



“Sharda Motor Industries Limited Q1 FY2022 Earnings Conference Call”

August 18, 2021

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Moderator: Ladies and gentlemen, good day and welcome to the Q1 FY2022 Earnings Conference Call of Sharda Motor Industries Limited. This conference call may contain forward looking statements about the company, which are based on the beliefs, opinions and expectations of the company as on the date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions 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 Sharda Motor Industries Limited. Thank you and over to you Sir!

Srinivasan N: Thank you, Rutuja. Good evening to all. I extend a warm and hearty welcome to all the participants on behalf of Sharda Motor Industries Limited. It gives us great pleasure to host this first ever earnings call for Sharda Motors. Today, along with me I have Mr. Aashim Relan, our Chief Executive Officer and Strategic Growth Advisors, our Investor Relations Advisors present on this call. I hope you and your loved ones are safe in the current pandemic environment.

Before I start highlighting the performance for the quarter, I would like to thank all the colleagues in our plants and offices who worked very diligently and with utmost care by taking all precautions to resist the pandemic and for creating a very safe work environment in the factories and for our customers.

I would also like to thank all our supply partners in the back end who helped us to cope with this challenging situation I would also like to the analysts, the investors and all of you who have been our well wishers and the ones who keep challenging us on the most important things that we should continue to deliver and focus.

Now I will quickly introduce myself, I am the CFO for Sharda Motor Industries and I joined the organization in February 2021. We have uploaded our financial results on the stock exchange as well as the company’s website and I hope you would have referred the same. In terms of the investor presentation, we have already uploaded during our annual results and shortly we will be updating the revised presentation for the Q1 also on the stock exchanges.

To start, I will briefly take you through the business landscape and key highlights of the financial performance and post that we will open the Q&A session. We will try to answer



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all the questions raised during this call. To start with the business landscape as everyone is aware, we witnessed a second wave of COVID in Q1 and the lockdown restrictions were kind of more local and accommodative unlike the national lockdown where the industrial activity had come to a halt last year whereas this year it was not much that way. The impact was particularly high in May 2021; however, the recovery that began after June was rapid. Automobile retail sales in India came back strongly in July and it continues to do so in the month of August with the opening of dealerships across the country as COVID lead restrictions were eased in the affected states. Commercial vehicles are also noticing a gradual recovery albeit on a low base.

Coming to Sharda Motor Industries, I am sure you would have gone through our investor presentation, but just to highlight few key aspects, we have five verticals and the recent one was announced in the board meeting held on June 23, 2021, which marked our entry into the electric vehicle segment where we will be taking up assembly of lithium-ion batteries for two and three wheelers. Other verticals are Exhaust System, Suspension and Stamping, Roof system and Supply Chain Management. Established in 1986, today the company has nine manufacturing units including the JV plants, three sales offices and one world class R&D center and we are fully backward integrated.

Our plants are strategically located all over India, north, west, and south near the auto clusters. In case of exhaust system, we have 30% share in Indian market PV market catering to almost all OEMs except Maruti. As a backward integration step we also have 3 stamping plants managing all critical stamping in-house and two tube mills producing stainless steel and aluminium steel tubes for exhaust systems. Further on the suspension segment we have market share of 10% and we have two manufacturing units at Nashik and Pune for manufacturing of suspensions. Our R&D center, which is located at Mahindra World City, Chennai is one of the most unique centers in India and our international partners and other large players are delighted when they visit to notice the scale and capabilities of R&D center.

So, high end technology requirement is one of the key entry barriers for new players, which Sharda Motors has developed over the last decade and further our operational efficiencies are boosted due to full backward integration of our processes. On our asset efficiency and manufacturing infrastructure, our current capacity utilization is around 80% and further capex requirement is only incremental in nature with high cash generation ability. We have all of our manufacturing setup already in place. Further our growth strategy is backed by the legislation tailwind and on capitalizing on the Eberspaecher JV and implementation of BS6 emission norms. We have also entered the EV segment now and are exploring high margin export markets also for subcomponents.

On the financial front, we remain debt free with about Rs. 263 Crores of surplus cash. All our further expansions are internally to be funded by internal accruals while maintaining the cash surplus position. Now I move on to the financial performance for Q1, as you are all aware the Q1 quarter was affected by second wave of COVID and the related restrictions had an impact on our revenue numbers So our consolidated revenue from operations for the quarter was Rs. 472 Crores, which is a growth of 355% versus Q1 of last year, although the last year's first quarter was affected by COVID, it is a significant growth. Further on a sequential basis compared to Q4 of financial year 2021, we were lower by 22% on the revenue side.

