

AUTOMOTIVE AXLES LIMITED

10th February 2023

The BSE Limited

Phiroze Jeejeebhoy Towers
Dalal Street
Mumbai – 400 001
Scrip Code: 505010

National Stock Exchange of India Limited

Exchange Plaza, Plot No. C/1, G- Block
Bandra (E)
Mumbai – 400 051
Scrip Code: AUTOAXLES

Attn: Listing Department

Dear Sir/Madam,

Sub: Analyst / Investor Conference Call Transcript.

In continuation to our earlier intimation dated 30th January 2023 regarding Intimation of Analyst / Investor Conference Call and with reference to Regulation 30 read with Schedule III, Part A, Para 15 (b)(ii) of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 enclosed herewith Transcript of Analyst/Investor Conference Call conducted to discuss on the financial performance for the Q3 FY 2022-23 on Monday, 6th February 2022.

The Transcription, presentation and the audio recordings of the same is available on the website of the Company https://www.autoaxle.com/Analyst_Investor_Meet.aspx

This is for your information and record.

Thanking you,

Yours Truly,

For Automotive Axles Limited

Debadas Panda

Company Secretary & Compliance Officer

Encl: as above



Regd. Office & Mysuru Unit :

Hootagalli Industrial Area, Off Hunsur Road, Mysuru – 570 018, Karnataka, India

Telephone : 91-821-719 7500, Fax : 91-821-2402451

Email : sec@autoaxle.com, Website : www.autoaxle.com

CIN : L51909KA1981PLC004198

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“Automotive Axles Limited
Q3 FY2023 Earnings Conference Call”

February 06, 2023



**ANALYST: MR. SAILESH RAJA – BATLIVALA & KARANI
SECURITIES INDIA PRIVATE LIMITED**

**MANAGEMENT: MR. MUTHUKUMAR N. – PRESIDENT & CHIEF
OPERATING OFFICER – MERITOR HVS INDIA LIMITED
MR. NAGARAJA SADASHIVA MURTHY GARGESHWARI –
PRESIDENT & WHOLE TIME DIRECTOR – AUTOMOTIVE
AXLES LIMITED
MR. RANGANATHAN S – CHIEF FINANCIAL OFFICER –
AUTOMOTIVE AXLES LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to Automotive Axles Limited's Q3 FY2023 Earnings Conference Call hosted by Batlivala & Karani Securities India Private Limited. 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 this 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. Sailesh Raja from Batlivala & Karani Securities. Thank you and over to you Sir!

Sailesh Raja: Thanks Neerav. Good afternoon and thanks to everyone who have logged into Automotive Axles' Q3 FY2023 earnings conference call. Today we have senior management team of the company. We will be hearing from Mr. Muthukumar N., President & COO, Meritor HVS India Limited, Mr. Nagaraja, President and Whole Time Director, Automotive Axles and Mr. Ranganathan S, CFO, Automotive Axles Limited. I would now like to turn the call to Mr. Muthukumar for the opening remarks followed by Q&A. Sir over to you!

Muthukumar N.: Thank you Sailesh. Good afternoon ladies and gentlemen. Thanks for taking time to join our investor calls and we really appreciate your interest in our company. We have spoken to you about exactly a year before on February 22, 2022 we have announced Cummins acquired Meritor globally and also in the month of September we announced that the integration is complete in the month of August 3, 2022 and we said the integration process is on. It is almost 180 days from the integration is over so almost 360 days from the date of announcement the integration process is going very well and both Jennifer Rumsey, the Cummins' President & CEO and Mr. Kalyani, Chairman of Bharat Forge Limited and also the Chairman of Automotive Axles have founded this coming together is going to work very good for the organization and this is going to put us in the right trajectory. With the Destination Zero which is working by Cummins and also Meritor in terms of providing innovative products and solutions to the customers this is a great coming together which can provide an excellent solution to the customer and thereby grow the organization in India. So as far as India is concerned the acquisition legal process between Cummins India and Automotive Axles JV is on the process and the legal clearances are under the way. It is not yet cleared so at this point of time while the global acquisition is done and moving on the processes in India the legal process of acquisition is still on the way.

Over to next slide when compared to last year where we have ended up with Rs.1494 Crores for the full year of FY2021 and FY2022 a snapshot of Q3 if you see as on date in this year we have already crossed last year turnover and we are at about Rs.1634 Crores and you can see that the last quarter is still on there and we will be able to move. I am sure that Ranga will share with you subsequently on the growth of EBITDA and growth of PBT and

the management team and also the people have done a remarkable job in terms of ensuring that we give better values to all the shareholders. We continue to work with four manufacturing sites at Mysuru, Jamshedpur, Pantnagar and Hosur and all sites are in full operation to take care of the customer needs. There is no change in the customers our equity share between the partners, Meritor Incorporated Global or Cummins Incorporated Global at 35.5%, Kalyani Group at 35.5% and the public is 29%. We continue to work with about 2000 plus employees in the company and our customers include all major CVs, specialty, defence, OEMs and of course exports too. We continue to run with the products of axles, brakes and to most of your questions earlier I said suspensions is another system that we introduced and we are limiting on supplies of suspension and getting into the market. Of course we continue to be a number one position in axles as an independent axle manufacturer and we are number two in brakes but we are consolidating our brakes position. With that introduction ladies and gentlemen on our company the status of the integration and where we are for this quarter I leave it to Mr. Nagaraja to talk about the sustainability initiatives and also what is happening to the plant and what is going to happen to the customers. Over to you Mr. Nagaraja.

