



Sharda Motor Industries Ltd.

SMIL: BSE/NSE: 22-23/0306

June 3, 2022

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: Transcript of earning call held on May 30, 2022

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. SMIL: BSE/NSE: 22-23/3105 dated May 31, 2022 regarding the submission of audio recording of earning call held on Monday, May 30, 2022 from 5:00 P.M. (IST) onwards, 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

Divyang Jain
Asst. Company Secretary &
Compliance Officer

Encl. as above

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“Sharda Motor Industries Limited Q4 FY 22 Earnings Conference Call”

May 30, 2022

Disclaimer: E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on 31st May 2022 will prevail.



MANAGEMENT: **MR. SRINIVASAN N - CFO, SHARDA MOTOR INDUSTRIES LIMITED**
 MR. AASHIM RELAN - CEO, SHARDA MOTOR INDUSTRIES LIMITED

Moderator:

Ladies and gentlemen, good day and welcome to Sharda Motor Industries Limited Q4 FY22 Earnings Conference Call. This conference call may contain forward-looking statements about the company, which are based on beliefs, opinions, and expectations of the company as on the date of this call. These statements are not the guarantees of future performance and involve risk 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 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. Srinivasan N, Chief Financial Officer of the company. Thank you, and over to you, sir.

Srinivasan Narasimhan:

Thank you. Good evening to all, a very warm welcome to all the participants on this call. This evening I am joined by Mr. Aashim Relan, our CEO and our Investor Relations Advisors, Strategic Growth Advisors. I'm hoping that you have seen our Q4 results and have received our investor presentation by now. Those who haven't seen them yet can do so on the stock exchanges and our company's website.

Before speaking about the company's performance for this quarter and full fiscal year, I would like to throw some light on the industry front. The entire fiscal had been eventful for the auto sector with various events like lingering effects of COVID-19 pandemic, chip shortages, supply chain disruption, elevated raw material prices and spike in crude prices on account of the geopolitical crisis to close the years. However, the industry registered a good volume growth albeit on a lower base of FY '21, which was one of the worst years. With improving semiconductor supplies and a strong shift towards personal mobility, improved customer sentiments and new model launches domestic PV is expected to continue its growth trajectory. Also improving macroeconomic factors like higher spending on infrastructure and improving manufacturing activities led to improved fleet utilization and resulted in the start of an upcycle for CV demand, which is expected to continue in the current year as well.

In terms of auto industry performance during quarter four, we saw sales of 9.2 lakh in and passenger vehicles. 2.5 lakh units in commercial vehicles, about 0.8 lakh units in three-wheeler sales and about 33.5 lakh units of two-wheeler sales. For full year FY '22, the passenger vehicle sales were 30.7 lakh units, commercials were 7.2 lakh units, three-wheeler sales were 2.6 lakh units and two-wheeler sales were 134.7 lakh units during April to March '22. The battery swapping policy will revolutionize the two-wheeler and three-wheeler EV market, as the standardization of components will enable more players to enter the market, which will drive down the cost of manufacturing and bring in technological advancements.

Now coming to the business performance, our Q4 FY '22 revenue was higher by 2% versus Q4 FY '21. Our revenue for the full year grew by a solid 30% to INR 2,255 crore against 1,737 crores in the previous year. Further on a sequential basis compared to quarter three of FY '22, our revenue was higher by 7%. Our EBITDA, including other income stood at INR 72 crore in Q4 FY '22 as against INR 58 crore in Q4 of FY 21, a growth of 24%. Further EBITDA margins, including other income were 11.6% this quarter as compared to 9.6% in the Q4 of FY '21. On similar lines on a full year basis, our EBITDA was INR 257 crore as against INR 151 crore of FY '21, which is a growth of 71%. EBITDA margins, including other income were 11.4% for FY '22 as compared to 8.7% in FY '21.

Our PBT margins rose to 9.8% in Q4 FY '22 as against 7.4% in Q4 FY '21. Our consolidated PAT for Q4 FY '22 was INR 45 crore as compared to INR 26 crore of Q4 of financial year '21, which is an increase of 73%. Similarly for the full year FY '22 it

stood at INR 150 crore against INR 66 crore of FY '21, which is an increase of 127%. With the robust performance during the year and in line with our dividend policy, we have proposed a dividend of 15% on profit after tax this year, which is equivalent to 408% dividend on the face value.

With this. I would like to open the floor for questions. Thank you.

Moderator: Thank you. The first question is on the line of Pritesh Chedha from Lucky Investments. Please go ahead.

Pritesh Chedha: Yes, sir, thank you for the opportunity. Sir, considering the, the OEMs that we service, which is largely non-Maruti, in fact we don't service Maruti. So the growth rate in those OEMs on a Y-o-Y basis was my guess is fairly significant number, yet our revenues seem to have grown at a certain rate. So, any comments there and is there any changes in market share for our product line?

Aashim Relan: Yes. Good evening, everyone. So, this is Aashim Relan and pleasure to be with all of you. So, taking on the first question, there is no substantial change in market share, but as our numbers is a blend of value-added sales and brick sales. So optically there can always be some differences, but we have been in line with the OEMs performance only. And there is in fact maybe a slight improvement only, and it just builds on the share. So, some OEMs have done very well, and some have not done so well. And as a basket, it's relatively similar.

