Sharda Motor Industries Ltd.

SMIL: LISTING/24-25/1911/01 **November 19, 2024**

BSE Limited
Department of Corporate Services
Pheroze Jeejeebhoy Towers
Dalal Street, Mumbai - 400 001
(SCRIP CODE - 535602)

National Stock Exchange of India Limited
Exchange Plaza, 5th Floor
Plot No. C/1, G Block
Bandra - Kurla Complex, Mumbai - 400 051
(Symbol - SHARDAMOTR) (Series - EQ)

Sub: Submission of Transcript of Conference Call held to discuss the Operational & financial performance for quarter ended September, 30, 2024

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. **SMIL: LISTING/24-25/1111/01** dated November 11, 2024 with respect to the convening of Investors / Analyst conference call "Earning Call" on **Thursday, November 14, 2024 at 05.30 P.M. (IST)** onwards, for discussing the financial performance of the Company for second quarter ended September 30, 2024 for the financial year 2024-25, in this regard please find enclosed herewith the transcript of the earning call.

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

This is for your information and record.

Thanking You,

Your's Faithfully

Iti Goyal
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Date: 2024.11.19 17:10:06 +05'30'

Iti Goyal
Asst. Company Secretary & Compliance Officer

Encl. as above

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"Sharda Motor Industries Limited

Q2 FY '25 Earnings Conference Call"

November 14, 2024

E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on 14th November 2024 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: **MR. MIHIR VORA – EQUIRUS SECURITIES**

Moderator: Ladies and gentlemen, good day, and welcome to Q2 FY '25 Sharda Motor Industries Limited Conference Call hosted by Equirus Securities. 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 touchtone telephone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Mihir Vora from Equirus Securities. Thank you, and over to you, sir.

Mihir Vora: Thank you, Ridi. Hi, good evening, everyone. On behalf of Equirus Securities, I welcome you all to the Q2 FY '25 Post Results Conference Call of Sharda Motor. From the management side, we have Mr. Aashim Relan, Chief Executive Officer; and Mr. Puru Aggarwal, President and Group CFO. So without further ado, I now hand over the floor to Mr. Puru Aggarwal for his opening remarks. Over to you, sir.

Puru Aggarwal: Thank you. Good afternoon, everyone. A warm welcome to all the participants on the call. I'm here with Mr. Aashim Relan, our CEO; and our Investor Relations advisers from SGA. I hope you had a chance to go through our results and the investor presentation. You can find the presentation on the Stock Exchange and on the company's website. Before going into company's financials, I would like to give a brief overview of some highlights of the industry for the quarter gone by.

The Indian automobile industry saw a strong year-on-year volume growth of 9% in Q2 FY '25, reflecting a recovery compared to Q2 FY '24. This growth in sales was on account of strong performance from 2-wheeler and the 3-wheeler segments, while the passenger and commercial vehicle segments experienced a decline. However, with ongoing infrastructure investments and the upcoming festive season, strong demand is expected in the next quarter.

In Q2 FY '25, passenger vehicle sales volume reached 1.25 million units, showing a slight year-on-year decline of 0.6%, indicating softer demand in this segment. Conversely, the utility vehicle category continued its strong performance with 12.3% growth during the same period driven by consumer preference for SUVs and multifunctional vehicles. The outlook for the second half remains positive, especially with the upcoming festive season.

In Q2 FY '25, the commercial vehicle segment experienced a 9.2% year-on-year decline. Although CV exports showed robust growth of 16%, domestic demand led with an 11% decrease. This decline was mainly due to the extended monsoon delays and unfavorable weather conditions, which disrupted activities.

Additionally, a reduction in government infrastructure spending due to election impacted sector growth. Looking ahead, the CV segment and this space improved performance driven by new product launches and expected sales growth in rural markets. With favorable agricultural conditions following the monsoon season, demand in rural area is projected to rise, indicating opportunities for a near future rebound. The 2-wheeler segment demonstrated strong year-on-year growth of 13.1%, led by scooters at 16.7%, followed by motorcycles and mopeds, which grew by 11.3% and 17.9%, respectively. The 3-wheeler segment also showed positive momentum, reaching 2.9 lakh units in sales, a 4.7% increase compared to the previous year. This robust growth across 2- and 3-wheelers highlight rising demand for affordable fuel-efficient transportation, particularly in rural and semi-rural areas.

