JTEKT

JTEKT INDIA LIMITED

27th November, 2024

The BSE Limited
Department of Corporate Services
Floor 1, New Trading Ring
Rotunda Building. P.J. Towers
Dalal Street, Fort
Mumbai 400 001.
Scrip Code - 520057

National Stock Exchange of India Ltd.
Exchange Plaza, 5th Floor,
Plot No. C/1, G Block
Bandra – Kurla Complex
Bandra (E)
Mumbai 400 051.
Symbol – JTEKTINDIA

Sub : Transcript of Analysts' and Investors' Call.

Dear Sir,

Pursuant to regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed the Transcript of the Analyst and Investors' call held on 22nd November, 2024 on the financial results for the quarter and half year ended 30th September, 2024. The said Transcript has been uploaded on the Company's website also, the link of the same is given below:

https://jtekt.co.in/investors/pdf/15)%20Analyst%20&%20Investors%20Meet/2024-25/Q2-2024-25/Transcript.pdf

This is for your information and record.

Thanking you,

Yours faithfully,
For **JTEKT India Limited**

SAURABH AGRAWAL

Digitally signed by SAURABH AGRAWAL

Saurabh Agrawal
Company Secretary

“JTEKT India Limited

Q2 & H1 FY '25 Earnings Conference Call”

November 22, 2024

MANAGEMENT: MR. HITOSHI MOGI – CHAIRMAN AND MANAGING DIRECTOR – JTEKT INDIA LIMITED

MR. RAJIV CHANANA –DIRECTOR AND CHIEF FINANCIAL OFFICER – JTEKT INDIA LIMITED

MR. MINORU SUGISAWA – WHOLE-TIME DIRECTOR – JTEKT INDIA LIMITED

MR. TERUMITSU KUWANA – DEPARTMENT HEAD OF SALES AND MARKETING – JTEKT INDIA LIMITED

MR. A. D. RAO – ADVISOR, DESIGN AND DEVELOPMENT AND PE DEPARTMENT – JTEKT INDIA LIMITED

MR. SHYAM SUNDAR – DEPUTY DEPARTMENT HEAD SALES AND MARKETING – JTEKT INDIA LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the Q2 and H1 FY '25 Earnings Conference Call of JTEKT India Limited. As a reminder, all participant lines will be in listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star, then zero on your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to the management of JTEKT India Limited. Thank you, and over to you, sir.

Rajiv Chanana: Good afternoon, everyone. I would like to introduce the team here from JTEKT side, and then I will hand it over to Mr. Mogi for the inaugural speech. We have Mr. Hitoshi Mogi, he's our Chairman and Managing Director; Second person is Mr. Minoru Hatanaka, he's the Whole-Time Director of this company. Myself, Rajiv Chanana, I'm Director and CFO. We have Mr. A.D. Rao, Advisor, MD Office; Kuwana-san, he's the Head of Sales and Marketing Department; and Shyam-san, who is Deputy Head of Sales and Marketing Department.

I now hand it over to Mr. Hitoshi Mogi for the opening remarks. Thank you.

Hitoshi Mogi: Okay. So good afternoon, everyone, I am Mr. Hitoshi Mogi: and welcome to the JTEKT India Limited quarterly earnings call. I would like to thank all participants for joining this call and organize us. There were a series of unforeseen events in May, June and September, which adversely impacted momentum in all sectors.

We have observed events like election, heatwaves and heavy rains in certain regions. And all these events have contributed to this flat growth of automotive sector. However, festival season sales in early October has shown promising signs with a 30% to 35% increase in the vehicle registration compared to September. We may hope for rebound in the second half of the year.

Other good point to note is that the event which contribute to slow growth in the current year do not sign any strategic or long-term changes in the growth perspectives. Several support factors such as raising capital incomes, demographic profile, low vehicle penetration and favourable policy environment, including infrastructure development and expected to help the growth of auto sector demand at steady pace.

Some of our investigation company expect the industry to clock 4.5% to 6.5% CAGR between fiscal year 2024 to fiscal year 2029 period of time. We have been closely watching the growth trend and announcements for capacity expansion made by our OEM, including our largest customer, Maruti Suzuki. Maruti Suzuki has announced a new facility in Gujarat with 1 million capacity and Toyota Kirloskar Motor has announced a new facility in Maharashtra.