Nagaraja:

Thank you Muthu. Good afternoon everyone. It is a pleasure to interact with you and share with you all the progress that we are making so our sustainability model which we have been sharing with you earlier also I am going to give you a progress update on that. So our sustainability model has six pillars as you can see there is a layer it starts with decarbonization there may be a spelling error there apologies for that and then move to water positivity, green supply chain, digitalization, social connect and corporate governance. So we started off this journey in 2017 where we first got 20% of our energy from the renewable sources solar energy and then we continued to make more progress in this direction and as we speak we are already at about 43% that is mainly because this particular year because of legal requirement we could not get hydel power anymore but as committed to you by end of next year 80% of our energy requirement will be coming from renewable sources. We are already water positive and then we will be making more progress there as you can see there 70% of our water positive goal we have already achieved will be making more progress in that area so the idea is or the goal is to switch over to or become a green manufacturing plant and work towards starting from sustainability maturity all the way up to excellence in sustainability our goal is to achieve this by 2028.

Again giving a little bit more details on the circular economy, as you are aware we are really focusing on sustainability portion of it. There are several areas where we are taking initiatives for example working on reducing the packaging, in fact I would say that nearly 80% of our shipping is going through either returnable containers or one time containers so

essentially eliminated use of wood packaging and we will be completely coming out of it probably in the next two years so we continue to work with the customers and suppliers in terms of identifying opportunity for recycling and then reduce the emission in supply chain in fact we already are looking at how we can use LNG vehicles for all the transportation. We continue to focus on employee safety, health and treatment. One of the area as Muthu mentioned is there will be a lot more focus on bringing in diversity in our teams. We are taking lots of steps in terms of connecting to the social needs whether it is promoting education or promoting planting of trees all those areas we continue to work with partners.

We are present in diverse end market. As you can see there we cater to almost all the major OEs in India and to all commercial vehicle segments whether it is truck, trailer, bus, off-highway or aftermarket. In fact as Muthu mentioned we have made some significant inroads into defence area where we are supplying some of the suspension products and then also we have been working closely with many of these customers to increase our product share in the area of especially off-highway and then aftermarket. So with that I would pass it on to our CFO, Ranganathan.

Ranganathan S:

Thank you Muthu and thank you Nagaraja. It is indeed another pleasure to talk to all the investors. As far as the financial results are concerned for the last quarter our revenue was Rs.657 Crores for the quarter compared to Rs.376 Crores the same quarter last year with a year-on-year growth of 75% in value terms. As far as EBITDA is concerned we ended this quarter with 12% EBITDA for the quarter as compared to 9.7% in the last year. In terms of the percentage we improved the percentage points by 24% year-on-year basis. As far as the PBT is concerned we are at 10.3% as compared to 7.1%, 45% up as compared to the last quarter the same year. As far as YTD performance is concerned we are already more or less crossed the last year revenue that this nine months revenue is about Rs.1634 Crores compared to Rs.942 Crores the nine months period the same time last year so more or less around 73% growth has been seen now. EBITDA is about 11.2% for the first nine months versus 8.1% about 38% growth. PBT is concerned about 9.2% which is 5.1% last year close to about 80% growth in profit before tax compared to the last year in terms of the percentage terms.

When it comes to the next slide it is just a quick update on how are we progressing in terms of the revenue with the market growth. You can see the volumes which are in the green which is basically the M&HCV volumes. Last year the volumes are roughly close to 300000 vehicles this March 2023 we are anticipating a market to be around 400000 vehicles. As far as our revenue is concerned the whole of last year we did about Rs.1494 Crores close to Rs.1500 Crores as compared to the nine months actual is about Rs.1634 Crores we already crossed the last year revenue plus about Rs.170 Crores by now so these three months definitely we are going to show a good progress in year-on-year, the whole