In Q2 FY '25, tractor sales grew by 3.4%, reaching 1.3 lakh units, up from 1.25 lakh units in Q2 FY '24. September typically sees a sales re-boost due to the start of the harvest season, encouraging farmers to invest in tractors for increased agricultural activities. The tractor segment is expected to see strong growth in FY '25 driven by favorable monsoon, rural development efforts and rising mechanization in farming.

I will now shift the focus to operational and financial performance of the company. On the consolidated basis, we registered revenue of INR711 crores in Q2 FY '25, a decline of 7% as compared to Q2 FY '24. Our gross profit was INR188 crores in Q2 FY '25, which is a growth of 8% compared to Q2 FY '24.

And for H1 FY '25, our revenue stood at INR1,397 crores, a marginal decline of 1% as compared to H1 FY '24. Our gross profit for H1 FY '25 stood at INR368 crores, a growth of 19% as compared to H1 FY '24. Our EBITDA for Q2 FY '25 was INR105 crores as compared to INR99 crores in Q2 FY '24, which is a growth of 6% on a Y-o-Y basis. The EBITDA margin for the quarter grew by 178 basis points from 13% in Q2 FY '24 to 14.8% in Q2 FY '25.

And for H1 '25, our EBITDA was INR201 crores as compared to INR168 crores in H1 FY '24, which is a strong growth of 20% on a Y-o-Y basis. The EBITDA margin for the half year grew by 258 basis points from 11.8% in H1 FY '24 to 14.4% in H1 FY '25. Our PBT for the quarter was INR106 crores after accounting for shares in profits in JV and its associates, which was stable as compared to Q2 FY '24.

And for the half year, PBT stood at INR209 crores after accounting for shares in profits in JV and its associates, which registered a strong growth of 16% as compared to H1 FY '24. The consolidated PAT for Q2 FY '25 is INR79 crores as compared to INR80 crores in Q2 FY '24. And for H1 FY '25, PAT stood at INR156 crores compared to INR135 crores in H1 FY '24, which registered a strong growth of 15%.

Our standalone PAT for Q2 FY '25 was stable at INR79 crores as compared to Q2 FY '24. On the balance sheet front, we continue to maintain a healthy liquidity position of more than INR782 crores in cash and cash equivalents, including investments and bank balances as on 30th September 2024.

I'm also very happy to announce that we have won an export order for emission components to the U.S. market with annual business of approximately $7 million and lifetime business of $40 million plus. The SOP for the order is expected by January 2026.

With this, now we can open the floor for Q&A.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Karthi from Suyash Advisors.

Karthi: A couple of things. One is whatever visibility is available today, would you be able to sustain gross profit growth that we've seen in the first half?

Aashim Relan: Hello, good evening. This is Aashim. So we have just guided that we will continue to outperform the industry and gross profit is the right barometer rather than sales in our case, the way catalyst accounting is done. However, it's difficult to predict any momentum or specifics because there's a lot of volatility, of course, within the Indian market as well as global changes that are happening. However, gross profit would be the right parameter to continue to watch on.

Karthi: All in all, does the momentum sustain or no? If you want to confirm that?

Aashim Relan: Sure. I think that we will hope for outperformance, in particular, any specific momentum, H1 to H2, that's very hard to firmly guide on.

Karthi: Fair enough. On the order that you just spoke about -- your colleague spoke about rather, can you give some additional details? This is related to the stationary engine?

Aashim Relan: Yes. So we're actually very excited about this order and this is a very good achievement by the efforts we've been making on the global business. This will be for commercial vehicles, and this is emission components. These go into very advanced emission systems, which are coming right now in the U.S. market and mainly these are modules.

And SOP is expected for January '26. And it is also a huge opening for our company, because before this, we have not been producing such products and definitely it is a first for us in the U.S. market. And given that it is with the largest emission control company in the world for commercial vehicles, it also gives us a good opportunity for the future to cross-sell, as this order brings a lot of confidence. One for us internally, but also for other customers.