Concerning the expansion of our production capacity in Western region, it shall be difficult to cater to the requirement for North. Accordingly, we have announced on 7th October 2024 about setting up a new facility in the State of Gujarat. We expect the completion in 2027, 2028. At present, and the activity of factory day-out planning is in progress. At this point of time, we have committed investment of INR2,500 million for this project. We will keep reporting to you about the progress of this project as we achieve various milestones.

Now I would like to discuss with you the company's financial results. The financial results for quarter 2 and first half of this fiscal year are now available with you. During the first half of current fiscal year 2024-'25, JTEKT achieved sales growth of 9% compared to passenger vehicle market growth of 2% during this period.

EBITDA margins improved to 8.2% in quarter 2 from 6.8% in quarter 1 during current fiscal year. However, the margins are down from 9.5% achieved last year. Lower-than-expected sales growth has contributed to this decline in margins as we could not absorb the increase in fixed costs, mainly employee costs, which as a percent of sales increased by 3.5%.

In addition, the company has made additional provision through the warranty of INR50 million, which impacted the profitability for quarter 2 by 0.8%. If we remove the actual EBITDA level for quarter 2 for this fiscal year is 9%, which is quite close to an EBITDA level of 9.5% achieved last year.

With this, I would like to thank you for your participation and open the conference for questions.

Moderator: Thank you very much. The first question is from the line of Praneet who is an individual investor. Please go ahead.

Praneet: So I had questions about the product mix. Basically, I think in 2024, we had a better product mix compared to 2025. CEPS has contributed 50% this H1, whereas last year, it's like 46.5%, which shows a better product mix. What has caused the reduction in overall increase with CEPS or has the overall revenue from other segments reduced? So can you give me some numbers on like facts and how this changed?

Rajiv Chanana: Sure. So when we look at the product mix, CEPS, which was 48% in last year, full year, as a percentage of total revenue, it has gone up to 51%. Similarly, MS-Gear, which is a part of the steering system, that was 23%, it has gone up to 24% in value terms. So there has been a change. You're right, there has been some change in the product mix, where certain other products like HPS, which is hydraulic power steering, the percentage of that has gone down by about 1% from 8% last year to 7% in the current financial year.

One more change, which I would like to report on the negative side is that exports, which were 4% has gone down to 3% during this period. So these have been the major changes. However, when we look at the profitability part, CEPS, the profitability is at par with other products. HPS, yes, it was contributing slightly higher profitability in the past period. And the mix has given a small change in the overall margin levels, value addition levels, but that's not significant. This change of 1% is not significant to account for any big impact on the margin side.

Praneet: Understood. So I'm more curious, you told the HPS margin is slightly better than CEPS, right, the products. So can you give me a basic margin profile of which contributes most to the EBITDA? Because right now, every product has a different margin profile, which contributes to

EBITDA, right? So which provides the highest and like can you rank them in the top 5 categories? Because going forward, depending on the product mix for us to forecast the revenues or the product mix, it will give us a better idea, I feel like.

Rajiv Chanana: So if we look at overall EBITDA profit levels of, say, 9.5% - 10%, CEPS will be contributing slightly higher side. MS-Gear, the gap may be around anything between 1% to 2%, not very, very significant gap between the 2 products because these are all automotive products and the pricing decisions are almost on the same levels.

The way the RFQs are raised and the way the costing is built and way the prices are settled. There is no big difference in the pricing. But having said that, CEPS being an advanced product and involves huge technological developments are happening in that product, and we are able to supply better quality products over a period of time. The profitability margins are slightly better in CEPS category when compared to MS-Gear category.

However, if you have understood it clearly, the steering system involves one column, which is electric column and one gear, which is manual gear. So that's a combination of the 2 products becomes a steering system. So in certain cases, we are supplying both manual gear as well as electric column to our customers, which means that when you decide the profitability, it is decided at a steering level rather than at a product level in many, many cases.

For example, when we are supplying to Honda, Toyota, Nissan, it's a complete steering system, which is being supplied. Only in case of Maruti Suzuki, there are some products where we are supplying maybe the electric column and we are not supplying MS-Gear or we are supplying MS-Gear and we are not supplying electric column.

