Date: 31st January, 2024

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BSE Scrip Code: 543300	NSE Scrip: SONACOMS

Subject: - Transcript of Investor Call pertaining to Financial Results for quarter and nine months ended on 31st December, 2023

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, 23rd January, 2024 on the financial result of the Company for the quarter and nine months ended on 31st December, 2023.

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

AJAY PRATAP SINGH
Digitally signed by AJAY PRATAP SINGH
Date: 2024.01.31 12:51:43 +05'30'

Ajay Pratap Singh
Vice President (Legal), Company Secretary and Compliance Officer

SONA BLW Precision Forgings Ltd. (Sona Comstar)

Q3 FY24 Earnings Conference Call Transcript

January 23, 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 Q3 & 9M 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 Q3 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. Rohit Nanda, Group CFO; 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, on behalf of Sona Comstar. I welcome all of you to the earnings call for what has been our best quarter ever in terms of EBITDA, net profit, BEV revenue, BEV revenue share as well as order book. But first, as is our policy when talking to our owners, shareholders, we will begin with the challenges.

So first, off highway market particularly in India has been weak and production declined further in the last quarter. Given our high market share in this segment, this has affected the sales of our differential gears and differential assemblies to this market.

Second, aggressive discounting by a few EV two-wheeler companies has temporarily disrupted the EV two-wheeler market and its market shares, which has affected some of our customers' sales, thereby impacting on the sales of our traction motors in Q3. We expect this to continue for a few months, but we believe it is unsustainable beyond that.

Third, the Red Sea crisis, while the current impact on our operations is negligible. If the crisis continues, we expect adverse effects due to the longer shipping time, higher freight costs and increased inventories.

Fourth, we lost about ₹25 crore of revenue in October due to the UAW strike impact in the United States. However, the strike is now over, and this production loss will partly reverse in the current quarter.

The good news, as is usually the case, far outweighs the bad. So, in financial terms, we achieved our highest-ever EBITDA and net profit, despite marginally lower sequential revenue, we have also introduced a new product that should improve electric powertrains for EV two-wheelers, and we will cover this in detail later.

As the calendar year has ended, we got new Ricardo estimates and as per them, we have increased our global market share in both differential gears as well as starter motors in 2023.

In terms of markets, the European light vehicle market has strongly recovered this year. 2023 was also positive on a YoY basis for the US market and things continue to look good in both of these markets. The Indian market has been mixed across the three segments that we serve and will likely remain volatile over the next few quarters.

On the ESG front, we continue to make progress on all our sustainability targets. And I'm very happy to report that we reduced the emissions intensity of our operations by 10% over last year.

Q3 of FY 24 was also one of our best quarters for business development. We won five new BEV programs, and we closed the last quarter with an all-time high net order book. Three of the new BEV programs won are for three innovative and unique powertrain solutions, which, more than anything, reaffirms our position as technology leaders in the products that we make.

Lastly, from where we stand today, and what we see from where we are standing based on customer schedules and a strong order book, we are certain that electrification will continue to drive strong growth for us in the immediate, in the medium as well as the long term.

Vivek Vikram Singh: **Slide 5:**

Now, coming to the numbers, revenue grew by 13% while EBITDA and net profit increased by 22% and 24%, respectively. This is because our margins improved due to operational efficiencies, better product mix and lower material costs. EBITDA margins have now been higher than our usual long-term range of 25 to 27% for the last five quarters running. So, I guess I must comment on this, and I have to add that we expect this to stay above 28% in the near term. Coming to BEV revenue, it grew by 28% in absolute terms to the highest that we've ever had 222 crore, while the BEV revenue share increased to an all-time high of 30%.

Slide 6:

Coming to the nine-month figures, we have increased our revenue, EBITDA, and PAT by 19%, 32% and 34%, respectively. As I mentioned before, since this is the end of the calendar year 2023, we got our global market shares calculated. Our starter motor market share improved from 4.1% to 4.2% as the Europe and the US markets, where we have higher market shares have grown faster than Asia. Our market share in differential gears has grown from 7.2% to 8.1% of the global volume.

Just to add some perspective here, this increases the equivalent of adding around one-third of the entire Indian car market to our market share in just 12 months.

Slide 9:

Now, our first strategic priority, electrification. In this our BEV revenue share has increased from 25% in the first nine months of FY23 to 28% for the first nine months of FY24. Our BEV revenue in rupee terms has grown by 31% to over ₹6.1 billion in the nine-month period. The growth in BEV revenue for us has been more than double the growth in non-BEV revenue, with EV traction motors and EV differential assemblies being the fastest growing product segments for us this year.

We continue to build on our EV order book and in Q3, we have added five new EV programs and two new EV customers. There are three new driveline program additions, two are for existing customers in the North American BEV market which I'll elaborate upon in the next slide and one is for the domestic electric off-highway segment. There are also two new motor programs for us, both for electric two-wheeler makers in India and while one is a new customer, the other is an existing top-five e-Scooter maker.

Slide 10:

So yes, we want to highlight these three new EV events where we'll supply three of our new or recently developed products, which is always one of the

most key criteria for us as we move along in our journey, that how many more branches can we open up into our revenue growth.

So, the first one on your left is the EV order we won from a new customer. It's an Indian legacy OEM of ICE and electric two-wheelers. We have developed a new product, an integrated motor controller for the customer's high-performance electric motorcycles. It's a unique design, and I'm very, very proud of our engineering team for having done that so quickly.