Karthi: Fantastic. Just to clarify, would this be contingent of all the EPA norms being implemented? Or do you believe that it's independent of that?

Aashim Relan: So this is independent. I think these norms are already part of it. However, because it is the U.S. market and here we are Tier 2, right? So we are talking to the company and the company then of course manages all this. So our visibility would not be as good in the U.S. market from the norms perspective. However, this is a firm order and there is no contingency as such that we have had.

Karthi: Perfect. So $7 million will be the very first calendar year. That's the way to understand it, right?

Aashim Relan: Yes. So rather than projecting on very first calendar year, we are calculating it based on ramp-up on the first year. So between $5 million to $7 million in the first year and then for the next 5 years, $7 million. And generally, these products last way more than what we indicated, but just to be conservative, I think this will be a good starting point, given that this is a first for us on the export front.

Moderator: The next question is from the line of Payal Shah from Billion Securities.

Payal Shah: I have 2 questions. One, our EBITDA margins have shown steady improvement each quarter recently. So just wanted to understand, going forward, can we expect this trend to be sustainable? And like what range should we expect going forward?

Aashim Relan: Yes. Thank you for the question. So we need to look at EBITDA margins in our case, they are also got tailwind just because of sheer accounting on the catalyst front also. So it's good to note that, that because our newer products come without catalyst and the way then accounting comes, because catalyst is removed out of the sales as well.

And hence, it shows a higher EBITDA margin. So definitely, that is -- and in fact also when you see in terms of the improving EBITDA margins, the way they're calculated, so it's hard to guide on a number. However, with the FOC model coming in, from that perspective, EBITDA margins would definitely be better under FOC model mix, versus when catalyst is included, as when catalyst is included, then our sales figure gets inflated, and it doesn't add much to profitability because that is a directed buy from the OEM.

Payal Shah: Sir, my next question is, we have witnessed 14% increase on our other expenses on a Y-o-Y basis. So can you throw some light on that?

Aashim Relan: Yes. So in other expenses, job work, labor hire charges should get added. So I think it gets clubbed with various things, and then there are a few one-offs also. So just as we had underlying volume growth in line with the job work or other labor hire charges, et cetera, also go up, and that gets clubbed into that category of expenses. And there are some small one-offs as well.

Moderator: The next question is from the line of Mihir Vora from Equirus Securities.

Mihir Vora: So basically, my question was on the construction equipment norms, which are going to be effective from Jan '25. So are we seeing some new order wins here? And what would be the potential here going ahead for us?

Aashim Relan: Yes. So for the construction equipment market in India, the volumes are low relative to other industries. However, the customers who are present in India have very large wallet shares when it comes to emission control products globally as well as the adjacencies. So for the norms that are coming in, in India, our goal is first to develop the customer relations and focus on the adjacencies, which are temperature control tubes.

And these are also very high-value products, which I have spoken before about. So for this, we have received good business and we expect some revenues to be coming, starting next year and we expect maybe mature volumes to start more towards June '25 onwards. However, because this is a starting point, and these are starting relations. So in terms of overall revenue, it won't be very significant to begin with, however, it will grow over time.

Mihir Vora: And what would be sort of an increase in content between this change of norm, like any some percentage?

Aashim Relan: So as of now, we have no business in construction equipment, this will be a first. And prior to these norms also, not much was put into construction equipment that was related to our product within the Indian market at least. After this, new adjacencies will be added. It will all be new revenue for us, because we have no business right now and these are all new relationships.

Mihir Vora: Sure, sure. And the other question is on the TREM 5 time line, whether it is intact? Or will it be delay or how is it?

Aashim Relan: So it is hard to predict in terms of any government delay. However, in terms of development and in terms of readiness, it's fully there and if there is any delay, it should be in due to government, delays in norms. However, we don't have any communications so far of that.

Mihir Vora: But are we also seeing interest from the customer side? Are we looking at some business here?

