momentum to continue, and we expect that we will exceed a top line of Rs. 900 million for FY '23 for this segment. We have a very strong order pipeline as well. Several of our products are also under various validation stage.

The agriculture sector accounted for about 3.2% of our top line. Off-road sales were in the region of 3.4%. This is slightly muted because most of this is going to the exports, and things have started becoming better now. We expect a very strong recovery in this segment for us in the coming year as well. This was primarily because this segment and the customer was hit by a chip shortage for a long while, but now things are becoming normalized. So, we expect a strong recovery in this segment. And the remaining 1.3% of our top line came from few other segments.

Coming to our order pipeline:

As of 31st of December '22, our order book was quite healthy. And our order book of new business with an annual peak revenue stood at about Rs. 15 billion. So, potentially, this business Auto ICE is contributing about 7.34 billion, which is about 49% of the total order book. Auto tech agnostic is about 4.52 billion, which is 30% of the total order book, and non-auto accounts for Rs. 3.16 billion, which is 21% of the overall order book. There has been order inflows from all the sectors. And in terms of geographic mix, we are seeing the recovery in our international business. And specifically, we have added a lot of business from North America.

With the trends which are emerging in our sales mix as well as our order book mix, we have made encouraging progress towards our long-term vision, which we had set earlier with respect to the revenue mix. Our long-term target is to improve our contribution from non-auto segment to 25%, and auto tech agnostic, xEV to 15%.

We have made steady progress towards this target, and for nine-month period of FY '23, non-auto contributed to 11%, whereas auto tech agnostic EV, xEV contributed to 10%. These numbers are even better when we look at the Q3 number. The shift that we are witnessing in the domestic two-wheeler industry from ICE to EV augurs well with our transition.

Also, our sales mix will further improve once our new Aerospace and Defense facility mentioned earlier will start operations from the month of April. Going ahead, we are very confident that in terms of overall performance we will grow by between 15% to 17% on a year-on basis for FY '23. We are geared towards even a better FY '24 as our domestic business continues to remain

healthy with addition of all the new businesses that we have acquired in the xEV space will start yielding results.

On the international side:

We are seeing green shoots in our auto business as well. So, with the easing of the semiconductor crisis and also to an extent normalizing of businesses in Europe, we see that our export business will be back on a growth track. We are also seeing a strong demand from the Aerospace and Defense side.

I now hand over my further portion of our presentation to Mr. Vikas Goel – our CFO. Vikas?

Vikas Goel:

Good morning everyone. I will talk about the ‘Financial Performance’ of the Company during the quarter end for the year-to-date period.

First, we look at quarter three of FY '23:

Our total income stood at 5,640 million in this quarter as against 4,868 million for last year's Q3 which is a 16% growth on a year-on-year basis.

Our international business ended on a flat note on a year-on-year basis. However, the growth in our domestic sales outshined this quarter, and we were able to grow on an overall basis for the total business.

The gross margins improved almost 2% due to the softening of raw material prices and the sales in exchange. We expect to maintain rather improve this margin going ahead once our international business starts inching up again.

The employee expenses increased by about 15% on a year-on-year basis, which is slightly lower than the growth in the business. And other expenses were largely in line with the trend in the last quarter. Overall, our EBITDA margin in Q3 stood at about 16.6% versus 15.6% in the same period last year.

The finance cost for the quarter increased to Rs. 161.8 million as compared to Rs. 134.5 million in the corresponding quarter of FY '22, largely due to the higher cost of borrowing or the increase in the interest rates, and also a slight increase in the debt.

Our profit after tax of Rs. 313 million in this quarter as against 239 million in last year. In terms of geographic sales mix for this quarter, the split stands as follows. India accounted for 69.2%. Europe for about 19%. USA 7.6, and other foreign countries were 4.2% as a percentage of total sales.

Looking at the nine-month numbers:

Total income surged by 22% year-on-year at about 17,331 million as compared to 14,225 million in the corresponding period of last year. For the nine month period, the EBITDA stood at 2,942 million with a margin of 17%.

The net profit for this nine-month period was 1,129 million as compared to 949 million in the corresponding period of the previous year. Our total debt stood at approximately 6,787 million as of December 2022.

With this, we come to an end of our presentation, and I would like to open the floor for question and answers. Thank you.

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Siddhartha Bera from Nomura. Please go ahead.

Siddhartha Bera: Sir, my first question is on the order book. So, we have again increased it slightly in the quarter. First of all, can you indicate broadly, is there any big order which is there? Or is it largely spread across multiple customers? And second is, I see that we have added a PV xEV customer also. So, possible to highlight any particular name here which we have added in the quarter?