year basis. As M25 every quarter we are updating it our focus is basically to grow revenue and enhance profitability definitely this is one of the key points we have been driving the business and definitely Muthu and team have been very consistently working with the customers for the share of business as well as winning the new business and Nagaraja definitely all the operational excellence working on the delivery and quality to make sure that we are creating value for the customer. Our focus continues to be there on the overall growth and profitability. Commodity definitely was giving a lot of pressure into 2022 and 2023 and nowadays it is getting softened and so one can see the benefit of softening may be in the coming days and definitely the Q4 as far as the broader outlook what we are seeing today is the Q3 will be more or less in the same level or can be slightly better than the Q3 as far as revenue is concerned so broadly on the key actions manages successfully as a growth strategy as we said about we had long term agreement with the customers and we are focusing on exports and Muthu and team are bringing in a lot of new businesses and exports. We are looking on a long term strategy to see that now we can grow the business definitely it is on the cards it is one of the frequent questions we are having it, your company is working on that, so hopefully in the coming days you can see a better perspective in that business and definitely another new product launch is always there, lot of new products this year we have already introduced may be one or two is still in the pipeline we are continuing to work on it. As for the new axles for the e-mobility business it is definitely on the cards, lot of developments is happening, so it is a long term kind of a business or the market needs. Nevertheless at operations digitization is very important focus area for us in terms of how to bring the industry 4.0 into the entire end-to-end manufacturing so we are taking in phases to implement it in the system. Our focus continues to be on improving the profitability to the M25 initiatives as well as we are definitely working on how to mitigate the commodity pressure which is coming in on year-on-year on our financials. Our safety is very, very important in respect of it and the employee safety and product safety is very, very critical for us we are continuing to focus on it. With the COVID settled down largely still some of the key precautions are still continuing about it. As the ESG is one of the key factors coming in as Nagaraja has explained in the earlier slide and net zero and the carbon neutral that focus is continuously working on we are putting a specific strategy around it so with this probably I will leave it to Muthu. If you have some kind of appreciation from the customers you can take us through. Muthu over to you!

Muthukumar N.:

Thank you Mr. Ranganathan and thank you Mr. Nagaraja for giving details of activities. Ladies and gentlemen I think Nagaraja explained about what is the operational improvement that we are going to do and as a responsible company and towards our destination zero of carbon emission what type of initiatives are being taking up. I think the details have been drawn into the last point to make sure that every process in our company

we work towards sustainability to ensure that the consideration of natural resources is there and being a company in automobile where the mobility solutions we wanted to make sure that we are pioneers in terms of reducing the carbon. Ranga spoke about our strategies of what is the thing that we are trying to do to increase our revenue in the top and how we can continue to improve our bottomline, other things and what type of environmental initiatives or ELG to the plant improvement that we are going through. While as an organization we would be working with the various clients that we have like Mahindra, Ashok Leyland, Tata Motors and under the global company of Meritor. Last year we have received two awards out of the total seven awards in global whereas this year our team has bagged three awards out of the seven awards that we have. BharatBenz has given us a quality guard award for sustaining zero and Nagaraja and team has done a remarkable job in terms of managing the customers, quality perfections and also the pump function. These are some of the recognitions and the team is continuing to work. This motivates the team and continues to keep up the plant in good. With those initial presentations and data I am taking on to Sailesh back for question and answer session. Thank you very much for your listening and looking forward to have interactions with you. Over to you Sailesh!

Moderator: Thank you very much. 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 Pratik Kothari from Unique PMS. Please go ahead.

Pratik Kothari: Good afternoon. Congratulations on a strong execution. Sir my first question is you have highlighted in the presentation that this year M&HCV numbers are expected to be 30% to 35% higher than earlier can you give us a broad sense of how would tonnage move if we compare it to last year?

Muthukumar N: The commercial vehicle market this year is likely to be about 390000 to 400000. In terms of tonnage there is a growth of about 10% which is happening. In all probability when we compare to the peak year of 2018 when the commercial vehicle market was at 465 we believe that this 400000 will be almost about 10% less in terms of tonnage of the vehicle because most of the vehicles after the BSVI is almost coming to the higher tonnage so we believe that even though the number of vehicles intensity the axle size has gone up but the number of axles has not gone up substantially. That is what I would like to add it at this point of time.

Pratik Kothari: Okay so what you are saying is we are just 10% below tonnage as compared to the 2018-2019 peak which we saw?

Muthukumar N: Yes exactly we cannot say this is towards the direction.

Pratik Kothari: I believe tonnage would be a better number to look at rather than the number of units so right?

Muthukumar N: It cannot be directly because drive axles is what we are talking about by adding up dummy axles the tonnage can go up so it cannot be a direct measure but it is a direct measure of the number of tonnes of goods that is going to be moved in the market at the end of the day. The customer is going to buy this vehicle for moving the goods. From the end customers yes what you are saying is right but when the axle if you are saying the number of tonnage wise we achieve can the number of axles go more it is not going to more but the size of the axle yes it is going up.

Pratik Kothari: Fair point sure. Sir the second question in recent I think one of the analyst meet Bharat Forge or one of the group companies have presented e-axles as one of the products this is one of the three products that they are going to use to cater to the Indian market so is it something different than what we are doing, can this be a potential competition to us can you just highlight the thing?

Muthukumar N: In terms of electric axles there are many more formats that are available today. People are talking about hydrogen, hydrogen fuel cell, electric axles and so many things are coming and everybody is trying to play that field. Whether it is the same design of e-axle there are even in the e-axle configuration there are remote mounted configuration that is available with the drive line, without drive lines and all and because you do not know who is going to be the player who is going to come in because there is some organized commercial vehicle manufacturers can come and like Tesla how it got into the car market some of the new players also come every company is trying to put their bet on to this, so the Meritor is working on a particular strategy of an e-axle to get into the market whereas whether if you ask me whether that it is the only way there are many ways available so everybody is taking it up and that is where our innovation is going to keep us challenging and then we already wanted to be in the foray of it.