On the positive note our EBITDA margins including other income for the quarter was 9.8% as compared to 9.6% in Q4 of financial year 2021 and of course the margin for Q1 of last year were negative 4.3% due to the impact of lockdowns. Despite this impact during the first quarter of this year, our PBT margin rose to 7.7% as against the Q4 of 7.4% and negative 12.5% in the previous year. This was possible with constant focus on cost and performance improvement plans that we have implemented in our company. During the quarter, the share of loss of JV and associates was Rs. 2.4 Crores versus Rs. 7 Crores in Q4. Our consolidated profit after tax for the quarter was at Rs. 24.3 Crores as compared to a loss of Rs. 11 Crores in the last year first quarter and Rs. 26.4 Crores in Q4 of 2021.

The numbers for the later part of Q1 financial year 2022 were encouraging and it continues to the current quarter as is evident from the growing auto numbers in the month of July and early August. Before opening the floor for Q&A, I would like to draw your attention to the fact that we have a cost component which is bought out and this distorts the margins and the margins are not comparable to that extent. With this, I would like to open the floor for questions. Thank you so much.

Moderator: Thank you very much now. We will now begin the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Karthi Keyan from Suyash Advisors. Please go ahead.

Karthi Keyan: Good evening. First is, can you share the split of revenues between the catalyst and manufactured component?

Srinivasan N: We will not be able to share the breakdown of the value added revenue without catalyst because we have some restrictions from the customers, so we discuss on a total basis.

Karthi Keyan: Fair, the gross margin improved does that infer that the share of manufactured value added piece was higher in this quarter on proportionate and on percentage basis?

Srinivasan N: It is not really proportional the way whenever the value added goes up, the margin goes up, it was not due to that, it is basically the cost actions that we take at the back end and focus on the material cost that helps the margin.

Karthi Keyan: If I may ask you one more question on the the joint venture Eberspaecher there has been a very sharp improvement in terms of the profitability or the reduction in loss, so can you talk about the revenue scaleup that has been seen over there?

Srinivasan N: So, the revenue was also affected in case of Eberspaecher JV in Q1, it was Rs. 41 Crores compared to the annual turnover of Rs. 150 Crores in the previous year; however, we have started taking a lot of optimizing actions and that is why we are looking for a break even during the current year.

Karthi Keyan: Thank you and I will get back in queue.

Moderator: Thank you. The next question is from the line of Viraj from Securities Investment Management. Please go ahead.

Viraj: Thanks for the opportunity. I just have a couple of questions, first on the JV, just on a understanding perspective since the JV is primarily for the CV space post BS-VI implementation, how is the order win or win rate been, any perspective you can share on that because I think by now OEs would have already decided and awarded the vendors for the exhaust system, so for us how is that win rate in overall scheme of things, how is that market share been so that is one?

Aashim Relan: Sure, maybe I will take that question, this is Aashim this side, so regarding the JV win rate from BS-VI we already have 16% market share and our first plant has already been running for the last one year and now as we speak our second plant has also started production and we have two customers established in CV industry. Now the next bidding for a further programs is for 2023, where it goes into BS-VI RDE norms and as of now we are in discussion with two more customers into the CV market for possible penetration, but the results on the bidding will probably be clearer towards the end of the year.

Viraj: Typically, what we understand is once vendor is selected for BSVI phase 1, the continuity of that will be a vendor for phase 2 it is quite high, so when we say we are looking to add two new customers what is aiding this particular confidence any perspective you can share on that?

Aashim Relan: So, you know the way the commercial vehicle emissions market is that prior to our JV with Eberspaecher there were largely only two suppliers in the market and one of the suppliers who is our competition has substantial market share and with that the OEMs are looking to de-risk from that competitor of ours. So that is aiding or helping us gain some market share and second Eberspaecher has the best technology in the world when it comes to exhaust systems, emission systems for commercial vehicles and that is evident from the market share that they hold in Europe, which is 75% and in America, which is 50%, so this new technology availability to the customer is also helping us to gain some business, but of course we are at the stage of bidding right now and the outcomes of the development work will only be known towards the end of the year, but we are very optimistic.

Viraj: Got it, just two more questions, on JV again, the focus initially years would be on a domestic market or is there any arrangement where JV may also be a manufacturing subsidiary for Eberspaecher global requirement either be in Europe or US or new market entry like Asia pacific?

Aashim Relan: Sure, right now phase 1 of the joint venture is domestic, but overall goal is to synergize in other markets and in other areas and we will see some positive developments in that as we move forward in the next couple of years. But phase 1 is the domestic CV market, but definitely there are plans to expand that further into few of the areas that you mentioned.

Viraj: Just last question was on the export opportunity so you have mentioned about our ambitions to capitalize on for components and subassemblies and export, so what the part of systems which we are talking about? Typically what we understand any export breakthrough is at least 5 to 7 year game kind of engage with the OE will be part of the product development and lifecycle and then you see some success eventually, so where are we in that whole lifecycle right now?

