May 30, 2023

The National Stock Exchange of India Ltd
Exchange Plaza, C-1, Block G
Bandra – Kurla Complex
Mumbai 400051

Scrip Symbol: SANSERA

The Department of Corporate Services
BSE Limited,
P.J. Towers, Dalal Street
Mumbai 400001

Scrip Code: 543358

Dear Sir/ Madam

Subject: Earnings Call Transcript

Please find attached a copy of transcript of Earnings call held on May 23, 2023 on audited financial results of the Company for the quarter and year ended March 31, 2023.

The above transcript will also be made available on the website of our Company at www.sansera.in.

Kindly take the same in your record.

Thanking you,

for Sansera Engineering Limited

RAJESH KUMAR MODI Digitally signed by RAJESH KUMAR MODI Date: 2023.05.30 13:26:14 +05'30'

SANSERA ENGINEERING LTD BANGALORE 560 105

Rajesh Kumar Modi
Company Secretary and Compliance Officer
M.No. F5176

Encls: a/a

"Sansera Engineering Limited

Q4 FY'23 Earnings Conference Call"

May 23, 2023

Disclaimer: E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on 23rd May 2023 will prevail.

MANAGEMENT: **MR. B R PREETHAM – GROUP CHIEF EXECUTIVE OFFICER – SANSERA ENGINEERING LIMITED**
MR. VIKAS GOEL – CHIEF FINANCIAL OFFICER – SANSERA ENGINEERING LIMITED
MR. PRAVEEN CHAUHAN – CHIEF OPERATING OFFICER – SANSERA ENGINEERING LIMITED

MODERATOR: **MS. SEEMA SEHGAL - ICICI SECURITIES LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to Sansera Engineering Limited Q4 FY '23 Earnings Conference Call hosted by ICICI Securities 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 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 Ms. Seema Sehgal from ICICI Securities Limited. Thank you and over to you.

Seema Sehgal: Thank you, Ranjo. Good morning, everyone, and thanks for joining us today. We have with us the management of Sansera Engineering Limited, represented by Mr. B.R. Preetham, Group CEO, and Mr. Vikas Goel, CFO, Mr. Praveen Chauhan, COO. Thanks to the management for giving us this opportunity to host the call.

Now I would like to hand over the call to the management for the initial remarks. Over to you, sir.

B.R. Preetham: Thank you. Good morning, everyone. Welcome and thanks for joining this call. On this call, I'm joined by our CFO, Mr. Vikas Goel, and our COO, Mr. Praveen Chauhan, and our Investor Relation Advisor, SGA. The results and the presentations are uploaded on the Stock Exchange and the company website.

I hope everybody has had a chance to look at it. I am pleased to share that we finished another year with our best-ever annual performance in terms of top line and profitability metrics. The momentum is set to continue as we begin the current fiscal year on a high note. Both the domestic and international markets are showing recovery, which bodes well for our auto and non-auto end sectors.

Amongst the key development in the quarter, I'm very proud to share that Sansera has recently been certified as a great place to work in India. This certification signifies building and sustaining a high-trust, high-performance culture in the company. We continue to be recognized by industry for delivery, development, and quality performance and we have received multiple awards in this area.

On the strategic front, we made an investment in MMRFIC, which is a research, design, and manufacturing entity, building subsystems for next-generation radars by leveraging machine learning with artificial intelligence and millimeter wave sensors with hybrid beam forming capabilities. This transaction provides us an opportunity to reinforce a strategy of diversification and collaborations. MMRFIC's team of experts and years of R&D experience in the radar space sets it apart and made a compelling investment case for us.

The strategic investment in MMRFIC will help Sansera enter into high-technology space and have access to a strong R&D engineering team which can address our priority segment like defense and aerospace.

It has also the potential in telecom and automotive, especially in autonomous driving subsystem technologies in the future. This alliance is expected to provide both parties with significant future growth prospects. Coming to our performance in the quarter, we registered a 78% increase in our auto-tech agnostic and xEV products. The demand for EV two-wheelers is rising at a fair clip. Our tech agnostic products are also doing fairly well with good traction in order in flow for aluminum forged components. All the three press lines which we have commissioned are fully booked now.