Pratik Kothari: If a different company comes in but when our own parent through a different subsidiary is coming in that is why this question if someone else would have done it I do not think this would have come up?

Muthukumar N: The market is big I do not want to get into that who is the parent is coming in but the market is big and the people I think rather than like whatever you said that is the parent company and we are a child company I think the question should go into the parent company question when your child is playing why are you playing.

- Pratik Kothari:** We have said in all axles and brake manufacturing is only happening in auto axle the sale and marketing can happen somewhere else but manufacturing should happen here hence this question.
- Muthukumar N:** We never said that. Sorry if I have communicated like that not right. We are saying that the manufacturing of mechanical axles what we have produced because we are not motor manufacturers to be honest with you. We do not have the capability of making motors whereas other companies can acquire the company and make motors right. Ranga is there anything that we said all the manufacturing of parent company also will happen in our company?
- Ranganathan S:** No.
- Muthukumar N.:** I am sorry if we have told but we would love to hear that and we will try to address your concerns if it is any.
- Pratik Kothari:** Sure thank you Sir and all the best.
- Moderator:** Thank you. The next question is from the line of Sagar Parekh from One-Up Financial. Please go ahead.
- Sagar Parekh:** Good afternoon and congratulations on excellent set of numbers so first question on the defence so you touched upon defence market in your open remarks but I wanted some more details if you can give us some kind of color on in terms of how big is the defence right now for us and what is the potential for the defence products like defence axles that you would be supplying to different OEMs so some color on that would be helpful thanks?
- Muthukumar N:** As we said we are investing a lot on defence business in India because this is going to be a long term business. As we have indicated at this point of time we are supplying axles to the defence through the various OEMs and we are not directly supplying to the military or Indian Army but we are supplying through OEM. We are investing a lot on various product platforms for the defence but the product gestation when these things are going to come it is going to be a long drawn process. While we have a practice of not splitting our revenue into the different segments like axles or brakes or customer wise or domestic wise I am sorry I am not able to provide you that information. We continue to invest so that tomorrow when the market comes it good I would say that we are at least about four platform of our products have been approved for defence and the vehicle order is going to come and it is going to grow.

Sagar Parekh: Yes so just putting it and that is another way so there are no vehicle orders which have come in yet for either of the OEMs for the platforms that we have been approved as of now it is just a developmental order that we have been investing in right now?

Muthukumar N: It is not so. We have also sold some axles from this year to them and we have got an order for about more than 220 sets of a particular thing. As and when the order comes we continue to supply. When Ashok Leyland is going to supply or when the other OEMs are going to supply to the customers it is not known but we have received orders and it is coming in to the sales but continuously we are also investing time on the new product development and keeping it ready because defence it is again depends on many things on the allocation of the government while the product is running in the proto the time that is taken for the product to get into the production is minimum it takes about four to five years.

Sagar Parekh: Got it so this 220 sets of orders we are going to supply in current calendar year?

Muthukumar N: No it will not be able to complete before March it will come now and then it will go to the spillover of next year. The requirement itself is like that on the defence.

Sagar Parekh: This is Ashok Leyland order for us like we will be supplying to Ashok Leyland?

Muthukumar N: I will not be able to tell the customer name but we have sets of orders is what is available. We are supplying at this point of time to more than three to four OEMs.

Sagar Parekh: Three to four OEMs okay got it. Secondly on this integration with Cummins now since it has almost been like six to seven months or at least five to six months since integration is complete could you give some color in terms of what could be the synergies on the revenue side or on the cost side for us between Cummins and Automotive Axles India?

Muthukumar N: At this point of time the integration process is on. In terms of the legal clearances from India I think we know that Cummins has already given the buyback of shares to the market and that feedback is there and the other approvals from the various governmental agencies are going on. As an organization we already communicated I think our Chairman's message was there very clearly that this synergy is going to bring in lot of areas where we can open up together. There are certain areas or certain OEMs where Meritor is present in very, very strong whereas Cummins penetration will be less whereas there are some other areas where Cummins penetration is very high and Meritor is not able to be there so this synergy is definitely going to bring in terms of penetrating to more customers in terms of penetrating into off-highway customers or in terms of penetrating into the good technology. Cummins is already in advanced stages on decarbonization with their technology that is going on so we will be definitely working on the various integration between these organization in

terms of technology, in terms of people practices and in terms of bringing the best people policies, in terms of going to the customer, every sphere of business we will try to bring in financial management to make sure that the synergy between these two companies is going to give the best ultimately to all the stakeholders of the company.

Sagar Parekh: Got it so no quantification of any line item basically either revenues or cost?

Muthukumar N: At this point of time as I said it is a global acquisition that has happened under India JV. Again it is a global Meritor India's share is very less I do not think we will be able to provide you a very specific target but we have already presented our vision 2025 strategy and it will continue to go up and may be by middle of next year we will be launching our vision 2028 strategy which we are already working on which will definitely have these input and then we will see that what is we are looking at.