B R Preetham: Yes, Siddharth, thank you. Basically, as I spoke in my presentation speech, this time the order inflow has been healthy and has come from all the sectors. A lot of business has come from Aerospace as well. There is also addition of business in the aluminum forged and machine component. In fact, one of our new additions has been from an European, you know, passenger vehicle car manufacturer who has given us aluminum forged and machined component for their upcoming EV project as well. So, the traction is good on from all sectors.

Siddhartha Bera: Understood. Sir, the second question is again on the export mix now. So, if we look at the past, we had done about say 36% to 38% in terms of total revenue is coming from exports. And currently, after some recovery, we are still at about say 30% in the quarter. So, you highlighted we will see some improvement from these levels. But will it be fair to say that by when can we sort of go back to the earlier levels of export mix? And any particular order which we should start expecting execution next year and any growth outlook if you have for the export business next year?

B R Preetham: Yes. Export, see, we had a couple of challenges specifically, see, overall exports as we had communicated consistently in our previous earning calls also, that right from the beginning of this year, because of the reasons that all of us are aware of, one was the chip crisis. Second one was Ukraine war, which also further led to the energy crisis in Europe. There were challenges, and we had expected that overall year we will have a flattest revenue, but we could slightly end up slightly lesser than flattest revenue. but as we speak, you, as demonstrated also, the Q3 has started showing the recovery, and I expect further recovery to happen in Q4, but normalcy probably we will start looking at a better mix and a better towards going to again 35%, 36% starting from the Q1 of the next year. So, while overall we expect that because whatever orders that were in the pipeline we will start getting, which also includes some business growth.

In the off-road sectors, we expect that because we have developed several of the components for this customer, which is now all getting into the production. We are also expecting a good growth coming from Aerospace and Defense, which is Aerospace is mainly into exports. There are a couple of projects, which is going to start production to one is to North America and one is to Europe on the connecting rod front as well.

So, overall, I would say, and, you know, xEV customer we expect that the production to start towards the end of this year, the mass production. So, overall, we expect that my exports in starting from Q1 of the next financial year should be back to our normal level of Rs. 35 and 36 %. So, added to this even our Swedish facility, which has seen a degrowth as indicated earlier also, because one is overall Europe productions are slightly down. And second one is, because of our own customers' decision to de-risk their business and change the product portfolio. So, now we are consolidating all those product lines, and production is getting consolidated. So, we expect that next year even our Swedish subsidiary will be back to the normal production levels, which was similar to what we had in the previous year. So, overall, I expect that this would definitely benefit our international sales.

Siddhartha Bera: And lastly, sir, if you can also highlight in terms of the growth outlook while organic growth of the feel should improve? Do you think there are any other areas like acquisition or any other inorganic areas also do you think can be a potential area we would look forward to?

B R Preetham: Yes. We expect that, you know, we are also part of ACMA cluster where we look at a lot of startup opportunities that come in our way. We are also open to, you know, actively we keep evaluating our opportunities that comes in our way. As we speak, our areas of interest include Aerospace and Defense. We are also looking at some technology startups. So, while there is a lot of interest, we are also very cautious in what we chose and pick. Sansera is an engineering and technology driven Company. So, we also look at various, you know, lightweighting materials, opportunities in that, opportunities in the railway sector. So, Defense and Aerospace is definitely on top of our list. And you know, whatever we do, as I have also communicated earlier, we will not do anything which is very big. And like last time also, we had done an acquisition, which in overall scheme of things would be a strategic fit to us but would not exceed say a capital outlay of more than about 100 crore. So, while we are looking at these opportunities actively, but nothing is still, you know firmed.

Moderator: The next question is from the line of Jinesh Gandhi from Motilal Oswal Financial Services. Please go ahead.

Jinesh Gandhi: A couple of questions from my side. One is with respect to the Aerospace facility which has come up. What are the timelines we are looking at from perspective of ramp up? And by when do you expect to reach the full capacity considering that we have a good order book on Aerospace?

B R Preetham: Yes, Jinesh, morning. Basically, this facility is now fully ready. Partially, we have started shifting the existing machines. The new machines have also started coming in. We expect that

we should have the full approval from all our customers before this financial year end. So, in most probability, we will start commercial production post our approvals from the 1st of April FY '24.