Aashim Relan: Sure, so there are two large aspects of exports, which we are targeting right now, one is the subcomponent market, which is proprietary stamping and some other subcomponents which go into exhaust systems. We are already manufacturing them in India because we are a very backward integrated company and we are adding to our backward integration by adding one or two proprietary stamping items as well, which we will be aiming at the export market, so for these products the business development cycle is way shorter, it is usually only one year or two years, not the traditional five to six years which it takes with the OEMs. So we have already begun that cycle so we are hoping for some good results in the next one to two years that come from this segments and then the second segment that we are targeting is a small engine/ off-road export opportunity where we will be doing the emissions systems for a small gensets and other small engine applications, that already contribute to a small part

of our sales I think about 5% to 8% of our sales are already coming from that segment and we are very hopeful to be increasing that, as we go through in the next two to three years. So in both these segments it is not the traditional five-six year penetration cycle which it would be in case we were going for supplies directly to OEMs, here our target customers for subcomponents will be tier 1 customers and for the off road/small segment market it is more the genset makers and the small engine companies, which is a different segment and a different business to our cycle.

Viraj: Just one follow up on this, Sir, what is our opportunity size we have been looking at either with regards to own proprietary items in stamping or in exhaust or other components which we are looking at, so what is the overall opportunity size and since we have been looking at a much more shorter development cycle and scale, who will be competing with or are we replacing in the export markets, any perspective on that?

Aashim Relan: In terms of opportunity size is very large, so it is much larger than the entire Indian market altogether, which were playing in right now, so there is not probably a number that will put on it because the number is so large when we look at the overall market and we are only looking to capture some percentage market share. In terms of competition in the small subcomponent market there are some smaller tier 2 companies out of China and India as well as some local suppliers in Europe and America that will be competing with and when it comes to the small engine market, it is a very fragmented market so there are numerous competitors, but there is not one large competitor in that field as well. So in general both the markets which will be now aiming at globally are fragmented markets for subcomponents it is more based out of China and some of these Indian smaller tier 2 suppliers and for the small engine exhaust market, there are some local companies in America, Europe, and maybe one in China as well.

Viraj: I will come back in queue, thank you.

Moderator: Thank you. The next question is from the line of Parag Shah from SS Securities. Please go ahead.

Parag Shah: Thank you for giving an opportunity. I have a couple of questions. What is the revenue breakup for major segments, how it has evolved over the last few years and going forward which would be the major growth segment and market that you would be focusing on?

Srinivasan N: Maybe I will take the question on the breakup, so we are about 86% on the exhaust manufacturing, about 5% on the suspension, about 2% on the SCM and about 6% on the

genset and the rest are very low, so that is how we evolved and our major contribution comes from the exhaust manufacturing.

Parag Shah: Over the last three to four years, how the trend has been?

Srinivasan N: Largely similar and we have been focusing now on the commercial vehicles within exhaust and also improving our tractor and genset business within the exhaust and suspension is on a steady growth.

Parag Shah: So, over a period of time you are expecting that exhaust business will grow primarily because of your commercial vehicle and tractor business, correct?

Srinivasan N: Yes. Added to that the legislation changes

Aashim Relan: So, maybe I will take the future part of it, the future part where we are looking to focus now within the exhaust system business, there is the passenger car segment that we have been playing in for the last three to five years, so what is new is that our mix now includes commercial vehicles as well, so what this 80% number that Srinivasan has shared that has a good portion of CV that has come in as well. As we go forward within the emission segment we will continue to play in passenger vehicle domestic, we will continue to play in commercial vehicle domestic. What will be new is that there are legislations that are coming in, which is shown in our investor presentation, which emissionize the tractor market and the off highway market, so when we look into 2022 and 2024, the entire tractor, off road and construction equipment market will also require our products, so we will be focusing on that as well when it comes to be domestic segment. When we look at the emissions international segment our focus will be on the subcomponent exports as well as on smaller engines and smaller tractors which I was mentioning in the prior question and these will largely be areas of focus when it comes to exhaust systems. Now the beauty of it is that while there are many market segments that I have mentioned the base product is almost the same and it is very modular in nature, so we will be able to utilize the same products across various segments. In addition to that now we have started our EV vertical and a good amount of our focus is to build a EV vertical in next four to five years as well and that will also be a key area to focus on.

Parag Shah: So, can you explain mix between the petrol and diesel in your portfolio, how does that impact on the exhaust side of your business?