The second one is the spool gear. You may have heard about it in our earlier presentations as well for the electric SUV of a global OEM of electric vehicles. This is an existing customer; we will supply these spool gears for the three motor architectures of the customer's most advanced and perhaps the highest-torque SUV. This win has come after a year of joint hard work between our customers and our engineering teams. And it will be one of the highest-torque products ever made for electric SUVs in the world. This program will begin serial production in the current quarter itself. So that's a plus.

The third is the EV order we won from another existing customer, North American New Age OEM of high-end electric cars. Last quarter, if you recall, we won the order to supply a rotor-embedded differential sub-assemblies for this customer. And now we've been awarded the Epicyclic Geartrain and Rotor Shafts as well. This win is kind of proof of how we are growing our content in a car by developing new products in adjacent areas of our focus area.

Now, these three wins also demonstrate our capabilities to offer solutions to customers for all types of BEV powertrains. I mean, if the customer is looking to innovate and have a product-based differentiation, we are clearly the partner of choice for this, and this is the advantage that I think we've been talking about for a while that a technology led company like ours has over those companies who build to print for standard parts.

Slide 11:

With these new wins, we now have 53 EV programs across 30 unique customers. Exactly about a year ago, I think this number was 41 programs across 25 different customers, which means in the last year, we've added 12 new programs and five new customers.

Slide 13:

As I mentioned in my opening statement, Q3 was also one of our best quarters for business development. And on the back of the five new EV programs I mentioned and the seven new non-EV programs, the net order book has increased by 9% over the previous quarter to reach an all-time high of ₹240 billion. The proportion of EVs in the order book has also grown to 79%.

Slide 15:

With this I come to the fourth KRA, diversification. Now, the strong demand recovery in Europe in the first nine months means that the revenue share from hybrid and micro-hybrid has been higher than in previous years. This trend of increasing electrification and decreasing ICE dependence continues unabated, and this year, we've seen the ICE-dependent revenue shrink to only about 10%.

Slide 16:

Coming to geographies, North America remains our largest end market contributing to 39% of revenue. And this is despite the negative impact of the UAW strike that I spoke about earlier, the European market was the fastest-growing market, attributing 25% to our revenue. India remains our second largest market, and its revenue shares remained stable at 29%.

In the product mix, the charts changed a little after the NOVELIC acquisition. We've added a new segment called Sensors and Software, which is small at the moment; it's just about 1%. But we hope to add to this as we go along in our journey. The fastest growing segments in products for this year have been EV Traction Motors and EV Differential Assemblies, although Differential Assemblies here seem to have come down by a percent. It is more the off-highway differential assembly business that has lagged, not the EV differential assembly. Differential gear, of course, has also grown quite strongly and this reflects in the changes in the product mix where you see that it's gone up from 32% to 33%.

In the end market or market segment mix. We've added a new segment, Semiconductors and Embedded software. This is to reflect the non-product or the services revenue that we do in NOVELIC. The weakness that I mentioned in the off-highway demand has resulted in the share of non-automotive revenue declining from 12% last year to just 10% in the first nine months of this year.

Having covered this, I turn to our group CTO, Mr. Kiran Deshmukh, to update us on the technology front. Over to you Sir.

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

Slide 18:

We have been making the mid-mount drive motor and low-voltage inverters for two- and three-wheelers. It's two separate products so far. This quarter, we have added a new product to our product portfolio, which is an Integrated Motor Controller. With this development, we have come a step closer to developing an integrated drive unit, the e-Axle, that we show on our technology roadmap.

Slide 19:

The integrated motor controller, distinct from a separate motor control and controller setup, has several key aspects. It offers our customers matchless advantages, and this slide shows some of them.

Number one compact design. The integrated unit combines both motor and controller into a single compact package, leading to a smaller overall footprint.

Two, simplified installation and maintenance. Because with integration, the complexities involved in connecting and configuring separate motor and controller units are significantly reduced. This simplification can lead to easier installation and maintenance since there are fewer connections and components to manage.

Three, improved efficiency and performance. Our integrated system is designed to optimize the interaction between the motor and the controller, leading to higher efficiency and better performance. This is due to the fact that the controller is finely tuned to the specific characteristics of the motor.

Four, reduced wiring and connectivity issues. Since the motor and controller are contained within the same unit, the need for extensive wiring and the potential for connectivity issues is greatly reduced. This also enhances reliability and reduces electromagnetic interference, which is EMI issues.

Five, cost-effectiveness. Due to reduced installation time, lower maintenance cost and improved energy efficiency, the overall cost of ownership of the new product is much lower.

Six, customization and optimization. The integrated unit can be more easily customized and optimized for specific applications. We can design these units for a particular application of the OEM, ensuring that the motor and controller are perfectly matched for the requirement.

Next, aesthetic and space considerations. Our integrated unit has a more streamlined and aesthetically pleasing design. It's particularly advantageous in applications where space is at a premium since it occupies less room than a separate motor and controller.

Eight, thermal management. In our integrated unit, thermal management has been more efficiently addressed since the system is designed to handle the heat generated by both the motor and the controller in a unified manner.

Next, communication and diagnostics. Our integrated unit comes with advanced communication capabilities, allowing for better diagnostics and monitoring. This includes real-time feedback on performance, predictive maintenance, and more sophisticated control strategies.