So, I expect that, you know, this facility, see this is dedicated to both Aerospace and Defense. Two-thirds of this facility is meant for commercial Aerospace, and one third is specifically kept for defense where we have separate access, everything is, you know, separately built up so that there is no mix of commercial Aerospace and defense facilities. So, this we expect that, you know, given the kind of traction that we have, we don't think we will have any spare capacity left in three years' time. So, in my expectation that we should be full in three years' time in the facilities that what we are expecting to create. There is a lot of traction both in Defense as well as commercial Aerospace.

Jinesh Gandhi: And you talked about having excess space available. So, can we replicate the similar size capacity? Or what can be the future expandability?

B R Preetham: Yes. See, this overall space that we have access to is for about 10 acres, and in that we have built in the area of about 4 acres to 4.5 acres. And we have also an intent to build a special process facility, because see Aerospace further growth and acceleration can be achieved only if you have an in-house special process facility, which, you know, we have also done this for our aluminum forged and machined business. We have created the full special process facility in our plant 11 in Bidadi, but that is limited to auto application. So, we would like to replicate this in a much bigger way for Aerospace for which we have kept about two acres of space. And another four acres is available for a similar size of facility, in fact, slightly bigger, because when you replicate facilities, you don't need to create all the common amenities. So, I expect, you know, we can create another 120% capacity in the space that is available to us.

Jinesh Gandhi: And second question pertains to the export business. So, the pressure situation in exports, is it still to do with inventory destocking or you are also seeing a cut in production schedules? And in that context, how does the fourth quarter production schedules look vis-à-vis third quarter?

B R Preetham: No, I would say that fourth quarter would be very, very similar to in terms of exports, we will see a growth in terms of exports from the fourth quarter onwards compared to even the third quarter. But see, there are a couple of factors. One is, in terms of inventory correction, most of it is over now. There is also easing of chip crisis what we can see. So, things have started becoming normal. And so, we expect that starting next year we should be back to the growth trajectory of exports. We also have new programs which are starting in exports.

Moderator: Thank you. Our next question is from the line of Devesh Kayal from Monarch AIS. Please go ahead.

Devesh Kayal: So, out of this 37% revenue share from the motorcycle business, how much would be domestic? And how much would be international?

- B R Preetham:** In the motorcycle segment or in the two-wheeler overall?
- Devesh Kayal:** In the motorcycle specifically?
- B R Preetham:** I will give you that. So, overall, if you look at the exports would be about, just give me a second. Any other questions?
- Devesh Kayal:** And I wanted the nine months CAPEX How much CAPEX we have done for the first nine months and for the full year, are we on track around 250, 300 crores, I think that's what we had guided earlier?
- B R Preetham:** Yes. We have done about 185.
- Vikas Goel:** It's about 185 crores.
- B R Preetham:** And we are we are expected to, you know, because our order book is good, and all our projects are on track, we are also adding capacity on our aluminum forged press line, because all the three press lines are fully booked now. You know, we have about 58 component orders from 13 different customers adding to a total annual revenue of about 115 crores. So, there is a good traction. So, we are on track for our CAPEX addition.
- Devesh Kayal:** And sir, on that motorcycle?
- B R Preetham:** See, 27% is domestic motorcycles and 8.2% or 8.3% is exports.
- Moderator:** Thank you. The next question is from the line of Jyoti Singh from Arihant Capital Markets. Please go ahead.
- Jyoti Singh:** Sir, my question is on your guidance side, that you have guided 15% to 17% growth we are expecting for FY '23. So, as currently in this quarter, we have done it around the 16%. So, as we are doing pretty good on all the segment front and on the expansion side, so can we expect more than this or we are expecting similar?
- B R Preetham:** See, while a lot of sectors like, you know, our exports is coming back to normalcy, and the Aerospace is doing well, the passenger vehicle segment is doing relatively well. But there is still stress in the domestic two-wheeler ICE sector. So, there is also this OBD2 changeover that is going to happen. And with that, there is some production inventory adjustments that is expected to happen. So, considering all these things, we expect that, you know, we will end up in whatever range that I have communicated. We, one thing for sure, would not let go of any opportunity whether it is an increase in share of business or increase in this thing. So, this is what I expect.
- Jyoti Singh:** And sir, my second question is on the scrappage policy. So, as the government has mentioned in the budget, so it will be benefit for us also?

B R Preetham: There is an overall benefit because our presence is there across all the sectors, across commercial vehicles, passenger vehicles, and two wheelers, everywhere. So, if there is a policy which is going to be beneficial for, you know, the overall auto industry, we are also bound to get, because our domestic presence is quite strong. So, we will also get benefited out of the policy, definitely.

