



Sharda Motor Industries Ltd.

SMIL: BSE/NSE: 22-23/1002/1

10th February, 2023

BSE Limited

Department of Corporate Services

Pheroze Jeejeebhoy Towers

Dalal Street, Mumbai - 400 001

(SCRIP CODE - 535602)

National Stock Exchange of India Limited

Exchange Plaza, 5th Floor

Plot No. C/1, G Block

Bandra - Kurla Complex, Mumbai - 400 051

(Symbol - SHARDAMOTR) (Series - EQ)

Sub: Submission of Transcript of earning call held on Friday, 3rd February, 2023 at 5:00 P.M. (IST) onwards

Ref: Regulation 30 read with Part A to Schedule III of SEBI (Listing Obligations and Disclosure Requirement), Regulations, 2015

Dear Sir / Madam,

In pursuant to the applicable provisions of the SEBI (Listing Obligations & Disclosure Requirements) Regulations 2015 and in furtherance to our letter no. BSE/NSE: 22-23/0102/1 dated 1st February, 2023 with respect to the convening of Investors / Analyst conference call "Earning Call" on Friday, 3rd February, 2023 at 5:00 P.M. (IST) onwards, for discussing the financial performance of the Company for the third quarter ended 31st December, 2022, in this regard please find enclosed herewith the transcript of the earning call.

Further the same is also being available on the website of the Company at www.shardamotor.com.

This is for your information and record.

Thanking You,

Your's Faithfully

Iti Goyal

Asst. Company Secretary &

Compliance Officer

Encl. as above

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CIN NO-L74899DL1986PLC023202



“Sharda Motor Industries Limited Q3 and 9 Months FY23 Earnings Conference Call”

February 03, 2023

Disclaimer: E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on 3rd February 2023 will prevail.



**MANAGEMENT: MR. AASHIM RELAN – CEO & INVESTOR RELATIONS
ADVISORS, SHARDA MOTOR INDUSTRIES LIMITED
MR. PURU AGGARWAL – PRESIDENT & GROUP CFO
OF SHARDA MOTOR INDUSTRIES LIMITED**

Moderator: Ladies and Gentlemen, Good day and welcome to the Sharda Motor Industries Limited Q3 and 9 Months FY23 Earnings Conference Call. This conference call may contain forward-looking statements about the Company which was based on the belief, 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 participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions post the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing ‘*’ and then ‘0’ on your touchtone telephone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Puru Aggarwal – President and Group CFO of Sharda Motor Industries Limited. Thank you and over to you, Sir.

Puru Aggarwal: Thank you Melissa. Good afternoon to all. A very warm welcome to all the participants on this call, wish you all a very Happy New Year from the entire Sharda Motor team. This afternoon I am joined by Mr. Aashim Relan – our CEO and our Investor Relations Advisors SGA. I am hoping that you have seen our results and have received our investor presentations by now. The presentation is also uploaded on the stock exchange as well as the Company’s website for reference. Before dwelling in details, I would like to touch upon some highlights on the industry.

The auto sector continued its growth part with strong demand during the festive season in the quarter. PV demand has remained largely unaffected with OEM order backlog remaining stable and new model launches scheduled in the near future. As a result of increased freight utilization and freight rates CV sentiment has begun to improve once more. While large fleet operators account for the majority of demand, small fleet operators demand has gradually increased.

When it comes to tractors, the agricultural segment remains positive across regions owing to healthy reservoir level, higher crop yields and favorable financing. All these facts which has led to the pent up demand is now fading and the sector is facing rising interest rates. However, the sector is witnessing a decrease in commodity prices.

Commercial vehicles volumes have shown an uptrend owing to increased economic activities and infrastructure developments. The volumes for YTD FY23 that is April to December period has been positive with YoY growth of 43%. Passenger vehicle volume for the April to December period also registered a strong growth of 32% compared to the same period last year. Another key segment tractors registered a 12% growth for April to December period compared to the same period last year.

The two-wheeler and three wheeler registered 12% and 7% respectively for the same period. With the demand for affordable transportation and emphasis on reducing carbon emissions electric vehicles also play an important role in India’s transitioned to a more sustainable future,

as evidence by E2W and E3W sales are increasing across India including in Tier 3 and Tier 4 cities.

Having shared my thoughts on the industry I will now move to the operation and financial performance of the Company:

We registered a revenue of Rs. 686 crores which is a growth of 19% as compared to Q3 FY22. Our EBITDA for the period which is in the quarter is Rs. 64 crores as compared to Rs. 62 crores in Q3 FY22. It grew by 3% on a YoY basis. Our PBT for the quarter was Rs. 62 crores after accounting for shares in profits in JV and its associates. The PBT grew by 16% compared to Q3 FY22. The PAT for Q3 FY23 was Rs. 46 crores, which is a growth of 19% as compared to Q3 FY22.