We are also adding another 2,500 ton plus for the aluminum components. This segment contributed 11% of sales of which 6% came from auto-tech agnostic products and 5% came from xEV products. With the upcoming change in BS norms, our ICE sales registered a marginal decline of 3% during the quarter.

This decline was seen across two-wheelers, three-wheelers, and passenger vehicles. Performance for motorcycles was flat whereas xEV registered a growth. This segment contributed to about 75% of sales of which 33% sales came from motorcycle segment. Scooters accounted for 6% of the top line. Passenger vehicles accounted for 22% of the top line. Commercial vehicles, which accounted for 13% of the top line.

A significant portion of sales has come from our Swedish subsidiary in this segment. In commercial vehicles, we witnessed 18% growth on a year-on-year basis and 25% growth on a two-on-two basis. I would like to highlight that we have changed our reporting. Previously, we used to talk about auto sales mix along with tech agnostic and xEV products. However, numbers starting from this quarter pertain to auto ICE only.

Our non-automotive segment grew by 50% in the quarter. Talking about the sale mix, as guided previously, we crossed 900 million milestone for our aerospace and defense business in FY ‘23. In this quarter, it contributed about 4.9% of our sales, registering a strong 76% year-on-year growth in the quarter.

With our new facility which is now fully functional, we expect a stronger growth in the coming year. Off-road sales were in a region of 4.7%. Demand is coming very strongly for this segment as well. Agriculture accounted for 2.5% of the top line and remaining 1.8% of the top line came for a few other segments. With all the above put together, non-auto segment contributed to 14% of our sales.

Coming to our order pipeline, as of March 31, 2023, our order book of new business with an annual peak revenue stood at INR13.3 billion with auto ICE contributing to INR5.5 billion, which is about 41% of the total order book. Auto tech agnostic and xEV adding to 4.3 billion, which is about 33% of the total order book.

I would also like to highlight that for aluminum forged components, we have about 58 component orders from 13 different customers. And non-auto accounts for about 3.5 billion of the order book, which constitute about 26%. This is post our reset. We do reset our numbers at the beginning of the year, wherein we would move our products which have started the mass production into the mass production cycle. So the numbers that I told you, which is 13.3 billion is post the reset.

Until a few years ago, we never had a dedicated business development team. However, with our entry into newer areas of business, now we have an established business development desk, which is proactively involved in securing new businesses, from newer sectors and for the newer components as well. And their efforts continue to pay off as we are seeing good order inflows across all the sectors.

Our international order book is also expanding as a result of the momentum in our aerospace and defense division. At this point, I would like to take a step back and reflect on our journey. Sansera has been in business for four decades, the first three of which were spent establishing a leadership position in the ICE area and becoming a major supplier of connecting rods and rocker arms for global and domestic players.

With this position of leadership secured, we started our non-auto journey. In the past few years, we have also introduced a variety of tech agnostic and xEV components. With these persistent efforts, we have been able to outpace the industry and achieve considerable progress towards our long-term vision. I'm glad to share that we have surpassed our estimates with respect to our tech agnostic portfolio. As a result, we refocused our vision and raised our long-term sales contribution target from xEV and tech agnostic products from 15% to 20%.

Effectively, over long term, we are looking at an auto ICE contributing to 60% of our top line, while 20% each coming from non-auto and xEV and tech agnostic portfolio. Going forward, we are geared towards an even better FY '24 as domestic business continues to remain healthy and on the international side, we are seeing signs of good recovery both on exports as well as our international business to our Swedish subsidiaries. I would now hand over the presentation to our CFO, Mr. Vikas Goel. Vikas?

Vikas Goel: Thank you, Preetham. Good morning, everyone. Welcome, you all. I will briefly cover about the financial performance during the quarter. During Q4 FY '23, our total income stood at INR6,230 million, representing a 7% growth on a year-on-year basis and 10% increase sequentially. If we look at our performance on year-on-year basis, domestic markets outpaced the international business. However, sequentially, we have seen a recovery in our international business, which is a positive development. After experiencing some degrowth in the previous quarters, sales at our Swedish facility is now approaching closer to the normal levels.

The Q4 gross margins at 39%, had an impact of approximately 100 basis points by one-time year-end adjustments, including the inventory provisions and some customer-related costs. These are one-time and do not represent our run rate margins. Employee expenses saw an increase of about 9% on a year-on-year basis, which represents the annual increments and volume increases during the quarter as against previous year, in same period. Other expenses at INR583 million were in line with the last quarter and represent our run rate.