Moderator: Thank you. Our next question is from the line of Basudeb Banerjee from ICICI Securities. Please go ahead.

Basudeb Banerjee: Just wanted to understand, sir, like your exports, and you earlier also commented that sequentially absolute export revenue was flat to slightly up only. And as per your PPT also, export mix has recovered. Domestic passenger cars have been steady, and domestic EVs have only been moving up. So, if I remove all this stuff, the prime driver of sequential revenue decline of 12% seems to be domestic ICE two-wheelers. Is that the right assumption, sir?

B R Preetham: Yes.

Basudeb Banerjee: So, from that angle, if you can highlight how much has been the actual revenue reduction sequentially from domestic two-wheeler ICE scooter, motorcycle combined? And is there any change in market share or wallet share of the corresponding customers or any one-off in that where it is specific OEM have some supply issues, if you can highlight on that aspect, sir?

B R Preetham: No, actually, there is no change in any share of business, particularly in any of the two-wheeler sectors, while our share of business is growing in terms of like, you know, TVS where we have had business opportunity, which came our way a couple of years back from when they decided to move into India from China. So, that is still getting consolidated and the revenue is growing. But we don't have any assets change in share of business, but with newer models getting added across our customer profile, we are expected to get slightly better share of business, because in most of the newer models, our presence is there. So, it is only going to get better, but as of now, sequentially, you wanted a sequentially, what is the change in two-wheeler ICE scooter, right?

Basudeb Banerjee: Commercial two-wheeler ICE sequentially?

B R Preetham: Yes. Overall, sequentially, from Q2 to Q3, this year Q2 and Q3, I will just give you the number. Sorry. So, there is a loss of about 30, yes, there is a gain. In fact, there is a slight gain in domestic two-wheeler auto ICE segment close to about 22, yes, about 30 crores is the total gain from sequentially.

Basudeb Banerjee: Sequentially, your total revenue is down 12%, and all other segments have remained flat or improved, and 45% of the revenue is from domestic ICE two-wheelers. So, which means almost implied the decline will be 25 odd percent sequentially for domestic two-wheeler ICE. So, from that angle I was trying to understand.

B R Preetham: Sorry. Two-wheeler industry sequentially, from Q2 to Q3, there is a loss of about 66 crores.

- Basudeb Banerjee:** On the base of, sir?
- B R Preetham:** Q3 to Q2. On an overall base of Q2, how much was the Q2 base? About 250 crores.
- Basudeb Banerjee:** So, that more or less the 25% number which I said is roughly around that would be.
- B R Preetham:** Yes.
- Basudeb Banerjee:** So, what's your view on that 66 crores revenue loss normalizing that as you said OBD2 norm, so any idea on the price hike or whatever is the changes what you will get to that change as such as you said there can be some inventory restructure, if you can highlight on that?
- B R Preetham:** No, I don't expect any recovery in Q4 on domestic two-wheeler front. That continues to be this thing, and I said that added to the normal challenge, you know, this inventory correction is also expected to happen. So, Q4 domestic two-wheeler industry, at least in our view, will continue to be underperforming. So, we do not expect any big change compared to what we have in Q3. And I am not aware of any of the price increases that are on the cards, except for any change in, you know, because of the OBD2 there could be, but I am not aware of that process.
- Basudeb Banerjee:** So, good part, I can see your numbers is gross margin has improved maybe because of the **(Inaudible) 37:29** benefit. So, the prime margin reduction was because of revenue being down. So, once your revenue recovers, the margin automatically should come back. But one thing like despite revenue being down, the variable part in other experience and employee cost, your absolute other expense did not come down. So, maybe this new plant fixed cost added onto that without revenue may be that is the reason.
- Sir, just wanted to understand while revenue is down sequentially 12 % where, both staff costs and other expenses were steady sequentially as a big part of other expenses can be variable in nature with volume, but other expenses are slightly steady Q-o-Q. So, is the assumption right that the new aerospace, defense plant cost picked up where revenue ramp up is yet to happen? Is that the reason?
- Vikas Goel:** So, some of these costs are fixed, and some are variable. So, as you mentioned about staff cost is largely fixed. The workers' cost or the contractor side of wage cost is a variable portion, which moves with the volume from period to period. But many of the costs are fixed. And yes, this will reflect as a better percentage when the volume comes back in the next quarter.
- Basudeb Banerjee:** And any new major order additions to highlight overall business?
- B R Preetham:** Yes, overall, there is traction. There is orders come from both Defense as well as Aerospace. We have also got, as I explained, we have also added a lot of aluminum forged components across the sectors and across the customers as well. There are total now 58 components that are under PPAP and under development on aluminum, which includes both domestic and export

businesses, and also both two-wheeler as well as passenger vehicle. So, there is a good traction on that. There is no one such big orders, but there is a lot of orders from all the sectors.