Finally, ten, functional safety. This new product is a high-integrity system that meets rigorous safety standards and follows best practices in software development processes for the automotive industry. This ensures both

functional safety and quality management in its design and implementation, making it reliable and suitable for critical applications.

So, in conclusion, our new integrated motor controller unit offers a compact, efficient, and easy-to-install solution with improved performance, safety and reduced wiring complexities compared to separate motor and controller systems.

On that note. I hand it over to Rohit to cover the financial update.

Rohit Nanda: Thanks, Mr. Deshmukh. A very good day to you all. It's my pleasure to share our third quarter and nine-month results for FY24 with you.

Slide 21:

In the third quarter of the year, our revenue grew to ₹777 crore, which is a year-on-year growth of 13%. Compared to this, the underlying industry growth was 11% in our key markets of North America, India, and Europe.

Our BEV revenue grew by 28% to ₹222 crore, and it constituted 30% of our overall sales for the quarter. In terms of EBITDA and PAT, it was yet again our best quarter at 227 crores of EBITDA and 133 crores of PAT, showing a growth of 22% and 24%, respectively.

Growth in EBITDA was higher than revenue growth, primarily due to better operational efficiency and lower input costs. EBITDA adjusted for ESOP cost under the newly approved ESOP scheme of 2023 comes to ₹233 crore, and if we were to look at adjusted EBITDA growth, it was 25% year on year. Similarly adjusted PAT at 137 Crores is higher by 28% year on year, primarily due to higher EBITDA.

Slide 22:

Coming to the nine-month results on a year-to-date basis, our revenue for nine months grew by 19% to 2,300 crores against 14% growth in our key markets of North America, India, and Europe. Our BEV revenue grew by 31%, and it now constitutes 28% of total sales. Against 19% revenue growth, our EBITDA grew by 32% to 654 crores, and PAT grew by 34% to 369 crores. Growth in EBITDA was higher than revenue growth, primarily due to better product mix, operational efficiency, and lower input costs. EBITDA adjusted for ESOP costs, as I have just spoken about for the quarterly results, it grew by 33% to 661 crores.

Our PAT adjusted ESOP cost and exceptional expenses in the previous quarters grew by 37% to ₹380 crore, mainly due to growth in EBITDA margin. The exceptional expenses were on account of the acquisition of NOVELIC.

Slide 23:

Coming on to our key ratios, we have seen an improvement in our return ratios, primarily due to an improvement in our margins. Our working capital turnover ratio has also improved due to better efficiency in the working capital.

Our VA/Employee Cost and net debt to EBITDA ratios are largely similar to the March level. Whereas the fixed asset turnover ratio is slightly lower due to higher capitalization during the last nine months.

Slide 25:

This brings us to the last slide in our presentation, which is on ESG update. So, this is the first time we are providing you with an ESG update. So, we have recently published our second sustainability report, and it's available on our website. I would like to share the key ESG highlights for FY23 with you.

The first one being, we've been rated by Sustainalytics as a low ESG risk category with a score of 14.4, which puts us in the top 9% of more than 15,800 companies rated by them.

On the environment front, as Vivek mentioned earlier in his comments, we have improved our energy intensity per rupee of revenue by 10% and water intensity by 2%. Our Gurgaon and Manesar plants have won silver medals in the India Green Manufacturing challenge this year.

Coming to the social aspects, we were certified as a Great Place To Work in 2023 for the first time. And in fact, we've been recertified in January of this year again as a great place to work with a higher rating than last year. As part of our social initiatives, we are also incubating startups innovating for sustainability in partnership with IIT Delhi and IIM Ahmedabad. To our other initiatives to provide sanitation and other facilities to school kids, we have positively impacted nearly 5000 student lives.

On the governance side, the highlights include winning the Golden Peacock Award for corporate governance in 2023. In terms of board structure, we are going beyond what's been mandated for us. So, we now have five independent directors and two women directors in an eight-member board. The promoter of the company holds the office of chairman in a non-executive capacity, which is also not so common in the Indian listed space.

So, these were the key highlights on the ESG side. With this update, we have now come to the end of our Q3 earnings presentation, and I'll now hand the proceedings back to the Nomura team for Q&A.

Moderator: Thank you very much. We are now at the Q&A session. If you wish to raise the question, please use the raise hand function located at the bottom right of your Webex page. We will unmute your line and prompt you to speak or you may submit your questions via Q&A chat box addressing to all panelists. Please be reminded to keep your question to a maximum of two questions. If you have more questions, please return to the queue. Thank you. We will

now go on to the first participant, Jay Kale. Your line is unmuted. Please go ahead with your two questions.

Jay Kale: Thanks for the opportunity and congrats for a decent set of margins. My first question was on your integrated motor controller. If you can little speak about how has been the journey in terms of the product approval? How much time does it take to get this kind of product approved? And what is the pathway to you know, you've spoken about this getting adopted in a premium motorcycle. What is the pathway to get adopted in the more of a mass market product going forward? and if you can answer this first question, I'll get back for the second.

Vivek Vikram Singh: Sure. Thank you, Jay. Mr. Deshmukh, I think you'll be best placed to take it. You or Sat could take this one. I just wanted to add as an aside that almost 30% margins are more than decent.

Jay Kale: No, absolutely. That's frankly excellent margins, it was an understatement, I agree.

Vivek Vikram Singh: Mr. Deshmukh Sir, you are to talk about the product development process and approval.