So with this, I would like to close my comment is that the margins are not very, very different from product to product level because deciding factor, the RFQ and costing and other decision criteria are practically same.

Praneet: Understood. So the margin profile is the same. In the previous earnings call, you mentioned that you would like to increase the overall, let's say, pricing of the entire product, right? So you've given INR3,000 figures to INR6,000, you're expecting to double for a few segments and all of that. So how is that going at this point of time? And we also wanted to increase the number of parts we cater to a particular car, right? So how are we going with that? So what percentage do we already supply - let's say, what is the highest percentage of the products we supply to a car and to which brand and which OEM is it? And what is the lowest amount so far?

Rajiv Chanana: So when you look at the profit improvement, it's not only restricted to pricing. There are many, many factors which help us to improve our profit margins. Better negotiation with customers is one area, yes, definitely, which you rightly said, yes, that's a focus area for us. As we go along, how we are able to set pricing for the future model, that will determine the overall profitability. So negotiation is definitely one of the areas which which is being looked at.

Second is the expansion of exports. I think we have made an announcement sometime back to the stock exchange about our getting an export order from our group entity in Brazil. So expansion of exports, this particular order will increase our revenues from exports by 2% of the overall sales. So that is one area where we expect the profitability will improve over a period of time. Localization is another area.

The VA/VE actions and localization of parts is an area which will help us to improve profitability. We maybe mentioned at the last conference call, the mid-shop localization for our new product, CVJ. I'm happy to inform that we were able to localize our mid-shop. And it's a big change. It gives us about INR375 per unit impact on profitability. which if I look at compared to the bill of material of CVJ, that accounts for 6% to 7%. So that - this change has happened.

So localization continue and various other VA/VE areas continue to be a focus for us to improve profitability. We have done merger of our subsidiary company in Japan. There's a big opportunity available for us for manufacturing rationalization. So that activity is going on, whereby we are doing a lot of manufacturing rationalization, bringing all the production under one shed. So that will help us to improve on inventories management as well as the logistic cost.

Last item is the cost optimization. You have seen the control over the fixed cost. Employee cost, which used to be 13.4% in 2019-'20 is down to about 10%. This half year, it was 10.6% because the volumes were less. But however, we have now reached to a level of 10% in managing our employee cost. And the idea is that whatever cost optimization we have achieved so far, we should sustain that. So these are many, many areas where the company is working not only on price, but many, many areas which are directed towards improving our profit margins.

Coming to your second question on content per car, I think that's what you're trying to ask. So the range of CEPS starts from INR10,000 for smaller vehicles and goes up to INR19,000 for the larger vehicles like HyCross. CVJ, which is a new introduced product, the product price can be anything between INR6,000 to INR7,500. So what we are trying to say is that if we take average of CEPS of INR12,000 and average of CVJ of INR6,000, we have practically improved our content per car by 50%.

We hope that CVJ is a new product. Currently, we are supplying only for one model. And you must have noted our stock exchange reporting that we are now going to almost double the CVJ capacity. So we are very optimistic about this product. It's 2 CVJ are required for every vehicle, which is manufactured in India, say every car requires that. And we are very, very optimistic that this product, we will start -we'll keep getting more volumes of that.

So is that anything else you asked? Or have I answered your question?

Praneet: No, if you don't mind, I have like a few more questions on the specific margin side. So one thing you told localization has been supporting a lot of our margin expansion, right? So what percentage at this point of time is localized and what percentage is not? And going forward with the investment in the new capacity, how are we changing that localization? How is the planning on changing? Like how do you want to take it?

And on the exports front, we have a partnership or an agreement with one of our other fellow associates somewhere like in Brazil. So like how can we take this looking forward with this particular entity? And are we also planning on doing - like increasing our customer base apart from this particular entity? Like are you in talks with other place for exports also? And if you are in other place of exports, where do you want to see this exports contribution moving forward in the next 3 years?

Rajiv Chanana: Okay. So coming to your question on localization, if you have seen our financial results, the total import content of the total material cost is just about 10%. So the product to product, it will differ. But on an aggregate basis, we are now almost down to about 10% of KD content in our production. And this is gradually reducing. As I told you, for example, when you introduce a new product like CVJ, initially, it will be higher.