Moderator: Thank you. The next question is from the line of Akshay from Anand Rathi. Please go ahead.

Akshay: Sir, a couple of questions from my side. Sir, in opening remarks, you mentioned that you would be supplying 1 million connecting rods for Tata Motors in the next year. So, just wanted to ask what would this be for? What segment would this be for? This is for passenger vehicles or commercial vehicles or what would be this and is this a new order, sir?

B R Preetham: Yes. Tata Motors is new customer for us where the business started in the towards the end of Q2 and further got, you know, volumes have started getting stabilized in this quarter as well. So, going forward, we have started manufacturing one particular model which is for passenger vehicle, and we are expected to make another couple of them, but that is yet to start commercial production. So, this is mainly for passenger vehicle, yes.

Akshay: And sir, what would be the approximately share of business as of today with them?

B R Preetham: I think what I am told is about 50% is the share of business that we are looking.

Akshay: Sir, lastly on North American orders, you also mentioned that the traction has been good towards the export side, demand has been robust in North America. And so, I mean, sometime like if you are planning to set up a plant in North America, so are we still on tracks like considering we have the new orders? So, would we still be going ahead and setting up the plant in the next financial year itself or with this financial year?

B R Preetham: No, it won't happen in the next financial year. We are evaluating, you know, initially, our strategy was to look at Greenfield project coming up with our own facility. But you know, considering the kind of availability of manpower there and other challenges, upon a detailed review that I spent almost close to a month traveling across various potential sites that we have had. We probably are looking at slightly different strategies to begin with. We will probably lease a facility and start part of our machining operations and assembly. And later on as we establish, you know, we gain knowledge on the local this thing, we will start looking at putting up our own facility. So, initially, it would be a leased manufacturing facility that we are planning to set up, and then later on, we will move towards our own facility. But this won't happen. This is likely to get finalized towards the end of this financial year, not this financial year, end of coming financial, towards the middle to end of next financial year.

Akshay: And this facility would mainly be towards the passenger vehicle segment, and so considering you have orders in the aerospace and defense markets like where you supply it to Collins and Boeing and the other players, so, I mean, will this facility will also be a direct supplier to these for this segment for Aerospace and Defense?

B R Preetham: No, basically, see, I can't comment anything on defense as of now, because defense is very, very geography sensitive and very specific to each country. There is a lot of restriction on, you know, exporting and importing on defense. So, I will not comment anything on defense as such, but there are opportunities both in passenger vehicle, non-auto stationary engines, bigger Earth moving and kind of big engines, there is a huge potential. There are orders also in that for us. There is also an off-road customer with whom we are working. There are opportunities to work with them, and also xEV customer with whom we have started our relationship.

So, overall, this would be a manufacturing facility primarily focused on auto and non-auto excluding Aerospace. Now Aerospace I don't see with the current mix of our products anything we will do in US, but you never know. We are also contemplating on opportunities which are there in other sectors as well. So, to begin with, it will be primarily Auto.

Moderator: Thank you. The next question is from the line of Jinesh Gandhi from Motilal Oswal Financial Services. Please go ahead.

Jinesh Gandhi: Just one follow-up question on RM cost. So, this quarter's revenue growth of 16% is after factoring in for impact of the RM costs deflationary impact, right? That impact would be what? About 2%, 3%?

B R Preetham: Yes. Because everything that has been, see, all the material cost, there has been a reduction in the material cost for quarters which has also been fully accounted for. So, we don't have any of the pending raw material adjustments to take place. So, everything has kind of now come into the system.

Jinesh Gandhi: So, the impact would be just about 2%, 3%?

B R Preetham: Yes.

Moderator: Thank you. Our next question is from the line of Abhishek Dave from Bright Securities. Please go ahead.

Abhishek Dave: I wanted to ask, I wanted to understand what would drive the growth in FY '24 and your guidance for the same?