Pritesh Chedha: Sir, I couldn't actually get your answer because if I'm not wrong, we largely supply to Tata Motor, Mahindra, Kia, Hyundai if I'm not wrong. So, if you could help us understand the OEM volume growth and our volume growth if you could help us?

Aashim Relan: Sure. So, I don't have the OEM numbers individually with me right now, but we will share something to reflect offline. I don't have them in front of me and it's just a blend change that we have seen, but we will try to share it offline.

Pritesh Chedha: Blend change means some OEM where you must be supplying the full exhaust system, you have supplied just the brick, that's how it is?

Aashim Relan: No, on a weighted average basis certain OEMs might have gained less market share, one OEM which has gained higher market share as a proportion of our sales it might not be a lot. So that is what I mean by blend.

Pritesh Chedha: Okay. Now these OEMs have a fairly robust product pipeline, and which is trending well, whether it's Kia, Mahindra or Tata Motor. Incrementally, let's say in '23, what kind of revenue growth visibility or revenue growth would you look at in the standalone operation?

Aashim Relan: So right now, it's very hard to comment on revenue growth because we are also having a lot of macro uncertainties in terms of the geopolitical situation, as well as the lockdowns in China, etc. So very hard to give a guidance on revenue as of now, but as the situation stabilizes, we will be in a better position. But in general, we are an engine-based company, and we are nominated on most of the future platforms. So as the OEMs do well so we will.

Pritesh Chedha: And my last question is sir on a CV JV side, so there now we are seeing the MHCV from quarter four clocking at about 70,000 to 80,000 units number and the similar we see here in quarter one. So, on a CV JV side at what volumes of the CV do we actually start making profitable and any comments there?

Aashim Relan: Yes, so our breakeven point on the JV side is INR 200 crore of value added sales. And we are roughly about INR 100 crore, INR 120 crore this year. And as soon as the models where we are supplying to see an uptick, we will see a better situation. So, as we are nominated for two or three engines, which unfortunately in the overall market have been underperforming mostly because of the supply side, as they have been hit more with the semiconductor shortage and also coincidentally now precious metal shortage. So, our

sales have not yet picked up on the JV to the degree that we thought, but as soon as we see an uptick towards that INR 200 crore value added sales number, we will see much better performance out of the commercial vehicle JV.

- Pritesh Chedha:** This is annual, sir?
- Aashim Relan:** Annual.
- Pritesh Chedha:** Yes. Okay, thank you, sir. What was quarter four run rate if you could? Was it INR 40 crore?
- Aashim Relan:** I don't have it with me, but we'll share the exact number of quarter four separately. I have the full year number with me.
- Moderator:** Thank you. The next question is from the line of Karthikeyan Vk from Suyash Advisors. Please go ahead.
- Karthikeyan Vk:** Yes. Hi, good evening. Couple of things, one, a small suggestion it would help if you highlighted the performance of the joint venture separately, till at least it reaches a certain scale, because one is unable to infer from just the reported numbers. Second question is, would there be any progress on any of the other initiatives that you have been attempting? One, of course, is the component exports, two, is your discussions with Eberspächer on expanding the scope of your arrangements? And the three, what would have been the last contribution from the battery joint? Thank you.
- Aashim Relan:** Yes. So, thank you so much, Karthikeyan, so first definitely that as per the suggestion we'll provide something separate to make it clearer regarding the JV. Coming to the questions regarding the components business. So, a lot of business development work is undergone, but as of now nothing material that we can share in the public to make, but the backend work is on there. When it comes to the commercial vehicle joint venture, our full focus right now is to first bring it to profitability and then only look at the next phase of it. And the third question regarding the battery, as of now the battery JV SOP has not started. So, in these numbers, there is no contribution from the battery JV.
- Karthikeyan Vk:** Right. And in terms of the catalyst what exactly is the current situation, are your customers continuing to source through you or , some additional color on that would be interesting? Have there been any changes, movements on that side?
- Aashim Relan:** Yes, so starting, this financial year maybe one customer would switch over to a value added sales basis, but we are yet to get confirmation from them. While as some of our other customers who are requesting us to buy, we remain at status quo with them, but we are , this is an initiative where we are putting effort and as time goes by, we are hopeful to get some good results here. But nevertheless, we don't want to, we want to go buy our customers. So, we don't want to push too hard, but definitely work is going on in this area.
- Karthikeyan Vk:** That's right. In that context would the entire INR 450 crore of cash be unencumbered, or would there be any part, which is against customer advance the cash balance that you reported that is?
- Aashim Relan:** There are, this maybe Srinivasan can answer this question, but yes, Srinivasan?
- Srinivasan Narasimhan:** Yes. Mr. Karthikeyan, can you repeat this question?
- Karthikeyan Vk:** I was asking you have cash of about INR 450 odd crore at the end of FY '22 on a consolidated basis, I was wondering if any part of it is encumbered against customer advances for these catalyst for any of the other...
- Srinivasan Narasimhan:** No, no, these are completely free and unencumbered.
- Karthikeyan Vk:** Wonderful. Yes, sure. Let me come back in the queue. Thank you.