Aashim Relan: Yes. So we've developed very good business in this segment. And from the perspective of business nomination as well as development work, it is fairly mature. And we find most customers, barring maybe 1 customer, that readiness is very strong and that we'll have a very good market share there.

Mihir Vora: And my last question is on the suspension business, given there were a few launches in the quarter. So do we see some order wins from these new launches which have recently launched in the last 2, 3 months? So is the suspension business picking up?

Aashim Relan: Yes. So we are new to building up the suspension business. Our new plant is coming up for that. The SOP for the plant is most likely to be mid-December, early January. So some revenues will come in, in Q4 of FY '25. The current volumes that we have, there will be a gradual ramp-up. Hence, at least for Q4 of this year, there will only be marginal revenues for this plant. We have indicated a capex of INR50 crores. Some is already done and some will be done over this quarter. We have a capacity of 280,000 controls on site. And in terms of orders, we run a good platform for which we put this plant and this is a platform that will be used in EV as well as ICE.

And at the same time, we have 1 new customer now in the region who has given us some business. The new business is still small to begin with, because this will be our first time doing this product with the customer. But on successful implementation, we are very hopeful to get a larger size of that customer's wallet share and we are actively looking to build this business, which is going step by step as we are new to scaling up this business.

Moderator: The next question is from the line of Harsh Patel, who is an Individual Investor. Mr. Harsh, your line is unmuted. Since there is no response we will move to the next participant. The next participant is Piyush from Acquaint Bee.

Piyush: Sir, wanted to understand, we filed around 10 IPs in the last couple of years. So anything very different in terms of substantial gains that you envision from these products, whether you could outsource the technology to others?

Aashim Relan: Yes. So thanks for the question. In terms of IP, we are new in formal intellectual property in terms of patents. However, we've had very good success. And now the innovation funnel and process is robust. So we expect to continue on this journey. Regarding the IPs, we have focused on 2 areas. One is which strengthens our competitive advantage within emissions and especially, there are a few technologies that we anticipate in the next emission norms. So it's around being ready and building competitive advantage for that.

And second is on products which are more exportable and by products exportable means adjacencies of emissions only. However, it's too early to get in terms of business results or outsourcing this technology or licensing it right now. However, this will build up and compound over time and we may see results for this in the future.

Piyush: Okay. And sir, how is the JV with Purem now going on? How has that relationship scaled up, if you could...?

Aashim Relan: Yes, so we are at a fairly similar level as the products are quite sticky within this industry. So we have the same business that we've had and commercial vehicles is going through a downturn. However, we have been awarded a good business now within that JV, which is more a localization program by an international customer.

And once that's added, that's going to give some boost to the JV and we're expecting somewhere around the middle of 2026 for that to kick in, but that's a good program that the JV has won. And generally, these products are so sticky, so even winning 1 program is a big boost in terms of confidence as well as it will help the revenues and bring it above breakeven point comfortably.

Piyush: Sir, I wanted to also understand. So so at least couple of CV OEMs, they have newer engines on which this JV had won some business. So has there been a market share shift and the newer engines are now grabbing more and more market compared to the older one?

Aashim Relan: It has not been to the degree that we expected, even by the OEMs, right? It's fairly stable from where it was last year. There has been no increase or decrease. We see a quite similar level in terms of overall market share for the new engines. The hope is that these engines will have more and more market share. However, the Indian market does seem to be a very sticky market. So we will have to see how this goes in terms of new ones taking more market share in the future.

Piyush: Okay. Sir, if I may, a couple of more questions. First on this 3- to 4-liter Indian segment for commercial vehicles. So this is again a heavy vehicle or this is a light vehicle that we see? If you could just explain to us. And how is this segment performing? Because you specifically mentioned this as part of the presentation.

Aashim Relan: Sure. So what is heavy and what is light is, I guess, there's a lot of ambiguity, right? Because it's all relative and the way India looks at it and U.S. looks at it, the order books are different. That's why we've defined it as literage because that is what goes into our product. Our products are based on the literage of the engine and our JV's also defined on the literage only as a result. So under 4 liters, we are permitted or as per the JV, to do it stand-alone, right? And that is a business where currently we have no market share.