Aashim Relan: Largely diesel and petrol are the same when we look at the emission plus NVH (noise, vibration and harshness) part of it, so in a gasoline car the emission requirement is slightly

less, but then the NVH requirement is slightly more and when we look at a diesel car, the emission requirement is more, but the NVH requirement is less. In terms of our split it is fairly balanced, but most of our diesel products go into commercial vehicles and these are commercial vehicles which are also on the smaller segment, so these are 1.5 liter, 2 two liter engines which also require diesel engines and then also the bigger engines which have a diesel in it and passenger car is largely gasoline barring maybe two models.

Parag Shah: How much is the content per vehicle and how it will change with the regulation going forward?

Aashim Relan: Sure, at this point we are not giving content per vehicle numbers, but we are giving just as a guidance percentage that for tractors currently the content is zero because our tractors do not require our product. As we go forward tractor would require a very similar product to what commercial vehicles require, so it is going to be substantial jump and it comes to the tractor and off road market. When we look at pascars in gasoline and diesel, gasoline it will be about 10% to 15% jump and in the case of diesel, there will be approximately 25% jump and that diesel aspect also goes into smaller commercial vehicle diesel engines.

Parag Shah: That is it from my side. Thank you.

Moderator: Thank you. The next question is from the line of Anil Sarin from Centrum Wealth Management. Please go ahead.

Anil Sarin: Good evening. I had a question regarding the first quarter revenue, it is quite low relative to the fourth quarter revenue, so is it a seasonal factor or there were some shutdowns or whatever the second wave impact, if you can enlighten me on that?

Srinivasan N: It is as I had mentioned in my opening remarks, it is mainly due to the second wave impact where the plants in Maharashtra were shut down for a couple of weeks and also in Chennai there was an impact of two to three weeks, so that had an impact on our revenue mainly in the month of May 2021 and that is why we are relatively lower compared to Q4 of last year.

Anil Sarin: Can you prorate it that is the two-month revenue and in third month had all three months been okay then this would have become to divided by two multiplied by three that would have been the revenue?

Srinivasan N: Not really because in May, it was not a complete lockdown, so we had a partial impact and we would have probably been similar to Q4 of last year in case there was no impact.

Anil Sarin: I have a follow up question. these enhanced requirements, when do they actually kick in and has it started really impacting the numbers or that impact, impact mean the positive impact revenue accretive impact is yet to happen as more CV products sells and so I have two question, one is, it started from April 2020, right and the second is that, is it reflecting in your numbers or the large sales of CV are yet to happen and when they do happen it will start reflecting in your numbers?

Aashim Relan: Sure, so maybe I will take that, so that is quite true that since the norms have started, which was April 1, 2020, CV sales have been fairly low and our joint venture has also been new, it only started in 2019, so right now it is not reflecting on our numbers and as we move forward and as we see resumption of normalized CV sales as well as, as we see our joint venture maturing then it will start showing up in the numbers. So the numbers which we are looking at right now do not really reflect the benefits that have to come from the CV markets for us. And this is the CV market above 2.5 liters engines, for the smaller CVs we are seeing benefits already, this is the larger commercial vehicles above 2.5 liters that falls in our joint venture.

Anil Sarin: So, while the losses have reduced there would be fresh set of losses because of the commercialization of the manufacturing plant because you are not utilizing that immediately to the full extent, so can you take both the things, self-manufacturing and selling of a higher priced more than 2 liter engine combined it together, . I mean if you can throw some light at what kind of revenue this JV add and would it have equivalent margin higher or lower than the standalone entity?

Aashim Relan: The joint venture for its maturity will take sometime to come to maturity, it is fairly new, will have equivalent margins to the standalone entity and in terms of potential it has a revenue potential in phase 1 for the domestic commercial vehicle market and then it has a lot of added synergies, which was asked in one of the question before, as Eberspaecher was a very large company, it is €5 billion in sales and its presence in the Asian market is fairly low, so definitely in the longer term we see a good synergies in addition to the domestic CV markets.

Anil Sarin: Assuming that you have some market share in certain clients, so assuming that CV sales to pick up at a reasonable run rate what revenue can we achieve from our JVs not taking into account the export potential?

Aashim Relan: I think as of now we are not disclosing any number as such but maybe Srinivasan if you have some indicative you can share.