- Srinivasan Narasimhan:** And I just want to add a clarity to the JV numbers, the JVs numbers only at the profit after tax level get consolidated. So, all the numbers are only independent Sharda Motor.
- Karthikeyan Vk:** Standalone basis. Correct, correct. We don't have clarity on this scale moment. So therefore, like for example Q3 to Q4, there has been some reduction in losses, I didn't know what to make of it. So therefore, I thought it'll help.
- Srinivasan Narasimhan:** Sure, sure. Yes, we will do that.
- Moderator:** Thank you. The next question is from the line of Saurabh Jain from Sushil Finance. Please go ahead.
- Saurabh Jain:** Hello. Yes, many congratulations for the robust numbers and thanks for the generous dividend, which you have declared. Sir, I have a couple of questions, in one of the earlier con calls, you had mentioned that by FY '25 more than 80% of your turnover is likely to come from CV segment, which is not very substantial as of now. So, what kind of CAGR do you see over the next five years? I understand it would be difficult for you to give the guidance, but just a thought on, some light on from where this 80% number has come?
- Aashim Relan:** So, thank you so much. Saurabh, so we gave the guidance that 80% of our revenues will come from the off highway, commercial vehicle, and LCV segment together. And that is largely due to two things. One in 2024, we will be getting the TREM 5 norms in India, which emissionises the complete tractor market. So that is going to be an expansion of our addressable market. And hence, we are very hopeful to get good market share there and that'll add to our revenues. And hence that 80% number will come. Second on the CV and LCV side, there is the RDE cycle, which is coming in next year and we are hopeful to gain some market share there as well as there is an expansion of content per, let's say, truck on the LCD side as well. So that is largely where we will be getting that 80% mix from.
- In terms of any forward guidance, right now we are not giving any forward CAGR number on the growth to 2025, but our addressable market is substantially expanding. So, we are very optimistic of a strong growth like we have seen in the last couple of years.
- Saurabh Jain:** Yes, that's helpful. But if I can ask this in a different way, 80% of your turnover is likely to come from these three non-PV segments. So, do you think PV is, do you see any contraction in the PV?
- Aashim Relan:** No, as of now we don't see any contraction in the PV side.
- Saurabh Jain:** Okay. Sir my next question is you mentioned the FY '22 sales from the JV with the Eberspächer was around INR 100 crore, INR 110 crore, so can you mention what was the capacity utilization and any guidance for the current fiscal, if you can provide?
- Aashim Relan:** Sure. So, the capacity utilization was roughly 40%, 50% and the sales what we are mentioning is the value added sales, which are between INR 100 crore, INR 120 crore. And in terms of guidance right now, we are heavily dependent on basically two engines, which from the supply side that the OEM are having issues in terms of getting the semiconductor, the precious metals, etc. So very hard to give a guidance, but as soon as that situation improves, we are very optimistic to do better in the joint venture.
- Saurabh Jain:** Okay. My last question is on cash, which we are holding on our books more than 450 crore. So, have you thought of any plans to deploy the cash? I understand in the last couple of con calls you had mentioned that you are looking for some M&A activity, but any updates on that? And what will be the dividend policy going forward?
- Aashim Relan:** Yes, so we are very actively looking at M&A opportunities. And right now, we have not come across or being able to close for one reason or the other. We want to be very careful also while deploying this capital, but we are very active on the M&A front. And of course, if it pitch with the right strategy and at the right terms, we will definitely be

deploying this capital there, but in a prudent fashion. And hence we are being very careful and not just going for any M&A opportunity.

When it comes to a dividend policy, we will be at 10% to 30% of PAT. And we will maintain that policy for this year as well.

Moderator: Thank you. We'll move on to the next question that is on the line of Viraj from SIMPL. Please go ahead.

Viraj: Yes, hi. Thanks for opportunity and congratulations for good numbers in such a challenging environment. Just couple of questions first is, if I look at the standalone business, if you can just give some color in terms of how the value added piece would've grown year-on-year? And in relation to that how would have the margin behaved, because if you look at the overall report number, it doesn't give a true picture. So, any perspective on that you can share? That is one. Second is in terms of for TREM 4 and TREM 5, especially with TREM 4 starting from 1st October. So, I think by now we would've got a good amount of clarity in terms of customer acquisition and potential share of pipeline of opportunity which is coming. So, any perspective you can share on that front?

Aashim Relan: Sure. So first on the value added side, so we are not able to guide yet on value added sales for the given reasons that we've explained in previous calls. But in general, we have seen decent growth on a Y-o-Y basis also, but on probably single digit side. In terms of margins also it is hard to comment because if we give the margin number, then that can be reverse calculated on to value added numbers. So, we will refrain from that, but we are very actively working at different options to make this more predictable and transparent. And we are working along with our customers to enable us to share these kinds of numbers. So that's for the first.

When it comes to the second, so TREM 4 now is coming in, in 1st October 2022. So probably the production will start in September and there we have done very good job in terms of customer acquisition, and we have a very good market share. But given that that market is very small right now it will only contribute something like 2% to 3% of our sales as of now, but it would accelerate when we go into the full financial year of FY '24. And then, of course, TREM 5 is where we will really see a very good growth, but the good news is that we've done well on the customer acquisition side on TREM 4, as well as Stage V, which some of these customers are utilizing Stage V products to export to other countries.

