Sharda Motor Industries Ltd.

SMIL: BSE/NSE: 24-25/1208/01 **August 12, 2024**

BSE Limited	**National Stock Exchange of India Limited**
Department of Corporate Services	Exchange Plaza, 5th Floor
Pheroze Jeejeebhoy Towers	Plot No. C/1, G Block
Dalal Street, Mumbai - 400 001	Bandra - Kurla Complex, Mumbai - 400 051
(SCRIP CODE - 535602)	**(Symbol - SHARDAMOTR) (Series - EQ)**

Sub: Submission of Transcript of Earning call held on Monday, August 05, 2024 at 05.00 P.M. (IST) onwards

Ref: Regulation 30 read with Part A to Schedule III of SEBI (Listing Obligations and Disclosure Requirement), Regulations, 2015

Dear Sir / Madam,

In pursuant to the applicable provisions of the SEBI (Listing Obligations & Disclosure Requirements) Regulations 2015 and in furtherance to our letter no. SMIL: BSE/NSE: 24-25/3107 dated July 31, 2024 with respect to the convening of Investors / Analyst conference call "Earning Call" on **Monday, August 05, 2024** at **05.00 P.M. (IST)** onwards, for discussing the financial performance of the Company for the first quarter ended June 30, 2024 for the financial year 2024-25, in this regard please find enclosed herewith the transcript of the earning call.

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

This is for your information and record.

Thanking You,

Your's Faithfully

Iti Goyal Digitally signed by Iti Goyal Date: 2024.08.12 10:46:59 +05'30'

Iti Goyal
Asst. Company Secretary & Compliance Officer

Encl. as above

"Sharda Motor Industries Limited
Q1 FY '25 Earnings Conference Call"
August 05, 2024

Disclaimer: E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on 05th August 2024 will prevail.

MANAGEMENT: **MR. PURU AGGARWAL – PRESIDENT AND GROUP CHIEF FINANCIAL OFFICER – SHARDA MOTOR INDUSTRIES LIMITED**
MR. AASHIM RELAN – CHIEF EXECUTIVE OFFICER – SHARDA MOTOR INDUSTRIES LIMITED
SGA – INVESTOR RELATIONS ADVISORS – SHARDA MOTOR INDUSTRIES LIMITED

MODERATOR: **MR. ASHUTOSH TIWARI – EQUIRUS SECURITIES**

Moderator: Ladies and gentlemen, good day, and welcome to Sharda Motor Industries Limited Q1FY '25 Earnings Conference Call hosted by Equirus Securities. As a reminder, all participants line will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Ashutosh Tiwari from Equirus. Thank you, and over to you, sir.

Ashutosh Tiwari: Thank you. Hello, everyone. On behalf of Equirus Securities, I welcome you all on this conference call. From the management side, we have CEO, Mr. Aashim Relan and President and Group CFO, Mr. Puru Aggarwal.

Without further ado, I hand over the call to Mr. Aggarwal. Over to you.

Puru Aggarwal: Thank you, Ashutosh. Good evening, everyone. A warm welcome to all the participants on this call. I'm here with Mr. Aashim Relan, our CEO; and our Investor Relations Advisors from SGA. I hope you have had a chance to go through our results and the investors presentation. You can find the presentation on the Stock Exchange and on the company's website.

I would like to start by giving a brief on the corporate action. The company has bought back 10,27,777 equity shares at Rs.1,800 per share, totalling to Rs.185 crores. Following the completion of this buyback, the company's remaining cash reserve stands at Rs.778 crores as of June 30, 2024. This strategic move aimed to enhance shareholder value. It also reflects the company's strong financial health, enabling it to return a significant amount of capital to its shareholders while maintaining a healthy cash reserve for future growth.

Coming to brief overview on industry. For the quarter ended June 30, 2024, the auto industry reported decent growth, largely driven by a revival in demand for 2-wheelers in rural areas, the marriage season and the launch of new models across various segments, reflecting a positive trend for the industry.

In the first quarter of fiscal year 2025, the passenger vehicle segment saw a growth of 5% in sales volume compared to the same period last year, reaching to a total of 12 lakh units. This growth was primarily driven by new model launches and positive market sentiments. Utility Vehicle experienced a significant 20.10% rise, while vans segment grew by 8.6%. Despite a decline of 13% in passenger car sales, the overall performance of this segment remained strong.