Kiran Deshmukh: Yeah, so this goes to, I mean in the automotive industry, there is a process of approvals, testing and validation by the customers. Typically, it takes its own time. But in this particular case, and today with the electric vehicles, this cycle time is much shorter, but still, this is a traditional two-wheeler manufacturer in India. So, it did take its own time, and this is a work which has been going on for the last almost three years that we started working on this. So, in terms of timeline, you can say this. But now having developed this product, we can quickly develop products for different applications, because this is a sort of modular design that we have developed. Having said that, to address your second question about the mass manufacturing, again, it depends on the layout and the space constraints that the particular vehicle requires, typically mass produced, two wheelers have hub wheel motors. This particular application is for mid mount motors. So, there are certain differences between, for specifically applying this particular motor for a mass manufacturing. Mass manufactured 2 wheelers, will not be reality because the type of motor which is used there is quite different.

Vivek Vikram Singh: Adding to that, and I think Sat can add further, the same concept can be applied to a hub drive motor also. But you can understand that this has to be led by the customer's requirement and demand because when you're redoing the powertrain of a vehicle, you are in a sense, redesigning the whole vehicle itself. So, you have to start from scratch and then say, what would an ideal electric two-wheeler look like? And that's the stage at which we typically get involved. But Sat you can shed some light on the applicability of integrating motor controllers, not just for mid mount but for hub wheel as well.

Sat Mohan Gupta: Yes, I mean, it opened up a lot of opportunities to read across some of the learning what we have on mid drive and integrated motor controllers on our motor technology. And so, it can be useful for motorcycles as well as scooter operations. And also on the timing, one point is, I mean it also depends how much validation and what's the development stage the OEM is and how much validation they would like to do before they go to SOP and based on our experience, I mean, that time is very, very different between OEMs and the amount of validation each and every OEM does to validate the product and it's not only the validation of the motor controller, it's the complete vehicle validation they do.

Vivek Vikram Singh: Jay, you have a second question as well?

Moderator: Jay, you have your second question? No, I think he is just muted himself. Kapil, Can I go to you, Kapil?

Kapil Singh: Yeah, sure. Thanks. So, I also wanted to check on this margin guidance. You know, we have changed the guidance or increased it to some extent from the earlier range of 25%-27% to 28%. If you could just talk us through the factors, why have we done this?

Vivek Vikram Singh: So as in all things, we go by data, five quarters, if your guidance is not true and if you are doing more than what you said, you should revise it upwards. So that's the real reason. We don't see, so why we said 4-5 quarters if you go back actually and read our transcript, I think about four quarters or five quarters ago, I said that I think it is going to stay above 27%. So that's kind of held true for four or five quarters. Most of it Kapil, is material price. So, we have seen enough of these cycles to know that when material prices, especially steel, copper, start going up, your revenue grows much faster than your profit. And when the reverse happens, your profit grows much faster than your revenue, which is the natural cycle. So, it's more a percentage thing, and we don't see any indication of steel going up to where it was in 2021 etc. anytime soon, which is why for the near term, we will hold to it. If it changes, of course, we will also change. As they say, when intelligent people are presented with new data, they change their opinion.

Kapil Singh: Sure. If you could also talk about, you know, the profitability profile of your business, the way things are shaping up. Is that also something that has contributed to this margin view? Because you know, we've heard some concerns that for example, some of the motor business could be less profitable. So, some of your thoughts on this would be helpful.

Vivek Vikram Singh: Yes. So obviously all products are not alike, all customers are not alike, and all markets are not alike. There are low margin products, there are low margin markets and then low margin customers. And it is a mix. As a management team, your job is to balance it and try to solve for absolute profit growth. The percentages frankly are an outcome and that's what eventually at the end of the quarter is what you realize that that's what it is and then you try to explain it. We don't try to set out to do that, the solution or what we are solving

for in the equation is how can we sustainably grow our absolute profit at a rate that we want while not taking any decision that affects us in the long term, because all of these decisions have a bearing which is very large in the 4 to 5 year period. So that's the goal because see eventually, if you do discounting of price, you can do growth, you can optimize growth while sacrificing a little bit on margin, you can maximize margin by sacrificing growth. So, it is a balance that you have to play. I think we are fairly versed with it now and we continue to play that, these ups and downs in market segments will happen, they are out of our control. So, let's say like this quarter, I said that there are two weak ones, Electric two-wheeler market is a lower profit segment market and that our customer sales are lagging. So that is also a contributing factor.

Kapil Singh: Sure, and I had one more question on the bus opportunity. We have recently read a lot of news flow that the Indian government is quite keen to increase the EV bus adoption in India and there are, you know, various kinds of orders being discussed as the news flow. As far as you are concerned, you have a tie up with Equipmake for bus motors, right? So just in terms of how this opportunity is likely to evolve, what is your view? What kind of discussions are happening with OEM's if at all, just some views on that would be helpful.

Vivek Vikram Singh: Sure, so as you would have seen in our presentations also for the last three years, we've always maintained that the two segments that are likely to electrify fastest in India are electric three wheelers and electric bus. Just because of the way the industry is structured, it's an economic asset. And if you run it for more than five or six hours, the payback is far faster in an electric vehicle than an ICE vehicle. So just economically sensible to switch and we believe in that opportunity. Electric three-wheeler, I would say we are moving very fast, and we've done very well. We already have a few orders. In bus, we had partnered with Equipmake to develop, test, validate and launch those products. We are still on that journey. We haven't reached that journey that we can go offer it to customers. Sat, you can add on where we are and when it is likely that we can start seeing some revenue from that segment.