Viraj: So, on the value added part you said that the growth has been single digit in FY '22. So, is it because we have a more higher concentration of few customers and therefore, it doesn't really mirror the end market growth, is it because of that? And the reason I asked on the margin is because just to get a sense if there's any under recovery in terms of raw material, or element concentration, which we typically have seen with another auto ancillary? So, is there any under recovery in that sense, and is that also a lever for profit growth in FY '23?

Aashim Relan: Yes, so I think just the value added thing is very approximate. So, I would say not to take it at face value as we cannot guide on the value added side in terms of under recovery or anything like that we didn't see any of that in this quarter. So, most of our materials, etc., indexed with the customers.

Viraj: Okay. Last question is on the export part, our earlier commentary was that we are looking at ancillary and sub-assemblies kind of product categories. And these are off-highways and CV and there the lead times are much more shorter. So, by when do you expect any traction or any scale up from the export part playing out for us?

Aashim Relan: Sure. So, the business development work is on and it's hard to give any guidance on timing because of the ever-changing situation geopolitically as well as various things happening around the world. So, in terms of timing, it's very hard to give as of now, but we are very hopeful to get some success in that area. And lot of backend work by our business development team is on for the same.

- Moderator:** Thank you. The next question is from the line of Apurva Shah from PhillipCapital. Please. Go ahead.
- Apurva Shah:** Yes, sir. Thanks for the opportunity. My first question is, it's a clarity. So, for the Eberspächer JV, I think what you mentioned is the revenue was around INR 100 crore, INR 130 crore and if I'm not wrong it was the similar number in FY '21 as well. And at that point of time, we were servicing only one customer. So, does that mean despite of adding another customer it was a stagnant revenue in this year?
- Aashim Relan:** Yes, yes. So, the revenue on a value added basis was fairly similar, because one of the customers has faced a lot of issues with this engine model in terms of supply side issues.
- Apurva Shah:** Okay. And sir what was your combined market share for this JV?
- Aashim Relan:** It remains to be the same on the JV side, on commercial vehicles it remains to be the same around 10%, 15%.
- Apurva Shah:** Okay. Okay. And one more thing on M&A I do understand it's too early to mention anything in specific, but broadly can you just guide us what are our focuses here? Are we looking for some technology led, or some product led acquisition or maybe some companies in Indian market or overseas market, anything which help us to make an informed decision?
- Aashim Relan:** Sure. As of now we are open, we are not looking for definitely the global market. So, our focus is on the domestic market or a company that can enable our export strategy. And of course, to either strengthen our core or to add to our power train agnostic strategy. So, there is nothing very specific. We are looking at various options and as this develops, we will keep you informed. And I don't want to comment on anything premature.
- Apurva Shah:** Got it. And sir one more clarity on the revenue break up, so can you help us to understand the revenue better in terms of PV, CV and maybe CEV it is still early, but what would be the rough revenue breakup between these three major segments?
- Aashim Relan:** Sorry, what's the third segment you said?
- Apurva Shah:** The EV, the construction equipment segment.
- Aashim Relan:** Okay. So maybe Srinivasan if you have the numbers, you can take it.
- Srinivasan Narasimhan:** Yes, yes. So, Mr. Apurva on the actual side, the PV and LCV both are almost similar at 40%, 45% of revenue. And if you look at the overall this thing 90% revenue comes from exhaust systems and 6% comes from suspension and rest are the procurement and other at 2%, 3%. So CEV we don't do right now.
- Apurva Shah:** Got it. And sir, just last question from my side, so I really respect the uncertainty prevailing the condition which restricts yourself to give any guidance, but sir, EV which is started in maybe in FY '22 itself. So, considering the scenario to remain stand still, whatever we are seen currently. So, do you see any meaningful revenue coming in from CEV segment in FY '23? Because I think what we have seen in last two years is whenever the regulation is implemented, maybe in next 12 to 18 months, there will be some revenue bump up coming up from that particular segment. So, can we expect similar thing to happen in CEV, which may be reflected in FY '23?
- Aashim Relan:** Yes. So, for this year the regulation mainly that is coming up TREM 4 and a manual regulation for CEV that doesn't cover a big part of the market, but definitely there'll be some tailwinds with that. But just given that the addressable market doesn't expand very substantially with these two legislations this year where they significantly expand is the next year when we get the RDE norms coming and the year after that, when we get TREM 5 norms.
- Apurva Shah:** So sir, does that mean FY '24 might be that bump year in terms of revenue for us?

