



# Sharda Motor Industries Ltd.

**SMIL: BSE/NSE: 23-24/1611**

**16<sup>th</sup> November, 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, 5<sup>th</sup> 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, 10<sup>th</sup> November, 2023 at 04.00 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: 23-24/0611 dated 06<sup>th</sup> November, 2023 with respect to the convening of Investors / Analyst conference call "Earning Call" on Friday, 10<sup>th</sup> November, 2023 at 04.00 P.M. (IST) onwards, for discussing the financial performance of the Company for the quarter ended 30<sup>th</sup> September, 2023, 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](http://www.shardamotor.com).

This is for your information and record

Thanking You,

Yours' Faithfully

**For Sharda Motor Industries Limited**

**Iti Goyal**

**Asst. Company Secretary &  
Compliance Officer**

**Encl. as above**

**Regd. Office** : D-188, Okhla Industrial Area, Phase-I, New Delhi - 110 020 (INDIA)

Tel.: 91-11-47334100, Fax : 91-11-26811676

E-mail : [smil@shardamotor.com](mailto:smil@shardamotor.com), Website : [www.shardamotor.com](http://www.shardamotor.com)

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“Sharda Motor Industries Limited  
Q2 FY '24 Earnings Conference Call”  
November 10, 2023

Disclaimer: E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on 10<sup>th</sup> November 2023 will prevail.



**MANAGEMENT: MR. AASHIM RELAN – CHIEF EXECUTIVE OFFICER -  
SHARDA MOTOR INDUSTRIES LIMITED  
MR. PURU AGGARWAL – PRESIDENT AND GROUP  
CHIEF FINANCIAL OFFICER – SHARDA MOTOR  
INDUSTRIES LIMITED  
SGA, INVESTOR RELATIONS ADVISORS – SHARDA  
MOTOR INDUSTRIES LIMITED**

**Moderator:**

Ladies and gentlemen, good day, and welcome to Sharda Motor Industries Limited Q2 FY '24 Earnings Conference Call. This call will be scheduled for 60 minutes. This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions and expectation 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 star then zero on your touch-tone phone. Please note that this conference is being recorded.

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

**Puru Aggarwal:**

Thank you. Good evening to all. A very warm welcome to all the participants on this call. On the call, I'm joined by Mr. Aashim Relan, our CEO, and our Investor Relations Advisors, SGA. I hope that you have seen our results and our investor presentation by now. The presentation is also uploaded on the stock exchange as well as the company's website for reference.

Before touching upon company's financials, I would like to provide an overview of some key highlights in the industry. Let's begin with an update on the automotive industry. The automotive sector is currently going through significant changes due to initiatives like PLI schemes and trends leading to a noticeable improvement in the industry.

Demand has been strong in various segments, except for 2-wheelers and tractors, which have seen less growth. Retail automobile sales in India has seen an impressive 9% year-on-year increase in H1 FY '24 only because of a surge in registrations of passenger vehicles and 3-wheelers as reported by FADA. The automotive industry is on an upward trajectory, driven by factors like increased consumer confidence, higher spending, a growing preference for premium products and stable input prices.

In terms of segment performance, growth in the Passenger Vehicle segment continues to be driven by SUV segment with highest ever sale of 4 million units sold in the H1 FY '24. Volumes are building inventory in anticipation of its strong towards festive season, driven by new model launches and a growing trend towards premiumization in the market.

In the Commercial Vehicle segment, healthy demand across various industries and high fleet utilization level continue to drive growth. In the second quarter of fiscal year 2024, the industry achieved an impressive 6% growth in sales volume compared to the same period in the previous year. Heavy commercial vehicles displayed remarkable growth of 17.6% year-on-year with both passenger and goods carrier segments contributing to the expansion.

In contrast, light commercial vehicles in Q2 FY '24 experienced modest growth of 1%. This sector is robust order books indicate the potential for this positive momentum to continue. Turning to the 2-wheeler segment, a 3.7% Y-o-Y decline in volume was observed for the quarter ending in September 2023. This decline can be attributed to sluggish export demand and shift of festive season in Q3 as compared to last year.

However, there was a noticeable recovery in export demand with approximately 12% quarter-on-quarter growth. The demand for entry-level variants continues to underperform due to sluggish rural demand. In the 3-wheeler segment, positive momentum continues with a remarkable 62% Y-o-Y growth for the quarter ending September 2023.