Notably, domestic sales of passenger vehicles crossed the 1-million-unit mark for the first time in the first quarter. In the Commercial Vehicle segment, sales grew modestly at 3.8%, reaching to a total of 2.4 lakh units. This growth was impacted by high temperatures affecting the agricultural sector and a slowdown in both public and private capital expenditure due to the elections. However, we expect that the upcoming infrastructure projects will have a positive impact on this sector in the near future.

The 2-wheeler segment saw significant growth with sales increasing by 19.8%, reaching to a total of 60 lakhs units. This boost was driven by favorable market conditions, including stable fuel prices and the introduction of new models.

In Q1FY '25, the tractor segment saw an increase in domestic sales, fueled by supportive government initiatives and favorable agricultural conditions. The rise in the minimum spot price for major Kharif crops, coupled with the timely arrival of Southwest monsoon has enhanced farmer sentiment. With retail momentum picking up due to land preparation and Kharif crop sowing, there is positiveness for continued demand for tractors in the coming months.

I will now shift the focus through the operational and financial performance of the company. Consolidated revenues for Q1FY '25 grew by 5% compared to Q1FY '24 and amounted to Rs.685 crores. Our gross profit margin for Q1FY '25 expanded to 26.3% from 20.90% in Q1 FY '24. Our EBITDA expanded to Rs.96 crores in Q1FY '25 from Rs.68 crores in Q1FY '24, and registered a growth of 40% Y-o-Y.

The EBITDA margin for the quarter also experienced a robust expansion from 10.4% in Q1FY '24 to 14% in Q1FY '25. For the quarter ended report, our profit before tax amounted to Rs.102 crores, our JV registered a profit of Rs.0.5 crores in Q1FY '25. Our profit before tax witnessed a robust growth of 38% compared to Q1FY '24. In Q1FY '25, the profit after tax amounted to Rs.77 crores, marking a notable growth of 39% compared to Q1FY '24.

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

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Dinesh Kulkarni from Finsight.

Dinesh Kulkarni: Yes. First of all, congratulations on a good set of numbers, especially on the profitability front. My question is, we've been seeing the revenue growth has been very sequentially in the range of 4% to 5% over the last few quarters. Is this trend we expect to see going forward to remain in this range? Or can we see a boost -- on the revenue front? That's my first question.

Aashim Relan: This is Aashim this side. So yes, so regarding revenues, we always guide that in our company to be looking at absolute gross profit growth as an indicator of value-added sales because our products have a nuance of catalysts, which, in some cases, is free of cost and in some cases, we buy. Hence, the gross profit growth has been good even this quarter and in the last few quarters and there was a good amount of outperformance that we had last year in gross profit growth, which is an indicator of our value-added sales, and that was due to RDE norms. So in the long term, we will continue to outperform the industry.

Dinesh Kulkarni: Yes. Awesome. One more question. Like we have seen the cash balance, it's still quite on the very high end compared to our fixed and variable expenses, what we expect and we keep on increasing the cash balance even after the buyback. What's the further capital allocation strategy we have apart from cash buyback, which we have seen in the recent past? Do we see any M&A or onetime dividend kind of thing? Are we expecting that?

Aashim Relan: Sure. So our first preference to utilize, let's say, the cash reserve that we have right now is, of course, for M&A, which is centered on powertrain agnostic products. However, for that, there is no fixed time line as we are conservative and want to be very careful of the deal plus valuation. We just don't want to do M&A for the heck of doing M&A.

And so we will wait and look for the correct deal and correct valuation, and that's something that's always ongoing, many talks and interactions are always happening. We initiated, of course, the buyback as phase 1 of returning back to shareholders. And I think that trend would continue in terms of returning back to shareholders, intention is not to keep cash reserve much beyond what we have already. So all the incremental cash reserve that keeps coming in would be returned back, and that can be in the form of dividends, buybacks or anything else, that comes about as we go forward.

Dinesh Kulkarni: Yes. Awesome. Just one more thing. So if you are expecting any M&A to occur in the next few quarters or whenever that happens, I'm not sure if we have any company in India or even in abroad, which can fall in this range of, say, INR1,000 crores or something. So are we looking to add any more debt on that? Like -- or do we have additionally, the resources like any land balance, which we can think of potentially monetizing those land balance and then raising further capital for that? Like what's the capital strategy if at all, there is any M&A which we can foresee in the future?

Aashim Relan: Sure. So at any given point, there are multiple discussions. However, we are not planning to do something that will be significantly large, at least unless it fits right into our strategy. So most likely, we would not require any debt at this juncture and funding any kind of for M&A. And we do have additional land parcels available, which we are looking to monetize and that, of course, is in addition to the cash reserves. So does not look like we would need to have debt at this juncture.