Overall, our EBITDA margin for Q4 FY '23 stood at about 16.2% versus 17.2% during Q4 FY '22 and for the reasons explained in the gross margin section. Finance costs for the quarter increased to INR173 million as compared to INR147 million in the corresponding quarter in FY '22, largely due to an increase in the rate of interest that we have seen over this year and the higher working capital borrowings that we had to do for business expansion. Our cash profit after tax of INR701 million in Q4 FY '23 was stable against the same for last year at INR701 million.

In terms of geographic sales mix for Q4 FY '23, it stood as follows: India 68.4%, Europe 18.5%, USA 9.2% and other foreign regions 3.9%, as a percentage of total revenues. In the next year, we are looking at better numbers in terms of international business mix. Looking at the full year numbers, as guided in the last quarter, we closed the year at about, with an 18% growth in total income amounting to INR23,560 million, which is also the highest revenue ever achieved by the company. Our EBITDA stood at INR3,948 million with a margin of 16.8%. This included these one-time adjustments that I mentioned in the quarterly section.

Net profit was INR1,483 million as compared to INR1,319 million in the previous year. We generated a cash profit after tax of INR2,784 million versus INR2,516 million in the last year and a net cash from operating activities at INR2,558 million, which is 79% of the EBITDA for FY '23 as against 73% during FY '22, which is a healthy cash conversion of profit. On the debt front, our net debt stood close to INR6,505 million as on March 2023.

I am happy to share with you that, the Board of Directors has recommended a dividend of 125% of the face value at INR2.5 per share for the financial year 2023. Capex for this year stood at INR2,440 million. This was mainly to enhance the technological upgradation and add production lines to support our growth in the non-ICE segments. We expect to spend a similar amount in the current financial year. On the capex front, we have started construction of a new aluminium machining parts facility at our existing plant 11 in Bidadi. This is a Brownfield expansion project, which is expected to get completed by the end of this year and it will help us further improve our presence in the tech agnostic and xEV segment. With this, we conclude our formal presentation and open the floor for Q&A.

Moderator: Thank you. The first question comes from the line of Mumuksh Mandalesha from Anand Rathi. Please go ahead.

Mumuksh Mandalesha: Thank you, sir, so much for the opportunity, sir. Sir, gross margin was lower this quarter sequentially. Can you explain more, what kind of one-offs this was, sir?

Vikas Goel: So, as I explained, there were primarily two types of one-offs. One was the inventory provisioning. So, we reviewed our inventory provisioning policy, especially because we used to only provide for semi-finished and finished components or rather WIP and finished components. We took a more conservative approach and started providing for the raw materials as well, which was included in this. Secondly, there were some customer-related costs for previous quarters or previous periods, which got identified during this period and adjusted.

Mumuksh Mandalesha: Got it. Sir, how different would be the margin and return profile for the aerospace and the different segments? Also, similarly, as the mix for techs, agnostic and xEV products are increasing, how would the margins and return profile be different for this also?

B.R. Preetham: Hi, Preetham here. So, aerospace and defense, as we have also previously said, are very similar to our export margins, where we say that, on a gross margin level, we are about 10% better than our domestic mix, which probably translates to about 6% to 7% EBITDA margins, higher EBITDA margins compared to our domestic profile.

So, this would give you – but while defense is a very small portion of the whole mix, primarily, currently, the major revenue is coming from the aerospace business, which we expect also to have a significant growth this year as well. Now, on tech agnostic and xEV components, as previously communicated as well, we follow most of these customers, ours is a mechanical forged and machine precision component category. It's no different to our component category, which we do for ICE as well. So, we follow the similar activity-based costing, so the margin profiles are very similar to our current product portfolios.

Mumuksh Mandalesha: Thank you. Sir, how would be the ramp-up of this INR13.3 billion orders over the next few years? And since the new orders have a better export share, the margin profile should be better, right, sir?

B.R. Preetham: Yes. See, while we have said that this ramp-up of the – we only declare the peak annual revenue of the order book, which translates to, when all these orders mature, this would give an annual revenue of INR13.3 billion, which generally takes anywhere between two years to three years to, for the full maturity to happen. In our experience, we generally see 30% to 40% of ramp-up happening in the first year, about 70% to 75% of the ramp-up achieving in the second year, and third year onwards, the full maturity.