- Srinivasan N:** So, we would not have the firmed up number, but we are looking at almost doubling the revenue in the next one-and-a-half years in the JV.
- Anil Sarin:** So, doubling from what level?
- Srinivasan N:** Last year we did Rs. 150 Crores in the JV.
- Anil Sarin:** So, you are saying as situation normalizes and you will build up certain volumes so you can look at Rs. 300 Crores kind of a revenue from domestic opportunity?
- Srinivasan N:** Right.
- Anil Sarin:** Thank you, and I had just one last question is that there are two major CV manufacturers in India, are you with one/ both or are you with other than these two CV manufacturers?
- Aashim Relan:** As we are not allowed to take names, without taking the names that we are with both, one of them, the engine manufacturing is done through a joint venture of theirs, so we supply to their joint venture or the joint venture partner and for the other we are supplying directly, so we have both directly/indirectly as our customers.
- Anil Sarin:** Are you single source or it will be divided between multiple suppliers?
- Aashim Relan:** We are not single. It is divided between two suppliers you can say.
- Anil Sarin:** Going forward it will be based on cost, efficiently service, etc., that shares can be split even in your favor or in my favor of the competitors?
- Aashim Relan:** The way the products are, they are more engine linked so for the engines that we supply we are the single source and for the engines which have our competition supplies, they have the single source. So it is not that they can switch over between engines, so it is more about yes, how the engine sell on the market as well as in the medium term the better performing supplier and the more technology capable supplier will be given more development for future engines.
- Anil Sarin:** If I may ask a follow up, in terms of engines that you supply to, are these dominant selling engines on we are the less than dominant selling engine for your both the OEs?
- Aashim Relan:** In this way it is hard to answer it, but let us say that they are balanced. It is hard to say dominant, nondominant just the way it is configured right now, but yes, they are balanced and we do have top two CV customers in India already.

Anil Sarin: I think that it is a very good position to be in that you have both which means basically you are taking care of three-fourth of the Indian CV population and within that you have roughly I mean if it is balanced 50% would be the kind of our share assuming engine sell at similar levels and beyond a certain literage or beyond certain size would that be a fair characterization?

Aashim Relan: Yes, I think so and below that literage we any ways supply, but that we do as a standalone company.

Anil Sarin: And there also it will be equally divided?

Aashim Relan: Yes, it is very similar and in the other case also and in the other case the market has split up differently right, so above three liters there are two dominant customers and below three liters in the CV market, there are two dominant customers but they are not the same and we have below three liters also both customer one and customer two in terms of market share.

Anil Sarin: If you were to without getting into the numbers what is the realization of the above three liter engine exhaust system compared to let us say two liter engine, I mean lesser engine capacity cost you Rs.100, the above three liter would be what, Rs.300?

Aashim Relan: Double or slightly more than double.

Anil Sarin: So it is in your interest that the higher capacity trucks sell?

Aashim Relan: Yes, and definitely.

Anil Sarin: Alright, thank you very much.

Moderator: Thank you. The next question is from the line of Sonaal Kohli from Bowhead. Please go ahead.

Sonaal Kohli: Sir, you said the disruption obviously is due to wave two and assuming the go back to revenue run rate of Q4 and the fact that you have taken several imitatives on the cost side, which you mentioned about, is it fair to assume that we go back to a revenue run rate of Q4 whenever that happens your cost rate would be much better in future as compared to the Q4?

Srinivasan N: Yes, so we have taken on from the run rate we achieved in the last year and any incremental actions are going to add to our margin, assuming that the mix does not change much, if

there is a change in the mix that may have an impact on the profitability, otherwise we are on right track to grow our margins as we improve our volumes.

Sonaal Kohli: When do you expect to get into that revenue run rate, would that be possible in Q2 or Q3?

Srinivasan N: I would say it is anybody's guess because we are recovering now from the second wave and there are talks around the third wave so assuming there is no further disruption I think, yes, we would reach that stage very fast.

Sonaal Kohli: My next two questions were on the tractor markets and the larger CV market, so what is the size of the tractor markets once all the regulations come in as compared to the car market, if you do not know those absolute numbers maybe per vehicle number or just a relative number to the car market would serve our purpose?

Aashim Relan: Maybe I will take that question, so just to give a relative number and that is what makes the growth opportunity very exciting that the passenger vehicle exhaust market, the size that it is today, the same size exactly is the commercial vehicle market, which is the higher commercial vehicle market and then the tractor market is also exactly the same size as the commercial vehicle and pascar market so our addressable market share domestically is substantially going to increase as a result of that because what we are doing right now in PV that exact same market size is already available in CV, we have started to capture a little bit of that with our joint venture and we hope to expand on that and with the new legislation that is coming up before the emissions of off highway, the tractor market will be equal to commercial vehicles or even maybe larger you know even larger. So the overall addressable market share or market size for us is substantially going to grow in the next four years, domestic alone right, and then of course there is the export opportunity.

Sonaal Kohli: That is great and secondly is my understanding correct that the car is a three player market, the tractor is a two player market and the market share in tractors could presently be much higher than the car markets what it is more than 30%?

Aashim Relan: Yes, so we expect to have a good market share in tractors and our target is definitely do better on our market share of passenger vehicles and competition intensity is lower in tractors and commercial vehicles because there are large only three companies in probably the world wise you can say that have the technology to meet the emission norms of a commercial vehicles and tractors which are coming in.