On the 9-month basis our Revenue, EBITDA and PAT grew by 23%, 23% and 39% to Rs. 2,012 crores, Rs. 201 crores and Rs. 146 crores respectively.

On the balance sheet front, we continue to maintain a healthy liquidity position of more than Rs. 588 crores in cash and cash equivalents including investments and bank balances as on 31st December 2022. With this, we can open the floor for Q&A.

Moderator: Thank you. Ladies and gentlemen we will now begin the question-and-answer session. We have the first question from the line of Nirvana Langham an Individual Investor. Please go ahead.

Nirvana Langham: So my first question is most of the OEMs both PV and CV have reported good strong growth on QoQ basis, but our standalone numbers in terms of revenues and JV profits have declined QoQ, so can you tell us the reason for this?

Aashim Relan: So just if you can repeat the question are you talking about QoQ growth that has been reported or you are discussing about versus last year.

Nirvana Langham: QoQ Aashim so most of the CV and PV players have reported QoQ is a flat or growth, but our revenue seemed to have declined so any reasons for that?

Aashim Relan: Are you referring to Q2 versus Q3.

Nirvana Langham: Yes Q2 versus Q3.

Aashim Relan: So, I think we have some different numbers what we can do is maybe just offline we can align with your numbers on the Q2 versus Q3 and in general we have not seen something like that, but if there is some number variation we can maybe discuss this offline and we will revert back then.

Nirvana Langham: So, I was just looking at the two major OEMs on the PV side and the two major on the CV side, but okay I will get back to you on the call?

Aashim Relan: I think there is some alignment of data that is needed I will understand the data you have because whether it is production what you are looking at and I think we will get back to you if you just email this and with numeric then we will get back to that.

Nirvana Langham: And regards to this Aashim at one point of time you had said that you would share some kind of index or matrix to help with this correlation because you had said that the sales do not correlate, so can we expect something on that so that this question does not get repeated I understand there is some lag?

Aashim Relan: So what we are planning to do we are working anyways with our customers and for newer products we are looking emphasizing on value-added sales so that this gets cleared off once in for all and I think we are just about there and hopefully we will have some success where then it could be a very transparent way of looking at it. So, we will get back regarding that, but the work is underway.

Nirvana Langham: With regards to the JV for the commercial vehicle so did we slowdown on revenues this quarter compared to last two quarters or did profitability somehow take a hit?

Aashim Relan: No so I think we have not slowed down on revenues and just because the profitability we are just about coming into profitability right now. So, the numbers are very small every quarter it is 1 crore or 25 lakhs 50 lakhs. So, it is very tough with that base have a plus minus on that. In terms of revenues we have done fine and there has been no such slowdown in terms of revenues. There is always on a quarter-on-quarter basis some bit of variation that would be on profitability numbers, but nothing too much and the base is so small so that is why may be seeming like that, but in terms of revenues we have roughly done the same or maybe even a little bit higher.

Nirvana Langham: So, last quarter you had mentioned that the engines are facing some teething troubles because they are new engines and the traction is not as good, so any updated comment on that?

Aashim Relan: So, these were new engines which I mentioned what we are working now with the OEMs is to make all our products modular so that they can go into the old engine, new engine and then the mix will not have such an impact. So, the work is underway and we are developing with our customers modularity so that we can utilize the same product across engine platforms.

Nirvana Langham: And where would we be on that journey like have the prototypes, etc., been done and has it been approved, so do we have an in principal approval to go ahead for older engines as well how do we understand?