But when I say this, you should also note that, every order has got its different ramp-up cycle. It may not follow the same thing. There are domestic orders, which could actually ramp up much faster, while some of the defined programs, could take this path. So generally, we say that the third year is when, we achieve the full maturity of the products.

Mumuksh Mandalesha: Right, sir. And can you share more insight on this MMRFIC technology on the products, and how do you see the revenue ramp-up for this business over the next few years?

B.R. Preetham: Yes. MMRFIC, as I explained, this is primarily an R&D facility. These were started by technocrats who came out of primarily from Texas Instruments about seven and a half, eight years back. All the promoters are bootstrapped, and they have been working on this technology, which has been developed in millimeter-wave radars. This works on between 30 gigahertz to 110 gigahertz, which is primarily between K&W band. And these technologies are not fully available in India.

Currently, these technologies are being imported either from Russian countries or from Israel or from US. So, these are the technologies today which are being used currently by both defense and non-defense applications. In the defense application, primarily it is used in the seeking application where the radars are used for seeking the targets and then guiding the systems. And in the non-defense area, it is also used for surveillance, primarily on perimeter surveillance on critical establishments, also used in drone detection technology as well.

Now, it is also used in electronic warfare where primarily prior to any missile that goes, this radar goes, detects all the ground-based radars and generally neutralizes them, and then the warhead follows. So, it is primarily used in the EWA application as well. But these are very, very high technologies which are being developed from last four to five years. Most of the components of the radar are already mill-tested, and it is expected to go on field testing towards the end of this year.

We expect that mass production of these would commence from next financial, towards the middle or end of the next year, next calendar year. We expect that MMRFIC would start generating meaningful revenues between 18 months and 24 months. We've also identified their technology, the second radar which I spoke about, which is used for perimeter surveillance and surveillance. In this, some channels of this could be used for altimeters, which are used primarily in all the aircrafts in the space application, as well as drones and missile applications, a wide variety of applications.

We have a very good client base on aerospace, so we would work with them to find out a collaboration between our existing customers and MMRFIC. And we also see potential going forward because most of the automobile companies are also working on radar with vision for the future generation of autonomous driving. So, we are very excited about this collaboration, and with Sansera's management capabilities and wide network of customer base, we expect that this collaboration would be very fruitful. Thank you.

Mumuksh Mandalesha: Thank you, sir. The last question is only capex, what would be capex, FY24, sir?

Vikas Goel: Capex for '24 will be approximately similar, as I mentioned, about in the range of INR250 crores, and this will again be spearheaded by projects which will help us to deliver the new order book, mostly in the areas of non-auto, auto non-ICE categories.

Mumuksh Mandalesha: Got it, sir. Thank you so much for the opportunity, sir.

Moderator: Thank you. Before we take the next question, a reminder to all the participants that you may press star and 1 to ask a question. Also, to all the participants, please restrict yourself to two questions. Next question comes from the line of Siddhartha Bera from Nomura. Please go ahead.

Siddhartha Bera: Hi, sir. Thanks for the opportunity. Sir, first question again on the margin side. So, like you said, there were a couple of one-time costs in the quarter…

B.R. Preetham: Siddhartha, could you be please, a bit louder, please?

Siddhartha Bera: Yes. Is it better now, sir?

B.R. Preetham: Yes, yes, better.

Siddhartha Bera: So, I was checking on this cost side. So, will it be possible to indicate, cumulatively how much percentage all these costs put together have come in the quarter or is one-time?

Vikas Goel: It was approximately, slightly above 1% for the quarter. And if you spread it across, the impact in terms of annual margin rates would be about 25 basis points if you look at. So, we reported about 16.8 on a full year basis as an EBITDA margin. And if you just add it back, it would be a little over 17% from that point of view. On a full year basis.

Siddhartha Bera: Got it. So slightly more than 1% would have been the impact for the current quarter?

Vikas Goel: Yes, yes, absolutely.

Siddhartha Bera: And will it be possible to highlight, in the coming years, you said obviously one sector will be exports, which will have better margins, where our growth will be better. So, any color on the margin side overall, how much should we expect improvement from the adjusted current levels?