But as you keep on putting more efforts towards localization, the content will keep on reducing. Overall basis, as I said, it's about 10%. So that's a target area. There are certain products where unfortunately, localization cannot be done like there are certain ECU parts, electronic parts, which, we do not have capability to produce in India, But so these will continue to be imported for some more time.

Maybe the PLI scheme with the government launch could change the game for Indian manufacturers and maybe more and more products will be locally available. And we'll keep on monitoring that and keep on further reducing our localization.

Coming to export, this is our first order which we have got, and it's a strategy. We have been working on this particular thing. One of the major requirement for increasing your exports is to have a very, very strong supply chain, because not only you have to sustain but you have to ensure that you supply the best quality products. Any quality defects or supplying your export models can be a big game changer for you on the negative side.

So - having a very strong supply chain is a prerequisite for increasing exports from India. And that's what we have been working for the last few years. And after we are very satisfied, this is the first order which we have got from our OEM in Brazil, JTEKT OEM in Brazil. This is a PSA product and it's for a global market. And we expect that even though the start point will be around 1 lakh units, which we'll start with that, but this will keep on increasing. The initial value will be around, say, INR50 crores kind of a thing. But over the life, we are expecting this will be around INR200 crores kind of an effort.

So once established, thre can be repeat orders of a similar type because the product is more or less same. So we'll keep on finding more such opportunities for us. We'll keep on working from one model to another model, just like we work with our OEMs in India. We can continue to work with our Brazil company for the next models as well. So I cannot put a number on it.

Yes, we are looking at exports increasing by 2% immediately once this order is put into place. I think the April 2026 or maybe 1 or 2 months here and there, we'll start supplying this product to Brazil. And we expect that next year, our volumes will increase by 2%. And we keep on looking at further increasing the exports from India. It's a profitable product. The profitability is far better compared to the local domestic sales. So our efforts will be to continue. I would not like to put any number on this at this point of time.

Moderator: The next question is from the line of Aman Agrawal from Carnelian Capital.

Aman Agrawal: A few questions from my side. The first was on the capex, which we have announced for INR250 crores. So like earlier, we had announced expansion on both manual gear as well as CEPS. So this capex is basically to align our capacity along with the investments announced by OEM or like how to think about this capex given we are already expanding for manual gear and CEPS thing.

Rajiv Chanana: So I'll give you the complete picture. For the first half year of current financial year, the total capital expenditure, which we have incurred is around INR120 crores. Now this includes part of the total expenditure, which is involved for installation of new CEPS line at our existing Bawal location. We are installing 2 manual gear lines, one at Dharuhera facility and one at Chennai facility.

Chennai is for export, which I just explained, in fact some few minutes back. Then we are - in the backward integration, we are setting up one more PDC machine of 850 tons. Plus there is a maintenance and new product development expenditure. So this is the area where we are currently spending in the current financial year. So these projects are in pipeline.

These are partially complete, and we expect that during the current financial year, our total capital expenditure will be around INR250 crores or slightly more. So when we look at the current capacity expansion, the third CEPS line, which we are working will increase our capacity from 10 lakhs to 15 lakh units. And then the fifth manual gear line, which we are working at Dharuhera will increase our capacity from 24 lakhs to 29 lakhs. So that's a capacity expansion, which is going to happen, and this will happen sometime in April '25, July '25 period.

So another thing which you must have noticed, our stock exchange reporting in December and February, we decided to set up 2 additional lines of manual gear. First will be the sixth manual gear line at our Dharuhera facility. And second will be one line at -which will be the fourth manual gear line at our Chennai facility. So this will increase our overall capacity from 29 lakhs to 36 lakhs. So that's the current capacity expansion, which we are looking at.

Coming to other products, CVJ, that also we announced sometime in February, we're doubling our capacity from, say, around 3.7 lakh or 4 lakh to maybe double to about 8 lakh units. Now how we are funding this? I think that's important to explain to our investors. For the current year, for the first half, we had a cash generation of around INR75 crores.

And then we had some cash available from the previous year generations. So this was enough to meet our capital expenditure of INR120 crores, and we were able to reduce our borrowing by INR23 crores during this period. So that's how we are managing the capital expenditure till this point of time.