- Aashim Relan:** So, we have the approval that we can utilize them modularity wise and in terms of that we have kickstarted the development work. Now it will go through the phases of testing, etc., and we should be getting some success in that soon, but it is too early to say yet, but in principal we are working with our customers to cross utilize our products for commercial vehicles across engine families. So, as long as the engine family the size is the same and it can be modularly used so we should get some success and work has already started.
- Nirvana Langham:** Any indicative timeline you would be comfortable in sharing on when these things normally?
- Aashim Relan:** There is no indicative timeline, but it totally depends on the bandwidth of the OEMs and the testing agencies, but the work has started and we should be getting success maybe as we know more on our firm timeline I will keep sharing, but the kickstart has already happened.
- Nirvana Langham:** And any development on the export side on either of the two sub areas, sub components or small engine exhaust?
- Aashim Relan:** So, we have received a very good response, in fact we have a very high number of RFQ with us and we are already quoted for them and are expecting some test orders and this will also give us the opportunity to get some domestic business from these global companies as well. So, on both sides we are expecting some test orders to begin and on the success of that of course then the opportunity becomes much bigger. In addition to that now we have an established business development team focused on exports. So, we should have some good traction, but still too early to say, but we have a very good amount of RFQs in the pipeline now.
- Nirvana Langham:** Just one final questions how many employees do we have in this exports BD team if you can share that?
- Aashim Relan:** I do not have a breakup of the numbers, but a specific team is in place for the export BD team.
- Nirvana Langham:** And are they based out of India?
- Aashim Relan:** It is right now based out of India full time and we are also developing a network of consultants globally but just our type of business not so many people are acquired that is under the caliber of the people so we manage a good team and we are already seeing a good traction from that and we begin with test orders and as it develops into bigger things then we will keep you posted, but it is looking good and I think China plus One trend is definitely going to favor in general India and the next couple of years.
- Moderator:** Thank you. We have the next question from the line of Nidhi Babaria from Envision Capital. Please go ahead.

Nidhi Babaria: If you can help me understand our lithium battery segment and what exactly are we doing in that, is it sub assembly things which you are doing or manufacturing and what will be the revenue contribution from this now?

Aashim Relan: In the case of the lithium-ion battery business we are simply assembling the batteries into packs right now it is in pre-revenue stage and we have a joint venture along with Kinetic. Kinetic Green products two wheelers, three wheelers and very shortly we will be producing golf carts. So, as per the joint venture agreement we will begin the activity of simply assembling the batteries as well as the BMS and providing it to them as Phase-1. Currently it is pre revenue so we do not have any revenues on this quarter from this venture.

Nidhi Babaria: And what sort of opportunity do we have with this segment like what type of revenue expectation are there from the segment and from when can they start to contribute?

Aashim Relan: So as of now we are not giving guidance in terms of any kind of revenues as this is something very new to the Company and this is a new venture. In general, as long as all testing goes well and so far the results are very encouraging we should start getting some marginal revenues towards the end of Q4, but we are awaiting for all prototypes to be cleared by the testing agencies and those are underway and of course now there are new AIS Amendment 3 compliant norms which our prototypes were readjusted to and the testing is going on for that.

Nidhi Babaria: And who would be the peers for this segment and why is it like how are you going to capture the market, is it just going to be the Kinetic JV that we will be working with them or we will also be focusing to add clients from other EV players like Ola or anyone else?

Aashim Relan: So for Phase-1 our focus is on Kinetic and Phase-2 will be to look at other players also and get either the same products, but most of them do this in house. So a part of this product is what we will be targeting, but this is Phase-2. As of now Phase-1 would be to Kinetic.

Nidhi Babaria: And what amount of investments have we made for this JV?

Aashim Relan: It is very small investment so far and our projections that the CAPEX requirement will be very small for this Phase-1 of it as this is a CAPEX light model that we have opted for and for Phase-1 we do not see any major investment in the JV so far. For Phase-2 and 3 there maybe, but right now it is too early to tell, Phase-1 looks to be very CAPEX light kind of business model.

Nidhi Babaria: When we say CAPEX light is it just the assembly thing that we will be doing in our existing facilities or assemblies will be done on the customer plants and we would not be adhere to investment?

Aashim Relan: We are working on both options that both options are available, but in general facilities is a very marginal investment because both site there is adequate space available and that we will see based on logistic cost, but in general CAPEX it is a very asset light model on Phase-1.

Nidhi Babaria: Although if you can help me understand what are the growth drivers for the Company for coming two, three years and what type of margin guidance do you want to give considering with the CAPEX guidance?

Aashim Relan: If you could repeat your question please the last part of it.

Nidhi Babaria: Revenue growth drivers for coming two years and what type of margins do we see for the same coming two, three years and the CAPEX guidance?