I shared my thoughts on the industry. I will now move to operation and financial performance of the company. On the consolidated basis, we registered a revenue of INR763 crores in Q2 FY '24, which is a growth of 9% as compared to Q2 FY '23. And our revenue for H1 FY '24 stood at INR1,417 crores, which is a growth of 7% as compared to H1 FY '23. Our EBITDA for Q2 FY '24 is INR99 crores as compared to INR76 crores in Q2 FY '23, which is a growth of 31% on a Y-o-Y basis.

The EBITDA margin for the quarter grew by 220 basis points from 11% in Q2 FY '23 to 13% in Q2 FY '24. And our EBITDA for H1 FY '24 is INR168 crores as compared to INR137 crores in H1 FY '23, which is a growth of 23% on a Y-o-Y basis. The EBITDA margin for this half year grew by 155 basis points from 10% in H1 FY '23 to 12% in H1 FY '24.

Our PBT for the quarter was INR106 crores after accounting for this year in profits in JV and its associates. Our JV and associates reported a profit of INR1.1 crores in Q2 FY '24 as compared to a profit of INR0.6 crores in Q2 FY '23. Our PBT for the half year stood at INR180 crores after accounting for share in profits in JV and its associates. Our PBT grew by 44% compared to Q2 FY '23. And for H1 FY '24, our PBT grew by 35% compared to H1 FY '23.

The PAT for Q2 FY '24 was INR80 crores, which registered a growth of 47% as compared to Q2 FY '23. And for H1 FY '24, PAT stood at INR135 crores compared to INR100 crores in H1 FY '23, which registered a growth of 35%. On the balance sheet front, we continue to maintain a healthy liquidity position of INR658 crores in cash and cash equivalents and other bank balances as on 30th September 2023. With this, we can open the floor for Q&A.

**Moderator:** Thank you very much. The first question is from the line of Ankur Shah from Quasar Capital. Please go ahead.

**Ankur Shah:** Aashim, can you share with us the volume growth for this quarter?

**Aashim Relan:** Yes. We don't share volume growth per se. But maybe it's a good thing to look at our gross profit increase, and that's an indicator of volume and that's roughly grown by 20%, 23%, I think.

**Ankur Shah:** Okay. And Aashim, like one more thing. I saw a stark improvement in your margins. Generally, they are range bound at around 11.5%. So is there any specific reason apart from the increased volume? Or we are actually consciously doing higher-margin products, which makes the margin structurally at a higher number?

**Aashim Relan:** Yes. So as said in the last investor call that all our new products, which have been launched as part of BS-VI RDE from 1st April, they have come without catalysts, right? So as a strategy, we are looking to make the catalyst FOC basis. So the new products are basically on the value-added sales part. So as they've ramped up in this quarter, that definitely becomes an indicator of EBITDA margin improvement. And in general, this quarter, we've had a good product mix also, which is favorable, and that has also supported margins being better.

**Ankur Shah:** Great. Great. Good to know. And last question, just because now we have entered November. Any update on the TREM5 because like it's just 4, 5 months away and the OEMs would be planning the schedules from January if the TREM5 is applicable. So anything you hear from them?

**Aashim Relan:** Yes. So there is a likely delay, which I mentioned last time also post-election, but there's no notification of it. The way the OEM planning is going that business nomination has been concluded. Half the customer is already concluded, and the balance half we're expecting to conclude by February. And I think the finite date will come from a government notification, which likely will be post-election only, the way it is looking.

**Moderator:** The next question is from the line of Sonaal from Bowhead.

**Sonaal:** Congratulations on an exceptionally good quarter. So I wanted to understand, because of these new norms, your margins were anyway expected to go up and you had mentioned about that whenever you start any process like in the past as well, their extra cost involved. And over the course of next few quarters, you start seeing the benefits of that.

As you mentioned in the presentation, your EBITDA per vehicle sector was also pushed to grow by 10% to 15% anyway because of this. So I wanted to understand all of that has been fully captured in terms productivity gains and, you know, less wastages as the process gets standardized? Or there is more to come in the subsequent quarters as well?