As one of the competitors has almost 90% market share in that segment. And we have the full technology now ready. We have the product ready and we are working on the business development cycle, ready to get some business and even 1 platform in that business would be good in terms of profitability. However, it is, let's say, niche segment. So in terms of revenues, it's not the largest segment. However, in terms of valuation and profitability, it's a very good business to be in. And we are working and putting efforts to get business in that segment as a stand-alone company.

Piyush: So have you won any market share so far in terms of business development with a particular client, where you have some visibility in the next year or so?

Aashim Relan: Yes. We are hopeful. As of now, we've not been awarded any platform in that segment. That's one of our target segments where we have ready with the product and we are in the business development cycle for that.

Piyush: Okay. Sir, on the exports right now. So we've already won 1 good business in the U.S. What is the present share of exports in terms of our overall gross profit you want to look at from a gross profit perspective?

Aashim Relan: It's way less. The current share is way less. In terms of our exports, we roughly exported maybe INR25 crores, INR30 crores last year, right? So in millions, it would be negligible. However, this business alone more than doubles our exports or triples our exports. And this is all value-added business. So this is not including any catalyst or anything. So we're very excited. It's a big achievement. And we are very hopeful, we have various other RFQ business development pipeline underway. We are very hopeful to grow the segment, to make it a substantial part of our revenues. And I think this breakthrough has given us a lot of confidence and a lot of visibility in terms of making this a substantial business for us.

Moderator: The next question is from the line of Ankur Shah from Quasar Capital.

Ankur Shah: Sir, just a question on the CV. Like is it possible for us to quantify the market? I know you mentioned that it is quite a small market, but in terms of figures -- so I'm just trying to figure out what will be the top line difference for Sharda Motors?

Aashim Relan: So first on CV, I will just bifurcate it into 2 products. So one is an emission system that goes into CV side and second is the adjacencies which are the temperature control tubes. So for the emission systems, most of the customers right now in India and international are going with the strategy of not localizing this immediately and waiting 1 year, 1.5 years to really localize it.

However, for the tubes and the temperature control tubes, which is largely done by only maybe 2 companies in the world, they're planning to localize it. For the temperature control tubes, we have won the business and we have a good business in terms of market share. However, in terms of overall revenues, it is not anything significant to share a number. So we are not being specific about the number because the whole idea is one, to get into these temperature control tubes as a business because they have a very attractive margin profile as an adjacency.

And second is to develop new relationships with these new OEMs for us, as we never had the opportunity to work with construction equipment companies and to utilize that to definitely participate in the localization of their emission systems, whenever they do that, but more importantly, to really build the export business out with them, on temperature control tubes, which is a very attractive market from an export perspective.

Ankur Shah: Okay. So just for my understanding, the first part which you mentioned, is it because the cost difference is not going to be very huge in the end product? Is that why this decision has been taken not to localize the product?

Aashim Relan: It has been made because the volumes of these engines vis-a-vis the global volumes within India are less and it takes a lot of time, effort, as well as money, for them to localize it in India. So they had the products already available in whichever countries they're in. So they're just modifying that and seeing when to localize it. So there's not an easy product to localize and get validated, so the volumes within India for them to justify.

Ankur Shah: Understandable. And one more question on the suspension business, because now since we are also setting up a plant. Very interestingly, we have scaled up this business. So again, like just 1 question comes to my mind is because we have a base of exhaust system business, which is a very high ROE profile business. How is the suspension business in terms of technology barriers, in terms of competition, in terms of winning new business, in terms of the ROE profile, how do you think about that business? And what is the scalability of this business?

Aashim Relan: Sure. So the way we are looking at it is not a suspension as a vertical, rather light-weighting as a vertical. And when we utilize the word suspension, we largely mean control arms and assemblies of suspensions, right? Suspension is a word that's often cross-used in the industry and there are sometimes shock absorbers are also called suspension and so on. But for us, suspension will be control arms and axle assembly, which is the content that we are focusing on for the time being. We did have a legacy business already. So as we speak today, also about 8% of our revenues comes from the light-weighting or slide suspension business.