- Aashim Relan:** So just not giving any guidance, but as you rightly noted that as the addressable market substantially increases with couple of legislations, definitely the trajectory of the revenues would be in line with that. And the big legislations are RDE and even bigger than that for us will be the TREM 5 legislation.
- Moderator:** Thank you. The next question is from the line of Chirag Shah from Edelweiss. Please go ahead.
- Chirag Shah:** Yes, thanks for the opportunity. Sir, first question is a follow up on the earlier question on mismatch between OEM volumes and your revenue growth. Sir, is that your realization per, for example, if you supply to Tata Punch and if you supply to the Tata Harrier differs materially and what could be the difference for the exhaust system value between the two?
- Aashim Relan:** Sorry, if can repeat the question your voice is unclear.
- Chirag Shah:** Sorry, sir. Am I audible now is it better.
- Aashim Relan:** Yes, it's slightly better.
- Chirag Shah:** Yes. Sir my question was that, if we take the entry level model and the slightly premium model of the same OEM, how does this exhaust system take value changes? For example, if I take Tata Punch and Tata Harrier as an example, how much is the difference between the two kit values?
- Aashim Relan:** Yes, so without giving any specific numbers in general the kit value or the content per vehicle it differs from model to model, and it is not just high end or lower end, there are other aspects to also be looking at. One is the power train type, whether gasoline, diesel, and second is the acoustics performance that is required from the passenger car. So some cars have within their engine acoustic issues some not. And then also how much of the emission is taken care by the engine systems itself before it comes to after treatment. So couple of technical reasons that different cars have different kinds of content. There are not much substantial differences, but there definitely are differences model to model.
- Chirag Shah:** Okay, this was helpful. But if the engine system itself is playing a reasonable role in managing the emission, I presume the kit value will be lower. And the difference could be in the range of 20% between normal exhaust system and where the engine system plays a significant?
- Aashim Relan:** Yes. So I think it's very technical and it's not just about the engine system also. So you may oversimplify, but let's keep it as like that varied engine types have different kinds of systems that are required, but there's nothing too substantial. Maybe substantial would be between in pass car or the LCV segment it would be more diesel, CNG, gasoline there would be differences there hardly, but there are a lot of variables that come into place.
- Chirag Shah:** Sir similarly, if for the same model a petrol based exhaust system and diesel exhaust system the difference would be, again, not that significant or it will be meaningful?
- Aashim Relan:** Depends on the OEM strategy type on what emission strategy that they take for the particular engine. But in general, diesel is more expensive than petrol on the hot end.
- Chirag Shah:** Yes. So this is helpful. The second question was general product expansion strategy that you have been articulating, including M&A. So sir first question was on exports, generally it takes three to five years to structify the export side of the business, unless we are looking at aftermarket as an option. So, where have been that journey? Have we started the discussion at least approaching the OEMs for export or if you can help us understand where are we in that journey?
- Aashim Relan:** Yes. So we've started the business development cycle and we are not looking at OEMs. We are not looking at OEMs from the export strategy. We are looking at component makers and small engine makers. So it's a different business development cycle, which

is usually short and we have started the work and we have RFQs etc. rolling, but there's nothing material right now to disclose as we find success, we'll keep track.

Chirag Shah: Sir, second question was on can Kinetic Green, so how should we look at the opportunity from Kinetic Green perspective? One. And outside of Kinetic Green how do we look at the EV option value for ourselves? Because Kinetic Green is not appearing in PLI, they seem to have product approved only for three wheel products as of now. Plus on the battery assembly side, there seems to be, competition seems to be emerging, lot of players are targeting that space now. So if you can articulate how Kinetic Group is thinking about this as an opportunity and how it'll flow through to us and outside of Kinetic Energy, what you are thinking?

Aashim Relan: Yes. So Kinetic Green is our joint venture partner and they of course have a strength in three wheelers, but they also have a two wheeler pipeline and they have made some agreements on their two wheeler segment also. So there would be two wheeler vehicles coming out shortly by Kinetic Green. And for us, we want to focus completely right now only on the phase one, which is working with Kinetic Green on battery assembly and BMS, and only after the successful implementation of that we will go beyond to other contracts.

Moderator: Thank you. The next question is from the line of Vishal S from Svan Investments. Please go ahead.

Vishal S: Thank you for taking my question, sir. So I have two questions, one regarding, if you calculate X of Maruti production on a Q-on-Q basis it has grown by almost around 25 odd percent. And our top line has grown by almost around 6, 7 odd percent. And on that basis, if we calculate gross profit per unit, it has actually seen a declining trend. And this has been the first time you plot a trend. And this has been the first time in last four, five quarters it has declined. So is it because there has been inferior mix or is it because a market share trend we have lost certain market share. Can you throw some light on this point and what is, I know there is value addition part, but can you at least qualitatively share what has been trended in the value addition or market share?

Aashim Relan: Sure. So, there are multiple variables involved in terms of just production data, right? So, we have to recall that last year there was also a very heavy semiconductor issue. So, lot of OEMs could be producing their products and keeping them in the yards for much longer before it shows up in production data. So, it may not be that accurate and there are multiple other variables to take into account. As you mentioned, mix as well as within customer blends that which customer out of the market has done well versus the other. So what we'll try to do is that we gave some kind of a break down data and we share it if our customers allow, but I think it's not as simple to reverse engineer the way of you right now attempting to do, but maybe on the backend let us at some kind of an index to help you with this idea.

Vishal S: Sure, sir, that would be helpful. But can you qualitatively at least share the trend has been on an increasing or a flattish or a declining trend on a trend line basis in terms of market share or value addition?

Aashim Relan: Yes, we have not seen any, from a qualitative event we are very similar to what we were. So to answer that we were very similar to what we are, we have probably gotten a little bit more business this quarter and on a qualitative basis, we don't see any significant change.

Vishal S: Okay. Okay. So, sir, just to get more into this point in the rank of 1, 2, 3 list, what would be our rank or what the trend in the ranks?

Aashim Relan: Are you referring to competition 1, 2, 3 like?