Aashim Relan: So I will just start with CAPEX, for CAPEX we expected to be similar to previous trends and when the legislations comes it would be slightly higher, but will be within utilizing our cash will be more than adequate when it comes to CAPEX. Now in terms of growth drivers first one the emission vertical there are multiple legislations that are coming up in the next two to three years number one being RDE BS-VI-II which starts on first April. So, we are definitely going to be maintaining our market share maybe even slightly increasing in our products which in general will increase our content per car, LCV, etc., so that is going to be growth driver number one. In addition, TREM-IV and TREM-V norms are coming. TREM-IV norms have already started, TREM-V norms are going to start in the next couple of years and in the case of TREM-V market the entire domestic tractors will also require our emission products. So, it is a large opening for the Company from an addressable market point of view and in this case we are expecting a very solid market share and touchwood we are going very well on the business development size and we have already been nominated for lot of programs here. Then the next growth driver is of course on the sub component side. So, we have started this initiative to export sub components as well as emission systems for smaller engines and for that in the previous question as I mentioned we have good traction our BD team is set, of course it will begin with test orders, but then the addressable market sharply increases. And then another thing to highlight here is that our Company is the probably smallest Company in the world that the intellectual property required for emission products for all these segments and hence the addressable market is much bigger than India and this will be another growth driver for us. Then in addition to this as a growth driver we do our suspension vertical which is right now not addressed. So, with the build by approach we will be working not just on suspensions, but also other powertrain agnostic products and for that we are looking at deploying some capital in the form of M&A given our balance sheet we have a very good runway there to invest into powertrain agnostic products and the last growth driver which is more on the EV side which is the Phase-1 which we have already discussed and we want to focus only two wheeler, three wheeler segment there and as we gain experience that would also in the next couple of years become a growth driver.

- Nidhi Babaria:** So, if you can help me with some growth numbers specifically or some revenue guidance of let us say by FY25 we would be reaching some x amount of revenues which reached growth drivers and what type of margins do we expect?
- Aashim Relan:** So, in terms of specific numbers we do not share in terms of guidance. Margins we expect similar margins going forward as well, but no specific numbers that we will give out as guidance.
- Nidhi Babaria:** If you can help me understand the reason for our gross margins to degrew by 127 basis point on a QoQ basis and similarly decrease in our EBITDA margin and what could lead to these margins to go down further in coming quarters or if margins are going to increase in coming quarters?
- Aashim Relan:** So I would want to say that best to look at auto industry margins on a YoY basis and not on a Q versus Q basis, but either way that the dip in the margins has just general product mix variance that has happened then also we have lot of startup and change over cost which is coming this quarter because all our BS-VI-II products are underway, prototypes are being made, lot of development work for TREM-IV and TREM-V is going out. So, a little bit of that has also added, but it is much better to be looking at trends on a longer-term basis to make it more accurate.
- Nidhi Babaria:** For these products what type of raw materials pass through do we have with our clients and what type of order book do we get from the customers?
- Aashim Relan:** Sorry if you can just repeat the last two lines.
- Nidhi Babaria:** Raw material pass through contract which we have with customers and revenue order book from the customers?
- Aashim Relan:** For the pass through point generally it is raw material is indexed so it is whether it goes up or down generally we get it from the customers and in case it goes down then we have to give back to the customers and the second order booking I could not understand what you are looking for.
- Nidhi Babaria:** When some XYZ clients gives us orders of exhaust system or suspension system, do we give us some specific order book for whatever products they are taking from us?
- Aashim Relan:** I think I am not sure what the question in, but yes in general we get an order book and it is not any specific order book we get, we get nominated for a program and as they give us guidance numbers on what would be the volumes of that program and how long will that last the program. So, general guidance is given, but then the production and the supplies is based on the demand for that product which happens on a monthly, quarterly and annually.
- Nidhi Babaria:** Who would be your major clients?

- Aashim Relan:** That is just all the automobile companies that are there are our clients and we are consistently looking to add clients on that.
- Nidhi Babaria:** If you can give me any % breakup between any of the....
- Aashim Relan:** As per guidance we do not mention client names on investor calls and we will just broadly keep it at good mix of the clients, but we do not tell investor mention any client names for their confidentiality and prevalent products.
- Nidhi Babaria:** For all the segments who would be our major peers?
- Aashim Relan:** We have two competitors, an American and a French Company these are the main competitors both are Fortune 500 companies based out of India, but they have a presence in India those are main competitors we do have some smaller competitors Japanese, etc., for one or two customers, but largely we have two competitors.
- Nidhi Babaria:** No domestic peer?
- Aashim Relan:** There is no significant domestic player in our product line.
- Nidhi Babaria:** So just I thought suspension and exhaust system especially suspension is being done by few other auto ancillaries also in India?
- Aashim Relan:** I was referring to exhaust systems in emission. For suspensions there are few players I do not have the names with me, but there would be few players for suspension I was referring previous question to exhaust system.
- Nidhi Babaria:** And what would be our market share for exhaust system?
- Aashim Relan:** It is different across different segments, but a rough guesstimate could be 30%.
- Nidhi Babaria:** What would be the market share for other American and Japanese players?
- Aashim Relan:** The balance would be split majorly between the American and the French Company and Japanese in one or two segments would be here, but do not have the specific numbers like this across, but I would suggest you can list down your questions and we will then revert back to you, you can email them and get specific numbers if you want.
- Moderator:** Thank you. We have the next question from the line of Apurva Shah from PhillipCapital. Please go ahead.
- Apurva Shah:** Sir continuing on the margins front so even if I look at the year-on-year so there is like at least 80 bps dip in the gross margin front and on the EBITDA margin it is 1.3% dip and normally