B.R. Preetham: Yes. So, while we had indicated that, the overall exports for us would have, see, in the year FY'22, I think the total international sale and Sansera exports from Sansera India almost was close to 37%. While in FY'23, it declined to about 28.4% or 28.5%. So, this was a significant reduction in the last year.

While the second quarter, I mean quarter four, we were very close to about 31%, which shows that from a full year perspective to the Q4, the recovery has already started in the export segment. Generally, if you look at it, our exports grows faster than our domestic, on a normal year, our export, because our order wins also indicates the same, that we have better export mix in the new orders.

So, this year, we expect that we should be very close to between 32.5% and 33% on a full year basis. So, this also would mean that on a full year basis, our margins will be better because exports, as I said, that comes with a higher gross margin and higher EBITDA margin. So, we expect overall about 50 basis points to 55 basis points on a full year basis improvement coming from better export mix. And this would also mean that even our domestic is quite strong. We expect this year to be a quite stable year in terms of even two-wheeler performance.

Our EV portfolio is also growing. tech agnostic products, new businesses are growing. So, we expect that our utilization will be better and which would also give us operational efficiency advantage as well.

Siddhartha Bera: Got it. Sir, second question is on the order win side. So, you have indicated the order book for the year-end. Will it be possible to highlight how much new orders you have added in the current quarter in Q4?

B.R. Preetham: Q4 Yes, it would be possible because I will just give you that number while, because we do reset the previous, every year we do reset the, Yes, approximately about INR2 billion worth of orders has been added in the Q4, which has resulted in an overall order book post the reduction to about INR13.3 billion. Because we have moved whatever has come into mass production as of 31st March out of the new order book and only retained the orders which have yet to start commercial production.

Siddhartha Bera: Got it. And possible to highlight what all segments will this new order be pertained to?

B.R. Preetham: Pardon me?

Siddhartha Bera: What all segments have you got these new orders? For aerospace or what segments?

B.R. Preetham: Yes, yes, see out of the total, the thing almost 18%. Yes, approximately about, for this quarter or the full year, you want to have the year-ending?

Siddhartha Bera: Only for this quarter.

B.R. Preetham: Yes. Okay. So the exports, we got about 52% and 48% was for the domestic or the other way, 52% was domestic and 48% was the exports. In this autoICE, was about 28 plus 19, that's about 47% out of the total order book. Auto tech agnostic was about 13%. Auto xEV is about 17% and non-automotive was about 24%.

Siddhartha Bera: Okay, okay, understood.

Vikas Goel: So it's about 47 for auto-ICE and 53% for non-auto-ICE.

Siddhartha Bera: Non-auto-ICE and tech agnostic. It's widely spread out, not like...

B.R. Preetham: No, no, no, it is quite widely spread out and I would say that even in auto-ICE, it is primarily coming from, you know, passenger vehicles and commercial vehicle segments.

Siddhartha Bera: Okay, okay. So I mean, for this year, should we expect, because now our aerospace plant is also up and running, so most of the order we will target from aerospace, will that be a fair assumption for this year? And lastly, for capex, we wanted to know, I mean, in terms of the mix of 2.5 billion, how will it be spread across tech agnostic EVs and ICE?

B.R. Preetham: Sid, can you repeat this question, the last question?

Siddhartha Bera: The capex, capex of 2.5 billion, how will it be spread across your tech agnostic EVs and ICE portfolio?

B.R. Preetham: Yes, see, as we have already said that most of our, you know, more than 75% of our capex is going into the new sectors, which is primarily for, you know, aerospace, tech agnostic and xEV components. Now, we have also taken up construction of a new brownfield facility, about a lakh and 50,000 square foot of building area, which is primarily focused on aluminum forged and machined components. And, you know, this is primarily because we already have a lot of orders on aluminum from the number of customers and products, it's almost approximately about 85 different components from almost, you know, 13, 14 customers across the two-wheeler and passenger vehicle segment.

And this also includes, you know, some prominent passenger vehicle names from Europe as well. Our expectation is that we have also initiated a procurement of a brand new 4,000-ton press line, which would again, primarily 50% of the capacities would be used for heavy engines, which goes into, you know, stationary engines, heavy commercial vehicles, as well as construction equipment as a thing. And 50% of the capacities would be kept for bigger aluminum components, which would either go into, you know, chassis and frame of the two-wheelers or into the passenger vehicle application.