Sagar Parekh: Got it and my final question would be on the slipper type suspension product so if you can give some color on that how is the traction in that I believe in the last one or two quarters we have been seeing some decent traction from Ashok Leyland on the higher tonnage side?

Muthukumar N: Yes you are tracking the product well in the market. It has its own challenges the product challenges in terms of the design, in terms of quality, we found it working well but at the end of the day end of the time these products give much more value and total cost of ownership to the end customer but the customers has to pursue with additional value what they are paying he is going to get the Meritor on investment so we are working with various consumers, the end consumers in terms of convincing them that whatever the additional that you pay for these new designs is going to give a return on investment to you and trying hard to penetrate into that. It is almost because of the price difference the customers are finding it extremely difficult to penetrate more. You have a value for this but the more and more better infrastructure, more and more high speed vehicles when it is going to come then it will make sense. May be today they may feel that it is not of their benefit today.

Sagar Parekh: Sure. Right Sir that is it from my side and all the best thanks.

Moderator: Thank you. The next question is from the line of Rahil Shah an Individual Investor. Please go ahead.

Rahil Shah: Sir very good numbers there. Only outlook for the next financial year in terms of revenues and the margins how do you expect to gain will it continue the momentum just wanted your view and if able to give a certain target you are expecting to achieve?

Muthukumar N: I will answer for the first stage of question, but I will leave it to Ranga about the fee. The momentum for the organization will continue to be there to penetrate into the share and grow with the market as we all feel that we are definitely outgrowing the market growth and we will be definitely better off. I think one assurance that I can give but I cannot give a very clear numbers on how much of the revenue we are projecting. The latest budget that has come is very, very positive. We are seeing the global recession is not going to have any impact into the India business at this point of time but every OEM is very, very cautious of making a flat or plus or minus is what the market is projecting. Already people are predicting about some drop in the cars and of course in the two wheelers also whereas commercial vehicle people are looking at about flat or marginal plus or minus so the market is going to be very, very tight with the inflation that has happened the cost is going to go up. The competition is going to be one of the key for us to see that how we can penetrate. Our competition will not keep quiet, everybody will continue to work hard to see that how we can penetrate but rest assured that your management team members and your teams of employees what we always worked for next level of innovation, next level of improvements in the product to make sure that we are ahead of the curve of the market. In terms of profitability yes it is going to be very, very tight. Ranga you want to add anything?

Ranganathan S: There are couple of things which I just wanted to say. One is about in terms of the forecast we will go with the market as Muthu was talking about it. We always try to grow better than the market in terms of the volumes and our mission 2025 objective is about optimize the margins. We definitely continuously do that through operational excellence so that focus will always be there. We are constrained rather to share the specific numbers to forecast 2024 so definitely we can take the market forecast from next financial year and definitely we will be at par and it will be better than that so definitely our aspiration will always be there and our efforts are going in that direction that is one aspect of it and as far as the margins are concerned yes all our efforts are there in terms of cost optimization, operational excellence, and definitely to the market volumes will definitely produce a good numbers that we have been demonstrating in the last four to five years. As we are also working on various strategies on growing the business. Definitely as an investor you can see those benefits in the coming quarters.

Rahil Shah: Okay Sir that sounds really confident from your side. Thank you for the detailed answer and I wish you all the best.

Moderator: Thank you. The next question is from the line of Navin from Mahindra Manual Life. Please go ahead.

Navin: Hi thanks for the opportunity. Just following up on the previous discussion. This quarter our performance in terms of topline versus the market and even some of our key customers

seems to be quite impressive, just wanted to kind of dive deeper to understand is it kind of increase in share of business with some customers or is it like content increase any colour on that?

Muthukumar N: It is a very, very nice question and you hit us on this. I will tell you while I not be able to quantify. Without share of business increase we could not have achieved more than the market growth you are right. As indicated earlier with the tonnage of vehicle goes up we have also increased our content per vehicle our content per axle which has gone up on cost. Third is also some of our customers have expanded their market share so when the customer expands the market share yes we do expand the market share indirectly.

Navin: The point being largely if the product mix at the industry level and for the customers remain similar the share of business should sustain at what we see in 3Q?

Muthukumar N: We will continue the first and second what I said, the content increase and our share of business increase with the customer will continue to be there. We work very, very closely with the customer. The customer is marketing to see that what type of products we need to supply to them for penetrating them into the customer. We continue to do that. Their penetration to the customer is expanding it is not in our hand but we will continue to work with them how to do that but our company is interested in penetrating into the customer share and increasing the content will continue to be there. We cannot commit on behalf of them.

Navin: Sure thanks. Just another question on margins if I understood right some of the commodity cost reduction benefits are yet to flow in going forward is my understanding right?

Muthukumar N: I just wanted to clarify. We have a very good system of when customer commodity price is going up and comes down how do we do the settlement other than the base impact it is not going to have much of impact on the P&L.