Now when we look forward, we want to play in areas which would have a moat or a high ROE or higher ROCE. It's basically where technology would be and where a lot of our R&D efforts can be put in. So the current business that we've developed is also from internal R&D efforts only and we augmented our R&D or started working on this probably 18 months to 24 months ago and now it's yielding results. So on the suspension business, we will be selective, to really look at areas which will meet thresholds on gross ROE and which do require some technology.

At the same time, light-weighting as a vertical or a market is so large, so large, and going through huge change and change in terms of going from traditional to more technology-focused areas.

So we are evaluating and we are doing a lot of effort within that area. So on which components can we play and in which technology can we play which can bring a good profile in terms of gross ROE or just a competitive advantage. And that's something underway parallelly. For the time being, the suspension business is limited to control arms. And we see a good amount of scalability. At the same time, we are also looking at it as a starting point for our light-weighting vertical.

Ankur Shah: Interesting. And on the slide, I also see the market share of China in both suspension and engine exhaust systems being much higher. And I think we have had this conversation before, that exhaust systems as such fully cannot be exported. So coming to the -- and obviously, congrats on your recent win.

But on the suspension part, will we be able to ever leapfrog directly to export product where our acceptance is there? Like example, control arms or any of the light-weighting products which you are mentioning, is it possible for us to have an export focus or that's not right now in the cards?

Aashim Relan: Definitely, there is a lot of potential and there will be a shift even in those segments. However, our exports is first focused on our core areas. And our core areas, which we guided on, number one, is commercial vehicle emission components, and that was an area where we might get even more traction -- the first order win is already there -- because it's massive in size and it's also sticky. Not a lot of companies can do these kind of modules and so on globally, right?

Then on the second side is these temperature control tubes, which we just spoke about, which are also going to be used in CV side, but they're used all over the world. And they have a huge market and are generally also imported by these companies. Third is on the stationary engine genset market, where there's a good boom going on. We already have some export business there and we are hopeful to add some business and some customers in that area. And then last is on the smaller tractor segment, globally, which is under 100 horsepower. So these are 4 core areas where we want to focus our export business. However, in the future, definitely, these products are also exportable.

Now control arms, exactly how it is, may or may not be. However, there are some adjacencies in light-weighting which are definitely exportable. However, for us, it would probably come after we have a strong domestic footing on light-weighting.

Ankur Shah: Just last question, and again, very repetitive. I think I've been asking this for like 2 years, on the capital allocation part, while it's really commendable on the way you all have grown the business, but considering the business has been so capital efficient, so what do we plan to do with this cash pile? I know acquisitions and all have been very difficult to find and all. But yes, like just as a thought, what's stopping us now investing this money? Because the cash flow, the constant cash flows, the customer set, everything is there. So maybe we take a little bit of risk, why not? Like, just from that angle.

Aashim Relan: Yes. So I think -- I mean a very valid question. And couple of things, for M&A, as I've said before, beyond scanning the market and wherever there is potential, we will definitely execute it in a way that creates value for shareholders, right? If not done in the correct, it can also not lead to good value, right? And it can lead to other issues, right? So being very conservative on that end and not being conservative by a massive degree. However, at the right timing, we will definitely do it. And we have a full team, in fact, now dedicated only looking at M&A within powertrain agnostic products. However, you know any time line or so on for this is tough to get, given that we want to be careful there.

Now coming to your question of other verticals, that's a good point. That's why we started allocating capital to build the light-weighting vertical. The first stage is this INR50 crores that we've already put in, in terms of putting up this plant and we have continued to do that. So definitely, the light-weighting vertical will take up a good amount of capital. However, again, in a selective way only, we will be moving forward.

Ankur Shah: I assume that will be the interest income of your year from the cash reserve, that capex.

Aashim Relan: Yes. So at the same time, we are also substantially increasing our payback to shareholders. So I think the buyback was the first part of the journey. At the same time, we also now have a dividend policy that is established and we will continue to do that. But point is well taken and I think we will become more efficient in terms of usage of surplus cash.