**Aashim Relan:** Sure. Regarding the productivity improvement and the new products really started around 1st April. So basically Q1 of this financial year. And I think quarter 2 is a good indicator of them becoming more streamlined. And in terms of further improvement, there's always possibility of further improvement and optimization. The good part of it has already come in this quarter, but there's always scope, right, as products mature, generally productivity and other parameters improve.

But the benefit that was to be arise from RDE that can be now clearly seen in the results also and the outperformance vis-a-vis the industries also now very similar to what we had indicated of a 10% to 12% tailwind. And that tailwind, it's hard to predict in terms of exact numbers, but we do expect a tailwind because of the introduction of these new RDE products as we move forward as well.

**Sonaal:** I didn't understand when you said tailwind, were you leading to EBITDA per vehicle being more than 10% to 12% or something else in terms of market share gains as well in your existing customers?

**Aashim Relan:** As our new products have come in, we have grown in terms of indicative volumes as well as gross profit higher than the market, right? Market roughly grew at 5% to 7% on a blended basis, but we have grown roughly 20% plus this quarter. And I'm just utilizing the gross profit number as an indicator. And on an H1 basis, also, the market grew 4%, 5% versus us growing at 18%. So the delta benefit, which was expected, is due to our content per car that's increased on a blended basis.

**Sonaal:** And would it be possible for you to also say the Q-on-Q volume growth number?

**Aashim Relan:** Yes. So what we are doing now because of this catalyst thing, we are not able to share direct volumes, but we have worked out a very good mechanism based on gross profit. So if you look at gross profit as an indicator growth in gross profit, it generally correlates with volumes. But of course, with various caveats attached to it, I would say, for the time being, it's better to monitor gross profit. We are also monitoring the movement vis-a-vis gross profit and industry volume growth.

And as new products will be coming without catalyst, it will become very simple then as time goes by to have a measurement in terms of volumes and sales growth. But right now, as we speak, we don't do just volume disclosure, but I think gross profit is a good indicator for that for the time being.

**Sonaal:** So the problem is that on a Q-on-Q basis and Y-on-Y basis, both for this year and for next year, it's not a problem. It's actually a good thing. Your EBITDA per vehicles are going to increase because of RDF norms and therefore, the gross profit per vehicle as well. And even next year, when tractors come in, it's -- it may be more profitable business for you than your existing business for various reasons we have discussed in the past.

So what I would suggest, and if it's possible, like you mentioned about the 20% volume growth Y-on-Y, if it's possibly you to also share similarly a Q-on-Q volume growth if it's handy with you? Otherwise, we can always take it off-line as well. So gross profit, I understand, on a steady state, a very good indicator for you. But because you went through this per vehicle increase in profitability, in the short term, it may not be a good indicator for you.

Second follow-up question was that when you are talking about Q2 already capturing a lot of this gross profit per vehicle, what I remember from our past discussions and the last quarterly call was you mentioned that the entire process takes a couple of quarters. It doesn't get over in 1 or 2 because there's a new learning curve, we incur more cost. And therefore, it takes typically 3, 4 quarters before the entire new process stabilizes.

And in light of that, I was trying to understand, is it -- bulk of it is over, like 90% of it is over? Or we can still expect some reasonable growth in profitability, as you mentioned, it takes 3, 4 quarters for the entire process to get standardized?

**Aashim Relan:** Sure. So just from your first point first, taking the gross profit part. So I think we're looking at very long-term and at the minimum annual base indicators only because it's very tough on a quarter-on-quarter basis to be matching due to various reasons, right? And that's just the nature of the business that we are in, it's very long-term oriented, and product mix, et cetera.

It's something, as a philosophy only, we don't really go by which is like quarter-to-quarter matching and things like that. But it will be a rough indicator and working on a potential index, just testing it out that if it works well, then that can be utilized. On the second side, that -- yes, it does generally happen that as a product matures, then profitability does go up because productivity improvement learning curve.

It's very hard to say how much of it is already captured and how much is yet to be captured. I would say just to be conservative that we can look at stabilizing. And of course, there's always scope of improvement, but markets are dynamic. And just to be conservative, I would say that our focus is to stabilize on this.