what say is we would be in a position to maintain the margin, but what could be that range whether it could be 9.4%, 10.4% or 10.5% because on the revenue of maybe Rs. 2,700-2,800 crores 1% would mean may be Rs. 28 crores to Rs. 30 crores of dip so can you just throw some exact line of the margin front?

Aashim Relan: I think in a long term basis we are very likely to maintain our margins. Now on a QoQ basis and also on a YTD basis for this quarter general dip that has come in is also a factor of general product mix variance and then this quarter also has had startup cost that we have linked to the production and development of BS-VI-II which will now begin production in Q4 and as well as we are working on lot of development of TREM-IV, TREM-V lot of prototypes so little bit could be there and in general that we are looking to maintain our margins, but of course on a quarter-on-quarter basis.

Apurva Shah: It would be 10.5% or higher I am not concerned about the quarterly numbers I am just looking for the sustainable margin range which would be 10.5% higher or what?

Aashim Relan: No firm number like this that we have as a floor or a ceiling in terms of margins, but in general we expect to maintain and there is no specific number like this that we follow that it will be there and of course market scenario is volatile in general so it is very hard to pin down on a particular number.

Apurva Shah: And it is really good to hear after so long time we are working on that index which could give some sort of clarity to investor community, so just a clarity there so that index would contain only value add versus non value add or also that would contain data where we can compare your growth versus industry growth or growth of our major customers?

Aashim Relan: So, I think with the index it would become more possible to track it is in general very difficult to correlate between exact customer numbers and our numbers and especially on a QoQ basis, on a longer term basis it is easier to do, but yes it would definitely improve the situation in terms of transparency and we understand that and we are working very hard along with our customers to come up with some information where we could provide that and in general for our newer products we are more and more trying to focus that this point does not come in general.

Apurva Shah: So Aashim why I am asking this like if I look at your 9 months number so as you mentioned in your initial remarks as CV grew by maybe 43%, PV grew by 32%, but if I look at our revenues so that has grown by 23% I can understand like it would be directly correlated to the model, but in general because 90% of revenues coming from these two segments, so in general what seems our group is lower than the industry group so probably if you can watch something on that index so that would add up to the transparency rather than like moving here and there I hope that clears my point?

Aashim Relan: Understood and we are working on this.

Apurva Shah: And one thing on the Eberspaecher JV so can you give the number for quarterly and 9 months and similar number for last year to date?

Aashim Relan: I do not have these numbers in front of me, but we will share same with you on quarterly so you said quarterly and 9 month and last year we will share that I do not have them put in front of me right now.

Apurva Shah: And just last one point on the cash utilization so if I look at your last four, five years balance sheet so we have been always cash rich so maybe we had almost Rs. 150 crores to Rs. 200 crores of cash in 2017-18 times and which is going to almost 3x now which is at around Rs. 600 crores and looking at your run rate you do not require CAPEX so may be it would be generating at least Rs. 150 crores, Rs. 280 crores of cash flow every year, so Aashim when you have some guidance on how would you utilize the cash because we have been hearing for the inorganic thing since long, but at least if that also is addressed so that would give some more clarity because there is no question your strength or the execution capability, but it is piling up of cash you have to address some time?

Aashim Relan: Absolutely so we totally are working towards that right and our full focus is and our preference is to utilize this for M&A opportunities for powertrain agnostics products, but there is no fixed timeline as you want to be extremely careful with the cash surplus. So, it would be very easy for us to go for any deal, but we are being very careful about it nevertheless we are cautious that it is a good amount of cash surplus that we are holding and we need to deploy it carefully or return it back and for that we have introduced a dividend policy also which we started I think just about one year ago and all things put together I think we will start deploying this can also returning it also to the shareholders in a higher rate.

Apurva Shah: Sir I fully respect you in terms of the conservativeness and not carried away by having a cash on the book, but still I think you have to address in terms of how would you like to utilize in terms of which area or maybe some timeframe when you say powertrain agnostic it can be a vast area, so where we are focusing on maybe some EV part or something else or what would be the opportunity size we would be looking for so at least that would help us to understand and assess your Company maybe for next two to three years, five years down the line because I am sitting on the similar page we would not be in a position to understand and assess the Company for the future growth path?