Sat Mohan Gupta: Thanks, Vivek. As far as the bus motor and controllers are concerned, Equipmake design. We are right now in the validation stage of those motors because we need to tune those motors for Indian conditions. And our launch is in the last quarter of calendar 2025 or the first quarter of calendar 2026. So that's what we are targeting to work on it.

Kapil Singh: Sure, I think there's a follow up question from Jay and then we can take some from the chat box as well.

Moderator: All right. Thank you, Jay. Thank you, Kapil. Jay, we are now going back to your second question.

Jay Kale: Sorry. I wasn't able to unmute earlier. So, my second question is regarding of course, you know, in an inflationary scenario you had mentioned about your top line getting benefited, but that was an empty sale kind of a thing. And

now with the deflationary scenario, you know, we've had a 13% odd revenue growth, how much of that would be because of that deflationary scenario. Or maybe if you can just split between volume and the reversal of that empty sale?

Vivek Vikram Singh: Oh, that's, that's hard to do. Because we don't do it. It has very little, see all analysis, especially for management, at least, has to have some purpose. If an analysis does not lead to a specific or actionable output, it is not very meaningful. The fact that steel prices have gone down has led to, you know, price that was empty sales as you correctly said, how much we haven't really, I think, tried to figure out. Rohit you, you may have this answer. I certainly don't.

Rohit Nanda: For the quarter this impact was around 1% I would say.

Jay Kale: OK, understood. And just on your electric two-wheeler side, you mentioned about, you know, pricing pressures, sorry, volume pressures for some of your customers in the third quarter because of the pricing actions by many of the competitors. How should one look at you know, the supplier profitability in that context going forward. I mean, you did mention about this continuing for the next few months but then reversing, but is there an incremental pressure on the pricing of suppliers because of this so-called price war? and in that context, with our cost structures and our efficiencies, does this also provide an opportunity of a little bit of you know, market share gains if at all or consolidation of the traction motor market with more efficient suppliers getting larger share with better cost structures?

Vivek Vikram Singh: The very short answer is no because, Jay I think there's a lot of recency bias in the way we analyze information. This thing that has happened is only about one and a half months and at max it will go on for three months. Sat, just told you about how we develop a product with a new customer, took over three years to develop and launch it. These are longer items and in the automotive industry, especially if you're doing critical items like the motor or any powertrain or the drivetrain part, you are playing what are essentially long-term, long-term objectives with other long-term plans. These things don't happen in haste, no one is coming to us and talking about pricing for motor etc. I think everybody knows that this is not sustainable, these actions and they will not be there for too long. Cash burn has never been a great strategy for the automotive market. I mean, history is replete with examples of people who tried and failed at this. But yes, we will wait and see. So far it has affected volumes for us but no other impact. Sat, you want to add to it, like what you've seen or heard? I don't think our customers have even brought this up to be honest.

Sat Mohan Gupta: No, I mean, it's not a discussion actually, either with our customers or with our suppliers because I mean, most of us, are in the automotive business for so long. So, we understand these ups and downs. it's very normal.

Vivek Vikram Singh: Yeah, none of us actually in the industry, talk in quarters, right? We all talk in years and quite a lot of time is like 7 to 10 years is the conversation you have. Because let's say you get a source on any project, the model will always run for 5 to 7 years and then you have to keep spares, etc. to supply the vehicle park. So, you are entering into almost a 10 to 15 year marriage type of situation with the customer. Thinking in quarters does not lend itself well to the way our industry is structured.

Jay Kale: Sure, great. This really helps. Thanks, and all the best.

Vivek Vikram Singh: Thank you, Jay.

Moderator: Yes. So, we're going on to the next participant. Her name is Gunjan Prithyani. Gunjan, your line is unmuted, please go ahead with two questions.

Gunjan Prithyani: Trying to understand from the next 12 to 18 months perspective, this is there is this increasing, you know, narrative that EV at least excluding China seems to be slowing down a bit, hybrid seem to be the new, you know, sort of increasing their share within the global, you know, in Europe or US. In that context, you know, is it something that you can comment a bit on? You know, do you see a similar trend when you are having conversations that some of these new EV models that we were hoping that would kick start the next 1-2 years get pushed out, you know, what are we seeing on EV? And then, you know, hybrid, are we seeing that in the motor part of the business? And also, if you can cover the India outlook, there's certainly been some moderation. So, I'm just trying to get some color from you across segments. You know, how are we approaching more from the next 1 to 2 years perspective?

Vivek Vikram Singh: Sure, Gunjan, thank you for the question. The EV slowdown seems to be clearly a case of narrative trumping data, but it's OK. I'll answer it. EV sales grew by 31% last year in the calendar, which is not slow. And the similar question I remember, we were asked at that time, we weren't public, so I was asked by my board in 2020 to 2019 was 40% or something, and then the year after that, it went up by 120%. So, in the longest journey, what at least from tracking this for the last eight years, what I've realized is, this is very linked with localized market dynamics of two things. One is government policy and the second is new model launches. So, if you were to look at those two things, one, let's say, first, let's start with the North American market, that's our largest EV market so we study that far more than any other. In that, on these two data points. The first one is the $7,500 tax rebate that has come into effect from 1st January itself. And that is our point-of-sale rebate. So, it's not like a tax refund that you claim and get it later, you can get it immediately. So that should be a good push for EV. For plug in hybrid is $3,750 half basically of that amount, both should do well. I don't think it is applicable or extended to other forms of hybrid vehicles.