**Sonaal:**

Sir, last two questions if -- with your permission, please. One, on the -- I understand Q-on-Q for various seasons is very difficult. But would you, by any chance, be having handy your -- and if you don't have it handy, maybe in subsequently, you can also share YTD Y-on-Y growth. So not Q-on-Q. I understand what you're saying. But let's say, first 6 months of this year versus last year 6 months and first 9 months of this year versus 9 months, that will give a very good context in addition to quarterly Y-on-Y. If we don't have it, it's fine. Maybe in the future, maybe you can also use that just as a suggestion -- reveal the entire picture.

Secondly, on the Noida land, any plans to monetize it in next 1 year?

**Aashim Relan:**

Sure. I'll just take the first one -- the first one on the YTD numbers, which is H1 and H1 I have on gross profit level, it's roughly, I think, 18% -- 15% to 18% where the growth has been, and that's just a good indicator to see little bit content per car increase as well as the general sales increase.

On the front of the Noida land, there's no particular plan as such. We are monitoring it, and we are seeing if we get a good deal. Land prices have generally gone up a lot, right, since first we made this unit or shifted this unit to the Western region. So if we do get a very good deal, we would monetize it, but we would wait and watch for how the deals for this land book piece. So there is no plan as such to do within 1 year only. But if it -- the opportunity arises, then why not.

**Sonaal:**

And sir, lastly, on the EV progress, if any, and secondly, PLI? And thirdly, any plans to come with a dividend policy sometime in the next 6 months or 1 year?

**Aashim Relan:**

Okay. Just the first one -- I will just take it one by one. So the first question is on the EV side.

**Sonaal:**

Yes, EV venture.

**Aashim Relan:**

Okay. Okay. So the EV venture, our products are now in the testing queue with the agency. There's a big queue that has been lined up at the agencies because of multiple regulatory changes as well as multiple strategy changes that have happened in the 2-wheeler EV market. It remains to be very dynamic, and there are multiple changes in regulation. I think, in the last 6 months alone, there have been maybe 4 to 5 major changes. And with the EV subsidy reduction, et cetera, there's a lot of cost pressure in the market.

So we have been very diligent and cautious because battery is a field product also. And we will wait for the full testing to be done and full approval before we really get going on this product. So we will be very, very cautious on this and will move steadily rather than dive into this, given that the risk associated with it, and we will also incrementally invest on this side -- on this particular venture.

On the other hand, we have made some good progress on our other components, which are used in EVs as well, and we have been nominated for a few programs now, which is on our suspension side for EV range of our customers also.

Now the second part was PLI? Your second PLI? Yes. So PLI, we have applied for it, right? And we are working, in fact, with a third-party consultant also to manage all the testing as well as approvals that are required because there were a lot of guideline changes that happened regarding PLI. So it is still ambiguous, and we are seeking clarity. As of now, we are not considering any benefit from PLI in our numbers.

But once we have the approvals, once we have clarity, then, definitely, I will keep you updated on the PLI front. But we are working with a third party consultant on a focused project. It's just been a lot of changes and a lot of ambiguity so far, but it could be a positive if we could successfully get some benefit on the PLI side.

**Sonaal:**

And third was on the dividend policy.

**Aashim Relan:**

I'll just maybe answer this last one on the dividend policy side. We already have a dividend policy of 10% to 30% of PAT. But given the liquid cash reserves and the free cash flow that we are expecting, we are working on upward revision of the same, and we will be taking that up shortly as well. And not only to revise it upward but also to make the band a little bit less in terms of min and max so that it becomes much more predictable. The work is on. And as we get the approval and internal consensus on that, I'll be updating that as well.

**Moderator:**

The next question is from the line of Karthi Keyan from Suyash Advisors.

**Karthi Keyan:**

Aashim, excellent results. I mean these are more of standard questions because your business works like clockwork at some level. So in terms of phaseout of catalyst contribution to your revenues, what kind of timelines can we reasonably anticipate that happening over?

**Aashim Relan:**

Sure. And regarding catalyst, already as a policy, new projects that we are taking, we are requesting the OEMs not to keep catalyst as part of our business, and we've successfully done it, right? But I see such a big change that came in terms of regulation and not even 1 product of us had catalyst in it. So progress is very good. And as the share of new businesses increases and the old businesses get phased out, it could be fully or that catalyst would not be part of the sales front.