Aashim Relan: We are looking to utilize it. We are looking at the powertrain agnostic parts which we expect there are just 8 to 10 major of them and very tough to give any concrete timeline for that because right now we are in the situation of having good cash surplus, but we do not want to deploy it in the wrong areas just for the heck of deploying it. So, being very conservative there and we will keep updating as there is progress on it and at the same time we have established a good dividend policy also which would maybe we will continue to focus on also returning back to shareholders in a fairly manner.

Moderator: Thank you. We have the next question from the line of Ankur Shah from Quasar Capital. Please go ahead.

Ankur Shah: Can you give us the cash levels as on 31st December?

Aashim Relan: I think Puru San you have the exact number.

Puru Aggarwal: It is Rs. 588 crores including cash, cash equivalence and bank balances.

Ankur Shah: Sir on a as it is basis considering the sales remains the same and the sales mix remains similar what is the impact of RDE for the next year for our Company like on an overall basis?

Aashim Relan: So on product side content should probably increase by 10% in gasoline and roughly 20%, 25% in diesel. So, depending on the mix and also the information of RDE on how customer sales go there would be a little bit of an upswing in terms of RDE numbers.

Ankur Shah: So, on an average like is it good to assume that even if the customer volume growth does not go well or even it stays steady we will be on an average grow by 10% to 12%, is that the right assumption?

Aashim Relan: I think to put a specific number on it is difficult, but yes it will be a tailwind. So, it will be a tailwind to what degree it is a tailwind we will have few variables, but yes it will be a tailwind in terms of our performance.

Ankur Shah: So just on the cash utilization front obviously I heard the previous answers, but just trying to understand your philosophy whether you are looking at Indian Company, you are looking at as a technology sort of acquisition, you are looking at a platform because that is actually a question on the terminal value of the Company so if you can give some specifics because I think it is being quite some time on the cash piling up?

Aashim Relan: Sorry, what specifics are you looking for?

Ankur Shah: Like how are we planning to use this cash in the sense that are we looking for a platform sort of an acquisition let us say there is a Company which is under operation it already has OEM customers or let us say we are looking at a technology which is ready and we are ready to scale up that technology, what is the kind of mindset we are building to have these acquisitions or are we internally thinking of developing products like even if that is a possibility?

Aashim Relan: I think the acquisition front what we are looking at is powertrain agnostic products and probably from your reference it would be more platform linked where already the product is available and there with customers rather than a very new technology because of the ticket size and in terms of internally for our emission vertical we do not require a heavy amount of CAPEX we do require

CAPEX and we will keep funding that of course, but we are also looking at various ways to strengthen our suspension vertical through a partnership or also to add some investments in that same.

Moderator: Thank you. We have the next question from the line of Manpreet Aurora from Aurora Wealth Advisors. Please go ahead.

Manpreet Aurora: So first question I have is just trying to understand the total addressable market across PV, CV and then tractor, so out of the Rs. 2,600 odd crores that we do today in standalone how much would be the contribution of the % of the PV plus LCV?

Aashim Relan: So in our standalone number it is PV and LCV. So, as a revenue split about 90% comes from exhaust, 6% from suspension and others is about 4% and when we look deeper into the exhaust numbers about roughly 45%, 50% is PV and 50%, 55% is CV which is LCV. The CV segment does not come in our standalone results that comes in the JV results.

Manpreet Aurora: If 90% of Rs. 2,600 crores it comes to around Rs. 2,340 crores and if I assume that we have 30% market share then total market around comes to Rs. 7,800 crores of a total addressable market on the PV/LCV side and on the CV side we were doing around Rs. 180 crores to Rs. 200 crores besides we will be breakeven at around Rs. 200 crores is that a correct understanding and since we are breakeven now are we doing around Rs. 200 crores of annual run rate?

Aashim Relan: So for the first one our numbers include the catalyst and the brick. So, the exact math does not work out in terms of addressable market. On the second side when it comes to breakeven or slightly above breakeven we are roughly at that number in value-added sales when we look at the CV side on the JV front and that is showcasing that they are making a small profit as such.

Manpreet Aurora: So there also market share is around 10% to 15%?

Aashim Relan: Yes it would be around that.

Manpreet Aurora: And so total value-added sales again doing the math like that?

Aashim Relan: It would be like math would be better just for the paucity of time that you can share it by email because it would then be little bit tough for me to do it offhand.