Navin: Just one last one. In the presentation you have mentioned that 4Q should broadly be similar to the third quarter seasonally as we understand fourth quarter tends to be a little more higher as compared to third quarter even in terms of production volumes so I am just trying to understand is it based on what you are seeing in terms of customers reviews or any other factors?

Muthukumar N: This year the last quarter has seen a substantial increase when compared to the traditional. Normally we see the Q3 will be less and then Q4 is going up. We have seen a very strong Q3 so with the production of the OEMs and the sales **(inaudible) 37:32** happened we

believe that it is going to be flat in this quarter this is our belief but the company is ready if the OEMs are going to increase the production we will be able to deliver more.

Navin: What would be our current capacity utilization across axle run rate?

Ranganathan S: Generally with the installed capacity we have not touched the peak. As last time when we have increased the capacity of 2018-2019 volume we have created the capacity to meet the 2018-2019 because at that point of time we were running short of the capacity. Today the market is 400000 vehicles you can see that we are 20% lower than the market so you can measure the capacity utilization but definitely the small variations in the capacity we are still able to accommodate it.

Navin: Any capex numbers that we would have firmed at for FY2024?

Muthukumar N: It is too early to commit because we do always the capital commitments on sustenance and on digitization that will be there in the plan but any kind of big capex what we invested in 2018-2019 that goes to the business case. As we go along we get new businesses that probably need an investment definitely we will do that but at this moment of time nothing big is not seen in the near future but definitely we are in the close watch on the business plan and we will decide about it.

Navin: Got it. Thanks a lot and best wishes for future. Thank you.

Moderator: Thank you. The next question is from the line of from Aditya Welekar from Axis Securities. Please go ahead.

Aditya Welekar: Thank you for the opportunity. Congrats for the whole set of numbers so in the last concall you said you will see 15% growth in M&HCV production volumes in FY2024 so given the strong quarter what is the outlook for FY2024 M&HCV production volumes can you see any upside to that number?

Muthukumar N: I do not see further upside from this number. Originally we forecasted during the last quarter. We did not anticipate this strong third and fourth quarter but if you see the current third quarter increase that has happened the current year FY2023 projection itself is going to be about 10000 vehicles more than this. That is why we said 15% what we had projected it will become like flat or plus minus. The main concern today in the market is the increased interest rates and people want to conserve cash with the global recession on the car but the finance minister budget has very clearly come out that India is on very, very strong capital growth so the sentiment should be positive but at this point of time we are looking at a flat or plus single digit growth.

Aditya Welekar: Okay understood thanks. Second question if we see at the personal cost as a percentage of sales in this quarter those have come down so what it means is that from the same amount of employees we are generating higher revenue so can we expect that the personal cost will remain in the same range going forward?

Muthukumar N: Sustaining this in the long term is very, very difficult but on the short term we are trying to do this. As I indicated the company is working on continuously doing improving efficiency but if you ask what we can fetch it in this quarter whether we can do every quarter it will be little difficult. The organization is working on not reducing the people but improving the processes and enable people to perform better I think that is our objective of working so we will continue to focus on these areas and improve but whether this is a sustainable model, this much of sales is going to come on this it is going to be a million dollar question.

Aditya Welekar: Last one recycling you have seen some inch up in commodity with **(inaudible) 42:05** steel prices have rallied so what I understood from your previous conversation is that on a gross margin basis you are not much worried because it remains on 100% pass through basis so there might be some lag in pass through of the steel prices but on net basis the commodity volatility will not affect the business much is that understanding right?

Muthukumar N: In general yes what you are saying is right and you have exactly caught it with a lag between this but customers are very, very tough and everybody wants to make sure that how during these times they also wanted to make it better because every OEMs is also struggling to make their bottomline, so good amount of push through is going on at this point of time but you should also understand that whatever the inventory that we have is at higher price when the market goes down that also has an impact to our overall business so managing all those things is the management responsibility and I am sure that my team Ranga and Nagaraja is managing this very well.

Aditya Welekar: Okay thank you. That is it from my side.

Moderator: Thank you. The next question is from the line of Dhaval Shah from Girik Capital. Please go ahead.

Dhaval Shah: Great performance. Congratulations to the team. Yes couple of questions from my side. First as you mentioned about the higher share of business from the customer so was it more on the domestic side or there was also influence of exports into for the third quarter, second question will be on e-axle so just want to understand or get some clarification so the e-axle which will be sold by Meritor in India will it be passing through our company or how would that be? Yes these are my first two questions.

Muthukumar N: I will answer your first question on the growth of share of business. We have grown in domestic, we have grown in export even though we do not declare the numbers even the US market on Class 8 is going very, very strong at this point in time even though people talked about the downturn that is coming up in US actually we are seeing very good numbers in the next couple of quarters at this point of time so our growth has happened across all the segments export, domestic. When I say that the customers also expanded our OEMs have also expanded the market which indirectly helped us to penetrate into more axles these are the two things.

Dhaval Shah: More to Meritor subsidiary globally.