Sonaal Kohli: But in India, the tractor is a two players market, and CV is the three player markets?

Aashim Relan: Yes, I would say CV would be a three players market and tractor would also be a two or three player market it depends on the choice of one of the competitors, but largely it is two to three player market CV and PV. Three players would be a fair assessment for both the markets. The systems are very similar, the CV and tractor exhaust systems are very similar it is just a different configuration and technology is also very similar.

Sonaal Kohli: Sir, you said this market size is equivalent to the car market size in India, right?

Aashim Relan: Yes, that is what makes it very interesting because I think the prior person had asked that the value of the product is much higher when it comes to tractor and bigger commercial vehicle so that price into quantities makes the value of all three markets equivalent. So it is almost two passenger vehicle markets are set to come in into India when it comes to this product line.

Sonaal Kohli: Sir while answering a question of one of the participant you said that you are present with both the large players and to have almost equal share as the other participants, but in the beginning you mentioned that you have a 15% market share in the CV industry. Now both things are inconsistent considering the top two players are available in the large part of the market, so just trying to understand what is your exact market share and because you cannot be an equal player in the two largest players so you still have a 15% market share, so when you said they are equal player did you mean there are certain specifics?

Aashim Relan: So for our new customer addition which has happened for the CV market as of this year we only had one customer and we had one plant right. Now our new plant has just started which is our second plant in the joint venture and that is for the second customer now and that will bring in revenues as the commercial vehicle market expands and our joint venture being new right now the volumes are slightly lower as well as of course there is pandemic has led to the commercial vehicle market being hit, but yes, we do expect it to grow. So to clarify that that the second customer that we have acquired the business for that starts this year not last year, so last year was one customer, now the second customer has also been acquired and the plant is ready and just started for them in our joint venture.

Sonaal Kohli: Sir, in a steady state could you go towards a similar market share 2-3 years down the line in the CV industry as well as in the car industry, you had mentioned that your revenues have doubled, basing on the CV markets growth because the base was very low last year also in terms of market share increase?

Aashim Relan: We definitely in the medium term expect to be at equivalent or better market share in CV industry than we have in PV and we are working towards that and I think on year-on-year

basis we will see improvement. Already this year our market share will increase with our second plant coming and we are very hopeful with the RDE norms to get some more business there which would get us to a good level of market share at least similar to passenger vehicles. But that will take about two to three years, but it is going to be building up as we go towards 2024-2025.

Sonaal Kohli: Sir, in terms of addition to technology which we have from your joint venture partner is there any advantage like cost advantage like backward integration or anything else which could help you in this?

Aashim Relan: Yes, so we course have one is the technology, which is world class which comes from Eberspaecher as well as we have our own R&D center which is the only R&D center fully capable of taking concept design all the way to manufacturing, designing, testing everything put together. Third we are very backward integrated as a company which gives us a very good cost point when it comes to the end customer, so I think taking these into account we make a very good value proposition for our customers to give us some additional business as well as to acquire some business.

Sonaal Kohli: Thank you so much.

Moderator: Thank you. The next question is from the line of Krish Kothari from Shinobi Capital. Please go ahead.

Moderator: As there is no response, we will move to the next question, which is from the line of Karthi Keyan from Suyash Advisors. Please go ahead.

Karthi Keyan: Thanks again. Two different questions, a couple of things that be are there any wins that you can talk about or is there an indication of definite business coming through for you, can you talk about the visibility on that side?

Aashim Relan: As of now we cannot give any firm answer on this, but we are very optimistic on that side and we already have the top four tractor makers in India our customers because we cater to the export demands and a lot of the tractors that are exported to Europe, America from India require TREM IV emission products and we already make them for the customers in India and then they put them on the tractors which they are exported. In terms of contract wins right now we are not disclosing anything at this juncture, but we are very optimistic on the tractor market.