Manpreet Aurora: So where I was going towards on the tractor side the addressable market because in earlier calls you had mentioned that it is equivalent to what it is doing in PV/LCV and we do around 8 lakh tractors today and around if I assume 8 lakh of average price of a tractor it goes to around Rs. 64,000 crore market and assuming a 5% of that as a exhaust system cost it comes to around Rs. 3,200 crores of market. So, I was trying to see where the addressable because the PV/LCV

segment looks much larger than the tractors so if you can help me understand if the market size were the same or little less?

Aashim Relan: I could not infer the math on this side that you have done. What I would request is if you can just share this by email because there is very specific with lot of assumption and we will get back to you because I could not infer the backend math of this thing, but if you share it we will definitely get back with that.

Manpreet Aurora: The other thing was again on the tractor side so our current product is not required for the current tractor that are out there only the TREM-V kicks in so we are only now on the 50 horsepower and above and for the other ones we have not there in the market today is that correct?

Aashim Relan: For our product as on pre 1st January 2023 it was not required on any domestic factors, but now from first January TREM-IV has been implemented so a very small share of tractor a product, in TREM-V roughly all the tractors will require a product and we would be participating in the full market for TREM-V.

Manpreet Aurora: So currently in the 50 horsepower and less there are existing players for supplying exhaust supply?

Aashim Relan: Exhaust system is not required yet on those products in the Indian market, globally yes there are players who do supply to that market in the countries which have this legislation already, but in India right now it is not required. It will be required from TREM-V.

Manpreet Aurora: So what I was trying to understand was the current tractors out there also do not require any exhaust system or they have an exhaust system?

Aashim Relan: They require thing what they called the muffler it is a different product they do not require any emission system they are better way to put it is they do not require any emission system like us. They do require some different kind of product like a painted muffler or something like that, but it is slightly different and that is a very low value-added product, but the emission system that will be required from TREM-IV, TREM-V and largely from TREM-V.

Manpreet Aurora: Because we have been reading about players like Mangla Tubes doing a joint venture with Cornaglia and SM Auto with Proventia, who is a Finnish player and then you also mentioned that one of our French and American competitors are also present in this space. So, once this TREM-V triggers in do you see more competitive intensity compared to now?

Aashim Relan: It is like the same it is going to be same in terms of intensity slightly lighter and we do expect the same competitor profile that we have right now to maintain there and for TREM-V most of the development work is already done so we have a very good feel for the business development side. So, we see very similar kind of competitors and there were some periphery parts like

mufflers and all for that which we do not participate in, for that I think some of these companies might be able to do.

Manpreet Aurora: One last question on the CNG side we have been again the CNG prices coming down we are hearing that the CV side LCV and MHCV also some players talking about moving to CNG as a fuel, so how do you see that impacting Sharda in terms of exhaust systems positively, negatively neutral?

Aashim Relan: I think it is largely neutral. CNG in general CNG has production what we have seen on the market has gone through lot of volatility based on the prices, but most of the OEMs are preparing for all powertrain scenario and one of them is CNG and we are actively working with almost all of our customers for the CNG platforms also and it is likely to be neutral when it comes to switch over to CNG if it happens and in general we are seeing lot of development work for the future and CNG coming in.

Manpreet Aurora: Just a follow up in that Aashim because customers will or users will usually going to move from diesel to CNG and our diesel offering is relatively has more content per vehicle and if CNG comes in do you see some downward pressure on the content vehicle?

Aashim Relan: CNG also has a good content per vehicle and CNG is a newer technology so it is hard to see what tech platform will each OEM utilize so it goes into the technicalities on to their engine, but in general I think all powertrains is what the preparation is going on for.

Moderator: Thank you. We will take the last question from the line of Sonaal from Bowhead. Please go ahead.

Sonaal: Couple of questions what would be a CAPEX for 2023 and for 2024 and the first 9 months how much of this CAPEX is already done?

Aashim Relan: I think the exact CAPEX figure for the 9 month is Rs. 59 crores-60 crores so far Puru just if you can validate.

Puru Aggarwal: Yes you are right it is close to Rs. 60 crores.

Aashim Relan: And roughly at this run rate we are expecting to go for the next couple of quarters.

Sonaal: So as far as the PLI scheme is concerned does this take into account the CAPEX for that and any development or any clarity on the PLI scheme for you?

Aashim Relan: So, the PLI scheme yes lot of the products which we are doing in CAPEX also come under the PLI scheme which we have approved for, but the PLI process requires clearance from testing agencies and lot of other activities. So, more and more clarity is coming in on how to go about

PLI, but that is still underway and we expect at least one or two more quarters till we get a finite clarity on PLI. So, as of now we are not considering anything in our books with PLI to be on the conservative side, but we are actively working on the scheme and some of the CAPEX we are going to do in all the products that come in the PLI scheme.