But on the other hand, if a customer really insists that due to business model reasons that they want us to procure the catalyst, then we would, but it would be a strong exception. We are trying our best that for all the new business that we are developing, it would be without the catalyst. So that then it becomes very easy in terms of matching volumes and sales and so on and solves



that issue. It's very hard to have a timeline on that because it really -- it depends on the phasing of business and so on and that would remain to be dynamic, but it will improve over time, for sure.

**Karthi Keyan:** Can I assume, say, 30% already on a no-catalyst basis in terms of revenue contribution?

**Aashim Relan:** I don't have a specific number with me right now, right? And I don't think that there's a specific number we would give out. But definitely, you can be assured that no new RDE product that has started has a catalyst.

**Karthi Keyan:** And would there be any contribution from OBD in the last 6 months?

**Aashim Relan:** This -- our contribution -- the way our product goes, the contribution came from RDE. And I think maybe an alternate word could be OBD, the way we call it is BS-VI RDE and that was 1st April. That is where there was a change in our product. So yes, if it is similar, I'm not sure between the distinction of both, but 1st April is when a BS-VI RDE started it...

**Karthi Keyan:** Fair. Fair. So in terms of your next regulatory trigger would that be deferred to FY '26, therefore?

**Aashim Relan:** There could be -- yes, there could be a delay in that. But at the same time, there's no notification. On the tractor side, I think you're asking, there could be a delay on that on the ends of regulation, yes.

**Karthi Keyan:** On the construction equipment, it is possible that it could go to.

**Aashim Relan:** Construction equipment, it's -- I've already gone through, right? And construction equipment, the next series would probably equivalent to tractors, and there is a unique market that has opened up, but we also did not expect much, which is on the construction equipment side. It's a very niche market, but our products can be there. And it's a niche, but very attractive niche. So we will start playing in that market, and that's live already.

A lot of the products right now that are being used in the market are either imported or they are being done, let's say, not in a very competitive way. So there's a very good opportunity that's opened up there, and we will start playing in that and you may hear from us developing some business in this segment.

**Karthi Keyan:** Yes. Any comments on the JVs performance? I see that the profitability is almost INR1 crore for the quarter. So can you give some color on the performance of the JV?

**Aashim Relan:** Yes. So the JV for this quarter benefited, I guess, from the heavy commercial vehicle. Sales went up a little bit. So their sales also went up a little bit. But given that on a percentage basis, it has gone up. On an absolute figure, the profit was in total INR2 crores of contribution INR1 crores, which accounts for only 1% to 2% of our consolidated PBT.

As long as the markets remained smooth, JV performance could improve. But that sector of heavy commercial vehicles, as I mentioned before, is very concentrated in terms of engines. There are literally 4, 5 engines and that really determine the entire market. So the fluctuations are also much more than the other parts and other sectors. So we are hopeful we are doing our

best in terms of improvement performance, but it's a very dynamic market this particular segment that they are playing in.

**Karthi Keyan:**

So one last question, then I'll join back in the queue. Given the fact that there are all these moving parts, if you had to guide us on the outlook for, say, FY '24 full year and FY '25, I don't need exact numbers, but shall we say a teens kind of range or whatever. Some thoughts will be helpful because there are certain deferrals in certain areas where scale up is not as anticipated and in some places where there have been gains. So why don't you guide us on some kind of a visibility?

**Aashim Relan:**

Without giving any specific numbers, we are very optimistic in terms of the business development in 2024 and '25. And there have been some surprise, good news business developments type business of suspension, which was not our core focus at that time, will be nominated for a few programs now and actually, all of them are EV programs as well as our international business development cycle is going good.

The volumes in general looks solid in terms of how the automobile industry is doing. And one more very interesting business that has opened up for us is this 3-liter to 4-liter segment in the commercial vehicle market, which we can now play on a stand-alone basis. So we are developing a product for that. If we could break into that segment, that is a fairly large market when it comes to our content. So there are a lot of optimism.

But at the same time, we have to be cautious because it's a dynamic environment in the market. And globally, the geopolitical situation seems to be quite risky as well as a lot of headwinds from macro factor are seeming to be there globally. So we would be optimistic but at the same time, cautious of the macro environment as well.

**Moderator:**

The next question is from the line of Ajay Sharma from Maybank.

**Ajay Sharma:**

Can I check on the -- your revenue mix, how much is coming from the PV and the CV segment?