Dinesh Kulkarni: Okay. Maybe probably last question from my end. What is the growth strategy going forward, like here on? Because we know that new models are coming up from across automobile companies. But how are we planning to increase our market share because -- which has been very constant for the last few years. So which are the new models or what is the new strategy where we could see our market share would increase that would lead to a higher revenue base as well. And that's what I want to know.

Aashim Relan: Sure. So for the next 5 years, our focus on growth is first onto the TREM V market or the tractor market currently, tractors, off-highway exports, all put together contributes under 5% of our sales. With TREM V coming in, we are expecting a very good market share there and would become a very significant part of our sales. In addition to that, in commercial vehicles, ICE 3 to 4-liter segment on the stand-alone basis. Currently, we have no market share. So now we have the technology and product ready. So we will be looking to increase market share substantially in that segment.

After that exports is a huge opportunity that has opened up for us, maybe it is, by far, the biggest growth opportunity. And that is for multiple reasons, that exports has become interesting. In export segment, we are focusing on 4 subsegments, which is one is commercial vehicle emission components, second is the emission adjacencies of the off-highway market. Third is genset emission systems for the smaller gensets and then under 100-horsepower tractor.

So this is something that we expect to grow and grow quite substantially over the next 5 years. Currently, it's a very small percentage of our sales, but would definitely increase. In addition to that, we have been focused mainly on our emissions vertical. However, we have also started deploying effort, time as well as capital into the lightweighting vertical. Our first plant is coming up right now in Pune, which will be for additional capacity on lightweighting and suspension systems and that will also grow substantially as a percentage of sales. Currently, it's about 8%. And in addition to all that, we spoke, of course, on the M&A potential in powertrain agnostic segments.

Dinesh Kulkarni: Okay. If you could just quantify what's our export as a percentage of total sales? And where do you see, as you mentioned, or with current scenario, which we have seen where it could be 3 years from now in terms of sales?

Aashim Relan: Sure. So we don't give like the stand-alone, it's a very small part, right, exports off-highway tractors, everything that I said put together also contributes less than 5% of our sales. And we expect that to substantially increase, no number as a guidance 3 years, 5 years from now. However, the traction on these areas is very strong, and we hope to multiply the business in these areas.

Moderator: The next question is from the line of Karan Kokane from PGIM India AMC.

Karan Kokane: Congratulations on a great set of numbers. I just had a few questions. So I was just looking at your numbers. So you have delivered almost 32% kind of Y-o-Y growth in gross profits. And I'm looking at gross profits, not at revenue from operations. So this seems like a very healthy number. I just wanted to understand what is the breakup of volumes and price within this 32% number?

Aashim Relan: Sure. Thanks for the question. So we don't give a breakup of volume and price per se. However, the outperformance is, of course, one due to incremental business additions that we have, plus we've also had a favorable product mix and there has been maturity in our RD products, which was not the case in Q1 of last year. Q1 of last year was the SOP of all RDE. So if you look back 1st April 2023 is when RDE products started. So of course, the first 3 months is not optimum and it requires time to gain maturity. So from that perspective, even the base has helped a lot. So these are the reasons for this strong outperformance.

Karan Kokane: Okay. And sir, second question is that -- so I'm looking at your EBITDA numbers now. For the last 4 quarters now, the EBITDA has been range bound between INR95 crores to INR100 crores. So do you think from next quarter onwards, we can see some uptick in this number because from next quarter onwards, the base quarter itself will have INR100 crores kind of EBITDA. So you spoke about the TREM norms and then exports and M&HCVs and all of that. I just want to understand when do you expect all of this to start kicking in? And for FY'25, can we see a healthy EBITDA growth Y-o-Y?

Aashim Relan: Sure. So giving guidance on one particular year or one particular quarter, I think that's something which is difficult and now as you are seeing that geopolitical tensions, etc, are heightened and there is a lot of volatility in the market, and we refrain from giving any quarter or even annual guidance per se. However, we would, in the long term, be outperforming overall industry growth like we have. And on a long-term basis, we can expect a very good outperformance. Difficult to quantify from a quarter perspective or an annual perspective.

Karan Kokane: Okay. And sir, this TREM V norms, when do you exactly expect this to start kicking in because there were news flows, which spoke about these norms getting delayed. So any sense on the time lines?

Aashim Relan: Sure. So the time lines have been modified for 1 April 2026. And so far, all the OEMs have nominated in developing the products on track for 1 April 2026.