Sonaal: But is it safe to assume that our larger CAPEX can potentially happen if you have full clarity on the payback?

Aashim Relan: Sorry.

Sonaal: What I am trying to understand is once we have full clarity on the benefits of PLI and for your products is that your run rate for CAPEX could potentially increase after you have that clarity?

Aashim Relan: We will maintain the same only it is just that within the PLI scheme definitely we have few products that come in and once we get exact clarity how to go about it we will be in a better position in couple of quarters to discuss PLI, but lot of work is going on and PLI will be an added benefit only from a financial perspective also.

Sonaal: But I was trying to understand is there must be a minimum CAPEX requirement for PLI and that would mean that you may have to accelerate your CAPEX if you have to pick those benefits or it is too early for you to answer those questions?

Aashim Relan: We are within the thresholds of the PLI CAPEX so far and we expect to maintain that also.

Sonaal: Three more questions firstly any plans for Noida plant sale and considering it is near the airport has the market value of that increase significantly, is it more like Rs. 150 crores-200 crore or this is a very aggressive assumption from my side?

Aashim Relan: We are not yet disclosing any further valuation, but definitely we do have that and in addition to the cash that does come into our calculation on M&A, but till we have a finite use for that. I think we would not go ahead with it as you rightly noted that it is all in prime areas and it has an upside to that.

Sonaal: As for the tractor market is concerned one of the participants had asked you a question may be it was not clear, but what I think I was trying to say is that the size of the tractor market is roughly 8 lakh to 10 lakh and if the per vehicle exhaust system is it like Rs. 30,000, Rs. 40,000 per vehicle and can we say annual size of market is somewhere between Rs. 2,500 crores to Rs. 4,000 crore some broad perspective on it we are not talking about value-added sales, we are talking about overall sales and you would have some perspective and you would had some TREM-IV orders so you will have some very rough idea we understand that it is difficult to give an exact number and market size could vary by 20%, 30%, but that is normal for us to incorporate as analyst, but a very rough cut would definitely help all?

Aashim Relan: I do not have a rough cut number prepared like this, but in general it is a good market size and also that should be a very positive about it and the business development cycle is looking very good. So, we will definitely be able to maintain or increase market share to what we look at in the tractor market. I do not have this kind of a rough cut estimate number, but let me work on it and I will share this.

Sonaal: So that will really be of great use to everyone. We understand that being a very conservative company, you may not want to give a number because nobody knows what that number would be in the future. But a very, very broad range also helps us as analyst to understand the size of the potential. Nobody would hold the company to that number specifically because obviously, we all understand we deal with so many other companies in the same sector -- other sectors where the information is not available. So it will be great if you can share in next quarter. Two more things as far as the cash is concerned maybe many people have suggested, but may be you could have a policy that you will keep a own cash of Rs. 500-800-1,000crores whatever number you are comfortable with for future acquisitions and beyond that we will distribute a certain % of your future profits till you find further uses of that. So maybe something on those lines over next six months whatever that number you guys are internally comfortable with we are just 1,000-500 crores does not really matter, but a broad direction perspective that may be we will keep up to this number so that it helps the Company at the right time having cash as always a big edge because these opportunities come unannounced then you want to have enough cash, but some broad sense that is what I think is a participants are looking for they are not asking to do acquisition immediately or next one year because obviously till you find the opportunities there is no point in spending, throwing money and that is a very sensible policy to have that would another suggestion. And as far as your data is concerned value-added, non-value-added EBITDA we are actually presently surprised because whatever we are tracking internally it is now matching for last three quarters I will be happy to discuss with you whenever we speak next offline, but for last three quarters your data is exactly matching with your EBITDA at a broad level, margin I understand we never match it is a function of the product mix and pass through of various cost.

Aashim Relan: Thank you so much and thank you so much for the suggestion as well and we will definitely have an internal discussion and work towards that, but I appreciate this and also on this index as we said we are working towards that and we will share it.

Moderator: Thank you. Ladies and gentlemen that was the last question and we will now close the question queue. I would now like to hand the conference over to Mr. Puru Aggarwal for closing comments.

Puru Aggarwal: We thank you for your participation in our Earnings Call today. We hope we have been able to address all your queries. However, if you have any further questions you can get in touch with our IR advisors, Strategic Growth Advisors and thank you and have a good evening.



*Sharda Motor Industries Limited
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Moderator: Thank you members of the management. Ladies and gentlemen, on behalf of Sharda Motor Industries Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines. Thank you.