Vishal S: Yes.

Aashim Relan: Yes. So we are, and this is ex. Maruti, I think, right?

- Vishal S:** Yes, of course.
- Aashim Relan:** Yes. So between first and second it is very close. And it keeps shifting. And generally, we are first second, it's very, very close, but I would say that we are, first, then there is a American company, which is second and a French company third.
- Vishal S:** Great, sir. Great, great. So, sir one more question on this point, can you share some qualitative details, like who would be our 1, 2, 3, key customers in this overall business?
- Aashim Relan:** Sure. We'll share it, I think we don't take any customer names in investor calls, but definitely this data should be available in the public domain.
- Vishal S:** Okay, sir. My second question is regarding, you said the value addition will significantly increase as we go towards TREM 4 and TREM 5 norms in terms of construction equipment and agriculture equipment business and similarly in RDE norms as we go towards BS VI. So can you share qualitatively, what kind of value addition increase? Will it be 5%, 10% or similarly what we have seen from, similar trend line, what we have seen from BS IV to BS VI, will it be a similar kind of transition?
- Aashim Relan:** Sure. So I'll break it into two, one for RDE, as you know even in the investor deck, we've shared that we are expecting between 10% to 15% increase in content per vehicle. And that would be a blend between gasoline and diesel. Gasoline we are expecting approx 10% and diesel we are expecting approx 25%. When it comes to TREM 5, as of now we cater only to the export market in tractor because this product is not required. So it's going to be a completely new product and a complete increase in our addressable market, which would be in substantial side.
- Sachin Kasera:** Hi. So this is Sachin Kasera here, do we need to again invest substantially in terms of R&D for this new norms?
- Aashim Relan:** No it's very similar. So it's very similar the technology in RDE as well as tractors as well as construction equipment, etc. And we do have the technology available with us in house. So we don't need to invest much. We could remain at a similar pace that we have been investing in R&D and that is the key strength that the intellectual property that is required for the next five years or seven years, not just in domestic, but as well as the export opportunities that is already developed by us. And now we will be sweating that asset as we move forward.
- Sachin Kasera:** When we moved from Euro 4 to Euro 6, we saw some market share gain because some of the peers could not match us. And we did a far better job across many areas. So two things, one is obviously very clearly as you mentioned that the address market itself will go, but the way it happened from Euro 4 to Euro 6 market shift are we hopeful when these new norms come in the next two, three years these various norms, we could look at further market shifting?
- Aashim Relan:** So, let's again, look at it in two segments. One is segment where we already play in and that is LCV, CV, and passenger vehicles, in these segments we don't expect anything substantial, but yes, there would be some incremental changes in market share. And we are always working towards improvement. On the commercial vehicle front possibly there would be a little bit of a market share increase because there we have some opportunity to get into programs, which we did not have in the prior cycle. When it comes to TREM 5, this is a completely new market that's opening up. And that also has a customer base, which we have already been working with for many years on their export products. And we have been supplying them very similar products what is now required for the Indian market. So, there we are very hopeful to have a very good market share.
- Sachin Kasera:** And just one last question on R&D and new product development, one of the obviously key focus areas your existing products, but are we also investing some substantial sum in the R&D and trying to diversify or develop some new products for our existing or new customers? And if you can give us some insight there?

- Aashim Relan:** So as of now, there is nothing to share, but we are always looking at developing innovative products and new products also, but no substantial increase and nothing that we would share separately at this point.
- Sachin Kasera:** Are we looking at any active joint venture, either technical or equity collaborations, the way some of the other peers are doing in the auto industries to be able to address a much larger portion of the automobile market?
- Aashim Relan:** Yes. So, we are very active on the M&A side, of course, with the right terms and conditions and the right fit we are looking at all options.
- Moderator:** Thank you. The next question is from the line of Pritesh Chedha from Lucky Investments. Please go ahead.
- Pritesh Chedha:** Yes, sir, just one clarification when you mentioned that you will get 80% of the business of the CV side. So just one clarification today, and I am just referring to my past notes as well today in the standalone more than 75%, 80% of our business comes from PV, right?
- Aashim Relan:** Yes. So, I think Srinivasan has the breakup numbers for the bifurcation. Srinivasan if you just share.
- Srinivasan Narasimhan:** Yes. So, as I mentioned earlier also that our PV and LCV is almost similar. It's like 40% and 45%. So, it's not 80% as you mentioned.
- Pritesh Chedha:** PV and LCV is 45-45. That is standalone.
- Srinivasan Narasimhan:** Correct.
- Pritesh Chedha:** And JV any case, there is no revenue that we add it's just the profitability part. And when we are saying 80% of our business will come from non-PV. So that's where we are factoring in the TREM 5, which is going to bring changes in the CV and the tractor side.
- Aashim Relan:** Yes. And we are also factoring in RDE, which will increase the content per vehicle in LCV.
- Pritesh Chedha:** Okay. Okay. So that's how 80% of our business eventually be non-PV that's how we are putting forward.
- Aashim Relan:** Yes.
- Pritesh Chedha:** Okay. Okay. And sir, I couldn't still understand why the volume growth of our OEs do not mirror with the revenue growth, the volume growth did not mirror with our revenue growth. So that part is still non-comprehend.
- Aashim Relan:** Sure. What we'll do is we'll work out an index and then we will share it offline, and we will then work out an index mechanism or something that could be reflective just because we cannot share value added sales and hence...
- Pritesh Chedha:** It's okay, you can share index because when you mention single digit volume growth for FY '22 on a value added basis, the OEMs that we sell have a much substantially larger volume growth number for FY '22. So that even added more to the confusion sir.
- Aashim Relan:** Sure. So again, not to take that at face value, because when I mentioned that what is produced by us especially last year and what was sold by the OEMs that would definitely be a lag there because that was at the peak of the semi-conductor issues where a lot of OEMs were producing the cars and keeping them in the yard also. So that's why it's not an apple-to-apple comparison and hence to refraining from any ambiguity, I think it's better to look at the index or whatever best we can share given the limitation that we have on sharing value added sales number.