**Aashim Relan:**

Sure. So our revenue mix right now is roughly 40% PV. And I'm just talking about the emission side right now, 40% PV and 60% on the LCV and others side.

**Ajay Sharma:**

Okay. And then can I check what is the percentage of catalyst in your revenue this year, first half and last year full year?

**Aashim Relan:**

So we don't disclose the catalyst content and other revenues due to commitments with customers. So we don't disclose that as a standalone amount.

**Ajay Sharma:**

I mean the margin optically goes up as the catalyst content goes down, right? So I'm just trying to understand what's the underlying margin you make on your product?

**Aashim Relan:**

Yes. So as the catalyst goes down because we don't really make any margin on the catalyst, it does that the EBITDA margin goes up as a percentage. It does happen, but we do not disclose standalone catalyst numbers due to the commitments we have with our customers.

- Ajay Sharma:** I mean while you might not disclose the exact percentage, can you qualitatively suggest like has it declined substantially compared to last year? And what's the underlying profitability on your -- of your business, excluding the catalyst, how is that changing basically?
- Aashim Relan:** Sure. So in terms of just a qualitative thing, our new products, which have come in 1st April as part of BS-VI RDE, there, we don't have any catalysts. We are utilizing the FOC business model there. So in the new products, there's no catalyst. And if just qualitatively, if I was to look at the margin profile, it has been similar or slightly improved over the years.
- Ajay Sharma:** Okay. And then I know you are planning a higher dividend policy, but you're still sitting on -- I guess, you're sitting on a lot of cash compared to the CapEx needs and your working capital. So I'm just wondering, other than dividend, is there plan to do any buyback or because the share is also very undervalued. So I'm just wondering how you're thinking about it.
- Aashim Relan:** Sure. So utilizing the cash surplus, our first preference is to utilize it for an M&A opportunity in powertrain agnostic products, but we also want to be conservative and long-term oriented when it comes to M&A. And we would only do it if it reach the strategy and at the correct value and price, which we are consistently trying to get But no fixed timeline. We have many interactions happening regarding that. At the same time, we are looking at options of benefiting all the shareholders and one of the key options is dividends. Other options, as and when things materialize, we would consistently be looking at as well.
- Ajay Sharma:** Okay. Just a last question. I guess in terms of shareholder value enhancement, like -- I know you started doing this con calls, but is there any plan to go on road shows, particularly overseas and reach out to a larger set of investors because your share prices does not really reflect the kind of business you're doing, the kind of returns you're making and the strong growth you're seeing currently?
- Aashim Relan:** Sure. So definitely, we are augmenting our management bandwidth to enable that. If you look at the company, it has grown fairly fast in the last 4 years or 5 years, and that is also due to great execution on the front of these market opportunities that opened in emissions, and that did consume a lot of management bandwidth. But we are working on augmenting our management bandwidth to enable better interactions as well as being more strategic on value creation.
- Moderator:** The next question is from the line of Chetan Doshi who's an individual investor.
- Chetan Doshi:** Congratulations to entire Sharda Motors team for giving a fantastic performance. Now I have a couple of questions. Aashim, particularly, are these margins sustainable? Because the growth in margins in this particular quarter is tremendous. So coming quarters, if can you just tell that yes, we have certain product lines, which will help us in building up similar margins in next 2 quarters? That is one question.
- Second is regarding exports, what is the quantum of exports in this first half turnover? And to which companies you are supplying overseas? Because locally, you may not disclose. But overseas, you can definitely say that if some premium clients are there with you, then if they grow, definitely, our company because the margins are also very high as far as exports are concerned.

So -- and third thing is that overall auto industry at present is doing exceedingly well. So apart from auto, are you planning to have some diversification done in some other noncore sector? Or you want to stick to only auto?

**Aashim Relan:**

Sure. I'll take the questions one by one. And in case I forgot a subpart, please do re ask the question. So the first one regarding margin sustainability. So this quarter, we did see a very good product mix as well as it was the first quarter with the full RDE products coming in, which are more on value-added sales basis.

In terms of future outlook, it is very hard to comment on maintaining this number or slightly better or slightly lower. But we will be at double digits, hopefully, if everything goes well, that we will maintain double-digit EBITDA margins, which is 10% plus margins, but very tough to give exact number because product mix has a big shift in terms of margins. And this quarter was definitely a favorable product mix quarter. There were some products that sold more which have better margins in this particular quarter.