- Karthi Keyan:** The other part of it is that in your standalone entity you source the catalyst for a lot of your customers whereas the joint venture does not seem to be booking any revenue some catalyst as of now, I do not know I am going by the quantum of revenues and I am also assuming it could be because of the joint venture that one of your OE exclusive, for the other customer for example, would it be fair to assume that you may source the part of the catalyst requirement, just trying to understand the business model there?
- Aashim Relan:** Sure, first in our joint venture numbers right now we are working for one customer and that customer does not require us to source the catalyst. The second customer who we are just going to start working with or we just started as we speak they require us to source the catalyst, so the catalyst will start coming up in the joint venture numbers as we move forward. When it comes to the other OEMs, there are some customers of us who request us to buy the catalyst and some of them give it to us free of cost, nevertheless we do not source the catalyst, it is directed buy to us and we just on a transactional basis just buy it and pass it through as it goes through our products, so it does not have any kind of financial impact to our results.
- Karthi Keyan:** Right, so the guidance or the broad indication of doubling of revenues by FY2023 by the joint venture that did not include any of the catalyst revenues, is that correct is it the entirely value added, is that correct?
- Aashim Relan:** Largely I think, but maybe Srini would have to tell you this thing that the catalyst part in it.
- Srinivasan N:** This assumes the catalyst share also in case of the new customers that just Aashim spoke about, so this will have a content of catalyst.
- Karthi Keyan:** Thank you so much.
- Moderator:** Thank you. The next question is from the line of Viraj from Securities Investment Management. Please go ahead.
- Viraj:** Thanks for the opportunity. Just a couple of questions, first is on the JV part, just for the understanding you will be looking at the tractor opportunity in the JV or that has been the standalone entity?
- Aashim Relan:** As of now it is a standalone, but wherever the synergy may lie, we may look at putting some products in the JV, as of now our business is standalone tractors.
- Viraj:** But the majority part would still remain in standalone in the future, right?

Aashim Relan: Yes, as of now that is the plan, but there is a tractor opportunity globally also so it is subject to change as that it seems to be a very good opportunity globally in the tractor emission market, but as of now that is where we are.

Viraj: This is related question, you talked about phase 1 where the focus is largely on capitalizing and scaling of the CV opportunity in the JV, so the phase 2 the export part which you alluded to is that also parallelly going on or that largely depends on how successful the JV scale up has been in the domestic market, any perspective on that and at what level you will see a breakeven or a profitability start accruing in the JV in the revenue profile?

Aashim Relan: Sure, maybe I will take the first part which is the phrase 1 and phase 2. Right now we are focused on phase 1 actively looking at other synergies. But as nothing is concrete so we would not comment on too much on phase 2 for the time being. But of course there is no contingency between phase 1 and phase 2 in terms of the degree of success of phase 1 will lead to phase 2, but nevertheless, it would be helpful. When it comes to be breakeven level of sales maybe, Srinivasan you can touch some light on that that is what do we expect on the JV?

Srinivasan N: Thank you, Aashim. So I think based on the actions that are currently identified, we are looking somewhere around Rs. 200 Crores plus to reach the breakeven assuming the mix that we are expecting holds true and of course the actions that we are taking happen as per plan, so most likely around Q4 of this financial year, we are expecting to breakeven.

Viraj: Second question is on the export opportunity again, you mentioned that the opportunities already been catered to the other Indian, Chinese players, so one would assume the costs proposition of theirs versus ours would largely be the same, so when we are of looking to tap into this, what is the differentiation for us which is giving us back confidence that we will see a good scale up?

Aashim Relan: Our initial studies indicate that our cost points are better than competition, the reason for that is that we are efficiently able to start from the R&D of these products right, which these competitors of us cannot, so the designs in general have a lower cost structure than competition and secondly we have economies of scale when it comes to buying of the raw material that goes into these products, which the smaller players do not have. So one we definitely see that we will be able to be better in cost and this is already visible in the domestic market when we have to choose between in-sourcing and outsourcing these components and second you know the quality, and delivery and the thrust that the larger tier 1 have on us is probably way higher than some of the smaller competitors which we are

looking to consolidate on. So it looks like a very exciting market to play in, but nevertheless of course we do expect a challenges as well.

Viraj: Last question is on the EV JV which we have announced recently, so the JV is primarily for the lithium ion battery pack and for BMS, typically when one looks to set up a battery pack assembly their eventual goal is to also have a battery cell manufacturing not maybe immediately, but if you were to look at say five year, seven years kind of roadmap, which itself is very capital intensive business and the return of the business economics are not established even at the global major. So when we are looking to get into this, what is our play in this, any roadmaps and similar for BMS you have seen MNCs like Bosch and others also offering BMS as part of the overall comprehensive solution for EV project so just want to understand where is our capability in that sense?

Aashim Relan: Sure, first this is of course an initial venture which we have recently announced but just to broadly on strategy that our strategy is just to enter EV components through assembling of battery packs. While we will be assembling the battery packs for our joint venture partner who is in itself and OEM and a customer we will also be exploring the subcomponents that go into that and we will be cross selling the subcomponents, already one subcomponent is underdevelopment in our R&D center. Now in terms of BMS, the BMS that is being utilized in the joint venture is also a very good BMS system but there is a recognition that there are other players also into BMS, so we really need to see how that plays out, but in general the strategy is to move into the subcomponent market as a result of coming into this joint venture to assemble the battery packs and not really to go into capital intensive businesses like manufacturing cells and all that that is not the intention. So we will just get into the business and do subcomponents as well as explore what are the strengths of the BMS does turn out to be a strength then we will be cross selling it as well.