- Pritesh Chedha:** So let's say we can understand now the mismatch in production, the mismatch in sales, let's say, because we refer to the sales number, but barring that reason there isn't any other, let's say either in terms of the value addition to non-value addition changes happening with the OEs or any loss of market share with the OE any of those reasons also are, is what you want to highlight or are meaningful by any chance?
- Aashim Relan:** No. So on a qualitative side, as I mentioned, that none of those issues are there, this is simply optical changes, which are there between what is reported by SIAM what is reported by the FADA and how the OEMs are produced. So it's just an optical thing, which we'll be able to clear by the index and nothing on the qualitative side at all. We see a very steady position.
- Pritesh Chedha:** Is that a substantial gap? Because the gap becomes really substantial then between the production number, the sales number and obviously we mirror the production number. Whereas as analyst, we have been happy for looking at the sales numbers.
- Aashim Relan:** So, I think that's why with our number you have to understand that roughly half our customers make us buy the catalyst, half of the customers give it to us free of cost. Now if the blend within that product makes exchanges, it can have a substantial impact alone just with that, right. Half of our customers, so if the customer who tells us to buy free of cost, if their sales went up, then there will be an impact accordingly.
- Pritesh Chedha:** Yes, but then the absolute EBITDA growth rate should still mirror the volume right forget the top line number?
- Aashim Relan:** So, what we'll do is we provide the index and once you have it, we'll then have a discussion around it so it'll be much clearer with the data.
- Pritesh Chedha:** Okay. It'll helpful, sir, because then it becomes a little bit confusing.
- Aashim Relan:** Absolutely.
- Moderator:** Thank you. The next question is from the line of Aman Vij which from Astute Investment Management. Please go ahead.
- Aman Vij:** Good afternoon, sir. My question is on the legislation tailwind side. So, if you can talk about, first of all, current legislation changes, which has happened in the last two, three years, which has been helping currently how much more growth potential is left for that conversion happening and thus we growing? It's like for one, two, three years more, we can still grow on the base products I'm talking about at 15%, 20% almost. The second part of this question is on the two new legislations, which we are talking about the addressable market increasing for us. And we have also talked about content increasing. If you can broadly in your estimate quantify the increase in addressable markets, both for TREM as well as say the RDE norms, according to you whatever is your best estimate?
- Aashim Relan:** Sure. So just taking the first looking back. So, looking back the legislations that have benefited us in the last three years, largely the legislation was BS VI and now TREM 4 and that led to content per car and truck in the case of BS VI increasing as well as on the TREM 4 side a marginal increase in the number of tractors that require our product. When we look forward then definitely there is a very good legislation tailment that is ahead of us in 2022 right now, April itself will be the beginning of TREM 4. Then we will be moving into RDE in 2023 April, which will have an increase in content per vehicles for passenger vehicles and LCV. And it'll also give us an opportunity for some market share in the commercial vehicle side.
- And when we look forward, we are looking at the TREM 5 legislation, which will be coming in, in 2024 and that will emissionize the entire tractor as well as the construction equipment market. In terms of specific market size numbers right now given the various variables, we don't have any specific number, but largely the way we look at it is that the tractor market will be as large as the commercial vehicle and the passenger vehicle market on a very rough estimate.

So, it would be a substantial increase in the addressable market, and that's on the domestic front, but as part of our strategy, we are also opening to export for sub-components in the global market, as well as utilizing our intellectual property for small engines and the smaller engines, which require emissions all over. And that of course is an exponential increase in adaptable market and that would only be in addition to it.