Now this announcement, which we just spoke about expanding into Gujarat, this is primarily - we do not have any facility in Western region. We are mostly concentrated in North and in South. And as Mogi-san mentioned in his opening remarks, we have seen increase in activity in the Western region. Maruti Suzuki has already announced a new plant, maybe with a capacity of 1 million, which will be a significant change in the Western region. So currently, we are supplying to Suzuki in Gujarat through our current facilities at Dharuhera and Bawal. However, that is not the right way. It's a safety product, and we are worried about quality issues when the product has to travel a long distance. Apart from that, the cost part, the huge logistics, transportation costs as well as maintaining a warehouse in Gujarat. So those are very expensive things.

And as the requirement will keep on increasing, we have no option but to expand in Western region. So that's how we have announced a factory, a new factory to be set up in at our land, which we bought about a few years back. We got a land parcel of around 30 acres, which is very near to Suzuki factory. This place is called Jalisana, just about 7 kilometers from the existing Suzuki plant.

So we'll be using this land and we'll be setting up a new plant. And we have currently allocated INR250 crores for this project. But this will be a long gestation project, maybe involve 3 to 4 years' time before we actually start manufacturing from that location. It will take some time. But we have allocated INR250 crores for this project at this point of time. So this is overall on the capex side. If you have any further explanation required on capex, I can explain.

Aman Agrawal: Sir, just one follow-up question on that. So this INR250 crores, like with all products we are planning to manufacture there, like this will include the civil infrastructure as well as the investment for machining, right, like for increasing the capacity.

Rajiv Chanana: So we will keep on announcing it. Like at this point of time, this plan is not decided because once we decide about the production part, we need to report to stock exchange also. So that will keep on reporting. We will like to have a composite plant, maybe producing all sort of products, manual gears, CEPS, et cetera, maybe CVJ and bearing also. But we will keep on announcing that. At this point of time, we have not made any official announcement for that, yes, but we would like to have a composite plant, maybe producing all sort of steering system and driveline system, which we are producing at our North factories.

Aman Agrawal: Right. Sir, just one follow-up on that. Like this bearing is in our unlisted business, right? It is not part of the listed entity. So like since we might be thinking of manufacturing in that facility like you indicated, so are we also planning to bring the current Indian bearing business to the listed entity or like how would that work? Like any idea on that side, sir?

Rajiv Chanana: So you're right. JTEKT Bearing is a separate group entity in India. And they are manufacturing for automotive sector also. We call it hub bearings. There can be a plant in Gujarat to manufacture bearing as well. So there can be different mechanism, which can be followed. One is that out of the land parcel, we can sublease part of the land and that can be used by JTEKT Bearing for setting up their individual facility.

That can be one way. The second method can be contract manufacturing where JTEKT will start manufacturing on behalf of JBIN. There can be a third mechanism where we just add hub bearing as a part of our own product line. We have not decided that. What will be the legal structure of that, we'll decide later, and we'll report maybe at the subsequent investor calls. At this point of time, the legal structure has not been decided.

Aman Agrawal: Got it. So we are not planning to merge that bearing entity with the rest of entity as of now sir?

Rajiv Chanana: Not at this point of time, yes. We are not planning any merger of these 2 entities. In fact, we have just completed JFIN, Fuji company merger and there are a lot of activity which need to be done, as I was mentioning about the manufacturing rationalization. It's a long activity. The product which was being manufactured by JFIN was the jacket assembly, which is a main part component of CEPS electric power steering system, how we manufacture the 2 products at 1 location, so that we can improve our rationalization.

That activity is currently going on. It takes time. So give us some time to complete the current rationalization activity, which are in progress. Maybe later, we may decide. But at this point of time, there's no decision about merging JBIN operation into JFIN operations.

Aman Agrawal: Understood, sir. Sir, one question related to capex, like how much would be our maintenance capex on an annual basis like on a recurring basis?

Rajiv Chanana: It will be around INR20 crores to INR30 crores. That's a normal bench ballpark number.

Aman Agrawal: Understood, sir. Sir, earlier in the call, you were indicating on localization for CVJ, right? Like you have localized the mid-shop for CVJ. So like how is the profitability currently looking in CVJ? Like is it near to company level profitability or like after this localization, we have reached that level? Or like how to think about profitability in CVJ?