Muthukumar N: Yes that is why I said exports have also grown. The growth has happened 25% or something everywhere it has grown most of the segment, most of the verticals, axels, brakes, exports everything. To your question of second point on e-axle we should understand it is a different perspective of that. The current automotive axles has a capability of making mechanical axles and e-axle is not going to be completely different. The e-axle constitutes of electrical, electronics and the mechanical portion of it. At this point of time we will continue to enhance the maximum utilization of our mechanical axle component from here. We are looking at the strategy of where to get the electrical, electronics and where to do at this point of time. Meritor has globally acquired Siemens commercial vehicle business which is making motors in Europe and Cummins in India has an extensive capability on electronics and in terms of making the electrical component from there so we are evaluating where to make this because the current unit of JV does not have that capability for making motors and electronics so while the mechanical portion of this will continue we are evaluating on the production and manufacturing strategy but just wanted to tell about all of you, the current prediction of M&HCV industry is by 2032 the M&HCV segment will be even about 10% on electrification that is what the prediction that is given by the biggest research agencies so it is a long way process so we continue to invest on our innovation. We continue to focus on product development for mechanical axles because we cannot drop this and then move onto that in full.

Dhaval Shah: Exactly because the switch mobility has received a massive order for supplying to state transport authority the buses so there how will we play, so are we supplying to those units?

Muthukumar N: We are a strategic partner and we supply to them but that is not in e-axle just for your information. That is an electric vehicle but not using e-axle and we are present there in our mechanical axle.

Dhaval Shah: So the mechanical axles are only being used there.

Muthukumar N: I am sorry I just said in general we are present. That is a combination of some innovation but it is running like that.

Dhaval Shah: I got it Sir. Thank you and lastly Sir when you said about defence if I heard it correctly you said you are supplying to more than four OEMs right?

Muthukumar N: In defence the OEM there are many players other than the traditional OEMs right. There are new players who are also supplying. Anybody who is supplying the vehicles to defence, army I call them as OEMs. L&T supplies so many people are supplying.

Dhaval Shah: Would you be comfortable sharing the revenue contribution from this end?

Muthukumar N: While I love to do this but at this point of time normally we do not share vertical wise revenues including exports or axles or brakes so I am very sorry that I am not in a position to share that.

Dhaval Shah: Alright Sir great. Thank you very much. Good luck.

Moderator: The next question is from the line of Krishna Kumar from Lion Hill Capital. Please go ahead.

Krishna Kumar: Congratulations Sir on a set of very good numbers. Most of the questions have been answered at the previous round while you said you would not give breakup in terms of vertical if you could give some perspective in terms of whether exports grew faster than domestic or vice versa if you could give some growth rates on segment and also brakes is that possible talking about growth rates at least relatively?

Ranganathan S: I just wanted to bring a perspective to you probably if you really see that brakes we are present with almost all OEMs and axles in earlier calls also we said we are predominantly present with one or two OEMs and of course TML we are very, very bigger element to the whole process as whole share is concerned. Definitely as TML grows our brakes definitely grow and there is no doubt that. As you rightly said that the overall market growth our axle growth is directly dimensional to the growth of Ashok Leyland and other OEMs. In terms of percentage we already mentioned it if the market grows as Muthu was saying that it could be around single digit or maximum about 10% as a market growth our growth is in line with the market so within the segment if you really see brakes can go better than axles because of TML growth in the market share goes up definitely the brakes share in the business will definitely go up but overall if you really look at the revenue growth, the revenue per axle comes from the axle is better than the brakes. Nevertheless our aspiration to grow the topline and bottom continues so in terms of percentage rupee it grows anyway

at the market rate or slightly better than the market. If the market grows then we try to aspire to grow with 12% or 13% that definitely be our kind of outlook so that much I can say. The exports you have been talking about as we said we do not want to give a breakdown about the segment wise. As export is concerned predominantly we are doing it for our own group companies as definitely the group companies is looking at India as one of the destination for using India's capability and capacity for the global growth that is already on the cards but it is very premature at this moment of time to show that how much it is going to materialize. We are seriously working on it and in the coming days we are expecting a kind of improvement in the exports business share and the overall share is concerned that much I can share at this moment of time.

Krishna Kumar:

Sir that is helpful. Thank you for that. Sir on the E-AXLE's question earlier you had mentioned that probably there is no answer at this point but just to get a directional perspective the project would be definitely involved some amount of capital capex if the motors and the electronics are made within automotive axle so is it right to believe that there could be a company outside in the group which could probably be the integrator and we would continue to make the mechanical axle to supply is that something directionally possible that way?

Ranganathan S:

I am not sure at this point in time. It all depends on what is the adaption level of EV and how it is going to come up and what type of technology it is going to come in. For example today 80% of the vehicle that is made in India on electric vehicle platform which are being sold in FAME I and FAME II does not use E-AXLE because when the range is going to be 80 kms to 120 kms like the city buses they find out a different method of doing it is also going to work as long as it has been electrification. There only that much of battery space lot of changes is happening. It needs a huge capex at this point of time while we are continuously working on technology or sourcing it from the right partners at this point of time the manufacturing strategy is being worked out but one thing that I can assure you is while it is very, very premature to talk at this point of time the mechanical axle portion of it because we have reliability and capability here we will be making it here. Rest of the things what type of aggregator we use, where are we going to assemble and all is too premature to say it because it all depends on finally the technology that is going to come in and where it is going to come from.