So most of our capex is focused on the new generation components. If you have seen or observed SID, the last three big plans that we have constructed, first one was for electric and hybrid components. Second one was for aerospace and defense. And the third one now we are putting it up for aluminum forgedand machine. So in the last two to three years, our focus has been on this, while we are doing pretty well on improving our utilization on our existing portfolio.

Moderator: Thank you. Mr. Bera, we request that you return to the question queue for follow-up questions. Next question comes from the line of Jyoti Singh from Arihant Capital Markets Limited. Please go ahead.

Jyoti Singh: Thank you for the opportunity. And, sir, my question is on the debt side. If I compare from FY19 to till now, we are, you know, on a higher level. During FY20 to FY21, we reduced somehow. But again, we are coming, you know, on a higher-level debt. So what's your view on that?

Vikas Goel: So basically, the two years that you mentioned about FY20 and FY21, or rather FY21, this was a period of also a degrowth for us, the only year in the history of the company. And we also clamped down on the capital investment because of a lot of changes happening in the industry. This also happened to be the period where, I mean, post-recovery of COVID, when we were able to, again, improve utilization of our equipment.

But for enabling the growth, we have, and also as a result of the huge amount of order inflows that we are seeing now, we are required to invest heavily in terms of building capacities and especially for the non-traditional areas of non-ICE and non-auto components, which is actually resulting in this higher capex and, of course, in a slightly higher debt. We expect the debt to remain around this level for some more period, although the debt metrics will continue to improve. If you look at net debt to equity or net debt to EBITDA, those metrics will continue to improve as we move forward because this is being procured to fuel the growth in the coming periods.

Jyoti Singh: Sure. Thank you, sir. And, sir, my next question, second question is on the revenue front. Earlier, as we have guided 15% to 17% growth, which we did pretty well, 18% in FY23. So what's our view for further FY24-25?

B.R. Preetham: Madam, as I had seen, if you look at our business model, we have built quite a resilient business model. FY22 was a weak domestic market despite all the COVID pressures, weak domestic market. We were able to grow because we did very well on our export front. Now, looking at FY23, FY23 was, as we had expected, because of Ukraine war, energy crisis, continued chip crisis, the export was much weaker from our overall contribution of 37% of our revenue from international business.

It came down to almost 28%. So despite that, we registered a healthy growth of almost about 17%. Now, going forward this year, we have already seen recovery in exports. We are looking at a much stronger performance in our non-auto business, which also is expected to grow at about 50%, especially aerospace, on a year-on-year basis. With all these things, we are quite confident, both domestic and exports, to do well. And we expect that we will do better than FY23 in terms of percentage growth.

Jyoti Singh: Okay, thank you. And sir, if you can update us about the plan that we have planned to coming up by 25 in North America on a lease basis, initially.

B.R. Preetham: The plans are quite underway. We have just, again, we have had some more visits to some potential sites. We expect that towards the quarter three of this year, we would finalize the place and commence, you know, taking steps towards establishing this facility, which would be a lease front. We expect that this would be the first step towards, you know, setting up some manufacturing portion of this, because now strategically what we have decided is to cater to specific customer requests.

We would put up final operations, including assembly and, you know, inspection and few final operations there, while we would cater majority of forging and machining, green machining from India. So with that strategy in mind, we expect that towards Q3, we should finalize the space and the place to start.

Jyoti Singh: Okay, thank you.

Moderator: Thank you. Next question comes from the line of Vinod from SKP Securities. Please go ahead.

Vinod: Hello, good morning. Good morning. Yes, my first question is answered about the exports. I just want to ask about, can you give some color on how the aerospace business is going on and have you received any major orders in that area?

B.R. Preetham: Yes, aerospace business is, as I said, that after two years of lull, it has done pretty well last year. Last year, our aerospace went up by almost 50%. And we expect a similar growth or slightly higher growth this year as well. We have confirmed orders for that. Post next year also, we expect that we already have a visibility of close to about $12 million, which is out of which very few are expected to add to the revenue for this year. So we are looking at a very, very strong growth coming from aerospace in FY '24 as well as FY '25.