Second, on new model launches, we actually did look at the program launches of 24 and 25 across automakers. The number of EV I don't remember the exact number, but it's 70 to 75% of the new model launches are EV. So

yeah, one, like I said, from where we stand and what we are seeing and what we are listening to our customers and looking at the schedules that we have already received for the next couple of quarters, we are certain that electrification will continue to drive, for us, the growth in the immediate, in the medium and the long term, for us that's pretty clear.

The second part of your question is actually far more hard to answer, which is the Indian market. It's quite mixed. So, I will take it in three segments, passenger vehicle, commercial vehicle as well as the off highway. So, passenger, I don't know, but it looks decent, and I'll use Jay's word, decent. It is a plus but plus not very much right, commercial vehicles are holding but our past experience and from what we sense, I think it is, it is going to decline in 2024. And then we come to the off highway which has already been weak for the last couple of quarters, and it is weakening further.

So that's the weakest of these segments, commercial vehicles, I mean, Gunjan, you've also been tracking this, election years just before election, it is always a bit of a tough quarter, when government spending etc. is highly linked to especially the bigger, bigger tippers and construction type of thing. So, we will see, India is looking in the three markets that we serve. the weaker of the three, the weakest of the three.

Gunjan Prithyani: What would be the best, North America?

Vivek Vikram Singh: North America is best in terms of value and volume for us. So yeah, that's the best. Europe's done a fair bit of recovery. But that's happened, some of that has played out last year, so Europe would be second and then I would say India.

Gunjan Prithyani: Ok, got it. No, this EV thing is good to hear from you, Because I mean, it's been something that we keep hearing that it's, you know, it's adoption incrementally is slowing down. Honestly, we are like far away from what's happening on the ground. So, you see the production schedules better than us, so good to hear that.

My second question is on the motor, you know, it clearly looks like you know, quite compact design. I'm just trying to understand, was it driven more from the perspective that we need to bring the cost down for the you know, for the electric two wheelers or this is, you know, is there any, from a performance perspective does it change anything? I'm trying to understand, you know, what led to this, you know, sort of redesigning of the motor powertrain. And if it is a cost reduction, can you share what sort of cost reduction it is versus what we were doing earlier on the more high-performance motors.

Vivek Vikram Singh: Yeah, so Gunjan, this is a new customer and a new program for a new vehicle. So, there is no comparator to what other things we are doing. Cost is certainly better because you are packaging, instead of having two separate items, motor and motor controller, you put it in one. Mr Deshmukh covered a lot of advantages, but I would say if this has to be customer led,

right? Because you are changing the way the motor will be placed and changing the way the entire vehicle's powertrain is designed and how it is going to interact with each other. There are many technical advantages. Technically, I would say so, yes, there are commercial advantages, but technically the advantages are far, far greater. The biggest one being thermal management. See if you have both motors and motor controllers, any power electronics item also has a heating issue and all of us have experienced that, right? Any electrical or electronic thing heats up, how quickly you draw out heat from any system is directly proportional to how efficient it is going to be, delta temperature upon delta time is basically how you improve efficiency in electromechanical systems. Now, this does that far more effectively because you have combined the thermal management into just one unit. That's a big one, second communication earlier, you had all these wires connecting a controller to the motor. Now it's in one.

So communication is far more compact, serviceability will be much better, lots of benefits, and in hindsight now that we've done it with our customer, we realize that why didn't everybody think of it? Actually, this is one of those products that should have always been designed like this in one unit that it makes sense. But yeah, I hope other people will also kind of try and do this and at least for the newer models, you can't do it in running models. It's much harder but with newer models, people should look at this.

Gunjan Prithyani: Ok. Got it. Just very last one, I'm slipping in, any update on PLI that you can share?

Vivek Vikram Singh: Our PLI internal champion is Rohit Nanda.

Rohit Nanda: So Gunjan, there is progress but nothing to report as of now. So, like everybody else, we are also in the queue. The approval process is on, that's all I can share with you right now.

Gunjan Prithyani: OK. Got it. Thank you so much.

Moderator: We will go to the next participant, Sabyasachi Mukherjee. Your line is unmuted, please go ahead with your two questions.

Sabyasachi: Thanks for the opportunity. Am I audible?

Vivek Vikram Singh: Yes Sabyasachi, you are.

Sabyasachi: Hi, So Vivek, first thing I wanted a clarification. I joined a bit late. Did I hear you correctly that there was a 25 crore revenue loss in October-23 that would get deferred to Q4?

Vivek Vikram Singh: Correct. But I said partially, let me, I think I said some of it shall partially reverse in this quarter.

Sabyasachi: Ok. Got it. Next would be, if I look at the, you know, the order book and the past order wins, many of the programs are scheduled to get, you know, into

production in H2 and some of them in Q4 of FY24. and a large program of electronically locking differential for the electric SUV that we won in third quarter of last financial year that was I think supposed to get operational in H2. So how are we you know, in terms of readiness, are these on track getting into operation? So, just wanted an update from you.