Rajiv Chanana: So there are 2 important things which will improve the profitability of CVJ. The first part is the localization, which I just mentioned that we have already completed. So the total benefit which has come is around INR375. And when we look at the sale price of this particular product, this is as high as 6% kind of a thing. The second important thing is the total capacity utilization.

So we mentioned is that in the April or May, we will be getting one more product. for which we will start supplying CVJ. And this will help us to increase our capacity utilization from current 60% to about 100%, more than 100%. That will make us very near to our current level of profitability for other products, maybe slightly better than profitability for our other products.

Aman Agrawal: Understood, sir. And like with the second line coming in, the profitability would improve even profit side with operational efficiency?

Rajiv Chanana: I'm sorry, say again?

Aman Agrawal: So we are planning another line of CVJ, right? So with that also, we might see some improvement in profitability.

Rajiv Chanana: Absolutely. Absolutely. Not only as the volumes - this is an opportunity to increase your cash generations also, more profits in terms of value, not as a percentage. Percentage is okay, I think the investors are very watchful about the percentage. But for us, JTEKT, more cash generation, more profit in terms of value is also important. So we'd like to get more business of CVJ in the coming future and like to expand in that area.

Aman Agrawal: Understood, sir. Sir, one strategic question basically, like since we are setting up all these capacities and you were basically pointing out that we now have the supply chain to serve export orders. So with all this capacity available, would we be in a better position to go and like aggressively go for export orders to grow our business like since it is very small right now, right? So like only 3%, 4% of our overall top line. So maybe like targeting like 10%, 15% of top line, can that be an opportunity for us in the next 3 to 5 years?

Rajiv Chanana: Yes, you are right. Yes, there are opportunities available. We just need to prove ourselves by meeting the quality standards for the current export order, and we are very hopeful that there will be repeat orders for that. We'll have many, many opportunities coming in front of us, and we hope that we should be able to crystallize those opportunities for us.

Aman Agrawal: Understood sir. Just one question before I join back the queue. So like when we are doing such capex, any internal IRR benchmark we have to go ahead with this capex, like any internal returns we look at like on this project basis?

Rajiv Chanana: So many, many things need to be considered. One is the current profitability levels. Once we are sure that we are able to - with our capacity expansion, we have orders available, which will help us to maintain our profitability and improve our profitability, we go ahead with that. So the current profitability benchmark and our future targets are the basis for our capex decisions.

Moderator: The next question is from the line of Tushar from Peace Wealth.

Tushar: Sir, my first question is regarding this hub bearing that you just mentioned. So may I know like where is this deployed in automotive vehicle? And what could be the price range for this product? And then how big is this opportunity for us? So this is my first question.

Rajiv Chanana: So hub bearing is used for automotive use, and we are supplying to OEMs from our bearing company. Shyam sir, are you aware about the price? Hub price. Sorry, this is relating to my group entity. I may not be having the right numbers available with me. But yes, hub product is being supplied to OEMs for automotive use.

Tushar: Okay. I mean, this is also part of the steering components or maybe some other application of a vehicle?

Management: This is a driveline product.

Tushar: Okay. Okay. And my second question is, sir, regarding this - in August, there was a recall of around 2,500 Alto K10 units because of a steering malfunction. So I just want to understand - are we also supplying those steering solutions to Alto K10? And if yes, and in some way, did it impact our profitability for this quarter?

Rajiv Chanana: Yes. Strictly - we are sorry that there was a quality defect, which was noticed in our manual steering gear, which we are supplying to Maruti Suzuki for Alto K10. And this was noticed in sometime in June '24. So upon investigation, we noticed certain abnormalities in the manufacturing process parameters for a short period of time. So based on the joint analysis, which we did with JTEKT and Maruti, it was concluded that defect in the steering - in a rare case, it may affect the vehicle steer ability.

And accordingly, Maruti Suzuki issued a notice on 7th August 2024 to recall some 2,555 Alto K10 vehicles. These affected vehicle owners, we have already contacted through the Maruti Suzuki authorized dealer workshops for inspection and replacement of parts free of cost. So upon discovery of this defect, JTEKT immediately took countermeasures for containment due to presence of a very strong traceability system, JTEKT was able to identify the suspected quantity and in consultation with Maruti Suzuki, we plan to replace the entire lot of suspective steering system to ensure safety of end customers.