Now to cater to these growth, we have already set up a new manufacturing facility in anticipation of this. We are also working on several new initiatives, including we have recently concluded on appointing a very dedicated senior person for Europe region who is based out of Toulouse. And he is going to be focusing on, working with European customers and aerospace. So for us, aerospace, we expect that this new facility, we should be able to fully utilize in FY '26, wherein, once it is fully utilized, it should give us a revenue of anywhere between INR350 crores to INR400 crores.

Vinod: Yes, perfect. Thank you.

Moderator: Thank you. The next question comes from the line of Vaibhav Shah from ICICI Prudential Life Insurance. Please go ahead.

Vaibhav Shah: Yes, thank you. Good morning, sir. So my first question is primarily on the Sweden business. So if I look at the quarterly numbers consolidated minus standalone on a sequential basis, even though our revenues have come in better, our profitability has gone up. And even on a Y-o-Y basis, our profitability seems to have taken a bit of a hit. So can you let us know what exactly is happening in this Sweden operation and at what level of utilization can we expect this profitability to improve? That's the first question.

B.R. Preetham: Yes, the Sweden, Vaibhav, we had said that last year, FY ‘23, Sweden would see a de-growth because of a change in business strategy from our principal customer. While on a few of the programs, we were a single source and a few of the programs, another competitor was a single source. So to de-risk the business, they wanted to allocate 30% of our business to them and 30% of their business to us. While our product categories was a mass production number, so they wanted to take up that first. So 30% of our products was given to them.

And in this year, we would get 30% of theirs, which we have already started. So in Sweden, while all the fixed overheads remained intact, so this resulted in a dilution of margin. And we expect that this year, most of it will be recovered. And we are taking up some more cost improvement initiatives as well. So with that, we expect we would be back to about 7% to 8% percent EBITDA and probably towards the last quarter, we should be able to reach towards a double-digit EBITDA in this year.

Vaibhav Shah: Thank you. Sure. That's helpful. The second question is on the order book. So you have highlighted that for the March quarter, we have a new order, annual peak revenue of $13.3 Billion. I just wanted to know that, is there any orders which are probably being closed or are they going down because of this easy shift which is happening in 2W or probably shifted? So what is the net order? I mean, the annual new orders you have given, but are there any orders which are being closed down and which have not been renewed? And the net order book, if you can highlight.

B.R. Preetham: You mean on our regular business, what has been closed down? Is that the question or in the new order book, have we lost anything? Is that the question, Vaibhav? I'm a bit confused.

Vaibhav Shah: On the regular business.

B.R. Preetham: See, generally, the regular business, this order book does not include any of the replacement business. So if there is a model change which is going out and we are nominated for the newer model which will replace the existing model, we do not take that into our new order book because that's only a replacement business. When we mean new orders, it would be only, just to give you an example, if Maruti recently introduced Jimny. Jimny is a new order for us where this would be added into the new order book. While the new Alto is replacing the old Alto, so that would not come into the new order book. So except for one component, which is a rocker arm for Maruti, which was going in F8D and G10 engines which got replaced with a newer K-series engine, after almost four decades of supply to Maruti, in March we did our last rocker arms for Maruti.

So, it's kind of a historic day for us because this component was the first component that we started and it lasted for almost four decades where we were, for most of the three, more than three decades we were single supplier to Maruti as a 100% share of business. So apart from that, nothing else has ended.

Vaibhav Shah: Okay. So this, we should take it as a fully new order and no replacement orders.

B.R. Preetham: Absolutely. Whenever we say that new order books, it only means that these are additional orders, nothing to do with model replacements. If we get any of the model replacements, it would only go as a replacement. It doesn't come into the new order.

Vaibhav Shah: Understood. And my last question is on the exports. So can you highlight what the export mix? I mean, between autos or probably autos and non-autos for us.

B.R. Preetham: Export mix for the previous year or export mix for the coming year? What was the question?

Vaibhav Shah: I mean, if there is a significant change and you can highlight for both FY '23 and what it should be for FY '24?

B.R. Preetham: Exports for FY '23 was close to about 28.4% of our product sales was from international sales, out of which about 21.7% was from sales from India and 6.7% was primarily international sales, which is coming from Sweden plant. And this 28.4% would go up to 32.5%. Primarily, all the growth is coming from exports from India. And this also includes a very strong aerospace. As I said that aerospace we are expecting almost close to 60% growth this year.