Coming to your second -- your second question, if you could just repeat -- the export side, right? The second one was the exports, right?

**Chetan Doshi:**

Correct, correct. Exports, so what's the..

**Aashim Relan:**

We are very new in terms of exports. In fact, just maybe 1, 1.5 years ago that we have started this initiative of exports. Right now, exports, I don't have the exact number in front of me but would not be a very large percentage of revenues, and we do only supply mainly to the U.S. market. Right now, our customer names that something in general, we don't disclose.

But at the same time, we have now developed a complete team for international business, and they are working very diligently. We have a good pipeline of RFQs. We are learning how to come into the export market. I think there's a learning curve in terms of business development also. And we do expect initial orders flowing in with small pilots and will grow over time. So this is very new to the company. As a macro, it is definitely a huge tailwind for India. The China Plus One theme is playing out much more than even I had imagined.

So we do see a very large opportunity in the international business side, but we also recognize that we are new to international business development. Now that we have a team in place, I think results will also gradually follow.

**Chetan Doshi:**

Yes. And last question is whether you want to stick to auto or you would be shifting -- means investing in something which is noncore business?

**Aashim Relan:**

Sure. No, so we will most likely be within our core business. But our core business is definitely auto from the point of view that we have passenger vehicles, light commercial vehicles as well as heavy commercial vehicles as part of our business currently. But with the new regulation in tractors, TREM4 has already launched and then TREM5 comes. A significant part of our business will also become agriculture or tractor base as well as I was mentioning that there is a very good opportunity on the power gen and construction equipment side, and that is definitely also something that we are open to.

We, as of now, don't have any plan to do something radically different when it comes to diversification. We do want to be within our strengths and our core competencies. But definitely, if they could be cross applied in other areas, we would always be open for those opportunities.

**Chetan Doshi:**

Aashim, one last question. See, for the last 3.5 -- or last 4 years, your top line has grown year-on-year. It is not that it is 5% or 10% growth. Now -- see, without target-oriented approach, it is just impossible to finish with these kind of numbers in the last 4 years. See, if you don't want to disclose, I cannot pressure you on this.

But going ahead, what will be our growth engine? Where are you looking forward to? And if you can just share a thought that, yes, we want to achieve -- in the next 3 years, maybe we want to be INR10,000 crores company. Is that -- can you just highlight on this?

**Aashim Relan:**

Sure. So I will not mention any numbers as such. But maybe I can share that broadly, our 5-year growth plan. And number one is to maintain or increase our market share within LCV as well as the passenger vehicle, domestic exhaust business alone RDE segment, which we have -- which is our co-domain. Second is to enter into this new space of the 3-liter to 4-liter commercial vehicle market, which is a very new opening for us and new products which are being developed for that.

Third is to attain at least a first or second market leadership in the domestic tractor market. That's a huge market that's opening, and we do want to be 1 or 2 there, and that's going to be a big driver of both. In addition to that, I just mentioned on the export side, that international business development, that is very large area that is something that could be a very positive surprise, and it is within our business plan to be establishing an export business, which is for emission systems for smaller tractors, gensets as well as subcomponents, which is part of our backward integration already.

Next is also to utilize our surplus which we have in terms of liquid reserves to build or buy a powertrain agnostic product or products definitely on the M&A side, but we also see a good opportunity to build some of our smaller businesses right now like suspension. And lastly, to also play in the new field a little bit like we have started with our joint venture, but we want to be more focused on the 2-wheeler and 3-wheeler side right now when it comes to EV.

So this is broadly the plan. In terms of exact numbers or fixed thing that's something that we don't disclose. Broadly, this is what we expect as a growth journey.

**Moderator:**

The next question is from the line of Sonaal from Bowhead.

**Sonaal:**

So it's been some time since the tractor business for the higher-end tractors has started. And as you mentioned that next year, this regulation is going to unfold. Your market share in the passenger vehicle market is around 30%, and ex Maruti maybe 55% or so. Do you think your market share in this market could be higher based on whatever we have seen so far as compared to your passenger vehicle market share of about 30%?