Karan Kokane: Okay. Sir, and just a last question. So you said that you would continue to outperform the industry. So typically, some of the auto ancillary players, they give a multiplier to the underlying industry growth rate. So any similar number from your end, 1.5x, 2x of the industry growth?

Aashim Relan: As of now we are not giving any particular number. However, in the longer term, we would be outperforming and would be similar to how we've outperformed the last couple of years as well. However, no specific number or guidance that we're giving in that.

Moderator: The next question is from the line of Chirag Shah from White Pine Investment Management Private Limited.

Chirag Shah: Sir, I have 3, 4 questions. Sir, question number 1 is just a clarification on the TREM V, if you can help us understand it. So when it gets implemented, what will be the increase in the vehicle cost, not just your part of product, but in general aggregate increase in vehicle cost because there are a few more things in TREM V, right, or and if you could just help us understand that first.

Aashim Relan: Sure, sure. Yes. So there are many more things that would be there in TREM V, which is beyond our scope and it would depend on engine strategy, OEM strategy and other things at the OEM level. So I would not be the right person to give a guidance on the overall cost increase, that's something where the customers would know much better. But yes, definitely, there are other things apart from us also that are required on TREM V.

Chirag Shah: The broader range, is it like very high like 10%, 15% increase happened or it is more like 4%, 5% kind of -- 5% to 10% kind of range or it is double-digit increase is possible?

Aashim Relan: I would not be the right person to answer that given it's much beyond our scope, right? It's something which requires probably the OEMs would have a better answer for that.

Chirag Shah: The second is on the domestic business, any new customer entry or additions given that you have a very high market share, but any new customer addition in the existing customers where you are, any new customer addition entry because the reason I'm asking is some of our existing customers are indicating a very weak market. So their volume growth is going to be a bit weaker. It will have an impact on your side -- on your revenue/gross profit number. So any addition to your customer pool or product pool, new product pool that would help you to ward off this industry slowdown?

Aashim Relan: Sure. So I think when you're seeing very high market share, we refer to the PV and LCV segment only, right because that's the segments that we play in. However, now completely new segments have opened up for us, right? One of the segments is, of course, tractor, which we've spoken about TREM V. In addition to that, there is the off-highway segment. And in addition to that, there is the export segment, which are totally different and customers are also different.

And apart from that, when we discuss right now, we mainly when you're referring to high market share, we are mainly talking about the mission vertical, right? So costs, in addition to that now, our lightweighting vertical will also start taking in more than it has before. And that would, of course, all be additional, right?

And as the M&A becomes interesting that, of course, would be on top of that. In terms of specific customer additions, that's something that we may have, especially in these new segments. However, at this point, we don't guide on customer additions. But yes, definitely, as the segments are coming, there would be a lot of customers that would have been added.

Chirag Shah: But sir, my question was more with respect to the off-highway would take time, right? Are you saying that off-highway revenues will start within the next 12 months itself for you, tractor TREM V whenever it happens, you will see the benefits probably Q1 of next year?

Aashim Relan: Yes. So as and when the norms kick in, that's when we would also see the revenues and maybe in the case of the off-highway segment, it depends on which component and which business because some very small norms are coming in between as well.

Chirag Shah: The TREM V is 1st April, 2026, right?

Aashim Relan: Yes.

Chirag Shah: Okay. Yes, sir. On the lightweighting vertical side, you were highlighting something, sorry.

Aashim Relan: Yes. A new plant could be coming towards Q3. So that's something also in addition

Chirag Shah: And is it possible to indicate what kind of investments you have made? Or what kind of revenue potential utilization at peak utilization that plant has? Whenever you achieve the peak utilization?

Aashim Relan: The investments or the investments that we will be making, I think that's already we had announced last quarter only approximately Rs.50 crores. Right now in terms of peak revenue or peak guidance, that's something we're not giving as we're new to this, right, as and when it matures, then we'll start providing more inputs on that.

Chirag Shah: Okay. And sir, one last question on the export side. So generally, if you are a new entrant in the export market or even in domestic market for that matter, there's a 2- to 4-year time lag from RFQs to conversion or start of SOP. So where are we in this process? Apart from RFQs, where are we and -- how should one look at the export revenue flow-through to happen? If you can just help us understand, from when it will start because we have been putting efforts since more than a year now on the export side. That's why I'm asking.