Krishna Kumar:

Great Sir. Thank you very much Sir. Wish you all the best Sir.

Moderator:

Thank you. The next question is from the line of Radha. Please go ahead.

Radha:

Hi Sir. Thank you for the opportunity and congratulations on excellent performance. Sir my first question is on the exports, as per our last annual report I can understand that exports

should be around 4-5% of revenue and given that you mentioned that **(inaudible) 54:06** so could you tell me what it would be in the low double digit number exports as of now out of total revenue?

Ranganathan S: Madam I think we have already shared the perspective. We generally do not segregate segment wise revenue numbers or we do not give it kindly pardon us but definitely as a focus we are working with the opportunities for exports and definitely that will play kind of one of the growth strategies for us so sorry that we cannot share the segment wise numbers or our growth aspiration segment wise at this moment of time. Sorry about it.

Radha: Just following upon this other than Volvo have we added any new customers in exports and if then what would that be?

Muthukumar N: At this point of time Volvo is a customer currently with Isuzu just for your information because the UD trucks of Volvo has been acquired by Isuzu and we are supplying to them to the Thailand facility. Rest of the areas we supply only subsystems and systems to our Meritor company and they do the end assembly we do not directly deal with any other customers.

Radha: Understood Sir. Sir secondly on the axle part so previously as I understand we had low single digit or maybe single digit share of business with Tata Motors and given that we have been pursuing Tata Motors in the axle space so can I assume that the share of business with them has gone up to double digit now?

Muthukumar N: No our supply to Tata Motors is almost very, very low single digit only for critical axle which is going for some exports. Currently they have built up lot of capacity inside their plant and they are using their capacity for it.

Radha: Understood Sir. In the highway segment so what are the top OEMs that we are targeting I understand JCB and BEM are capitals but are we still pursuing them and if not then are we pursuing any other OEMs?

Muthukumar N: We will not leave anybody because till we finalize that we are talking to L&T. There are only five, six players and it is a different type of segment and we will be working with everybody but at this point of time most of them have integrated their manufacturing inside the manufacturing it is very tough to crack it and it is also a huge cost in terms of design of making this product because the volumes is very, very low so we are evaluating but it is our focus area for growth for sure. The management has put in lot of efforts to grow in that segment construction.

Radha: We recently entered into the LCV, ICV bus segment so with respect to this how many products we have in this and how many more are expected in this segment particularly and currently from the LCV, ICV bus are we supplying only to Ashok Leyland or anyone else as well?

Muthukumar N: Predominantly we supply to Ashok Leyland it does not mean that we are not supplying to anybody else. Some of the Mahindra's ICVs also we are present and other OEMs we are working. It is mainly used for ICV trucks and also some buses both are available. The school bus.

Radha: Sir how much potential business can we see from this particular segment in the next two to three years?

Muthukumar N: The ICV as a segment is growing and even though our Meritor presence is very, very strong in medium and heavy commercial vehicle and not on this we continue to penetrate on this and definitely we will be growing but if you see that the volume for total is very, very less. Your company is working on improving the penetration into those segments which is very, very highly a competitive segment.

Radha: In the suspension segment suspension product that they have so previously we had VRN Logistics as one customer so other than that have we see any other players who have upgraded their suspension from bellcrank to slipper type?

Muthukumar N: VRL is not our customer he is an end customer but their suppliers were going through Ashok Leyland okay. We do not sell suspension directly to the end customer we sell it only to Ashok Leyland and Ashok Leyland sells it. As I explained you earlier while we try to put into five or six different customers it will be extremely challenging in terms of managing the cost of the old bellcrank suspension to this. We have customer but penetrating into this needs lot of mindset, lot of infrastructure in the roads, high speeds vehicles to come that is made for them to use the suspension.

Radha: Just one last question from my side. From the overall portfolio we can share some axle subsystem and brake assembly in the aftermarket segment and given that majority of our sales is to OEM as of now do we have any strategy to increase those in the aftermarket segment?

Muthukumar N: We are selling in the aftermarket and we are selling through OEs and also to the dealers by our network?

Radha: Understood. Okay thank you Sir for answering all my questions patiently. All the best.

- Moderator:** We do not have anyone in the queue would you like to give any closing comments.
- Muthukumar N:** Ladies and gentlemen thank you very much for your interest shown and thanks for your appreciation of our performance. You can rest assured that the team is committed to continue to innovate. The team is continued to invest in the new technology that is going to come and of course giving the best returns to all the stakeholders in the business so we will continue to do business in a transparent way and communicate to you about what we are doing, how we are performing and looking forward to your continuous support to your organization to make us to grow better in the days to come. Thank you very much to B&K for organizing this call with the team. I really appreciate everyone's support and time, Thanks Ranga and Nagaraja for joining and then giving your perspective. Thank you very much.
- Moderator:** Thank you very much. On behalf of Batlivala & Karani Securities India Private Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.