**Aashim Relan:**

Yes. So in the tractor segment, there are only 3 companies in India who are present and maybe in the whole world, there may be only 4 or 5 companies that can be part of the tractor emission

regulations and touchwood one of that is us. So we do expect a good business development cycle there. It will be a 3-player market the way it's looking at. How it finally distributed is based on various factors, but we're optimistic that we would be in a good position when it comes to the agri market.

**Sonaal:** So is it fair to say the competitive intensity is much less than the passenger vehicle market?

**Aashim Relan:** The competitive intensity is lesser due to the technology requirement. From that angle, it is lesser, but the tractor market is also a cost-sensitive market, right? So it is something that we need to be cognizant of. But in general, the technology that is required for these emission norms is much higher than most of the passenger vehicles.

**Sonaal:** And from your side, you are completely ready now?

**Aashim Relan:** Yes. We already have very good business on TREM4 side and on the higher-cost power side. So we already have products on the market. And for that the tractor makers do out of India, we have a very good market share. So our products are ready. We've been ready for now 1 year, and we have the full technology to cater to this market.

**Sonaal:** And in terms of TREM4, would it be more than 1% of your revenues as of now?

**Aashim Relan:** It's a small percentage. I think it's nothing significant, right, just because the volumes are so less, it would be 1%, 2%, 3%, 4% you can say. It's hard to put a number because there also very lumpy volumes right now. It's just packing up. And -- but it's not a significant percentage as of now for us.

**Sonaal:** And your PLI scheme, which you applied for, which obviously hasn't passed as of now. So I'm not asking you to comment on that. Can you take advantage of the tractor market for that PLI scheme?

**Aashim Relan:** So our products, the PLI scheme is for some of our existing products where we can work with suppliers to localize. However, it's very early for me to comment on how it will play out just because there is lots of ambiguity and changes that keep happening. So we also don't have a clear picture on how it will pan out, right? But being conservative, we are just looking at it. But if it happens, it's something that would be an added positive.

As of now, we do not take anything in our results for our business plans linked to PLI. But in case it happens, well and good. And we have now a focused team who is working on PLI, but very difficult to comment on how to pan out, just given the changes as well as ambiguity that exists.

**Sonaal:** And can you throw some light on the kind of index you're working for in terms of disclosures for us to understand what -- because some investors in the last call had mentioned about certain disclosures? So maybe you mentioned something...

**Aashim Relan:** Yes, so to make it simpler for this interim period that we will be in. To make it simpler, it will be gross profit based and that's something that we are working on. So we find that our gross

profit number could be a good indicator. We had back tested it a little bit. But again, it will not be on a quarter-to-date basis just because this business is a long business, and there are various reasons why quarter-to-quarter mapping is not very accurate.

But definitely on an annual basis, it will be a very good indicator of volumes as well as business growth. So that's something that we are working on. And once we are comfortable to share it formally, we will definitely add that as well.

**Sonaal:** So are you only -- gross profit per vehicle? Or are you talking about gross profit? Or are you talking about some base and then growth is what, I was...

**Aashim Relan:** Yes, so we will take the base year pre-BS-VI as a base year, and we will look at the gross profit number, we already looking at it and then mapping the gross profit number over annual basis on how the market has grown, how we have grown and it's seeming to match. And we've, of course, outperformed due to the various initiatives. And it seems to be a good indicator.

But however, it is work in progress. Until we are not fully comfortable, we won't formally utilize it as an index and this is only an interim...

**Sonaal:** Because we get to see the gross profit anyway. So that's not a new indicator for us. What you may mean is a gross profit per vehicle from a particular base because gross profit, we can anyway see.

**Aashim Relan:** Yes. So it is right now gross profit, and we are trying to map it to vehicle, but the gross profit which you can anyway see a part of an index is what we are working on. And whether it can be mapped to a vehicle just because engines are cross used and all, it's still work in progress.

**Sonaal:** Understood. And congratulations, a lot of new initiatives, better disclosures such as volume growth and plans for a dividend policy and hopefully, some investor relationship activity.

**Moderator:** As there are no further questions, I would like to hand the conference over to Mr. Puru Aggarwal: for his closing comments. Go ahead, sir.

**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 further questions, you can get in touch with our IR Advisors, SGA. Wish you all a happy Diwali and a prosperous New Year. Thank you and have a good evening.

**Moderator:** Thank you. On behalf of Sharda Motor Industries Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.