Aashim Relan: Sure, sure. So yes, so whether 2, 3, whatever years, I think that's something there can't be translated into exports. However, in the case of exports, we have been putting it through 1, 1.5 years, 2 years also, maybe and hence, it's on the mature front, right? And we have a very good RFQ pipeline, we've added and built a very good team, which is focused on exports. We do expect good customer additions. But of course, exports is also about building trust. So initial orders will be pilots and will grow over time.

And as and when there is something that is substantial, I'll keep updating on the progress.

Chirag Shah: Just one request. If you can -- in future, if you can indicate the progress, maybe customer validation or something either in presentation or on the call, it would be helpful. It will help us to understand the progress that we are making.

Moderator: The next question is from the line of Vansh Modi from Svan Investments.

Vansh Modi: Sir, my question is actually the follow-up of your export business. So you have been guiding this that you are seeing this export growing significantly. So what makes you confident that after 3, 5 years, you are seeing this exponential growth which -- can you provide some light in which segment you are focusing passenger vehicles in LCV or tractors all 3, which geography you are targeting and what kind of volume, some inputs on your export vision.

Aashim Relan: Sure, sure. Your voice is slightly echoing, but I feel I've got the gist of the question. So yes, so regarding exports, exports currently is less than 2% of sales. And what makes us confident is that we are one of the only emission companies in the world who can cater to this market. There is a lot of consolidation that has happened globally plus the force of China Plus One that has paid out, where a lot of these markets that we'll be addressing the business was being catered out of China or Stellas.

In terms of subsegments where we are focused first on the subsegments, we are focused on commercial vehicle emission system components. Second is the emission system adjacencies of the off-highway market. So in construction equipment and so on, the adjacencies in itself have a very good content and these are all exportable products. Then third is the small genset emission market, and that is also something that we cater to even today. So the exports is to the smaller genset emission system market. They want to build more customers and more products there.

And then last is the smaller tractors, which are generally under 100 horsepower. In terms of the markets, we are almost fully focused right now on the U.S. and European market and U.S. being a larger market and followed by the Europe Market.

Vansh Modi: Okay. Sir, when you were saying that you would be replacing -- there are lot of demand from China Plus One strategy from global OEMs. So what kind of growth opportunity, how big that market will be for you, some inputs on the overall size of these markets. Yes. And how big is the Chinese players catering this market, their opportunity size which you are targeting?

Aashim Relan: Sure, sure. So that's not one exclusively the opportunity that we are targeting. However, the market is huge. It is multiples of what we are catering to right now. And hence, it won't be right to talk about the whole market. We are going to go on a step-by-step approach. So even if we get a very small percentage of the market, we would have grown substantially, right? So it's an exponentially bigger market to the Indian market for various factors.

And in terms of specific Chinese companies or the business going out of China, I think it's all segmented, so very difficult to give a number. But the number is large, right? So we are just looking to at least begin at a small percentage also, which would be a substantial growth for our company.

Vansh Modi: So sir, similar to you -- are there -- how many OEMs similar to you are participating in this kind of opportunity?

Aashim Relan: Sir, if you can just repeat the question? It's echoing.

Vansh Modi: Sir, similar to you, how many OEMs are participating in this opportunity where replacement of Chinese players in the global scheme?

Aashim Relan: In our component or in general?

Vansh Modi: In your component.

Aashim Relan: They're not too many, right? There are very few companies, maybe almost no companies in India that can cater to these segments, right? These are tech-centered segments that require a lot of R&D. So in India, it is very few companies that would be able to or maybe none that can cater to a lot of the markets that we are addressing globally we are aware of 1,2 players.

Vansh Modi: Globally, there would be many companies, sir?

Aashim Relan: Not many. These are generally this special emission segment is something that is technology focused. So there are not many players globally also.

Vansh Modi: So sir, how many OEMs, if you can throw some light, how many OEMs have approached you or any in terms of approval also for these kind of -- for other components?

Aashim Relan: Sure. So from a, let's say, funnel approach or a sales funnel approach, we are in discussion with multiple OEMs, right? It's not a number, it's like multiple OEMs and we have gotten in touch, they've gotten in touch. So almost all the OEMs who are our target customers in these segments, we are in touch with them and in various stages of discussion.

Vansh Modi: And have our products been approved already with some of the OEMs or we are still in process with approval pending basically?

Aashim Relan: The funnel doesn't exactly go as approval or approval pending. However, yes, in some OEMs, you are in a more mature phase, in other OEMs we are in a lesser mature phase and but it doesn't exactly go as approval or not.

Vansh Modi: So sir, my last question, at this year, what -- 2 years, 3 years, do you see the influx point in your export journey will begin?

Aashim Relan: Sure. So I think very hard to give an exact year. However, we're very confident that as part of our 5-year plan, currently, exports is less than 2% of sales that, that would be a much more substantial part of our sales. Exact your inflection point and so on that's very difficult to determine. However, we are very confident that in a 5-year period that it would be a substantial part of our sales. And as and when we have material things we'll also keep updating on this side.

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

Ankur Shah: Congratulations for a good set of numbers. Just one question again on the export front. Are the terms of business as lucrative as the Indian business?

Aashim Relan: Yes. So in exports, the terms of business, I would guess, is basically EBITDA loss, right? And what we are seeing is that the margins are much better in exports than in Indian business. However, the working capital requirement in exports is also higher than Indian business. On a net basis, if you neutralize a higher margin and higher working capital requirement, from a ROCE perspective, it is similar or maybe slightly better, but they're quite similar if you look at it from a return on capital perspective.

Ankur Shah: Okay. Sure, sir. And sir, one more thing, like just from a investor angle that I have been tracking the company since a couple of years, and we have been mentioning about the M&A part. I completely get that point that in M&A, you need to be conservative, etc. But like why aren't we proactively pursuing any new product opportunities with the domestic OEMs, because like if I see the evaluation in the last 3, 4 years, there have been so many new products, which the OEMs would have required because the content per vehicle, etc, is increasing and considering our very strong relations with some of the OEMs, why aren't you able to organically within ourselves, which is, I think, much more in our control, why aren't we able to build some products where we have newer avenues to grow? It's just a question on that angle business.

Aashim Relan: Sure, sure. So a couple of factors. One, that on organic side, we have started building up our light-weighting vertical, which is suspension and control arms. For that, we are setting up a new plant right now, which is coming up in Pune, right? So organically, the journey has started.

And when it comes to M&A, right, we will be very conservative and we don't do M&A just to do an acquisition. And for that, we'll wait for the right time and the right deal, a lot of back-end work is always going on in terms of evaluation of various deals. However, we'll only do it when we are comfortable and we'll have cost thresholds on what we see from a capital allocation perspective.

Organically, I think the lightweighting vertical is something that we will continue to build over the years.

Ankur Shah: No, no, absolutely agreed on the M&A, like absolutely. And on the lightweighting vertical, sir, like at Rs.200 crores sales, we have mentioned that we have 10% market share -- that indicates the market share, right in the suspension arm space? The 10% which is written in the presentation. So you mean to say that the whole market is around Rs.2,000 crores and here, we are getting around 10% market share. Is that the right way to see it?

Aashim Relan: Yes. So two things that what we've referred to is more on the control arm and assembly side. Lightweighting is much bigger than that as a tree. We are, of course, creeping into very small part of that tree. And there are various other nuances in terms of content that comes into it. But that would be the right indicative way of looking at it.

At the same time, the lightweighting opportunity from a content perspective is very large, very large, right? Our current play is limited to control arms and axle assemblies. And that's something that, of course, on the perspective of adding new customers there is where a lot of work is going on. And a lot of R&D work is going on, on adding content as well on the lightweighting side.

Ankur Shah: I really appreciate your focus. Congrats.

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

Karthi Keyan: One thing, can you elaborate a bit on the work done on the digi tech side as in -- I assume the approval cycle could be faster over this. So can you talk a bit more in terms of component that you will be supplying and so on, on the genset market?

Aashim Relan: Yes. So genset market, one in India already has some legislation, which is coming. And this is very small in India, so it's only less than 1% of sales. So we anyways have good market share there. However, in the case of exports, there are a couple of things that are happening. One, our current exports also is basically to the genset market only. So we already have a product available. We already have a very good track record in that market. And that's something that we are looking to build upon to, of course, add new customers when it comes to the genset market and genset market is going through a boom right now in the U.S.

It is something that is growing very, very fast. It's something we didn't expect also that gensets would become so prominent in the U.S., but that's backed by the data center book. So yes, that's something that we should be adding some customers because we already do that business as expected.

Karthi Keyan: And the ones you supply to would be the more leading players or the smaller players on a global scale for your exports and so on?

Aashim Relan: Yes. So we supply to probably the leading player or if not the, then the second, right? It's a close competition, I think, between two companies globally. So we do already supply to a very large company.

Karthi Keyan: Okay. That would either be company or one of the other's needs.

Aashim Relan: We don't comment on any customer needs, but we do supply gensets -- genset emission systems even in India now.

Karthi Keyan: Right, right, right. The second thing would be this congrats on onboarding several institutional investors. Just curious to know if you had any interactions with them and what was the broad expectation that we outlined. It is interesting to see a chunk of good quality investors in the roster, so.

Aashim Relan: Sure, sure. So I think the goal was always to add institutional investors. And when we were interacting and strategizing, I think there was only request to provide liquidity or improve liquidity, and that's something that we had done as part of the block deal. And always the goal is to improve institutional ownership into the company as that is very good for all shareholders in the block.

Karthi Keyan: Yes. If I may request you to be slightly more explicit, one question. At what stage do you think you would be able to see at least like a 15% plus kind of a revenue run rate, at least for a period of time. The reason I ask you this is we all follow these numbers and so on, but just trying to understand where you would be able to achieve consistent growth based on all the drivers that you have talked about. It is exciting, but we are unable to fix any kind of timing. So can you share some thoughts on that?

Aashim Relan: Sure. So a particular number that you're mentioning, number guidance. However, over the next 5 years, we are looking at outperformance as part of our strategy. Any particular year or quarter that's something that would not like to share given all the market dynamics. However, we have a new strategy, 5 years, we are confident to outperform the industry.

Karthi Keyan: Congratulations and very best wishes.

Moderator: The next question is from the line of Piyush from Acquaint Bee.

Piyush: Congratulations on a good set of numbers. Sir, I wanted to clarify, so the impact of R&D is completely priced in. And any incremental emission on -- everything is priced in right now until the TREM V kicks in, correct?

Aashim Relan: Yes. Yes. It's -- by priced in, you mean that do we have the technology? Yes, we do have the technology and TREM V is anyways product maturity is very high there.

Piyush: What I mean really is it's already in your base. So any incremental growth will be only from the volumes of the industry, right, for you? At least till the period TREM V kicks in?

Aashim Relan: I'm not able to understand the question. If you can just repeat the question, please?

Piyush: Yes. So until TREM V kicks in, the growth that we would see in, say, gross profit would correspond directly to the industry volumes, which is LCV plus PV mix, right rather than any incremental value add due to emission norms change?

Aashim Relan: So some smaller emission norms are changing. Our lightweighting vertical is kicking up and as well as we are working on the export front as well as we are working on the commercial vehicle market share increase spend. So all those things are ongoing. So it's very difficult to say when they would mature. And TREM V, there's nothing in the base per se because tractors is a very small part of revenues, and that is going to be a totally new addressable market that we'll get into.

Piyush: Perfect. And no significant value add also from CEV5, will that also be a very, very small proportion of the entire turnover?

Aashim Relan: The CEV that's coming in Jan 2025?

Piyush: Yes.

Aashim Relan: So we have business there, especially on the adjacency front, we have a good business there. However, the CEV market compared to the tractor market and export market is a smaller one.

Piyush: Okay. And sir, can you elaborate more on the 3 to 4 liters in which you are aggressively targeting, how big is that market 3 to 4-liter engine, and what specifically are you eyeing for there?

Aashim Relan: Yes. So as of now, we have no market share there. We, in fact, did not have the technology to cater to that segment a few years ago. Over time, we've developed the technology, we've developed a product and that's something that we are now looking as a stand-alone company to cater to. And this market is catered largely right now by this one of our competitors. So definitely, the opportunity is there.

However, as we take some time, on emission products, it will be something that we have to wait. And intend to though our product is already ready. In terms of opportunity size, that's something that we are not right now guiding on this subsegment.

Moderator: The next question is from the line of Manpreet Arora from Arora Wealth Advisors.

Manpreet Arora: So Aashim, a couple of questions. On, if you look at the investor presentation, let's say, a year back, we had -- and also the calls, investor calls, we were talking about our joint venture with Kinetic on the EV side and battery packs and AIS certifications. And -- but the last couple of calls and in investor presentation, we don't really talk about the JV with Kinetic.

So just wanted to know, are we still -- is the management bandwidth invested there? Are we still moving ahead with battery packs and are we still bullish on that segment, any outlook you can get there will be helpful.

Aashim Relan: Sure. Sure. So I think the 2-wheeler EV market, I think that in itself has evolved a lot over the last maybe 1 or 2 years. And many things have happened regarding battery packs and then, of course, the market in itself. So one, the AIS Amendment 3, the compliances have come in, plus 2-wheeler EV subsidies have been reduced, and there is a lot of competition that has come in from China, from many, many, many small players, so battery packs as a segment is not as attractive as it was 1 or 2 years ago.

However, we do remain to be invested in this -- but we are also waiting and watching because we will not deploy any significant amount of capital till we are not sure of the overall attractiveness of the business, which has shifted over the last 1-2 years, given various things that have happened. I think that's all there in the 2-wheeler EV side as well as batteries that have come about. And lots and lots of players have entered the battery pack.

So we'll be cautious, we're still there and still prototypes are available, and the new ones now are awaiting testing and so on. But given the fast-changing dynamics and as well as a very high field quality risk of the product, we are being very cautious and hence not projecting any time line on revenues and so on and not taking it into our plan.

Manpreet Arora: Okay. So will that depend on Kinetic strategy and how they want to penetrate that market or?

Aashim Relan: No. It would just depend on the overall attractiveness of the segment and the business plan and not particularly just the JV partner. Of course, there is captive numbers over there. However, also the overall attractiveness of the segment, the product and the industry.

Manpreet Arora: So basically, over the last 2 years, the attractiveness of that industry has diminished because of the competition and the other norms that have come in. Is that the right way to understand?

Aashim Relan: Yes. And the dynamic is also very, very fast changing, and we have observed very high field quality. So we are going to be very cautious, and that's why we've been cautious since the start on deploying capital, you don't want to deploy capital into areas which are too risky or as well as don't have attractive projected returns in the business plan.

So as things evolve, things could change, things could even become better, but we'll watch out before we deploy anything and then guide anything as well.

Manpreet Arora: Yes. I appreciate. Appreciate that. So my other question is on the lightweighting vertical question. And if you can help us understand this a bit more. So my understanding is that for EVs because they are heavy inherently for the lightweighting trend has happened there. But also on the ICE engine, because of fuel efficiency, traffic norms, etc, we're looking at lightweighting becoming a trend there as well.

And you mentioned that we are now setting up a new plant, and we have been nominated for a new platform on this side. And so our lightweighting products will primarily be on the arm control assembly and the suspension to start with and will that move to other products? Or these are the areas for now that we'll be targeting on the lightweighting front?

Aashim Relan: Sure. So I think the way you rated the, let's say, mega trend of lightweighting, I think that's very accurate, that there is megatrend going on, not just for EVs, but ICE hybrid. Everything requires the overall car to be lighter as well as stronger, right, because there are also safety norms and so on that come into play. So there are various ways of doing lightweighting and there are almost you can say the content is huge when it comes to lightweighting.

However, we are taking it 1 step at a time. And for the current month, we are only focused on the products, which you mentioned, which are control arms, and we will first stabilize that. Parallelly, we are doing R&D work on what -- how we can increase content in this area. Nothing is mature enough to update as part of this call. However, for the time being, the plant coming in for control arms.

Manpreet Arora: Okay. So on the control arm, let's say, the lightweighting product for the control arms. Will that be a better margin profile from the existing products that we do?

Aashim Relan: Sorry, if you can just repeat the question, please?

Manpreet Arora: Will that be a better margin profile than the new control arms which are meant for lightweighting vertical?

Aashim Relan: New control arms, if you can just repeat your question.

Manpreet Arora: It's a new product, right, which will have a better weight than the current product that we do on control arms. Is that the right way to understand?

Aashim Relan: We have been nominated for a new platform. The plant is coming out for a complete new platform for one of our customers. So it's a new product all in, right? It's not something that we are replacing. This is a new product all in.

In terms of margins and so on, it's too early right now to comment. We are also new to do it in a full focused way. However, all our capital allocation decisions are taken with ROCE in mind, right? So this project is looking good from the ROCE perspective. In terms of individual margins and product margins, that's something which I will not comment for the time.

Manpreet Arora: And the amount of capital that you're spending is Rs.50 crores on this segment?

Aashim Relan: Yes, yes.

Manpreet Arora: And would you be able to share like at peak utilization, what kind of returns we can assume from this plant? And is incremental capacity similar to our initial systems where it requires little investment or it has a different profile?

Aashim Relan: Sure. At this point, probably it's not in a mature phase to guide on asset turnover or incremental capacity. The capacity that we are coming with is a good amount right now. And that's something as the product in vertical matures maybe better to guide at that point.

Moderator: Thank you very much. Ladies and gentlemen, due to time constraint, that was the last question. I would now like to hand over the conference to Mr. Puru Aggarwal for closing comments.

Puru Aggarwal: Thank you. We appreciate your participation in our earnings call today. We trust that we have addressed all your queries. Should you have any further questions, please feel free to reach out to our Investor Relations Advisors, Strategic Growth Advisors. Thank you, and have a lovely evening.

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