The replacement job is almost complete now. And over the last few months, JTEKT has made a provision of INR50 million books of accounts to meet the cost of replacement covering part costs, labour costs and other incidental expenses. We have a product liability insurance policy with us and which covers this kind of a risk, and we have already lodged our insurance claim.

However, till the time the insurance claim is settled, we cannot make any positive provision, though negative provision of INR50 million has been done. We have not done any positive provisioning towards recovery from insurance company in our financials. JTEKT quality and production departments are committed to maintain highest quality standards for our products and to ensure the quality and safety of end customers.

This exceptional provision of INR50 million towards warranty cost, this has impacted our quarter 2 financials by 0.8%. So if we remove this exceptional cost, EBITDA margin for quarter 2 actually improves from 8.2% to 9.1%. And that is very quiet close to EBITDA margin of 9.5%, which we achieved last year.

And just to tell you this kind of a problem, we never faced for the past many, many years, and it's unfortunate, and we are sorry for facing this kind of a quality defect in our product. We are committed that we should not have the similar situation in future. We have covered this particular financial impact in our books of accounts for quarter 2. The entire provisioning has been done.

Tushar: Sir, my next question is regarding this Renault and Nissan, they are going to be launching new Duster early next year. So I just want to understand, are we also supplying for this new vehicle? And if yes, then which components are we supplying to them? And as well about this Maruti and Toyota when they're coming up with the new EV vehicle early next year. So which components are we going to supply to those vehicles, electric vehicles?

Rajiv Chanana: So we are not supplying for Duster. And we will let the product be launched, as you said, for the Maruti Suzuki and others. We will be reporting at that point of time.

Moderator: The next question is from the line of Manoj from Carnelian Capital.

Manoj: I have 2, 3 questions. First question is to Mr. Hitoshi. Since Mr. Hitoshi, you had a vast exposure, vast experience working with

JTEKT parent. I just wanted to understand what are the product adjacencies or what are the products which you aspire to bring to India from JTEKT global portfolio to India? Like CVJ is one of the products which you have successfully done so. So what will be the product pipeline going forward? And secondly, what will be your aspiration towards exports? So I have a few more questions, but first, I will like to pause and seek your response on this question, please.

Hitoshi Mogi: Okay. Thank you very much for your question. So first of all, as JTEKT globally, India is one of the most important footprint. And we utilize this competitive footprint to the global market. That's kind of a global strategy. So we have not decided the concrete item, but we are going to expand our export business as well as the components to ship to our global entities. That's one. And accordingly, we are going to introduce a new product, but we are under study.

Manoj: Okay. Okay. I'm not asking whether you have decided or not. My question was like what is the possibility for new product introduction, whether that is there on cards because JTEKT Global may be having some products which are not there in India. And looking at the world drive of manufacture in India and ship to India, whether that kind of aspiration is there on cards for JTEKT India. And if that is there, whether any ground level working is happening or not?

Rajiv Chanana: So on the steering side, we are a system supplier now. We got all types of steering systems, which are possibly produced around the world, including the high-end electric power steering system. The driveline category, we are not system supplier. There are products. There could be a possibility of further expanding our line of business. But yes, give us some time.

We are not ready to answer this question in detail at this point of time. But look at the way the CVJ is progressing now and the way we are trying to capture the market, and we have aspirations in terms of getting more and more share of the Indian market. Within 1 - 1.5 years of setting of the first line, we have announced the second line setup.

We are very, very - and this is possible only by bringing a best quality product. Otherwise, you cannot expect to get market share at such a fast pace. With JTEKT support, we are able to dwell a product which is high-quality level. So give us some breathing, we are looking at various things, and we'll announce as we go along. Yes.

Manoj: Okay. And my second part on export aspirations. I think, Rajiv-ji, you have mentioned in your initial comment that definitely export is going to be much, much bigger. But can you put a number that how much percentage of our revenue can be exports over the next 3 to 5 years?