Viraj: Any indication in terms of capital allocation towards this initiatives if I have to look at next three to five years, what kind of capital allocation we would be looking at?

Aashim Relan: So, we do not have a firm number in terms of that, but it is going to be not heavy capital right, so the initial numbers are roughly around Rs. 20 Crores to Rs. 25 Crores, may be the initial investment is even less. So in general this is a very financial friendly kind of a venture, it is not something that we are deploying a large amount of capital in at this stage. But nevertheless as we do go about the subcomponent part of the business there would be an increased capital allocation, but it would be remaining to be a very minor capital allocation in the overall space.

Viraj: Thank you and good luck.

Moderator: Thank you. The next question is from the line of Anil Sarin from Centrum Wealth Management. Please go ahead.

Anil Sarin: Just a data point, what is the market share in passenger vehicles?

Aashim Relan: Approximately 30%.

Anil Sarin: So, basically other than Maruti is our element?

Aashim Relan: No, other than Maruti our market share is 60% because Maruti is 50% then we have, mostly everyone maybe one or two customers we do not but as a market share we are at 30% full market and 60% ex Maruti.

Anil Sarin: Thank you very much.

Moderator: Thank you. The next question is from the line of Sonaal Kohli from Bowhead. Please go ahead.

Sonaal Kohli: Thank you. Going back to the EV question which one of the earlier participant had asked, what I wanted to understand is, do you have any plans for any further joint ventures in that field and what the existing partners who has partnered with you could help you in that space?

Aashim Relan: That is exactly the point that we are in talks with other partnerships for subcomponents in the EV space and our joint venture partners already entered the EV space in the European and American market and they have already developed the thermal management system and the battery packs and we would look forward to have a very a similar venture in India. With them as the market develops the four-wheeler market in India right now is not very developed, but as it develops definitely our existing partner also has entered into this segment and we are in talks with the other companies on the subcomponents side on playing in the EV space. So broadly we want to invest and expand the EV business and this joint venture which we have announced is only the first step towards our EV vertical and as we move through the next couple of months and years we will announce some more venture in this space, which would be the subcomponents section in to EV.

Sonaal Kohli: So, these thermal cooling products if I heard you correctly, you mentioned that your joint venture partner provides, the technology, is the technology available or something very specific?

Aashim Relan: Yes, so again it is proprietary the reason for that is that one of the products that go into emission systems is an SCR and SCR requires a very strong thermal management control and that is something that can be cross applied to batteries and all our global competitors are also getting into this product as well as our partner. So it requires a technology, which is a synergy with existing exhaust products.

Sonaal Kohli: Sir, do you have any specifics like what is the per unit value revenue of this product etc., and its little bit early to ask you some sense what are the key concerns. I think most of the participants on this call would have is that some point may be whether 10 years or 15 years and maybe in five years, some share would increase wherein 10 to 15 years the share would become dominant that it what happens to a car business?

Aashim Relan: Absolutely, I think this product will be equivalent or a little bit higher than our existing content per car. And what we see is that passenger vehicle at some point 5 years, 10 years, 15 years from now as it starts increasing the EV penetration we will be having at least the battery pack where we will be supporting it and then our other dominant segments like commercial vehicles and now tractors that does not seem to be going into EV any time soon.

Sonaal Kohli: Sir, like your joint venture partners are there any others which have similar technology, there are a quite a few of them or couple of them?

Aashim Relan: There are only a couple of them and they are actually very similar to our competitors in India, all the balance two competitors of us in India, the international companies they have developed these products globally as well, so it is just a synergy that comes out of the emissions product altogether. So it is again like a three, four market players globally. But of course it is very early, this is a very fast moving and developing market, so it is very early indicators and we are taking it one step at a time and this JV is our first step into the EV vertical and we will of course be building on it which we are in talks with many companies.

Sonaal Kohli: Thank you so much.

Moderator: Thank you. Ladies and gentlemen, this was the last question for today. I would now like to hand the confidence over to Mr. Srinivasan for closing comments.

Srinivasan N: Thank you Rutuja. I would like to thank the participants for a very engaging and interactive session today. Just to summarize the discussion though we had an impact in quarter one due to the second wave we see good momentum going forward and we bank upon our operating efficiencies and the technology leadership to achieve the expected numbers and the growth



Sharda Motor Industries Limited
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during the current year. With this I would like to thank you all for joining the call today. Hope we have been able to address all your queries and if you have any further queries, we request you to get in touch with SGA, our Investor Relations Advisors or feel free to get in touch with us. Have a happy and safe festive season ahead. Thank you.

Moderator:

Thank you. On behalf of Sharda Motor Industries Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.