Also, there is aluminum forged and machined components, which has started commercial production, which is being exported to Europe. So all these are going to result into a much better export mix for the coming year.

Vaibhav Shah: Right. I was also looking at the export mix within this 28%...

B.R. Preetham: Within the exports for the FY23 so can I come back to you with that answer towards the end of my thing? I will answer that question. I will just pick up the numbers and tell you.

Vaibhav Shah: Yes, sure. Thank you.

B.R. Preetham: Yes.

Moderator: Thank you. Next question comes from the line of Shashank Kanodia from ICICI Securities Limited. Please go ahead.

Shashank Kanodia: Yes. Good morning, sir. I just wanted to check how soon can we achieve this 20% margin trajectory in terms of EBITDA margins? So is it something on the cards over the next two years, is it something which we endeavor to achieve?

B.R. Preetham: Absolutely. We have taken up company-wide program for 20-20-20 on the three 20s that we are working on. Of course, we would like to maintain 20% CAGR growth, 20% ROCE and 20% EBITDA margin. We are quite confident that, as you rightly said, that with the current order book and the current market scenario, not accounting for any unexpected thing, we should be able to progress towards that.

Shashank Kanodia: Okay. So by FY '25, we should expect us to clock 20% margins, is it something?

B.R. Preetham: I would really like that to happen while we are all working very focused towards achieving that.

Shashank Kanodia: Okay. Secondly, sir, coming to some of the data points that you shared in slide number six, so is it fair to assume that you underperformed the domestic auto industry, auto-ICE industries by going just 9% whereas the industry grew roughly a higher double digit?

B.R. Preetham: Which slide are you referring to?

Shashank Kanodia: I am referring to slide number six. When you mentioned auto-ICE growth for us being 9%, right? Whereas in the industry, you held a double digit this year.

B.R. Preetham: So please do understand, this also includes our de-growth in exports. Because while the significant de-growth has come from auto-ICE in exports in the previous year, while our domestic growth in auto-ICE has been very healthy, if you would like to understand what is our domestic growth in auto-ICE, I will just give you that number.

Shashank Kanodia: Yes.

Vikas Goel: Basically, if you look at our growth in the domestic markets for automotive markets, we grew our business by about 29% in absolute terms. Yes, 29% in two-wheelers, 39% in passenger vehicles, almost flat in commercial vehicles and marginal negative in three-wheelers. So both these are relatively smaller percentages in the overall revenue. But broadly, if you see two-wheelers and passenger vehicles, average growth is about 29%.

Shashank Kanodia: Right, sir. And lastly, coming about auto-ICE share of revenues between two-wheelers, passenger vehicles and commercial vehicles. So it's more tilted towards two-wheelers, right? And the contribution from passenger vehicles and commercial vehicles has declined. So is this the direction that we're heading to or there's a one-off? And even there, the exports have played a component.

Vikas Goel: No, so basically, I would like to put it slightly differently. The share from passenger vehicles has not declined. Rather, the share from two-wheelers has increased because we added a new customer during the FY '22, which got matured volumes during FY '23, which has actually improved the share of two-wheelers, which is one of the prominent OEMs in the Indian market, which was not our customer earlier.

B.R. Preetham: Yes, as you rightly said, one is that and second thing is there is an impact on exports also. The exports, passenger vehicle contribution is significantly higher. But you would see that this year, with addition of matured business from Tata Motors, which we had added towards the second half of the last year, and a better export mix, the passenger vehicle returns would be quite healthy this year.

Shashank Kanodia: Sure, sir. Thank you so much. And wish you all the best.

B.R. Preetham: Thank you.

Moderator: Thank you. Ladies and gentlemen, we have reached the end of question-and-answer-session. I would now like to hand the conference over to the management for closing comments.

B.R. Preetham: Thank you very much for all your patience, hearing and all the questions. And, I would just like to say that while we have taken up the sector expansion, as I said that we have built a business which is quite resilient. And with the current positive growth story coming from both domestic and exports, and all our newer plants are coming into fully operational mode, we expect with better utilization this year would be a much stronger year in terms of growth as well as in terms of margin. So we look forward for meeting you all people again. And any clarifications on questions that you would have, you could reach out to our IR partners SGA or directly to us. Thank you again and wish you all the best.

Management: Thank you.

Moderator: Thank you. On behalf of ICICI Securities Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines.