SONA COMSTAR

Date: 7th May, 2024

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BSE Scrip Code: 543300	NSE Scrip: SONACOMS

Subject: - Transcript of Investor Call pertaining to Financial Results for quarter financial year ended on 31st March, 2024

Dear Sir / Madam,

Pursuant to Regulation 30 read with Schedule III of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed herewith the transcript of the Investor Call held on Tuesday, 30th April, 2024 on the financial result of the Company for the quarter and financial year ended on 31st March, 2024.

The transcript will also available on the website of the Company at
https://sonacomstar.com/investor/investor-presentations

This is for your information and further dissemination.

Thanking you,
For Sona BLW Precision Forgings Limited

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Ajay Pratap Singh
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SONA BLW Precision Forgings Ltd. (Sona Comstar)

Q4 FY24 Earnings Conference Call Transcript

April 30, 2024

The webcast recording and the presentation referred to in this transcript are available on the website of the Company and can be accessed through the following link:

https://sonacomstar.com/investor/investor-presentations

Moderator: Welcome everyone. Ladies and gentlemen, good day, and welcome to the Q4 & FY24 earnings group conference call. Please note that all participant lines are in the listen-only mode as of now. There will be an opportunity for you to ask questions after the presentation concludes. Please note that this call is being recorded. We request that you place your lines on mute except when asking a question.

Slide 2:

Some of the statements by the management team in today's conference call may be forward-looking in nature, and we request you to refer to the disclaimer in the earnings presentation for further details. The management will also not be taking any specific customer-related questions or confirming or denying any customer names or relationships due to confidentiality reasons. Please refrain from naming any customer in your questions.

Now, I'll hand over the floor to Mr. Kapil Singh, Head of Consumer and Digital Commerce Research, India, and Lead Autos Analyst at Nomura. Kapil, please go ahead.

Kapil Singh: Good day, everyone. To take us through the Q4 FY24 and to answer your questions, we have the management team of Sona Comstar. Mr. Vivek Vikram Singh, MD & Group CEO; Mr. Kiran Deshmukh, Group CTO; Mr. Sat Mohan Gupta, CEO of Motor Business; Mr. Vikram Verma, CEO of Driveline Business; Mr. Amit Mishra, Head - Investor Relations; and Mr. Pratik Sachan, GM - Corporate Strategy and Investor Relations. I will now hand over the call to Vivek for his opening remarks and presentation. Over to you, Vivek.

Vivek Vikram Singh: Thank you, Kapil and welcome to the next call of our best quarter ever in terms of revenue, EBITDA, net profit, BEV revenue and BEV revenue share. But we'll begin as we usually do with the challenges.

So first, off-highway market in India and the US have been weak and production declined further in the last quarter. Tractor sales in both of these markets in the last quarter were the lowest since Q1 CY20 or the COVID quarter. So given a high market share in this segment, this has affected the sales of our differential gears and differential assemblies to this particular segment.

Second, the electric two-wheeler market in India faces uncertainty regarding the FAME subsidies. This is impacting the sales of our traction motors. We expect this to continue for a few more months till there is some more policy certainty.

Third, the Red Sea crisis continues, and this combined with higher oil prices has led to a sharp increase in freight rates. It has impacted our margins last quarter and remains a continuing challenge at least for the near term.

Now the good news and as is usually the case, it far outweighs the bad. We achieved our highest ever revenue, EBITDA and net profit. BEV revenue, as has been the case, continues to drive our overall growth and its share in revenue increased to the highest ever at 32%. In terms of markets, Europe has strongly recovered and FY24 was also positive for the US and things continue to look good for both of these markets. The Indian market has been mixed and will likely remain volatile at least for the first half of this fiscal year. Given the strong growth in EV penetration and the decline in internal combustion engines in China, what we've decided is that we will repurpose our plant there in China, where we will stop making starter motors and focus on making other motors like traction motors and suspension motors.

Coming to NOVELIC, we are pivoting that business from being an engineering services led business to a product and semiconductor chip design business. To achieve this, we have allocated several billing or billable resources to R&D or to new product development projects for which we expect to generate revenue in the medium term. As a result, NOVELIC's profitability may be impacted over the next couple of quarters.

Now we are a product engineering company, so new product development is vital to our growth strategy. In FY25, we are also increasing our spending on R&D by over 100 basis points. Our teams are working on several exciting high potential projects across the three business divisions, and we are certain that higher R&D spending is going to help in expediting all the existing projects and also allow our teams to work on additional new products.

Now, before we discuss our performance in detail, we have an important announcement to make: Our Group CTO, Mr. Kiran Deshmukh, turned 70 earlier this year and has informed us of his decision to retire. On our request, he has agreed to continue till 31st October and guide us through the transition period of succession. Mr. Deshmukh has been integral to our Sona family for nearly four decades now and he's been with Sona Comstar for the last eight of them. His impact on our technological advancements, on our quality focus and on our strategic direction is immeasurable to say the least.

As we bid farewell to Mr. Deshmukh, we are happy to announce the appointment of Mr. Praveen Chakrapani Rao as our new Group CTO. This will be effective from 1st November 2024. Praveen is currently the President and Head of the Motor Business R&D and has been groomed for the CTO role by Mr. Deshmukh himself for the last two years. Praveen has been associated with the company for 24 years and while stepping into Mr. Deshmukh's shoes is nearly impossible, we have every confidence in Praveen's ability to not just transition into this role but also put his own stamp on our technology road map.

Vivek Vikram Singh: **Slide 5:**

Now we proceed to more prosaic matters like numbers. So, in Q4, our revenue grew by 19% while the EBITDA and net profit increased by 23% and 24% respectively. Margins improved due to operational efficiencies and product mix, despite considerably higher freight costs. BEV revenue was the main driver which grew by 34%, in absolute terms to the highest ever, 273 crores, while the BEV revenue share increased to an all-time high of 32%.

Slide 6:

For the full year, like we do every year, we would like to report our performance scorecard as managers to you on our five KRAs: Financials, Electrification, Business Development, Diversification and New Product Development.

So, I'll start with the financials, where we continue to do well on all three indicators: growth, margins and returns. Our revenue, EBITDA and PAT are up by 19%, 30% and 31% respectively. Another year of strong operating performance also ensured that ROCE and ROE improved to 31% and 28.5% respectively. And one metric that we don't usually speak about much, but we have done very strongly on this, is our free cash flows, which Amit will talk about in his section in more detail.

Slide 7:

Now because our IPO was three years ago and three years also happens to be the period of our planning cycle, our product, and our business development cycle. So as stewards of this business, we'll be grateful if our shareholders better understand the nature of our business and our management philosophy and see us in the same three-year cycles like we see ourselves in our business. So please indulge me in a thought experiment if you will.

So, imagine that you're a time traveler who met us during our IPO process and now has jumped three years forward in time to today. And you notice that we have more than doubled on most metrics that we spoke of then, as being important to us. Our revenue and EBITDA have doubled while PAT is 2.4 times higher. We have achieved this by doing both increasing our market share in existing products and by adding new products consistently. Our battery electric vehicle revenue has grown by 4.3 times in absolute terms because we managed to treble the number of EV customers from 10 to 30 and EV programs have increased a remarkable 3.6 times from 15 to 54. What that means is while we were very concentrated on EV exposure to a few customers and programs, today our BEV exposure is truly diversified, across customers programs, products, and geographies. We also introduced eight new products in just these three years, which have added more than INR 100 billion to our net order book, which has grown to INR 226 billion from INR 140 billion at that time. What this shows is our effectiveness in not just making new products but getting them to commercial technology readiness and converting them to revenue.

Now because you are a time traveler and you only see these nice results, you'd be excused in thinking that the past three years have been extremely favorable for the industry and the company has faced zero concerns.

Slide 8:

But in reality, most of you are not time travelers and if you have observed us over the last three years, you would note that our growth has varied significantly from quarter to quarter. And we have achieved this performance despite facing multiple headwinds and multiple concerns. Some of them were bigger and some of them were smaller.

We've seen concerns about the COVID pandemic. We've seen concerns about ship shortages, Russia-Ukraine conflict, the UAW strike, which all did affect us and were meaningful in that time, but they were all temporary and eventually they resolved over this time. Similarly, there are current concerns such as the Red Sea crisis, uncertainty around FAME and the perceived, I would say a slowdown in EV demand, which will also likely only be resolved with time and us saying anything is not going to solve them.

Since our IPO, we've been also addressing questions on margin sustainability and rising competitive intensity, this has been one of the most often asked questions. And again, I'll say the same thing over the past 25 years since our inception, and even as a listed company for the past three years, we have maintained an average EBITDA margin of over 26% consistently, while continually gaining market share in every product category against strong competition all over the world. And 25 years is a pretty long period to prove a point. But I guess only time can tell whether we can maintain margins over the next 25 years as well. So, I guess this is a question that once again, only time will tell.

Some have expressed concern about the impact of Blackstone's exit and now since it has been over a year since their exit, I thought we should address it. Now, this is my 10th year with this amazing company and during these 10 years, we have provided healthy exits to three shareholders: Mitsubishi Materials, JM Private Equity and recently Blackstone. Now today we are responsible for delivering returns to our public shareholders who have joined us during or after the IPO. My duty as the CEO and the management team's duty in their roles is to ensure that the exit of any one shareholder does not impact the business or its prospects. And I think this culture of responsibility is perhaps our most enduring management ethos and one that is going to continue regardless of who owns the shares.

Slide 11:

Now, coming back to the standard format, our BEV revenue has increased from 26% in FY23 to 29% in FY24. In rupee terms it has grown 32% to over INR 8.8 billion in FY24. The growth in BEV revenue for us has been more than double the growth in non-BEV revenue. We also continue to build on our EV order book and in Q4, we added one new EV program of size which was to supply differential assemblies to an existing customer in North America.

Overall, in the year, we added 12 new EV programs and four new EV customers, which has further grown and diversified our EV order book. So, at the end of FY24 we have a total of 27 EV programs in production of which 11 are mature and have fully ramped up, and the other 16 are in various stages of ramping up. The remaining 27 programs are not yet in production and will start during this year or the following years.

Slide 13,14:

Our next KRA, Business Development, we added INR 51 billion worth of new orders during the year. This came from 39 new programs and five new customers. As you can see from the chart this year's revenue growth came primarily via consumption of INR 40 billion of the order book. Hence, the net addition to the order book was INR 11 billion, which obviously neatly brings me to a net order book which at the end of FY24 stands at INR 22,600 crores or around $2.7 billion. As visible here, almost all our sequential growth in this quarter came from the consumption of new orders, while the EV contribution to the order book remains high at 79%.

Slide 16:

On diversification, the trend of increasing electrification and decreasing ICE dependence continues as it has for a while. This year, we've seen the ICE dependent revenue shares shrink to only 10%. The strong demand recovery in Europe means that the revenue share from hybrid and micro-hybrid has been higher than the previous year and hybrid, we continue to do well as a company on hybrids too.

Slide 17:

Geographically, North America remains our largest end market, as it has for many years. This now contributes 40% to our revenue. Europe was our fastest growing market and now contributes 26% of our revenue and India remains the second largest market and revenue share is at 28%. The fastest growing product segments for us this year have been EV differential assemblies and

EV traction motors followed by differential gears and this, as you can see, reflects in the change in the product mix. The weakness in off highway demand that I spoke about earlier has resulted in the share of non-automotive revenue declining from 12% last year to just 10% this year.

With this, I come to the end of my part, and I invite our Group CTO, Mr. Deshmukh, to update us on technology. Over to you, sir.

Kiran Deshmukh: Thank you, Vivek. Good evening, ladies, and gentlemen.

Slide 19:

This slide shows our technology roadmap revamped this year to reflect our strategic intentions of addressing the E.P.I.C. revolution. This year we launched a breakthrough product and integrated motor controller that is compact, more-efficient and easy to install. It offers additional benefits such as more efficient heat management, advanced communication capabilities and reduced winding and connectivity, wiring and connectivity issues.

This quarter, we have added the Steering Bevel Gear Box, encircled in a dotted white circle to our technology road map, as a product we intend to commercialize. These Bevel gears are required for commercial vehicles where an intermediate shaft cannot directly connect the steering column to the steering gear, due to the constraints in the arrangement. Our high-precision Bevel gears and low friction torque of the gearbox, will provide exceptional steering accuracy, driver comfort, and ease of installation on the vehicle.

Together with these two new products, we have added eight groundbreaking products to our technology road map this year. They include robotic gears, lightweight differential assemblies, motors for non-auto applications, radars for zone monitoring, 360-degree short range applications and in-cabin sensing.

This year, we completed NOVELIC's acquisition and launched our third business vertical, focusing on sensors and software. Our radar technology, capable of detecting life presence and optimizing safety applications, places us at the forefront of the E.P.I.C. revolution. This move has diversified our portfolio, emphasizing our commitment to advancing more intelligent, connected and personalized mobility.

Slide 20:

Friends, after serving the automotive industry for 49 years and a few months, I will superannuate on the 31st of October. While I prepare to end my tenure, I feel a mix of nostalgia and gratitude for this challenging yet fulfilling journey. 38 years ago, when I joined the legendary Dr. Surinder Kapur to set up a budding steering systems-making company, little did I imagine that the seeds of excellence we were sowing would grow into what is today a company that is helping define the future of mobility. This was possible only because of Dr. Kapur's vision, Mr. Sunjay Kapur's steadfast commitment to that vision and the team's tenacity, hard work and diligence.

Slide 21:

Kiran Deshmukh: As I say goodbye, I am happy to pass the baton to an able, competent and passionate person.

My successor, Praveen Chakrapani Rao, has over 30 years of experience in the automotive industry. He has held leadership positions in business development, product strategy, sales and marketing, product development, and engineering. He has worked with global product development teams and has led the setting up of our three assembly plants outside India. He was responsible for building Sona Comstar's R&D into a 250 plus strong team delivering cutting-edge EV products to our discerning customers. I'm confident that Praveen will carry forward our legacy of innovation and leadership. Together, we will ensure a seamless transition, upholding our mission and vision for the future. With that introduction, I am pleased to present Mr. Praveen Chakrapani Rao to you.

Praveen C. Rao: Thank you, Mr. Deshmukh, for your encouragement, motivation, and guidance throughout these years. Good evening, ladies and gentlemen, it gives me immense pleasure to be here. I thank the management of Sona Comstar for considering me for this critical position and for giving me an enhanced R&D budget and a much bigger canvas of mobility. The mobility space is going through a transformation with E.P.I.C. technologies defining the future. By embracing these technologies, we are at the forefront of shaping the next generation of automotive technology. This opportunity is indeed an honor to deliver on the vision of Sona Comstar. I look forward to working with Mr. Deshmukh in ensuring a seamless transition. With that, I hand it to Amit to cover the financial update. Thank you.

Amit Mishra: Thank you, Praveen. Very good day to you all. Rohit is on leave due to a family exigency. So, I will take you through our fourth quarter and full year's financials.

Slide 23:

In the fourth quarter, we clocked our highest ever revenue, EBITDA, and net profit. Our BEV revenue grew 34% to INR 273 crores and our BEV revenue share was 32%, highest ever for any quarter. Overall revenue growth of 19% was significantly higher than the underlying light vehicle sales growth in our key markets: India, US and Europe. EBITDA adjusted for ESOP of expenses grew 27% to INR 256 crores. The EBITDA margin improved about 180 basis points, primarily led by better product mix, operational efficiency gains and lower input costs. Similarly adjusted PAT was up 26% to INR 155 crores.

Slide 24:

For the full year, our revenue grew 19% to INR 3,185 crores. Overall growth was more than double of the underlying volume growth in light vehicle sales in key markets. Our BEV revenue grew 32% to INR 886 crores and BEV revenue share improved to 29%. Adjusted for ease of expenditure of about INR 14.7 crores, our EBITDA grew 31% to INR 917 crores. The EBITDA margins expanded by 270 basis points over last year due to better product mix, operational efficiency gains and lower input cost. Profit after tax adjusted for ESOP expenses and other exceptional expenses grew 34% to INR 535 crores, again entirely led by higher operating profits.

Slide 25:

During the year, we generated cash from operations of about INR 693 crores and free cash flow of INR 374 crores. In his slides, Vivek presented our strong performance over the last three years on almost all of the financial metrics. But this is one metric where we have done even better than those; free cash flow, two years back was INR 100 crores, which doubled to INR 200 crores last year. And this year, we have improved it to INR 374 crores. This helped us meet our Capex spending of INR 319 crores, our investment in NOVELIC of INR 211 crores and dividend payout of INR 179 crores; all met through internal accruals.

Slide 26:

This brings us to a slide on key ratios, our value addition to employee cost, continues to be strong, about six times though it dipped slightly in last year due to higher ESOP expenses. Net debt to EBITDA continues to be negative. Our working capital turnover has improved further to 4.6 times, fixed asset turnover, however, dropped to 3.6 times due to the full impact of Pune plant capitalization. These combined with very strong profit growth have resulted in our return ratios; ROCE and ROE improving to 31% and 28.5% respectively.

With this, we have come to the end of our presentation, and I will now hand over proceedings back to the Nomura team for Q&A. Thank you.

Moderator: Thank you very much. We will now open the floor for the Q&A session. If you wish to raise a question, please use the raise hand function located on the bottom right of Webex page. We will unmute your line and inform you to speak. Or you may submit your question via the Q&A chat box, addressing to all panelists. Please be reminded to keep your question to a maximum of two questions. You have more questions we would appreciate if you could return to the queue. Thank you.

Jay Kale: Thank you. And congratulations for a great set of numbers in a challenging environment. You know, my first question, of course, you know, we've seen in the last three years, you have, you know, kind of diversified your BEV customer base, and continuously adding new clients. Going forward, as we see, you know, a lot of the Chinese OEMs are trying to expand globally, of course, contingent to the political environment and probably thinking of putting up capacities also outside China. How are we looking at that client base? And are they open to suppliers like us if they put up factories outside of China because that could be, you know, a good leg of growth going forward.

Vivek Vikram Singh: Good question, Jay. So how does the BEV environment shape up, is actually the broader question I would say. I would think North America and India would continue to have local or global competitors, non-China OEMs. I think geopolitics is shaping up that there will be restrictions. Europe is the interesting one where I think Chinese EVs are making quite an impact right now. Although I hear that, as we speak, Brussels is thinking of putting a 50% tax on Chinese EV imports into Europe. So, we don't really know how it will shape up. So, this is what our strategy or plan is, it's very simple; try to get as many customers as possible. It doesn't matter where they make it, it doesn't matter what their nationality is. You try to get in and try to sell them as many of your products as you can. That's it. We try to keep it simple. We're not trying to worry about things we can't solve, or we don't really know about. We're not experts at these things. There is a different amount of receptivity to our products in different geographies. As you can tell, some of them have trade barriers, some of them don't. We have the flexibility also to manufacture in different locations to cater to that. But we are on it. I can't say much more because you know, things will only time will tell, as I said in my thing how this stands out; but we will continue to diversify. In automotive in general, putting all your eggs with one customer is a sure-fire way to either lose growth or lose margins. That's literally guaranteed that one of the two will happen. We will not allow that to happen to us. Our top five from five years ago has changed so much and it will continue to evolve like this. So, I know I can't give too many specifics, but just this quarter's results should have shown you some of that already, that some of that has already happened, which is already in the numbers. But because we don't talk about specific customers, I can't really say more than that.

Jay Kale: Great, thanks and just one more question, you know, and of course, this would have been asked for, you know, quite a lot of times, but we've seen a lot of talk of you know, the EV penalty or EV slowdown globally, etc. Now, I understand, you know, you've spoken earlier that you know, these new technologies are supposed to be looked at from a long-term perspective, there comes a time of consolidation in terms of any new technology adoption and then eventually it moves ahead at faster pace. But just from the next 12 to 18 months perspective, the way we see your order book, are you seeing any delayed order ramp up because in the next 12 months, as per your order book, a lot of new programs are expected to start. So, you know, it's all contingent on the plans being on track. And if there are any customers who are delaying that, any flavor that you can throw on that.

Vivek Vikram Singh: So, 12 to 18 months, no real delays that we have heard of apart from a couple in the EV Two Wheelers Space, which is not a very large part of revenue, but those are the only areas and I guess that's more to do with policy uncertainty. In other things, while the media may talk about the EV slowdown, we have not seen any sign of that from you know, from our customers. Our customers are putting more and more pressure on us to improve our NPD times actually. So, it is the other way around. I would say, I mean, just the fact that we have closed our starter motor line in the China plant, and we are going away from it should tell you how the world is actually moving, not what they are saying but what they're actually doing. I think that's always true for anything. Look at what people do, not what they say, that kind of gives more clue of what is actually happening. Secondly on hybrid, yeah, because a lot of people don't get like some people are saying it's hybrid versus EV etcetera, etcetera. I don't think people understand the word hybrid because hybrid ranges from this end which is a completely ICE engine car with a small motor which does some help or engine assist to the extreme other end, which is basically an electric vehicle which has a small internal combustion engine to be used in emergencies. All of them can be called hybrids, right? And people are using that greyness to obfuscate battles for the very short-term gains, I would say. Now hybrid, if you ask me from a perspective of our company and a totally pure cynical commercial point of view, it would be this, a plug-in hybrid is absolutely the best vehicle for us. We are able to sell our high torque differential assemblies and they are usually four wheel driven, we are able to sell starter motors for the engines and we have a shop selling traction motors to that vehicle. That vehicle is potentially the highest revenue I can ever get. But when I answer you guys, I try to do it candidly as an engineer and as someone who has studied the automotive industry. So as a student, hybrid solutions in any industry do not last for too long. They are bridges to; one or the other technology will win, having two power trains and to develop two separate engineering systems and try to optimize for them both is quite inefficient and over time people will see that. You know, Kodak before it went down, launched a hybrid camera, it had both film and a screen, obviously, it didn't last too long. There are lessons from other industries also where hybrid solutions were proposed for some time, which is why we feel BEV will be the absolute future. Although if everything grows plug in hybrid, we will not complain from a financial perspective. So that's where we stand on the EV changes.

Jay Kale: Great, thanks for the detailed answer and congratulations Mr. Kiran Deshmukh, sir, and all the best for your future endeavors. And welcome Mr. Praveen Chakrapani. Thank you.

Vivek Vikram Singh: Thank you so much, Jay!

Kapil Singh: Hi Vivek, I had a question on the R&D spend that we talked about. Could you elaborate a bit, what was the R&D spend as a percentage of sales for FY24? And you know, what is the target there? And also, just in terms of your vision when you are increasing this, if you could share more details, what are you thinking about areas like semiconductor designs; in the medium term, what exactly are you thinking about? And what is the play for your company in this area?

Vivek Vikram Singh: Interesting. So, it's between, I think 2.5 to 3 is what we did this year around somewhere around 2.4 or 2.5%; which is slightly lower than we should be spending; a company of our nature. And here again and candidly reflect that, you know, the last year, our margins dipped and maybe, maybe we try to say that none of this gets to us, but maybe it did get to us subconsciously and our R&D budgets had shrunk a little bit, obviously, with our improved margin, we saw what is the root cause and we realized that is not the way, if we have to continue building a company for the long term. So, I think we are looking at 3.2 or 3.3 this year or 3.4, it's 1% above. I wish Rohit was here. Otherwise, I would have put it to him. He's had a family issue so he's not able to answer that. But areas, so obviously, the same philosophy that we have that most of R&D, I'd say it's a 70-20-10 thing; that 70% will be for existing product areas and adjacencies. So, adjacencies around the Driveline products and motor products, 70% goes there. 20% is for absolutely new areas and 10% is for what we call, well, moon shots, those we don't talk about because the probability of their success is usually lower. But I can talk about the 20%, so you have identified it right; Semiconductors is a big area. And again, we are not looking at high Capex items like fabs or you know, those kinds of investment. We are looking at what we are good at. We are an engineering company; we will do engineering related things. So, can we do more in chip design? Can we do more in doing various kinds of signal processing because we already have NOVELIC, so radar chips gather a lot of intelligence, and they only have to process it and on that processing, compute some results. Now, as you would know that a lot of the functions today do not actually reside on the wafer. A lot of it is given just by the software. How much of a role can we play on the software that enables the chip? So those are the areas that we are looking at; other areas as you can see in the white area of that, that drone motors, motors for eVTOL, a lot of those kinds of things. The future is going to be far more intelligent in every single component and system of the weight. And that intelligence will require logic circuits, it will require memory circuits and it will require decision making. What role can we play in that broadly is the theme which means, we obviously are doing a lot at NOVELIC and that's why we increased the R&D budget there. We are literally pulling people off revenue or billing projects and putting them on things that will do things in the medium term. I'd say, 18 to 24 months, because as I've said many times, our job is to balance growth margin and return and not to max out on one or two on the cost of the other. And I think we have done fairly well on all financial metrics. It's time to reinvest back in the core. And even if it means that for some time you give up on some financial things, it's not like we'll suddenly start losing money, but it's just that, yeah, you were going to make a 29 or 30% EBITDA margin. Can we make 28 and invest that back into making a better future? That's the thought process.

Kapil Singh: Ok, great. Just if I can clarify, so would you also be looking at areas like AI, when you're talking of data processing that that is being collected by radars, etcetera.

Vivek Vikram Singh: You know, I'm so afraid of using buzzwords because sometimes the investor community takes it and runs with it and then we get asked questions and oh, you didn't deliver. It's such a big word, Kapil. I mean, if you look at specific general intelligence, right? And the definition is so broad that people use it very loosely, again, just like I said, for hybrid. We are already using AI for a lot of our internal processes. We will also use some things in our products, but again, too early and I would refrain from using buzzwords because it can sometimes create false expectations. But just to answer yes, of course, there is no business that can be run without AI today. If you don't use AI in your business, most likely in 10 years, you will be run out of business by a competitor who used it well, it is a guaranteed thing, this outcome. So, all of us are, but again, we don't want to sound like sales and like, so we don't want to use it.

Kapil Singh: Ok and just the second question, how are you thinking about growth for next year? Because you know, 80% of our order book is ultimately coming from EVs and there are concerns expressed by you know, various OEMs that the growth may be tepid or may not be there, in BEV. In fact, if you could also talk about the fact that this quarter as well, you know, we've delivered very strong growth in BEV revenues despite the global weakness we have seen. So just some thoughts on growth for next year or whatever you can share and also profitability.

Vivek Vikram Singh: So, you know, we don't give guidance, that's number one and number two, I did two whole slides to avoid just this. That, I don't know. I mean, look, we have always grown so much more than the industry. If we were either that large or, that fixed in our business model, our products were fixed, our customers were fixed then yeah, it's a very valid question. Let's say we have 65% of an industry or a market segment. Market share is 65%. We do only one product. 100% it is a valid question. After knowing us for 12 quarters, it really is not, you know that it's not, I mean, this quarter, we should have not grown at all by that logic, right? It is that we will continue to increase our market share. We will continue to increase our share of wallet within our customers. We will also continue to keep making new products which will then sell. Like just, example, we talked about a new product, Mr. Deshmukh talked about it that has an $800 million odd addressable market, just that one product. If we can get even 5% of it, that's $40 million, that's 10% growth on our base, something that has got nothing to do with the industry. It has got nothing to do with what we are doing today. So, there are two aspects to managing a business, right? Doing today better and doing new things. Now, doing today better, of course, it gets impacted by macro factors and industry factors. But doing new things is not. That's where we add value as a management team. Otherwise, you know, AI can run the company also. Industry goes down by five, you also go down by five. So I won't be that concerned, and again, like I said, I spent so much time trying to talk about management philosophy that it is if you look at these three years, so many things went wrong, but it didn't really affect the end outcome that much. Yeah, maybe instead of 2X, we could have been 2.5X. It doesn't, it affects the magnitude but not the direction. The momentum may be a little slower, but it will eventually get there. And once again, I keep telling all of you guys in 2035/2036 most of the world will be battery electric. You can do whatever. It doesn't matter what happens in the middle. If you

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know that outcome, like literally that time traveler analogy, you have come back from 36 and you're telling everyone what is going electric and people like no, no slowdown is happening, some guys are selling hybrid now. I mean, you have to take it with that seriousness that if you know something is inevitable in 11 to 12 years, and you still persist in believing things that last 6 to 12 months, that's not our way, at least.

Kapil Singh: Sure, thanks for that interesting answer. Deanna, we can continue.

Moderator: Thank you! We will now go to Jinesh Gandhi, your line is unmute. Please go ahead with your two questions.

Jinesh Gandhi: Hi, congrats team, so for delivering yet another strong performance. My first question pertains to how are your OEM customers now looking at their supply chain given that scale is slowly rising for the BEV side. Are they demanding more localized supply? In turn need to put the plant closer to the factory? That is question number one, question number two is on NOVELIC. So clearly this additional area of focus for NOVELIC is a step in the right direction from a long term perspective. But how is their sensor business shaping up? Given that itself was quite exciting in the overall scheme of things. So, are we seeing material accretion to their business or order book there? Any update on that? And lastly, if you can indicate what kind of investments which will lead to do capex over the next couple of years. So those are the three questions and one clarification on what was the impact of freight on margins in this quarter?

Vivek Vikram Singh: That's a lot of questions with Jinesh. Ok, I don't know where I remember all of them. So, I'll start with the one I do remember. NOVELIC, we are seeing very good traction in the product side. That's why I mentioned both that, let's give it some time because like I said, we just pivoted now. We should see something good happening soon. I don't want to get jinxed by talking about it too early, but we should see something good happen soon on the product side. So that's on this part. What else did you say about freight, exact amount I don't know, Rohit would have been able to answer it. Like I said, unfortunately, that is a family issue, he is not here. But it would be in a few basis points. Amit, would you know? Impact of freight, Amit?

Amit Mishra: Jinesh, I'll revert to you on this. I will try to revert before the end of the call.

Vivek Vikram Singh: On the other things on questions, I guess your question about localization was more driven by our, why we have set up the new Mexico plant because if that is the thing, I'll answer that. And Vikram is here, he can speak more. It is more an offensive strategy than a defensive strategy as will be the case with us most of the time. So, Vikram over to you, the question is and I'll frame it for you, why have we set up a plant in North America? Why Mexico?

Vikram Verma: There are, one is, as our customers expect near to them, but at the price of India, which is a challenge. While the customer also has a different challenge called USMCA compliant, which is, so for that reason, we are trying to work out a hybrid model to make Mexico as a point where it will be still competitive. So that's how, why Mexico we have thought of and there are many customers in Mexico now and many other EV programs are coming up in Mexico itself.

Vivek Vikram Singh: So Jinesh this, to add to what Vikram said, this helps us in adding more customers who we would not have otherwise got, we're not shifting anything. This is more to address a segment that may have gone untapped for us. Otherwise not that many changes. I mean, yeah, there is a bit of a move away from the China movement, but that's been happening now for three years. So, it's not new really. I'm sure I missed a couple of your questions because now I've forgotten.

Vikram Verma: Investment in next 2 to 3 years, was one more question.

Vivek Vikram Singh: Capex for the next 2 to 3 years, let's say between INR 1,000 to 1,200 crores, I guess.

Vikram Verma: Yes, it will be that much in three years.

Amit Mishra: Jinesh, the impact of higher freight rate, this quarter was about 35 to 40 basis points in that range.

Moderator: Now we will move on to the next question. Coming from Gunjan, your line is unmute. Please go ahead.

Gunjan Prithyani: Hi Team, thanks for taking my questions. I just had a couple of follow ups. Firstly, I'm not sure I missed the initial bit of the call. Can we just talk about the PLI certifications that we have received. Any, you know, any clarity in terms of what is the sort of incentive that we're expecting? And, you know, you did talk about, you know, reinvestment in the business to look at growth in, in the upcoming years. So, you know, how should we just think about this PLI incentives being reinvested in the business or does it add to the margin? Some, some thoughts around that?

Vivek Vikram Singh: Hi Gunjan, first of all, on PLI, our answer is exactly the same for the last seven quarters. It will be the same now, we have no idea how much we will receive. Nobody does. Because again, and I'll explain it. Nobody knows the denominator. We all know what is the first year and what is the budget outlay from the government? We don't know how many people will be certified and for what products and what will be the total application claims. We are expecting that there will be some kind of pro rata distribution. So, no, PLI is something that will be an added bonus, great when it comes. And when it comes actually is when we will recognize it as that. Again, our stance has never changed on it. We have got PLI certifications on two of our largest volume traction motors. So, most of our traction motors are covered, other applications are in process. And also, Gunjan, even if you have not missed the initial part, we didn't talk about it. We don't talk about PLI, usually and we are not using PLI money touchwood, God's been kind, we have a decent cash flow of our own. We covered our cash flows in detail. We will manage every single investment that we have including, you know, investments in R&D through internal accruals. Last year, NOVELIC acquisition, Capex plus dividend, was all managed through internal accruals. That's our way, we don't really need that money for that investment.

Gunjan Prithyani: Ok, got it. My second question Vivek is on the non-BEV business, while BEV has been discussed a lot. I mean, 70% of our revenues are still coming from non-BEV being hybrids, power source neutral. Now, underlying markets here have certainly seen some slow down, right? I mean, India, in particular, has been, you know, both on commercial vehicles and tractors and even on the global production side, a lot of that recouping of loss of volumes is done. Now, it boils down to some low single digit growth on global production. So how should we think about the growth in the non-BEV revenues?

Vivek Vikram Singh: It's a good question Gunjan, I actually started with that in my, when I started my comments. So off highway in particular is looking not good at all. Last quarter was the worst quarter since Q1 CY20, which had COVID by the way. For US and India, this is not just one market, and this is also peculiar, usually off highway markets are very local and have nothing to do with any kind of structural thing. Right now, I'm seeing that even in Europe off highway is lower, but not as much as US and India; US and India are doing very badly. CV is also not doing well in India. So that's an India specific thing. Actually US PV, Europe PV, and India PV are the only three segments doing well, that too also not blockbuster well, but they're doing well. That's what the industry status is. So, yeah, some more time that we have to sail on our own steam or, you know, on our own motorboat. Industry is not really growing. Off highway, you guys also know better than I would say, I do. You, Kapil, you guys track it. I don't think the first half is looking good. I read your report so I'm sure that's what it's looking like to everyone.

Gunjan Prithyani: And anything you'd like to add on the Two-Wheeler electric business because of course, there's a lot of subsidy uncertainty and you spoke about it in the initial remarks, but I mean, you engage with customers a lot, right? How should we think about the EV penetration now within two Wheelers, putting two facts together that you do have, you know, subsidies being rationalized. But at the other end, there is also a lot of competitive intensity increasing. So, you know, what really happens in terms of, you know, your revenue ramp up in that part of the business basis is your customer discussions.

Vivek Vikram Singh: So, I'd say, competitive intensity in the traction motor space has actually lessened a bit. Also, us getting PLI has put us in a different category, because even if that PLI incentive is not for, you know, someone who's not a customer obviously because that program can't be approved, but they know that we will get that. We are more likely than party X let's say to get that because obviously our systems, processes, and our domestic value addition is very high. That's what PLI certification process is about. So yeah, I'd say competitive intensity for motors has gone down and a lot of non-serious players who just randomly came and spoke about traction motors have disappeared in the last few quarters. But the competitive positioning within the OEM space has gotten, I would say, it's a hard one, it's grey right now. It's very hard to say what is actual market share. There are some temporary aberrations, I would call them. There is a lot of discounting by a few players which has made it a little hard to figure out what is the medium-term actual market share of people. And I think that's the same sense that our customers also have. The wiser ones are saying, let some of this madness end and we will, we will not, you know, why do you burn cash, just for a 3-4 month period. FAME though is a big one and there Gunjan your guess is as good as mine, and I think even our customers don't do anymore. Of what is, what or even if there is a fame change and what does it include? Which segments? How much? How much per kilowatt? I don't think anybody has the answer to these questions.

Gunjan Prithyani: Ok, got it. Thank you so much. I'll join back to queue.

Vivek Vikram Singh: Thank you so much.

Moderator: We will go to the next person, Rahul Jindal. Rahul your line is unmute. Please go ahead.

Rahul Jindal: Sir, so this is Rahul Jindal from Samar Wealth. My first question is, could you update us on the progress and customer reception of the new integrated motor controller for electric motorcycles introduced last quarter.

Vivek Vikram Singh: Yeah, so that's for, I mean, we've already got the order and I think we disclosed the details of SOP on that thing. When the SOP happens, it will hit the market, so it's already approved and we already have a purchase order for it.

Rahul Jindal: Ok, and my second question is how has the company managed the supply chain challenges mentioned last quarter, especially those related to the Red Sea crisis and what impact have these had on operations?

Vivek Vikram Singh: I think Amit mentioned that we lost about 35 to 40 basis points of profit, which is ok. I think the more of it was the logistical and operational stuff because it's not just money, right? It's ensuring that you get the containers, ensuring that they reach on time. So, which has meant that for example, Vikram or Sat had to produce a lot in January to ensure that they reach because you know, you're now adding 10-15 days of shipping time. So suddenly inventories that looked adequate were low. So, it has obviously meant that it was an operationally challenging time. But once again, we have great operational leaders like Vikram and Sat, so, all in a day's work for them, I guess. Cost wise 35 to 40 basis point hit. But a lot of, I would say a lot of work, a lot of work. It has added a lot of work.

Rahul Jindal: Ok, so my last question is, you said that your order book at the end of quarter 4 of FY24 is 226 billion. And I wanted to know how much percentage in this is from EV? EV percentage?

Vivek Vikram Singh: Right, so it's on the slide but it's 79%.

Rahul Jindal: Oh, ok sir. Thank you very much. This is from my side. Thank you, sir.

Vivek Vikram Singh: Thank you, Rahul.

Moderator: We will go next to Rishi Vora. Rishi, your line is unmute. Please go ahead.

Rishi Vora: Yeah, just one question from my end, we had announced the various partnerships with you know, on the motors with C-Motive, IRP, even Equipmake, Enedym So yeah, any update on, you know, whether we have been able to create any products, you know, for two wheelers or any other segments, any insights on that would be helpful.

Vivek Vikram Singh: Sure. So, C-Motive, as you know, was an investment, not a partnership for what I said is a Moonshot even at that time, that it was for electrostatic motor, which is a very different type, whatever progress has been, has been but not in areas of mobility. So it is whatever progress has been made, the product etcetera that is there. They're testing protos, but it is more suited to industrial applications. So that's where that one is good. Enedym, Equipmake work is on, full well. Equipmake, if you recall, was more for bus motors. So the plan and I think we've answered that a couple of times that we don't expect anything, this year, this fiscal year also 2025. Because, you know, to go up to technology readiness level nine, which is to commercialize is when I think it's fair to give an update and which is likely when we'll give an update anytime. Enedym, we have made good progress again and I would invite Mr. Deshmukh, you or Praveen, who should take this question? You want to take it? Or should we start throwing Praveen into the deep end?

Sat Mohan Gupta: Maybe I'll take it. Enedym, I mean, right now we are working on two motors. One of the motors is validated. So, one of the motors we have, we are in the process of validation. The performance parameter and the torque parameters are on expected lines. And we will start doing the vehicle level validation in the next quarter or so. So, Enedym is progressing very well. And we are hopeful that the technology would be a great success.

Vivek Vikram Singh: The one that is not doing so well, let me also be the bearer of bad news, is the IRP one. Because as you know, in our business, it is not just to get a product out and you know, get a press release of that, because we have to sell products. It has to not just deliver power density; it has to deliver very good power density per dollar, like it has to do well on that ratio. And I think commercial viability is where we have a problem. So, Sat or Mr. Deshmukh, if you'd like to add on that one.

Kiran Deshmukh: Yeah. So, IRP, the basic concept of a motor without a magnet, using an inductive method is excellent and the prototype has been made, it has been tested successfully. However, when we come to the cost of the BOM, it is far higher than expected and at that cost, it cannot become viable and therefore we are looking at ways of tackling that issue. So therefore, there is a big problem as far as, that technology development so far is concerned.

Sat Mohan Gupta: The good point is Enedym gives us that option because Enedym also is a magnet less. So though, I mean, we have challenges on IRP, but Enedym is looking much, much better.