Vivek Vikram Singh: Thanks, Sabyasachi, well, thank you for following so closely. But yes, all of them are on track. Actually, some of them are slightly ahead of track, which is obviously making Vikram's life a little hard. It is a lot of work. So, when a lot of new programs launches come at the same time, operationally, it becomes a lot of time from engineering teams, production teams. So yeah, we are running six days, sometimes seven days, very little sleep, etc. But yeah, it's all good. It's all good. This is a good problem to have. That's good.

Sabyasachi: Great to hear. So probably a good reduction of your reply to that would be we should see a good ramp up in revenues from Q4 onwards. Is it a fair understanding?

Vivek Vikram Singh: You know, we don't give forward guidance, especially that near term. But also let me just put a caveat in these things, right, when a product launches and the ramp starts, if you're making 100 a week or 1000 a week, that 1st 100 or 1st 1000 will take far more energy than six months later when you're doing 10,000 a week. So, it has started, all of them are on track and they are on track as per customer production schedule is all I can say.

Sabyasachi: Got it. And lastly, you know, if I look at your breakup, of the EV programs that we are currently having 53 programs out of that 10 is fully ramped up, 15 is in the ramp up stage and, another 28, 5, of course, we have, we have got this quarter which is yet to be, you know, kind of get into production. So, you know, out of this, let's say, if I exclude the 10 programs which are already fully ramped up, we have around 43 programs in the next, let's say, 1 to 2 years. How are you, you know, foreseeing how many programs will probably get into a fully ramped up stage. any, any broad color on that would be helpful?

Vivek Vikram Singh: Yeah, most of them, most of them, very few are actually as long lead as the one that we won right now. Most of them should in calendar year 24 and 25, yeah, most will ramp up. Pratik, you want to add some better color?

Pratik Sachan: Yeah. Yeah, that's correct. So, most of them will ramp up in 24 and 25 and I think there are one or two programs which will ramp up later, maybe by 26.

Sabyasachi: Got it, that's all from my side and, and all the best. Thank you.

Vivek Vikram Singh: Thank you, Sabyasachi, thank you for attending.

Kapil Singh: So, we have a few questions from the Q&A chat box. I think you referred to this one, but in case there is anything more to share, can you please talk about the impact on supplies due to geopolitical tensions around the Red Sea? Is there anything more to add to it?

Vivek Vikram Singh: Not really? I mean, it's a little early. We are a management team that is fairly, fairly watchful and active. So, we have secured some of these things already because if you don't go on winter break and you're actually in office on 2nd January it's easier to get containers booked, etc. So, it's not much for now. But as I said, if it continues and it becomes like a problem for two months or something, then we can't even guess right now because we saw that happen in 2021. Because it doesn't go, there is no linear logic to it. It suddenly will start shooting up and then availability is not there because of that. If you add roots, yeah, the working capital costs will go up. Shipping time can even go up from 10 to 20 to 30 days. It's very unpredictable how it will all play out. The biggest impact would be our deliveries to Europe. But even for some of the ones that go into some of the North American, they use that route. So, it's hard to say it will be negative, which is why we brought it up and shared it as a challenge already if it continues. Right now, it's negligible as an impact.

Kapil Singh: Ok. Then there is one more question if you could share updates on the NOVELIC business as well as the product development update with Equipmake. I think Equipmake you already talked about.

Vivek Vikram Singh: Yeah, I think Equipmake we discussed even the timelines and NOVELIC it is going well. As all of you know, when you have a smaller company integrated into a large public listed company, there are a lot of different systems and processes and setups, quarterly audits that we are doing. So, we're doing three things.

One is to ensure that engineering services revenues continue to be stable or grow.

Third is, pivot this business into starting to make products and any of the product opportunities that we are chasing could be anywhere between half of their current annual revenues to 1.5 times annual revenue, even one project if you win.

So that is an endeavor that's also going on in parallel. And so, these three, yeah, all three are happening, early days, first quarter. A lot of growing up to do in a lot of things; and over time, I believe we will have some positives to share. But just the shear opportunity size is so immense, I mean, the technology is so wonderful that anything you hit, I mean, if you look at the four or five big ones we are chasing, they are transformational at least for NOVELIC. I know in the overall scheme of things with Sona Comstar revenue, it might not be a big thing. But for NOVELIC, it will be a fairly large thing, anything that we will. So, it's all going, it's been four months since we've been doing this, and it is a wonderful learning experience for them also I hope, it has been wonderful for us at least.

Kapil Singh: And then one more question we have is on you know, we updated the vision statement in the recent quarter to valuable mobility companies. We detailed a lot of opportunities including aerospace, etc. Any homework we have

already started? What percentage of revenues will we foresee that will come from this new area in say next 2 to 3 years?

Vivek Vikram Singh: Did we though? I don't think we detailed out, I mean, I have a very decent memory but yeah, we just said that mobility, it could mean anything that moves, the core thought of it comes from just this simple, simple logic that anything that has motion or propulsion would need a motor and a gearbox, which are the two primary things we make. If it is an intelligent motion device, it would have also sensing as well as the intelligence to process it. So, sensors and software will be required. That is the reason and if you refer back and Pratik if you can go to that slide which has a product of market segment revenue, the mix.