- Aman Vij:** So continuing on this part going forward for the next three year how do you see the mix changing in terms of, you have explained in terms of growth in non-PV will be higher, but in terms of export domestic also, if you can talk a little bit?
- Aashim Relan:** Sorry, I didn't get you export and?
- Aman Vij:** Mix of export and domestic the opportunity in export and domestic. So do you think the domestic will be much stronger or do you think because export also can be equally strong?
- Aashim Relan:** No. So, export can be a very positive surprise right now we have begun the business development cycle. So not sharing anything firm, but export can definitely be a positive surprise, which is all on top of this. And hence not sharing something, but in the very general way, it could definitely be a very positive surprise because this China plus one trend is extremely strong all over the world. And that is going to benefit companies like us who will play in the sub-component market as well as the small engine emission market.
- Moderator:** Thank you. The next question is from the line of Chirag Shah from Edelweiss. Please go ahead.
- Chirag Shah:** Yes. Thanks for the opportunity. Sir, just one question RDE norm you indicated it'll be more important from LCV perspective and not passenger vehicle perspective, is it right? Did I understood it correctly that the values can increase on LCV and less on PV?
- Aashim Relan:** So, I think just to put it that in gasoline engines where it is generally 10% and in diesel engines it's generally 25%. So, LCV segment is usually more diesel and passenger vehicle segment are more gasoline.
- Chirag Shah:** But in passenger also 10% kind increase is likely to happen, which itself is a reasonable increase in contribution?
- Aashim Relan:** Yes.
- Chirag Shah:** Sir, second question is any indications from OEM in terms of the value add versus bought out mix will it stay the way it is, or it will change? And anything on the import versus localization side in the initial phase?
- Aashim Relan:** So, I didn't get the import versus localization question.
- Chirag Shah:** So, in this, there are bough out components which will be imported, when you move to RDE.
- Aashim Relan:** No. So, it'll remain the same in terms of import and domestic, it would generally remain the same in terms of now from the OEM side, we are working along with them and trying to make this value added sales/ brick issue, either that we can share it separately or to get it free of cost. But as of now, potentially with one customer, we may have some success, but it's a constant journey that we are working on and as we are able to improve, we'll keep sharing.
- Chirag Shah:** Sir just one last question if I can squeeze in, are there any under recoveries still left from OEM side on the cost? Is there any lag effect still left in because of which margins could be slight subdued for us?

- Aashim Relan:** As of now what is RM indexed and what is indexed that is going as for plan and as per the indexing. Now, as we move ahead it is hard to comment, but we are doing, OEMs are following an indexing plan.
- Chirag Shah:** So there is no major under recovery from that perspective.
- Aashim Relan:** No, nothing major, nothing major.
- Moderator:** Thank you. Ladies and gentlemen, we'll be taking the last question that is on the line of Vishal S from Svan Investments. Please go ahead.
- Vishal S:** Thank you, sir, for taking my question again. Sir, this is regarding the export opportunity, which you said, sir can you share some details? Like what would be the opportunity size of the segment that you are targeting in export market?
- Aashim Relan:** Yes, so the export segment is so vast and scattered as of now. So, it is very hard to put a number on it, right? Because we are talking of a market size that is 10x. Now, of course, as we start developing these sub-components, we'll have a better idea on full market size, but it is exponentially bigger than the domestic market.
- Vishal S:** Okay. Sir, specifically which customers you are targeting?
- Aashim Relan:** So, we are targeting tier ones where we can supply sub-components to, and we are targeting the small engine manufacturers. So, these are generally on the off highway side. This could be either gen set makers, agriculture makers, construction equipment. And then there are some standalone companies who just focus on small engines as well.
- Vishal S:** Okay, sir. And which geography?
- Aashim Relan:** Mainly North America and Europe.
- Vishal S:** Okay. Okay. And sir what would be our proposition in this?
- Aashim Relan:** So, in the side of small engines, we are one of the few companies in the world who have the technology to meet the CEV norms or the CPCB norms, or the TREM 4 and TREM 5 norms. And we are a great alternative towards this China thing. So there's we have all the intellectual property which is already proven that we can supply such systems and that we have seen domestically in the CV market, etc. So that is one value proposition. On the component side, there are few components which we have developed as part of our backward integration journeys, which are proprietary in nature, which have usefulness beyond our products. Also, as those similar backward integrated products are used in other sides also. So, these are the large value propositions that we have.
- Vishal S:** Great, sir. So, one last question, how do you see this opportunity for you growing from three to five years horizon? Or five years horizon, I would be bit long term?
- Aashim Relan:** Okay. So just no guidance as we are giving, but we are fairly confident to maintain historical growth rates or even better than, and the reason for that is that there's a big legislation tailwind that we have. Plus, we are now attempting for much larger international export opportunities. So, we're very optimistic about the next five years and we should be outperforming the market substantially in the next five years. But of course, it is going to be an increments of legislation and as we develop the business as well.
- Vishal S:** Sir, sorry, I was not able to explain you question. I'm asking about the export opportunity five years hence from here.
- Aashim Relan:** Okay. Okay. So I am not in a position to put a number yet on it, as we are early in the business development cycle, but as it develops, we will definitely keep you posted. And in general, we expect this to be a positive surprise, right? Because we are seeing good interests, very good interests I would fact say in our initial encounters, but only once things firm up would be give you some broad guidelines also.

- Vishal S:** Okay. Sir, as a percentage to sales, can you provide some color on that?
- Aashim Relan:** Yes. So as it materializes, we will provide at this juncture we will just keep it as a broad trend guide.
- Moderator:** Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to Mr. Srinivasan Narasimhan for his closing comments.
- Srinivasan Narasimhan:** Yes. Thank you. So we thank you all for your participation in our earnings call today. We hope we have been able to address all your queries and wherever we have further questions we will be getting in touch with you for those details. And any further queries you may get in touch with our IR advisors, strategic growth advisors and thanks a lot and have a good evening.
- Moderator:** Thank you, ladies and gentlemen on behalf of Sharda Motor Industries Limited that concludes this conference call. We thank you for joining us and you may now disconnect your lines. Thank you.