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

Karthi: Yes, Aashim, just to clarify a couple of things. One is this order, U.S. export order that you won, this would be for a new customer, right? This is not through Eberspaecher. Am I correct in understanding this?

Aashim Relan: Yes. So this is -- this is a mega customer. We are talking maybe of the largest customer in this domain.

Karthi: I am very helpful to mention the name, which is why I asked.

Aashim Relan: We don't mention names. So just as a precedent, we mentioned customer names. So we do have an existing relationship with a different vertical of this customer, but this is like a huge customer which works in multiple verticals. So this is the emission vertical of the customer. We did not have business with them before and we like that this will be our starting point. They are the largest commercial vehicle emission company.

Karthi: Yes. And would you be replacing the Russian facility by any chance? Is that reasonable to ask?

Aashim Relan: No, no, no. We won't be doing any Russian facility. This is a new win for them also, new product. And this is an export product, right? So we will be exporting this. We are not at all into anything to do with Russian. This is to the USA market.

Karthi: Will you be -- be replacing their Russian facility? That's what I was asking.

Aashim Relan: No, no, no. We'll be -- this is a new win and this, previous to us, and the panel was definitely, I think, 1 Chinese company, 1 local company as well, who we were competing with for this.

Karthi: Okay. This is a new product you're saying, right?

Aashim Relan: It is a new product for us, because it is the module of commercial vehicle emissions systems.

Karthi: No, I'm saying for them, for them, for your customer, for your Tier 1.

Aashim Relan: It is an upgraded product.

Karthi: It is an upgraded product, okay. So there, you're replacing in that sense, some existing supplier, to that extent?

Aashim Relan: To that extent, yes.

Karthi: All right. And how is the pricing structure out here? Since it's a new experience, so therefore, I'm trying to understand it. Would you be reasonably protected on the profitability side?

Aashim Relan: Yes. So I won't maybe speak about any specific quarter. However, what we've guided in general about exports, that generally margins are better in exports, however working capital is also more in exports. So on a net ROCbasis, it generally works out to be the same as our domestic business. Not any specific order, but that's the threshold that we have in general for exports.

Moderator: The next question is from the line of Manish Pare, who is an individual investor.

Manish Pare: Yes. Sir, my -- like this could be a basic question for you, but just 2 questions I wanted to ask. One is on the export front, like we have been talking about getting into exports aggressively. So for next, like, say for 2 years, what are our export targets in terms of percentage of revenue? And second is, what are the capacity utilization as of now for our various products?

Aashim Relan: Sure. So first question, our export targets in terms of firm numbers, it's just for it to be a much more substantial part of our sales. Currently, it is a very small part of our sales. After this order win it will be a decent part. However, there is a lot of opportunity and we have been working on this for some time.

Now we have a focus team on it and we are very hopeful to build this business up into a substantial part of our revenues. Not guiding on an exact number, either 2 years, 3 years or 4 years out. And in general, this is our core focus area, one of our core focus areas. The second question, if you can repeat, please?

Manish Pare: Yes. Like as an investor, individual investor, how can we look at like if we are targeting exports or the new guidelines, which would come into effect from Jan '25 and then in April '26. So how does our, like, capacity -- do we need to incur additional capacity or we already have capacity? And what is the current utilization? Like we need to do additional capex for the sale or we have enough capacity to serve the market -- current domestic market as well as the export market?

Aashim Relan: Sure. So in general, our capacity can be augmented fairly easily. When we are talking about the core emission vertical, then to cater to whether it is in April '26, TREM5 or to increase market share in commercial vehicle segment or on the exports front, it will all be incremental capex only. It is not going to be some substantial capex, right? And we would continue on a very similar capex trajectory that we've had last 2 years.

However, on the light-weighting vertical as and when in progress there, we will be allocating additional capital, like we have on this new plant. And going forward also, we would require more capacity or more capital to build that vertical.

Moderator: As there are no further questions, I would now like to hand the conference over to Mr. Aashim Relan for closing comments. Thank you, and over to you, sir.

Aashim Relan: Thank you. Thank you, everyone, and I appreciate you taking out the time, and wishing a lovely evening. Thank you.

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