B R Preetham: As I said, look, we are expecting the domestic industry, both passenger vehicle and two-wheeler would have an industry growth between 5% and 7% is what the consensus as of now is. So, if you look at that way, Sansera, we have always maintained that we would be doing at least 10% better, and we have a very strong order book where our execution of the projects is also going to happen. So, I expect a good healthy growth, at least 10% better than the industry growth, which normally is what we have been maintaining. So, I don't think we are still yet ready to give you any guidance for the full year. This is a work in progress that we are going to do, because there is a lot of requirement indications, projections, consolidation is happening.

But I would say that, primarily, we will be whatever businesses that have started, whether it is in xCV two-wheeler in domestic, aluminum components for exports, Aerospace and Defense, and couple of new projects which have started to for Europe and North America, all these things are going to consolidate and then mature into a full business year for us in the next coming year. So, the sector really, I would say, the export would be back to the growing path, because this is after a long time we have had a degrowth in exports are slightly flattish to these small, very small degrowth, but that should also get settled down. So, all these things is going to be positive for us.

Moderator: Thank you. The next question is from the line of Kapil Singh from Nomura. Please go ahead.

Kapil Singh: Sir, first question was on the long-term vision that we have. You know, we have a vision of having 25% of revenues coming from non-auto segment, and it is at about 12.5%, right? So, just wanted your thoughts that, you know, even if I look at order book, I think it's around 20% right now. So, how are we looking to get there? Is this a new plant starting will be a key driver or you think, you know, some major order wins you are expecting in future looking at the pipeline? So, that would be the first question.

And I will just explain the context of the question also. So, basically, if I look at auto tech agnostic and EVs, you know, that is in Q3 already at 11%, and the longer term expectation that we have given is I think 15%. So, is there an upside risk to this number? Or how do you think about that also?

B R Preetham: See, the overall when we looked at the vision, primary objective was to derisk our basic ICE business. So, we said we will have to grow faster in non-auto, tech agnostic, xEV segments. So, overall, what we had decided was that we should get at least 40% between the two. So, broadly, we wanted 25% and 15% on non-auto and xEV and tech agnostic. While xEV, tech agnostic business is relatively doing better, and we are very confident that, see, one of the reasons why we had taken only 15% was that we were not sure at what growth rate the industry will have in xEV, and how will we be received in the exports market on this. So, while now we are quite confident on both the fronts, and as you rightly pointed out, there could be a upside risk to what we are looking at on the xEV and tech agnostic.

But while on non-auto, while our, you know, aspiration is to reach about 25%, I still think that we will be able to do that. Because not only from, you know, this for Aerospace and Defense, as well as we have very good order visibility on our off-road vehicles. But as I mentioned sometime back, we have also won order for a stationary engine application and also from the agriculture sector. So, the stationary engine application has a potential now, this is going to be for Europe region, but it has got a very, very large number potential for the North America sector, which is going to be a common engine platform. So, I am quite confident that this 25% also we will be able to achieve this target.

Kapil Singh: And secondly, could you also comment on what kind of traction are you seeing in global electric vehicle market? And are there further products under development? If so, in which areas do you think you will be successful or you are trying to be successful?

B R Preetham: Of course, as I have said that our focus has been on, you know, lightweight aluminum, especially aluminum forged and machine components, and also on some special steel which have higher strength, higher this thing. While I said that, but then we have also after we have, you know, started interacting with customers, there is several opportunities which are presented to us in forged and machined category itself. We are now working with global OEMs, EV, North American based OEMs where we have developed some very critical forged and machine components which are part of the seating system which are part of the, you know, door assemblies. But these components are very, very critical in terms of forging profile and shape and accuracies.

So, we are also working on motor and rotor shafts. Very complex machining is involved. There are parts which are related to suspension and chassis parts. So, while lightweighting is a primary theme on which we are working, while we are now working with these customers, we were also presented with a steel forged and machine components. So, we see a lot of potential here. So, there is a, you know, quite a good mix of both precision forged, machine steel parts, as well as upcoming aluminum components as well.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I now hand the floor back to Mr. B. R. Preetham for closing comments. Over to you, sir.

B R Preetham: Thank you everyone for your participation in this call. While we strive to better our performance and meet all the expectations, we are also looking at very strong FY '24 with a bounce back from our exports business as well, and also strong domestic growth to continue. So, at Sansera, we are also focused on whatever objectives and goals we have set. We are progressing towards achieving that. And hopefully, that while we are going to meet you next time, we will have much better news on our order book. We expect to get a stronger response in all the sectors as well. So, with this, thank you very much for your patient hearing, and we will be there. For any of the doubts and questions that you may have, you can either directly contact us or contact us through our IR team of SGA. Thank you very much.

Moderator: Thank you. On behalf of Sansera Engineering Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.