So if you look at it, it already has, I mean, automotive traditionally, if you look at how ACMA or SIAM defines itself as passenger vehicle, commercial vehicle, two wheeler and three wheeler. That today is 89% of our revenue, currently, non-automotive, which is industrial, farm equipment, tractors and the services business is about 11% of our revenue. This will continue to grow. How fast, when will it become 20-30? We can't say, it is an endeavor. We are at a very early stage of it. We just changed it last quarter. As I mentioned before, this is not a company or a business that changes on a quarterly basis. These are businesses that are run by long term people for long term objectives. So if you say that, oh, we have intention to get into aerospace, unless you're an acquisitive company that just goes and buys another aerospace company or something, it's not going to happen immediately. It's a statement of intent. Anything that we do takes 3 to 4 years minimum. So again, if anybody's expectations are that things will overnight change, they won't, this is slow, deliberate and very, very well thought out plans that will take years of effort and dedication to execute. We are seeing some early wins but for them to be meaningful enough to match our ambitions, they will always take time.

Kapil Singh: Sure Vivek, and one, just one last question from my side, I wanted, you talked about the outlook for India in terms of various segments, but I specifically wanted to touch upon the electric vehicle outlook for domestic segments like passenger vehicles and three wheelers, you know, what kind of opportunities are coming up in those areas because you know, it's still a very, very small segment and new models we know will be coming up in 2024 and 2025. So how do you see that shaping up from a Sona Comstar point of view?

Vivek Vikram Singh: So, we fundamentally believe that the three-wheeler opportunity is almost absolute, like in four or five years, all of it will become electric and it is a decent value segment for us. We have, I think, three programs already. We want to be a meaningful player in the electric three-wheeler. We also think that in the electric light commercial vehicle segment, anything below four tons we believe should get electrified sooner rather than later. And in the next five years, we'll see a lot of action in it. Almost, most of our existing product R&D efforts in the motor area are directed towards that, because higher voltage and higher kilowatts, both endeavors are on and both of them

should find a very good and ready audience. The motor one obviously is a far higher voltage architecture for the bus so that I'll keep separate. But three wheelers' immediate and actionable and it is happening as we speak. So that's urgent.

Passenger car, it's still slow. I hope it takes off, but believe in genuinely that unless something fundamentally changes in battery tech and batteries become far, far less expensive, it is hard to go to double digit penetration anytime soon. Yes, by 2030 economies will scale, designing pure EV platforms will happen. But if you want it to happen fast in the next three years or so. Lot has to happen in battery tech. And the good news here is there is a lot happening in battery tech.

So, for those of you who follow battery technologies, I would recommend reading this if you can get your hands on the Bernstein report on battery strategy roadmap 2023. And you look at what people are doing in either electrolyte space where gelatinous or solid or lithium metal, LFP everybody knows about, and sodium ion, there is a huge opportunity that we could go even to 60 - 70 dollars per kilowatt. And that, that can change the game. I mean, if you have batteries that go down by 20-30% which are 40 to 50% of the cost EV suddenly become cheaper than ICE. That tipping point when it will come is hard to predict as it is with any technology but will happen in the next 5 to 6 years.

That's our belief that we've been working on for almost eight years already. There is this thing we had presented, and Tony Siba I had done the study by Rethink X Institute on how much time it takes for new technologies to overpower dominant technologies. And this study goes back to examples of 200 years ago. So, Anthracite coal versus bituminous coal, digital camera versus film, motor car versus horse. So many examples. Once any penetration of a new technology reaches 10%, it usually takes about 15 years from that point for the dominant technology to get reduced to single digit. Now, that happened for EV, somewhere around 2021 that it crossed 10% for the first time. So, by our calculation, by 2036, EV will be 90% plus of the total market and in which I include, Gunjan's point plug in hybrid, as long as it has a motor and a battery and a charger for us, it is the same thing and the battery will be the biggest change in this. I know I'm taking a long time on this, but this is a subject I'm very passionate about. So, Thomas Edison, I don't know if you know this Kapil, but in 1908 there were more electric cars in America than ICE cars, right? The electric car actually precedes gasoline or the internal combustion engine. And Thomas Edison in his notebook had written: motors - easy to solve, running gears – solvable, control systems - can be done. And then he wrote battery and he put a question mark. For a very long time, almost 90 years, we could not figure out battery out, and this smartphone, this is actually the mother of the modern electric car. The lithium-ion battery made it possible for electric cars to be viable again. Now that is not stable, that is not the final form of the battery. We have already seen it come from $200 plus to almost $100 now. The day it goes below 100 and it goes to 70-80. That's the day this paradigm will completely shift. I think it's near, there are lots

of companies doing interesting research, Quantum Escape, North Volt, CATL is doing a lot of good work in this field. So, follow that, again, we are also reading, this is not something we do ourselves. But this is the market we keenly study. At that point is when the Indian market turns because India will be a cost sensitive market in value terms, we are still only about 1% of the world auto market. If you take our passenger vehicle market. For that market to suddenly electrify, the cost has to be solved. It has not been solved yet. It is a very long-winded answer. But again, this is a subject that I've been studying for nine years, but this is what I do.

Kapil Singh: No, thanks. That was very insightful. Thank you so much to the team from Sona Comstar as usual, it's a pleasure to host you and to the investors we have come to the end of this call. Thank you, so much and good evening. Do you have any closing remarks Vivek?

Vivek Vikram Singh: No, thank you. Thank you as usual for those of you for making time. I know it's slightly late for some of you to have attended. But yeah, I hope we can continue doing well and thank you for attending.

Kapil Singh: Thanks, everyone. Have a good day. We can close the call.