Rajiv Chanana: Futuristic, a little doubtful as to maybe give some time. Success of this particular project is actually paved the way for our future discussion at a global level. Even we are - aspiration is okay, like I may aspire to have a 10% portfolio from export. Those aspirations are okay, but we'd like to be realistic in terms of understanding the total potential, which we have. And I think we are moving in the right direction. The exports will now start, as I said, very shortly, we'll start exporting and we'll slightly catch up with that total requirement.

I think this will set up the tone for the next order and maybe next to next order. So I think as we go along, I think we will be in a better position to answer this question as we go along. So at this point of time, putting a number aspirational is okay, but putting a realistic number is a little difficult at this point.

Manoj: No. I'm not asking Rajiv-ji a realistic number. I just want to see that what are kind of aspirations in terms of new product introduction because without aspirations, things won't happen. So what kind of aspirations are there for new product introduction from the global portfolio as well as what kind of aspiration we do have on the export side?

Rajiv Chanana: Right. So as we go along, I think we'll have more clarity, and we'll keep on reporting that. And there are opportunities available. I think we mentioned that in our previous investor calls also. And even before the CVJ was introduced, I think we discussed this point that there are opportunities available, and that followed with the introduction of CVJ into the Indian market. So yes, there are opportunities available. And - but till that time, we have analyzed that in terms of acceptability in the Indian market and many, many - and the feasibility of that in terms of putting more money.

We already have many capital expansion projects in our hand, which we like to complete in the next 2, 3 years' time. So our hands are full at this point of time in terms of expanding our capacities, expanding into the western regions. So many, many things are going on at the same time, plus the manufacturing rationalization, which I just told you. So many things are in pipeline. Like give us some time, I think once we have our strategy ready and once we have our discussion with our parent company as well, we'll keep reporting that.

Moderator: The next question is from the line of...

Rajiv Chanana: I think the time is up. And I think the management has got a very important call with JTEKT parent company. So maybe one question we can take, but after that, we have to close the meeting.

Moderator: Sure, sir. The next question is from the line of Himanshu Singh from Baroda BNP Paribas.

Himanshu Singh: And actually, I just want to know why our manufacturing cost has gone up by 10% Y-o-Y compared to revenues and administrative costs have come down by 5%, whereas the revenues have increased by 4%. So just on that.

Rajiv Chanana: So fixed costs are under check, like even when you look at the employee cost and you look at the increment part, once we add that and we actually see improvement in that. So even though as a percentage, it has gone up. But in terms of actual value, we have actually improved on all the 3 cost elements, employee cost, administration costs and depreciation. Everything has contributed on a value terms, it has contributed to the better profitability in H1 of this year compared to last year.

Coming to manufacturing cost, yes, there is a slight increase. This is an impact of the various changes which have happened. The power cost has gone up, the state prices have gone up. So those impacts are visible, mainly the inflationary impacts are there. Plus the new product when we launch, the tooling cost is slightly higher. So CVJ is a new product which has been launched. So there is a tooling cost, which is slightly higher.

It's a product mix impact, but that's not very significant. The inflationary impact is one which is reflecting in the slightly increase in the manufacturing cost at this point of time. We have opportunities of various ideas in the cost reduction, whereby we can improve the life of the tool as well as we are looking at various alternate supplier base for improving the life as well as reducing the cost of our tooling.

There's a major exercise going on at this point of time where we are doing benchmarking with our global entities and trying to reduce the cost of tooling. Plus we are also looking at various other areas. One last thing, which I would like to mention, which I just explained also, the rationalization activity is a big activity which is currently going on after the merger of JFIN with us.

So manufacturing rationalization activity required a lot of expenditure on the repair side, which is part of the manufacturing cost. So this is onetime activity which is going on. I think within 1 year's time, once this activity is complete, this expenditure will come out of the overall structure. And you will find our manufacturing cost will be similar to what we had last year.

Moderator: Ladies and gentlemen, we will take that as the last question. I would now like to hand the conference over to the management for closing comments.

Hitoshi Mogi: Yes. I would like to thank everyone for joining on this call. I hope we have been able to respond to the most of the questions adequately. We are really positive about the growth in automotive sector and to continue with our effort to expand to meet the industry's requirement. Thank you very much. Stay safe, stay healthy, and thank you once again for joining us. Thank you.

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