Kiran Deshmukh: So, when we started, this looking out for a solution of magnet-less motor, there were several technologies available and therefore we tied up with IRP for one type of technology and Enedym with another type of technology because when you do R&D, you're never sure about what will succeed and what will not succeed. And success means not only the particular idea working but also working efficiently and cost effectively.

Vivek Vikram Singh: So yeah Rishi, thank you for asking that question, it actually allowed us to give an update on all four, but you know, three of them C-Motive, Enedym and IRP were all to solve one problem which is to make a magnet-less motor. And frankly, I mean, we knew in our mind that only one of them was actually going to be the preferred one which would give us the highest power density upon dollar. So now we know that one of them is not commercially very viable. One of them is more suited to industrial applications, that low RPM, and Enedym is the one that we are pursuing most on and spending most time on. So, that's the summary.

Moderator: We now go to the next question, Sabyasachi Mukherjee. The line is unmute, please go ahead.

Sabyasachi: Sabyasachi here from Bajaj MF. So, a few questions from my side. One is, so this is probably in the last many quarters, first time that, you know, we haven't flagged any specific large order wins despite almost, you know, 12 billion of order inflow, anything you want to highlight. Or was it like, you know, very small, small order inflows this quarter?

Vivek Vikram Singh: No, we did actually, I did mention one large differential assembly order from an existing customer in North America. But I mentioned it in my commentary. We didn't make a slide because also if you know end of year, we do the summary of all business development and we don't typically put a new one win, because you know, that's the time we do the annual year-round up also. So, this has been the format for three years.

Sabyasachi: Sorry, so then I must have missed it. What is the kind of value that the order is having?

Vivek Vikram Singh: Fairly decent? I mean 12 billion is not just that one alone. So let me try to find that slide. Pratik, can you go to that slide? And then I'll remember the exact numbers I had said. So, I think I talked about 12 new, so that is for the year 12 new EV programs. We added one new EV program this quarter, but we also added a lot of non-EV programs, right? Pratik, would you know the answer to this? This I didn't expect.

Pratik Sachan: Yeah. So, this EV differential program will be between 9 to 10 billion.

Vivek Vikram Singh: Yeah. And the remaining three odd billion is from different non-EV programs. Correct?

Pratik Sachan: Correct.

Sabyasachi: Ok. Got it. And this is existing EV customers, you said?

Vivek Vikram Singh: Yes.

Sabyasachi: What would be the SOP?

Vivek Vikram Singh: SOP is in the future, it says in the future as in it may be, it won't be in the immediate 18 months. 26 probably. Yeah, that also, I don't know. Yeah, I mean, it's not absolutely clear.

Sabyasachi: Got it, I'll move to, you know, just a clarification from or confirmation from your side. So, a lot of the programs that we have won in the past were supposed to go live this quarter, almost four or five, maybe more than that. And, after listening to your commentary on the weakness on off highway and, the subsidy uncertainty of electric two-wheeler market in India. There were, I think specific two programs where one was with Hub Wheel traction motor, electric two-wheeler, Indian OEM. And one was with, I think mid drive traction motor and control system for again, the off-highway India OEM, that were supposed to go live this quarter. Just wanted to know has there been any delays or, they have gone live?

Vivek Vikram Singh: So, one, my compliments for this, I'll say, you follow us pretty closely, at least I can say that. So, I did mention that one of them has, both of them actually, electric two-wheeler programs are the only ones seeing delays. And I think the delays are for two reasons. One, I would say extreme discounting at this moment makes it perhaps not the best time to launch any vehicle, because the pricing can then be disappointing. And if you're disappointing at the launch, that has a, that has a fairly bad knock on effect. And second is also the FAME rate, people are not certain what the fame subsidy eventually will be. Hence, they don't know how to price it. So, a couple of those are delayed. But again, even in this environment with off highway trucks actually dragging us back quite a bit we have managed to do fairly well because actually the driveline programs came in. And some of them did start and some of them have ramped up faster than we thought. So, three or four things about, but electric two wheelers, as I mentioned in the opening remarks, I think at least three months, we would need any of us to know where, which direction we are heading.

Sabyasachi: Right, so I'm assuming that the other programs you know, might have compensated for the delays like you had, I think one spool gear for e-SUV that was supposed to commence and, and probably one for class four electric CV, North American OEM, probably those have compensated. Is that a fair assumption?

Vivek Vikram Singh: I won't comment on specific programs, but it is a fair assumption that other programs have compensated. And I don't want to go to this specific one. That's why I said some have ramped up more than we thought, some volumes have been higher than we had assumed in our order book, which is why conservative assumptions sometimes help you in situations like this.

Sabyasachi: Fair enough. And lastly, last quarter Q3, there was I believe a 25 crores kind of revenue loss because of the UAW strikes that was there in October. And you mentioned some of it will probably you guys will be able to recoup, has there been any success on that?

Vivek Vikram Singh: Correct. So, I mean, even if you look through the numbers, the US market share is increasing, US passenger vehicles are increasing, you know, all of that is because of that. So yeah, that's now moderated, I think inventory levels are back to normal for almost all customers. Because of that UAW thing, suddenly there was that gap and now it's come back to business usually.

Sabyasachi: Great, great to hear that. Thanks Vivek. That's all from my side.

Vivek Vikram Singh: No, no. Thank you Sabyasachi, for again following things so closely.

Moderator: Kapil, do you want to take over?

Kapil Singh: Yeah, I think from the chat box, most of the questions are answered. If not directly related, but still in case you want to mention something, please let us know the impact of the new government EV import policy and anything you want to comment on this.

Vivek Vikram Singh: No, I don't want to.

Kapil Singh: All right. I think that's all.

Vivek Vikram Singh: We should leave the government to comment on government policy and not ask companies these questions.

Kapil Singh: Sure, sure. So that was the last question everyone. Thank you very much for joining this call. I thank the management of Sona Comstar for giving us this opportunity. And Deanna back to you.

Moderator: Thank you everyone for joining today's session. You may drop off the line. Have a good evening.